THE EFFECT OF MERGERS ON THE EFFICIENCY OF COMMERCIAL BANKS:
EVIDENCE FROM MALAYSIA

A thesis submitted to the Faculty of Finance and Banking in fulfillment of the
requirements for the degree of Master of Science (Banking),
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ABSTRAK

ABSTRACT

This paper studies the effect of mergers on the efficiency of commercial banks in Malaysia from 1995-2005. We utilise the non-parametric frontier approach, Data Envelopment Analysis (DEA), to analyse the efficiency of banks during the financial crisis, the merger year, and the pre-and post merger periods. To make comparison of the efficiency of domestic banks, nine foreign banks are also included in the sample. Results show that before financial crisis, foreign banks were more efficient than domestic banks. Surprisingly, domestic banks had a higher efficiency level than foreign banks in the crisis year with an average technical efficiency score of 96.6% compared to 78.9%. It is evidence that 10 domestic banks selected by Bank Negara Malaysia to be the anchor commercial banks were not really affected by financial crisis which hit the country in 1997. However, domestic banks were inefficient during merger year compared to foreign banks. This was due to some of the acquiring banks merged with weaker banks and influenced the bank’s performance. Mergers seem to allow efficient banks to gain control of weaker banks, thus helping them to increase input efficiency. The inefficient banks in merger year were also influenced by integrating system and technology in different location and geographical area. We find that efficient banks are not determined by size as small and medium banks are more efficient. The technical efficiency of domestic banks in five years before and five years after the merger were 92.3% and 97.2% respectively. The results also reveal that Malaysian domestic banks experienced an average efficiency of 100% in year 2005. Overall, this study has established that the merger programme in Malaysia was successful.
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CHAPTER 1
INTRODUCTION

1.1 CHAPTER OVERVIEW

The rationale of this chapter is to provide the main objectives and aim of this study. This chapter covers a brief introduction of commercial banking overview before and after mergers. We also discuss in relation to economic crisis in 1997 that prompted to mergers of financial institutions.

1.2 MALAYSIAN BANKING AT A GLANCE

The banking system in Malaysia is vibrant, strong and profitable. In fact, the banking system is at the strongest position since the financial crisis. Substantial enhancements in the areas of corporate governance and risk management standards have reinforced the high level of capital, improving asset quality and strong profitability.

These enhancements have enabled the banking institutions, particularly the Malaysian domestic banks to remain competitive and to offer different products and value-added services to customers. The major competition today is the soundness and scrambling of foreign banks to offer products based on the Islamic principles which indicates that customer's demand is the priority. The threat of competition forces banks to focus on their effectiveness in providing financial services and in offering the increasing demands from customers. This situation requires an appropriate assessment of
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http://www.bnm.gov.my/

Bursa Malaysia website  
http://www.bursamalaysia.com.my/

Sultanah Bahiyah Library website, UUM  
http://www.lib.uum.edu.my/

*Institut Bank* - Bank Malaysia  
http://www.ibbm.org.my/  

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Affin Bank  
http://www.affinbank.com.my/

Alliance Bank  
http://www.alliancebank.com.my/

AmBank  
http://www.ambank.com.my/

Bumiputra-Commerce  
http://www.bcb.com.my/

EON Bank  
http://www.eonbank.com.my/

Hong Leong Bank Bhd  
http://www.hlb.com.my/

Malayan Banking Bhd  
http://www.maybank.com.my/

Public Bank Bhd  
http://www.publicbank.com.my/

RHB Bank Bhd  
http://www.rhbbank.com.my/

Southern Bank Bhd  
http://www.sbbgroup.com.my/

ii) **Foreign Commercial Banks:**
ABN Amro Bank Bhd
http://www.abnamromalaysia.com/

Bank Of Tokyo-Mitsubishi UFJ (M) Bhd
http://www.bk.mufg.jp/english/malaysia/

Citibank Bhd
http://www.citibank.com.my/

Deutsche Bank (M) Bhd
http://www.db.com/malaysia/

HSBC Bank (M) Bhd
http://www.hsbc.com.my/

OCBC Bank (M) Bhd
http://www.ocbc.com.my/

Standard Chartered Bank (M) Bhd
http://www.standardchartered.com.my/

The Bank Of Nova Scotia Bhd
http://www.scotiabank.com.my/

United Overseas Bank (M) Bhd
http://www.uob.com.my/