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EFFICIENCY OF ISLAMIC BANKS IN MALAYSIA: A  
COMPARISON BETWEEN LOCAL ISLAMIC BANKS AND  
FOREIGN ISLAMIC BANKS

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MASTER IN ISLAMIC FINANCE AND BANKING

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**EFFICIENCY OF ISLAMIC BANKS IN MALAYSIA: A COMPARISON  
BETWEEN LOCAL ISLAMIC BANKS AND FOREIGN ISLAMIC BANKS**

By

**MOHAMAD SYAHIR BIN AB HALIM**



Research Paper Submitted to  
Othman Yeop Abdullah Graduate School of Business  
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Master in Islamic Finance and Banking



Pusat Pengajian Perniagaan Islam  
ISLAMIC BUSINESS SCHOOL  
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### ABSTRACT

This research paper study the on efficiency level for all Islamic banks in Malaysia during the year 2008 to 2016. Other than that, this research paper compare the efficiency of the local Islamic banks and foreign Islamic bank in Malaysia during the same period of the study. The efficiency of all Islamic in Malaysia is measured by utilizing Data Envelopment Analysis. The data are extracted by Bank scope and Annual Report from 2008 to 2016. The samples consisted of 16 Islamic banks in Malaysia. In overall, the finding shows that Islamic banks in Malaysia perform efficiently. Other than that, the finding shows that local Islamic banks more efficient compare to foreign Islamic banks. Hence, the findings of this research have policy implications and make a contribution to policy-making by providing empirical evidence on the performance of the Islamic banks and their efficiency level.

**Keywords:** Efficiency, Islamic banks, Data Envelopment Analysis



## ABSTRAK

Kertas kajian ini menjalankan kajian terhadap tahap kecekapan perbankan Islam yang terdapat di Malaysia ini dari tahun 2008 sehingga tahun 2016. Selain itu, kertas kajian ini juga membuat perbandingan kecekapan di antara bank Islam tempatan dan bank Islam asing dalam tempoh kajian yang sama. Kaedah kajian ini, menggunakan kaedah Data Envelopment Analysis atau DEA. Data mengenai bank Islam yang terdapat di Malaysia diperolehi melalui bank scope dan laporan tahunan bank Islam dari tahun 2008 sehingga tahun 2016. Sample kajian pula, terdiri daripada 16 bank Islam yang terdapat di Malaysia. Hasil kajian ini mendapati bank-bank Islam ini menunjukkan kecekapan dari tahun kajian yang telah dijalankan. Di samping itu juga, hasil kajian ini juga menunjukkan bank Islam tempatan mempunyai tahap kecekapan yang lebih baik berbanding bank Islam asing. Diharapkan semoga hasil kajian ini, mampu memberikan sumbangan kepada pihak yang berkepentingan dan penggubal polisi dengan memberikan informasi mengenai prestasi bank Islam dan tahap kecekapan bank Islam yang terdapat di Malaysia ini secara bukti empirical.

**Keywords:** Kecekapan, Bank Islam, Data Envelopment Analysis



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## LIST OF ABBREVIATIONS

IDB	Islamic Development Bank
OIC	Organization Islamic Countries
KLSE	Kuala Lumpur Stock Exchange
IFSA 2013	Islamic Finance Services Act 2013
BNM	Bank Negara Malaysia
UAE	United Arab Emirates
DCIBF	Dubai Center for Islamic Banking & Finance
KFH	Kuwait Finance House
US	United State of America
GST	Good Service Tax
SST	Sales Service Tax
DEA	Data Envelopment Analysis
TE	Technical Efficiency
ROA	Return on Asset
MENA	Middle Eastern & African
GCC	Gulf Cooperation Council
DMU	Decision Making Unit
SE	Scale Efficiency
PTE	Pure Technical Efficiency
OLS	Ordinary Least Square



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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

##### 1.1.1 History of Bank

The word bank is derived from the Italian word “*banco*” (long beach), because the Jewish bankers sat there while providing currency exchange and loan services, normally in popular areas such as markets or preaching halls. Bank may also trace its origins from Germany word “*banch*” meaning “a pile”. The term that Germans used is to represent a kind of public debt. Historically, banks functioned to provide deposit, loan, and currency exchange services. With time, these banking services became crucial to a nation’s economic advancement. Jews who immigrated to England during the reign of William the Conqueror (1028-1087) dominated the banking business. Jewish bankers provided loans to businessmen and demanded collateral such as land, diamonds, gems, and precious objects, but with a very high interest rates.

In 14<sup>th</sup> century, goldsmiths from Florence, Venice and Genoa took over the Jewish banking, goldsmith, and pawnshop businesses. These banks were located at Lombard Street, and by the 17<sup>th</sup> century, they were providing nearby firms with secure good owns for gold and cash. During the Industrial Revolution in 18<sup>th</sup> century, the administration and management of banking in England had grown considerably. Early in the following century, banker broadened their operations to offer several types of deposits and cashier cheques also to issues conveyable promissory notes. During the process, they

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## APPENDIX

### DEA Methodology

```

A-out (1).txt - Notepad
File Edit Format View Help
Results from DEAP Version 2.1
Instruction file = A-ins.txt.
Data file       = A-dta.txt
output orientated Malmquist DEA

DISTANCES SUMMARY

year = 1
firm no.      crs te rel to tech in yr      vrs
              *****
              t-1      t      t+1      te
1      0.000      0.397      0.434      0.450
2      0.000      0.585      0.640      0.653
3      0.000      1.000      1.136      1.000
4      0.000      1.000      1.093      1.000
5      0.000      0.389      0.426      0.463
6      0.000      0.424      0.464      0.499
7      0.000      0.304      0.332      0.361
8      0.000      0.621      0.679      0.690
9      0.000      0.543      0.594      0.624
10     0.000      0.762      0.834      0.878
11     0.000      0.150      0.164      1.000
12     0.000      0.839      0.918      1.000
13     0.000      0.633      0.693      0.682
14     0.000      1.000      1.108      1.000
15     0.000      0.581      0.636      0.674
16     0.000      0.461      0.477      1.000
mean   0.000      0.605      0.664      0.748

year = 2
firm no.      crs te rel to tech in yr      vrs
              *****
              t-1      t      t+1      te
1      0.439      0.480      0.517      0.513
2      0.695      0.761      0.820      0.828
3      0.767      0.839      0.904      1.000
4      0.977      1.000      1.005      1.000
5      0.342      0.375      0.404      0.381
6      0.425      0.465      0.501      0.472
7      0.572      0.646      0.659      0.706
8      0.710      0.777      0.837      0.866
9      0.427      0.467      0.503      0.487
10     0.746      0.816      0.879      0.848
11     0.348      0.381      0.410      1.000
12     0.914      1.000      1.077      1.000
    
```

