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OUTSOURCING OF BANK BRANCH DELIVERY NETWORK. A FEASIBILITY STUDY FOR BANK MUAMALAT MALAYSIA BERHAD.

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Outsourcing of Bank Branch Delivery Network.
A Feasibility Study for Bank Muamalat Malaysia Berhad.

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Statement of Attestation

We, **Shamsul Bahar bin Ahamad Zainal Badri** and **Adissadikin bin Ali** hereby attest that the accompanying Research Project was prepared in equal contribution by both of us.

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EXECUTIVE SUMMARY

Bank Muamalat Malaysia Berhad (BMMB) is one of the fully-fledged Islamic banks currently operating in Malaysia.

In light of the developments within the Malaysian banking industry, particularly the looming competition expected from new entrants following issuance of 5 new Islamic banking licenses by Bank Negara Malaysia in 2004, BMMB desires to position itself for the challenges and opportunities that lie ahead.

BMMB has identified the consumer banking market as a potential business which the bank aspires to build its competence in. This has led towards the bank assessing its capability in serving customers in the segment. This includes an assessment of its current traditional branch delivery network business model.

BMMB has been relying on its traditional branch delivery model that in effect has limited its customers' reach. The resulting low loan base, coupled with the high cost of branch banking has adversely affected the bank's profitability. Unlike its competitors, BMMB, due to its limited capital and dwindling profits, is not in the position to invest in electronic banking (such as internet and mobile phone banking). Thus, in order to deliver convenience to customers, BMMB need to fully utilize its existing branch and ATM networks which currently are not generating enough business to remedy its problem of low profitability.

BMMB, by the industry standard, is over-branched. However, instead of looking at these branches as purely cost centers, these branches can be turned into potential revenue centers by outsourcing the revenue generating functions such as loan and deposit sales. By engaging sales agents on commission basis, the bank may expect an increase in sales volume with a lesser cost per unit of sales.

Furthermore, BMMB could centralize all its back-office functions such as loan and deposit processing. As a result, BMMB branches will be left with front office sales and service functions only. The reduced functions left at branches would enable the managers to better manage the branches. This brings about an option for BMMB to franchise the management and operation of its branches to its high performing managers. The franchisee, driven by profit sharing rights, will bring their local touch and expertise in order to maximize the branch profit by maximizing revenue and driving down cost to the minimum.

The advent of Malaysian Electronic Payment System (MEPS) that allows for inter-bank electronic funds transfer be carried via over-the-counter, ATMs or internet at any of its participating banks further opens up the possibility of BMMB outsourcing its delivery channel. As BMMB is a member of MEPS, it should embark on a full-scale effort to sell its MEPS funds transfer capability to prospective customers. If this is done effectively, BMMB is likely to enjoy the benefit of an enlarged customer reach without having to further invest in branch or ATM network i.e by leveraging on other banks' branch and ATM networks in delivering convenience to its customers.

Once BBMB achieves the desired sales volume with the appropriate cost to income ratio, the bank could embark on investing in non-branch delivery channels such as mobile phone and internet banking.