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**IMPACT OF INTERNET BANKING AND SOCIAL MEDIA
ADOPTION ON PROFITABILITY OF
LOCAL COMMERCIAL BANKS IN MALAYSIA**



UUM
Universiti Utara Malaysia

NG HUI CHIN

**MASTER OF SCIENCE
UNIVERSITI UTARA MALAYSIA
JUNE 2017**

IMPACT OF INTERNET BANKING AND SOCIAL MEDIA ADOPTION ON
PROFITABILITY OF LOCAL COMMERCIAL BANKS IN MALAYSIA



By
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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Science (Banking)



**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

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ABSTRACT

This study investigated the impact of Internet Banking and social media adoption on the profitability of local commercial banks in Malaysia. A sample of eight local commercial banks in Malaysia for the period ranging from 1998-2016 was chosen for this study. Multiple regression analysis was used to identify the relationship between the dependent variable namely Net Interest Margin and independent variables including Internet Banking and social media which were in the form of dummy variables. Two control variables namely Loan Deposit Ratio and Loan Loss Provisions over Total Loans ratio were included to assure robustness and comparability in findings. Findings show that there was negative significant relationship between Internet Banking and social media on the profitability of local commercial banks in Malaysia at 0.01 significance levels. Thus, increasing usage of Internet Banking and social media by Malaysia's local commercial banks caused margin compression in banks. Despite the reduction in term of bank profitability associated with Internet Banking and social media adoption, margin compression actually promote market efficiency in the long-term.

Keywords: Malaysia, Internet Banking, social media, multiple regression analysis, dummy variables



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ABSTRAK

Kajian ini mengkaji kesan penggunaan Perbankan Internet dan media sosial terhadap keuntungan bank perdagangan tempatan di Malaysia. Sampel kajian terdiri daripada lapan bank perdagangan tempatan di Malaysia telah dipilih untuk tempoh 1998-2016. Analisis regresi berganda telah digunakan untuk mengenal pasti hubungan antara pembolehubah bersandar iaitu Margin Faedah Bersih dan pembolehubah bebas termasuk Perbankan Internet dan media social dalam bentuk pembolehubah dummy. Dua pembolehubah kawalan termasuk Nisbah Pinjaman-Deposit dan Nisbah Peruntukan Kerugian Pinjaman ke atas Jumlah Pinjaman juga dimasukkan dalam kajian ini untuk memastikan keteguhan dan perbandingan dalam dapatan. Dapatan kajian menunjukkan bahawa hubungan yang signifikan negatif wujud antara Perbankan Internet dan media sosial ke atas keuntungan banks perdagangan tempatan di Malaysia pada 0.01 taraf keertian. Justeru itu, peningkatan penggunaan Perbankan Internet dan media sosial oleh bank perdagangan tempatan Malaysia menyebabkan mampatan margin dalam banks. Walaupun pengguna Perbankan Internet dan media social menyebabkan penurunan keuntungan bank dalam jangka pendek, mampatan margin sebenarnya menggalakkan kecekapan pasaran untuk jangka panjang.

Kata kunci: Malaysia, Perbankan Internet, media social, analisis regresi berganda, pembolehubah dummy



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ACKNOWLEDGEMENT

First and foremost, I would like to express my gratitude to my supervisor, Dr. Logasvathi a/p Murugiah for the advices in the process of completing Master Research Paper. The guidance from Dr. Logasvathi is very helpful toward the accomplishment of this project.

Subsequently, I am grateful to my family members and friends for the moral support, encouragement and continuous sharing of knowledge towards the completion of this project. I wish to express my words of appreciation to those that share their knowledge and opinions with me.

Last but not least, I would like to extend my indebtedness to all the staffs of School of Economics, Finance and Banking, UUM and anyone else for his or her contribution regardless directly or indirectly in the accomplishment of this project.



