

MEASURING THE REGULATORY PERFORMANCE IN MALAYSIA BANKING
INDUSTRY: COMPLIANCE AS A LENS TO DETERMINE THE REGULATORY
EFFECTIVENESS AND PROFITABILITY OF A FINANCIAL INSTITUTION



BY
THONG YOW FONG

UUM

Universiti Utara Malaysia

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ABSTRAK

Pembangunan dalam pasaran kewangan mempunyai penelitian yang besar mengenai keberkesanan peraturan dan keuntungan dalam industri perbankan sepanjang dekad yang lalu. Kajian ini meneroka bagaimana elemen pematuhan berfungsi sebagai alat untuk menentukan keberkesanan pengawalseliaan berdasarkan institusi kewangan Malaysia. Selain itu, bagaimana lima penentu utama yang diberikan, iaitu kesedaran pematuhan dan latihan, audit dalaman (CA), peraturan yang jelas (UR), kebudayaan pematuhan (CC), sistem yang mantap dan proses (RS) dan kos langgar pematuhan (NCC) dan besar kewangan penalti dalam merumuskan keberkesanan pengawalseliaan. Dan bagaimana yang diberikan lima penentu utama seperti kesedaran pematuhan dan latihan; audit dalaman (CA), peraturan yang jelas (UR); kebudayaan pematuhan (CC), dan kos langgar pematuhan (NCC) serta kewangan penalti yang dapat merumus perkara keberkesanan pengawalseliaan. Kajian ini menyasarkan penyelidikan dalam hubungan antara tahap pematuhan dengan amalan terbaik mengenai operasi antarabangsa serta prestasi tadbir urus. Dalam model kajian saya, pulangan atas ekuiti (ROE), pulangan atas aset (ROA) dan margin faedah bersih (NIM) adalah ditakrifkan sebagai proksi keuntungan, manakala kecukupan modal ditakrifkan sebagai proksi keberkesanan pengawalseliaan. Kajian ini mengumpul data daripada pekerja terpilih dalam sector kerajaan dan sektor swasta serta dirumuskan kepada lima hipotesis yang berkaitan dengan persoalan kajian. Satu siri ujian statistik telah dilakukan untuk menguji sama ada hubungan yang wujud, manakala ujian statistik yang lain adalah untuk mengkaji sama ada hubungan adalah stabil atau tidak. Kajian ini melakukan analisis regresi ordinal data dari tahun 2008 hingga 2014. Hasil kajian menunjuk bahawa lima penentu utama mempunyai kesan positif yang ketara kepada keberkesanan pengawalseliaan. Ujian yang lanjut menunjukkan penunjuk keteguhan kewangan seperti pulangan atas ekuiti (ROE) dan pulangan atas aset (ROA) yang ketara berkaitan dengan nisbah kecukupan modal (CAR). Tetapi, berbeza dengan teori, bukti laporan saya menunjukkan hubungan yang negatif antara prestasi kawal selia dan margin faedah bersih (NIM) dalam institusi kewangan. Hasil umumnya disokong dengan fakta hipotesis bahawa pematuhan sebagai pemangkin kepada kecemerlangan operasi dan tadbir urus yang lemah. Kajian ini mencadangkan bahawa pihak berkuasa dalaman dan luaran terlibat dalam pemantauan pemeriksaan dan tadbir urus di luar amalan pematuhan secara tersurat dan tersirat.

Kata Kunci : Pematuhan, Keberkesanan kawal selia, keuntungan

ABSTRACT

Development in the region financial market over the past decade have placed great scrutiny on the effectiveness of regulatory and profitability of Malaysia banking industry. This study will explore on how compliance elements work as a lens in determining the regulatory effectiveness of Malaysia based financial institution. And how the given five key determinants such as the compliance awareness and training; internal audit (CA) , Unambiguous regulation; (UR) Compliance Culture(CC), Robust system and process (RS); and Non compliance cost and hefty monetary of penalties (NCC) in formulating the regulatory effectiveness. This study is targeted at in examining the relationships between the extent of compliance with international best practices concerning of operating as well as governance performance. In my research model, return on equity, return on asset, and net interest margin are defined as proxies of profitability, and while capital adequacy are defined as the proxies of regulatory effectiveness. The research collects data from the selected employees both in government and private sector and formulated five hypotheses which are related to the research question. A series of statistical test are performed in order to test if the relationship exists, while other statistical test is to investigate the relationship stable or not. The study performs an ordinal regression analysis of the data from 2008 to 2014. The findings reveal that all the five key determinants have positive significant effect on the regulatory effectiveness. Further test indicate that the financial soundness indicator, such as return on equity (ROE) and return on asset (ROA) are significantly associated with the capital adequacy ratio (CAR).However, in contrast to theory, my reports evidence of a negative relationship between regulatory performance and net interest margin (NIM) of a financial institution. The result generally supported the hypothesized fact that compliance as the catalyst for operational excellence and poor governance malaise. The study recommend that the regulatory authorities both internal and external be involve in the screening and governance monitoring beyond the current compliance practice in both letter and spirit.

Key words: Compliance; Regulatory effectiveness; Profitability

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LIST OF ABBREVIATIONS

ROE – Return on Equity

ROA- Return on Assets

NIM – Net Interest Margin

CAR - Capital Adequacy Ratio

CA – Compliance Awareness and Training & Internal Audit

UR – Unambiguous Regulation

RS – Robust system and process

NCC- Noncompliance Cost and Hefty Monetary Fines

CODB- Cost of Doing Business

RE- Regulatory Effectiveness

IV- Independent Variable

DV- Dependent variable

MV- Moderating Variable

IMF – International Monetary Fund



CHAPTER ONE: INTRODUCTION

This chapter discusses the intention and objectives of this study. They are divided into few sections as below:

1.1 Background of Study

1.2 Problem Statement

1.3 Significance of Study

1.4 Scope of Study

1.5 Research Objectives

1.1 Background of Study



There is no specific definition of the term of compliance (Faure and Lefevre, 2012). There are various types of explanation on this terminology, some scholars believe that the form of compliance in this decade can be related to the level of prescriptive system that guide and constraint the organization. With the advent legal requirement, security concerns, moral hazard behavior, and hefty monetary fine, the elements of compliance seems became the fundamental goal for the banking institution to adhere with, which is not only relevant for practitioner, but also academic (MacLean and Behnam, 2010). Banks today are not longer depended solely on the profitability and capital adequacy of the financial institutions (Tabari, Ahmadi, and Emami, 2013). However, they have shifted their focus towards the financial

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