

EXAMINATION OF OPERATIONAL RISK IN COMMERCIAL BANK: A CASE IN MALAYSIA

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ABSTRAK

Kajian ini menyelidik perhubungan di antara risiko operasi bank-bank perdagangan di Malaysia dan faktor-faktor yang mempengaruhi perhubungan tersebut. Faktor-faktor tersebut diwakili oleh sembilan angkubah tidak bersandar, iaitu perbelanjaan, pendapatan, asset mudah cair, hutang, modal, kadar asas pinjaman, pinjaman tidak berbayar, keluaran negara kasar, dan saiz. Angkubah bersandar ialah risiko operasi. Tujuan kajian ini adalah untuk menyediakan dokumen mengenai konsep risiko operasi di bank-bank perdagangan, mengkaji penentu-penentu kepada risiko operasi dalam bank-bank perdagangan di Malaysia, dan menilai kesan setiap faktor-faktor penentu ke atas risiko operasi bank-bank perdagangan. Kerangka kajian dan satu hepothesis telah dibentuk. Hipotesis kajian telah diuji dengan menggunakan analisis regresi linear. Ia digunakan untuk mengenalpasti penentu-penentu yang mempengaruhi risiko operasi bank-bank perdagangan di Malaysia. Daripada sembilan pembolehubah yang dipilih khusus untuk kajian ini, tiga pembolehubah didapati signifikan pada aras 0.05 iaitu saiz, modal, dan kadar asas pinjaman. Enam lagi pembolehubah yang tidak signifikan dalam kajian ini adalah perbelanjaan, pendapatan, asset mudah cair, hutang, pinjaman tidak berbayar, dan keluaran negara kasar. Sebagai kesimpulan, kajian ini juga telah membuka jalan ke arah pemahaman terhadap risiko operasi bank dan penentu-penentunya untuk pertama kalinya. Penentu-penentu utama risiko operasi bank perdagangan di Malaysia telah dikenalpasti secara empirikal. Sumbangan ini diharapkan dapat meningkatkan minat kepada penyelidikan yang lebih mendalam memandangkan risiko operasi adalah salah satu risiko yang penting di dalam operasi perbankan.

ABSTRACT

This study investigates the determining factors of operational risk among commercial banks in Malaysia. Operational risks are represented by nine independent variables, namely: expenses, income, liquid asset, leverage, regulatory capital, base-lending rate, non-performing loan, gross domestic product, and size. The dependent variable is operational risk. The objectives of this study are to provide a document about the concept of operational risk in commercial banking operations, to investigate determinants of operational risk in commercial banking in Malaysia, and to assess the impact of individual determinant on operational risk of commercial banking. A research framework and a hypothesis are developed. The hypothesis of this study is tested using linear regression analysis. This analysis is used to investigate the determinants of operational risks in commercial banks in Malaysia. From nine independent variables in this study, three independent variables are statistically significant at 0.05 level; they are size, regulatory capital, and base-lending rate. The other six independent variables are not statistically significant to the dependent variable. They are expenses, income, liquid asset, leverage, non-performing loan, and gross domestic product. In conclusion, this study offered insights to understanding the determining factors of operational risk of commercial banks for the first time in Malaysia. The main determinants of commercial banks operational risk in Malaysia have been examined empirically. Hopefully this contribution will spur interest for future in-depth study considering that operational risk is one of the most important risks in banking operation.

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LIST OF ABBREVIATIONS

BLR	:	Base Lending Rate
EXP	:	Expenses
GDP	:	Gross Domestic Product
LEV	:	Leverage
LIQASSET	:	Liquid Asset
NPL	:	Non-performing loans
OR	:	Operational risk
REGCAP	:	Regulatory capital
SIZE	:	Bank size
TI	:	Total income

CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter covers the introduction of the study about risks and operational risk in commercial bank operations. Section 1.1 discussed the definition of risk and operational risk. Section 1.2 described problem statement of this study. Then section 1.3 discussed the research question and section 1.4 obtained the objectives of the study. While section 1.5 described about the significance of the study and finally section 1.6 summarised the scope and limitation of the study.

1.1 The Definition

1.1.1 Risk

Kevin (1998) defines risk as a prospect of gain or loss. Risk is usually regarded as quantifiable. Michael (2002) defines risk as the probability of an adverse occurrence multiplied by the impact of that adverse occurrence. Mohammed (2001) looked at risk from the Islamic context. In this case, all forms of contract and transactions must be free from excessive *gharar* (excessive uncertainty) or risk. A contract under condition of excessive uncertainty is not permissible in Islam. Islamic scholars have identified the conditions and highlighted situations that involve excessive uncertainty as risk and collectively, disallow a contract under such conditions.

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