

A Comparative Analysis of the Co-operative, Islamic and Conventional Banks in Malaysia

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Abstract This paper evaluates the nature and extent of productivity change of the co-operative, Islamic and conventional banks in Malaysia over the period of 2006-2010. Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) is a co-operative bank that has been the backbone of the Malaysian co-operative movement. Bank Rakyat had played a significant role by continuously supporting the co-operative sector in contributing to the country's economy. This study utilized a non-parametric Data Envelopment Analysis (DEA) methodology and Malmquist productivity index (MPI) to estimate the individual bank efficiency and productivity changes within this period. The results from this analysis showed that 64.3 percent of banks studied had total factor productivity (TFP) progress. Out of this 44 percent are Islamic banks. The MPI index summary had shown that TFP had regressed in 2007 by 6.2 percent. TFP summary of annual mean for the 5 year period however, showed a progressed in TFP of 1.5 percent that was contributed by 2.7 percent increase in technical efficiency. Results had indicated that Bank Rakyat is among the top banks that have achieved TFP increased out of the fourteen banks studied. The second stage empirical results based on Tobit regression also suggested that bank's assets, status and loan intensity are statistically significant in determining TFP. Environmental factors however, were found to be insignificant determinant.

Keywords Co-operative Bank, Islamic Bank, Conventional Bank, Data Envelopment Analysis, Malmquist Productivity Index, Tobit Regression

1. Introduction

There are many studies advocating co-operative banks' involvement in communities around the world especially in the United States, United Kingdom (U.K), Germany and Australia. Apart from this, there are also considerable literatures on different types of ownership structure of firms (private, public and mutual/co-operatives) influencing firm's economic behavior. Reference[1] examined the European co-operative banks' business performances and challenges as a model in the economy. The report concluded that co-operative banks advocated customer champion and are important alternatives to the commercial banks. A study done on co-operative performance during financial and economic crisis as in[2] showed that co-operative in general and in particular co-operative banks, savings and credit co-operatives are enterprises that performed very well in crisis. Reference[3] had revealed the advantages of having co-operative banks in many economies in times of credit crunch particularly during the Asian crisis 1997-1998. Credit

and financial co-operatives are less incline to ration credit, less prone to raise loan rates and prudent in lending which reduced risk in their operations. Although considerable amount of studies done were conducted on other enterprises, organizations, financial institutions and banking industry in Malaysia, interest in co-operatives, credit and co-operative banks studies are minimal. In other developed countries, results from strong, reliable and unbiased researches had contributed to the progress of their co-operatives.

The gap in Malaysian co-operative research particularly on the performance analysis of co-operative banks had motivated the researcher to extend DEA application and attempt an evaluation of co-operative performance and investigation on the efficiency of the co-operative bank. This study on Bank Rakyat is even more important as Bank Rakyat is currently the biggest contributor besides credit co-operatives to growth and development of the co-operative movement. The monitoring and evaluation of this Islamic co-operative bank in relation to other banks is deemed beneficial not just for the future development of Bank Rakyat itself, but also for the co-operative movement.

This study firstly incorporates DEA in the first stage analysis to measure the changes in productivity Bank Rakyat in relation to other conventional banks and Islamic banks and to compare their relative efficiencies. Secondly, factors that

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