

CHAPTER 1

BACKGROUND, SCOPE AND OBJECTIVES

1.1 Background

Bank Muamalat Malaysia Berhad (BMMB) commenced operation on October 1, 1999 as a result of the consolidation of the Islamic Banking Scheme of Bank Bumiputra Malaysia Berhad, Bank of Commerce (M) Berhad and BBMB Kewangan Berhad arising from the merger of Bank Bumiputra Malaysia Berhad and Bank of Commerce (M) Berhad. It is the second Islamic bank in the country, which operates its business based on Syariah principles. The bank currently has 41 branches, 7 service centers and an offshore branch in Labuan International Financial Centre with total staff strength of 1,200 personnel.

The bank, at present, relies mainly on the traditional brick and mortar branch and service centers (mini branches) and limited self-service kiosks (ATMs, Cash Deposit Machines and Cheques Deposit Machines) in carrying out its retail banking business.

The above-mentioned delivery channels especially branch network is associated with the following shortcomings:

- i) Limited customer-reach.

With the existing delivery channel, the bank's reach to the customers is limited to the existing branches/service centers and ATMs. This is believed to have resulted in the bank's inability to increase its market share in consumer banking.

ii) High investment and operating cost.

Branch banking entails a significantly high set-up cost and the subsequent operating expenditure in terms of overhead (salary and other running expenditures such as rental, utilities charges etc). The high operating cost incurred, coupled with the low turnover has adversely affected the bank's profitability.

In the wake of intensifying competition, BMMB needs to find a cost effective means to maximize its customers' reach. As the bank is not in the position to invest in high-tech banking such as internet banking or mobile-phone banking due to its limited capital and declining profits, BMMB has decided to leverage on its existing branch network nationwide to achieve its objective to maximize its customers' reach. Congruent with the view to reduce its cost to income ratio, BMMB has identified outsourcing of its branch network delivery channel as a possible means to achieving such an objective.

Premised on the above-mentioned views, BMMB has requested that a feasibility study to be carried out on the outsourcing of its branch network delivery channel.

1.2 Scope.

The study shall concentrate solely on BMMB's Retail/Consumer Banking business. Other aspects of the bank's business namely Business Banking, Investment Banking and others shall not be looked into.

1.3 Objectives.

The study endeavors to provide recommendations to Bank Muamalat (M) Bhd on the feasibility of outsourcing its branch network delivery channel as a cost-effective mean for increasing its customers' reach.

The study is expected to assist Bank Muamalat (M) Bhd to increase its market share of consumer Islamic financing in Malaysia and, ultimately improve its profitability.