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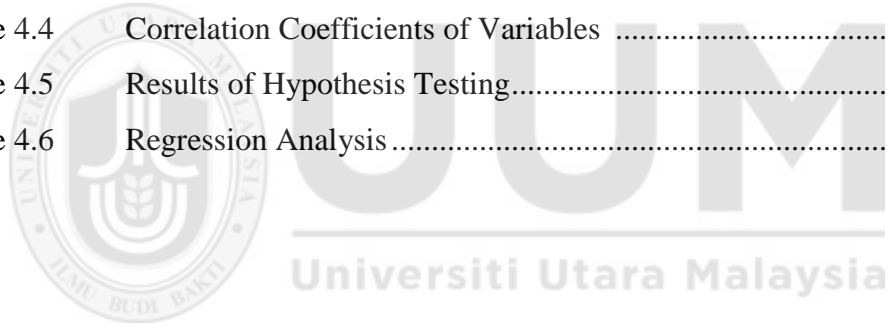
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LIST OF ABBREVIATIONS

NIM	Net Interest Margin
IB	Internet Banking
SM	Social Media
LDR	Loan Deposit Ratio
LLPOTL	Loan Loss Provisions over Total Loans



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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Traditional internet consumption such as email and general browsing had undergone significant revolution with the introduction of new digital technologies and websites that provide a more interactive and humanize services. Previously, majority of the internet were accessed through fixed-line connection to desktop, however with the emergence of WiFi and the growth of the mobile devices such as smartphones, tablets and laptop, the role of internet has changed.

E-banking is a process of performing banking transaction electronically without the need to visit physical branch. Electronic banking encompasses personal computer (PC) banking, Internet Banking, online banking and phone banking, in which different types of electronic banking are often used interchangeably. Internet Banking provides a mean of transferring funds from savings account to current account as well as third party account. Services provided under Internet banking include balance enquiries, bill payment, fund transfer, account statement and so on. The unique feature of Internet has made banking products and services available to customer across the boundary.

Online banking was first introduced in New York, United States followed by United Kingdom in early 1980s. In New York, online services was introduced as home banking services in four major city, namely Citibank, Chase Manhattan, Chemical and

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APPENDICES

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
						Statistic	Statistic	Statistic	Statistic
NIM	136	-.0078	.2659	.116899	.0394394	1.041	.208	4.211	.413
IB	136	0	1	.83	.376	-1.785	.208	1.204	.413
SM	136	0	1	.32	.467	.800	.208	-1.381	.413
LDR	136	-.1461	.0937	-.033989	.0372013	-.182	.208	1.997	.413
LLPOTL	136	-3.5229	-1.1113	2.161883	.4520581	-.684	.208	.499	.413
Valid N (listwise)	136								

Correlations

		NIM	IB	SM	LDR	LLPOTL
Pearson Correlation	NIM	1.000	-.382	-.440	.211	.421
	IB	-.382	1.000	.307	-.097	-.399
	SM	-.440	.307	1.000	.064	-.655
	LDR	.211	-.097	.064	1.000	.222
	LLPOTL	.421	-.399	-.655	.222	1.000
Sig. (1-tailed)	NIM	.	.000	.000	.007	.000
	IB	.000	.	.000	.129	.000
	SM	.000	.000	.	.229	.000
	LDR	.007	.129	.229	.	.005
	LLPOTL	.000	.000	.000	.005	.
N	NIM	136	136	136	136	136
	IB	136	136	136	136	136
	SM	136	136	136	136	136
	LDR	136	136	136	136	136
	LLPOTL	136	136	136	136	136

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.554 ^a	.307	.286	.0333365	1.073

a. Predictors: (Constant), LLPOTL, LDR, IB, SM

b. Dependent Variable: NIM

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.064	4	.016	14.488	.000 ^b
	Residual	.146	131	.001		
	Total	.210	135			

a. Dependent Variable: NIM

b. Predictors: (Constant), LLPOTL, LDR, IB, SM

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.165	.017		9.571	.000		
	IB	-.025	.008	-.234	-2.942	.004	.836	1.196
	SM	-.029	.009	-.342	-3.403	.001	.523	1.914
	LDR	.209	.083	.197	2.529	.013	.873	1.145
	LLPOTL	.005	.009	.059	.559	.577	.470	2.127

a. Dependent Variable: NIM