

CHAPTER 4

BANK MUAMALAT MALAYSIA BERHAD.

4.1 Background

Bank Muamalat Malaysia Berhad (BMMB) is the 2nd full-fledged Islamic bank in Malaysia established in 1999 as a result of the merger between Bank Bumiputra Malaysia Berhad (BBMB) and Bank of Commerce (Malaysia) Berhad (BOC). Under the merger arrangements, Islamic banking business of BBMB, BOC and BBMB Kewangan Berhad were transferred to BMMB.

The authorized capital of BMMB as at 31 December 2003 was 4 billion ordinary shares of RM1 each, whilst its issued and paid-up capital was RM225,846,000 comprising 225,846,000 ordinary shares of RM1 each.

Currently, Bukhary Capital Sdn Bhd holds a 70% stake in BMMB, making it the largest single shareholder of BMMB. Khazanah Nasional Berhad holds the remaining 30% stake.

The principal activities of BMMB are Islamic banking business and related financial services. These activities include providing Islamic banking deposit, debt and equity financing, and other Islamic banking related services.

The Bank offers a wide range of banking products and services based on Syariah principles including saving deposits, current account, mortgages, hire-purchase, term loans and business financing.

The products and services offered are based on Syariah principles of Al-Wadiah, Al-Mudharabah, Al-Bai' Bithaman Ajil (BBA), Al-Murabahah, Al-Ijarah and Al-Musyarakah.

BMMB's customers comprise individuals, corporate and business clients, as well as government companies and agencies. In 2004, the ratio between consumer and other financing was about 48:52.

BMMB currently focuses on 4 lines of business namely:

- i) Retail/consumer banking
- ii) Business banking
- iii) Investment banking
- iv) Treasury

All except its consumer banking business operations are centralized at its head office in Kuala Lumpur.

4.2 BMMB Consumer Banking Business Model

Consumer banking operations is carried out through its 41 branches and 6 service centers (mini branches) nationwide. In terms of geographical spread, 60% of BMMB's branches are in Klang Valley and the rest are dispersed throughout the nation i.e one at every state capital and a few other towns².

² Refer to Appendix 1 for the List of Bank Muamalat Malaysia Berhad branches

Banking at these physical 'brick and mortar' delivery channel is done primarily over-the-counter through tellers whereby BMMB has primarily targeted walk-in customers in marketing its loans and deposits. Limited efforts are done for marketing loans and deposits outside of branches.

Electronic banking for BMMB, carried out through its 60 ATMs nationwide, takes up less than 5% of its total banking transactions. The Bank so far does not offer internet or phone banking services.

In so far as consumer credit is concerned, the bank until late 2004, practiced a decentralized approach in handling end-to-end loan process whereby loans are sourced, processed, approved, disbursed and managed by credit sections at individual branches. The head office's involvement is limited to exceptional cases eg evaluation of cases that goes beyond credit authority limit empowered to branch managers.

BMMB realized that its current business model that has an over reliant on the traditional branch delivery channel is associated with the following flaws:

- i) Limited customer-reach.
- ii) Low productivity.
- iii) Potential overstaff (redundancy arising from duplication of functions).
- iv) Lack of sales and marketing culture.
- v) High delivery cost.

As a result, the Bank has embarked on a Transformation Programme³ that endeavors to address the flaws mentioned above by moving towards:

- i) Segregation of functions through specialization
- ii) Centralization of back office functions at branches as to avoid duplication of works e.g. credit evaluation & approval, documentation, disbursement, collection & recovery, cheque processing etc
- iii) Creating specialized full-time sales and service functions within the Bank

By centralizing the back-office functions at branches, BMMB hopes to free its branches staff to undertake full-time sales (mobile and in-house) and over-the-counter service activities.

Moving forward, in the near term, line with the trend in global banking, BMMB is exploring other means to achieving higher sales with lower cost ie through the possibility of outsourcing the sales/loan origination function. For the long term, BMMB is interested to see the feasibility of becoming a branchless bank whereby its physical delivery channel will be totally outsourced to franchisees, partners or agents.

