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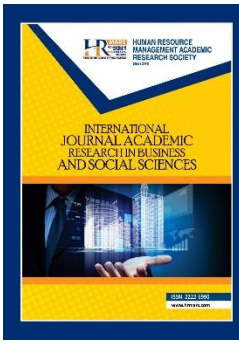
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Market Structure and Efficiency of QISMUT Banking Sector

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Abstract
The aim of this study is to assess the market structure and efficiency of QISMUT (Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates and Turkey) banking market over the study period of 2006 to 2016. Concentration ratio and Herfindahl-Hirshman Index are used to measure market structure while efficiency is measured using Data Envelopment Analysis (DEA). The results show conventional banks in QISMUT are more concentrated than its counterpart, the Islamic banks. However, Islamic banks are found to be more efficient than the conventional banks.
Keywords: Market Structure, Efficiency, QISMUT, Banking Market

Introduction

The presence of foreign banks in domestic market is one of the factors that affects the number of the banks in the industry. Mason (1939) mentioned that market structure affects the performance of the firms which is known as conduct in 'Structure-Conduct-Performance' paradigm. Increasing number of banks directly affects the market structure and competition in industry. This has been supported by Rajan and Zingales (2003) which mentioned that entry of foreign banks could trigger the competition. However, competition in financial industry also affects the stability of financial industry (Demirguc-Kunt & Detragiache, 1998; Demirguc-Kunt, Levine & Min, 1998).

On this note, Andries and Capraru (2012) mentioned competition affects the performance of the banks in terms of efficiency while Apergis and Polemis (2016) claimed efficiency of banks is triggered by the competition in context of European banking scenario. Schaeck and Cihak (2008) offered support to the former study that high competition would increase firms' profits. Casu and Girardone (2009) added inefficient banks are mostly acquired by the big banks to improve the efficiency in industry.

QISMUT Islamic banking market offers an interesting avenue to investigate the efficiency performance of the banks. QISMUT banking market consists of six countries namely Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates (UAE) and Turkey. On this note, Islamic banking assets is dominated by QISMUT countries because these countries are known as the rapid growth market