³ The Star (2004), 'Bank Muamalat to take services online', The Star, 6 July 2004

4.3 SWOT Analysis

The SWOT analysis of BMMB is summarized below:

Table 4.1

SWOT Analysis

<ul style="list-style-type: none"> i) The 2nd full-fledged Islamic Bank with established branch network and banking infrastructure (ATMs) nationwide. ii) Strong shareholders i.e Al-Bukhary Group and Khazanah Nasional. 	<ul style="list-style-type: none"> i) Continuous consumer banking industry growth. ii) Increasing popularity of Islamic banking. iii) Opportunity to cross-sell non-banking products eg Takaful, Islamic unit trusts etc.
<ul style="list-style-type: none"> i) Low loan base. ii) High operating cost. iii) Low/declining profitability. iv) Limited capital base. v) Limited market-oriented culture (less customer centric). 	<ul style="list-style-type: none"> i) Intensifying competition especially with the entrants of new Islamic banks. ii) Scarcity of experienced and qualified personnel.

4.3.1 Strengths

- i) The 2nd full-fledged Islamic bank.

BMMB, despite being relatively new (in existence for only about 5 years), is one of the two full-fledged Islamic banks that are currently operating in Malaysia. Although Bank Negara has issued additional 5 Islamic banking licenses in late 2004, it is estimated that the new players can only be fully operational by end of 2005. Therefore, BMMB, with 41 branches nationwide, has a first mover advantage compared to the new comers.

- ii) Strong shareholders

BMMB, with strong shareholders like the Al-Bukhary Group and Khazanah Nasional will see the support not in term of capital only but also business opportunities that arise from group synergy. For instance, BMMB may explore offering consumer banking services to all staff of the companies within the Al-Bukhary and Khazanah Nasional group of companies.

4.3.2 Weaknesses

- i) Low loan base

To date, after about 5 years of its inception, BMMB's market share of loan is merely 0.9% of the Malaysian banking industry total loan. In fact, its loan base is in a declining growth trend. The following shows the declining growth of BMMB's loan base from 2001 to 2003:

Table 4.2

Summary of BMMB's balance sheet 2001 – 2003

Financing assets (Gross)	2,091	2,312	2,270
Investment assets	2,044	2,422	2,751
Money market	1,159	1,636	2,042
Total assets	5,438	6,565	7,315
Deposits	4,965	6,029	6,846
Financing to deposit ratio	42.1	38.3	33.2
Financing growth (%)	15.3	10.6	-1.8
Asset growth (%)	6.2	20.7	11.4
Deposit growth (%)	14.8	21.4	13.6

The financing to deposit ratio of BMMB is lower than other players in the industry:

Table 4.3

Financing (Loan) to Deposit ratio comparison.

BMMB	42.1	38.3	33.2
Bank Islam	57.3	52.9	55.7
Maybank	101.1	93.1	93.7
Public Bank	81.0	81.3	93.5
Hong Leong	72.4	71.0	66.8

Source : Banks annual reports 2003

Compared to its competitors, BMMB commands the lowest loan per employee and total income per employee as depicted in the following table.

Table 4.4
2003 Industry Productivity Comparison.

1	No. of employees	1,182	2,022	21,042	12,530	4,980	5,364
2	Loan per employee (RM'000)	1,921	3,558	4,870	3,641	4,275	4,201
3	Deposits per employee (RM'000)	5,792	6,115	5,199	4,008	5,322	6,711
4	Total asset per employee (RM'000)	6,189	6,784	7,649	5,159	6,402	8,122
5	Total income per employee (RM '000)	242	327	360	291	353	426

In so far as branches are concerned, based on its total asset size, BMMB (in relative terms) has a higher number of branches as compared to its competitors. This is evident in the following table.

Table 4.5

Comparison of branches' asset size.

BMMB	41	7,315,398	178,424
Bank Islam	85	13,717,248	161,379
Maybank	334	160,950,258	481,887
Public Bank	250	64,642,270	258,569
EON Capital	108	31,881,960	295,203
Hong Leong	173	43,566,408	251,829
Total	991	322,073,542	324,999

Source : Banks annual report 2003

If the number of branches is taken as the measure to gauge banks' reach for customers, BMMB should display a higher market share of loan in the banking industry. However, this does not hold true for BMMB, evidenced by its total asset per branch that amounts to only about 55% of the industry average. This implies that BMMB is simply not generating enough revenue from its existing branches as it should, compared to industry standard.

ii) High investment and operating cost.

Branch network 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). This is reflected in the Bank's cost to income ratio of 73.4% compared to the industry average of 35.7%.

Table 4.6
Comparison of Cost to income ratio for 2003

BMMB	73.7
Bank Islam (BIMB)	30.3
Maybank	30.9
Public Bank	32.1
EON Capital	26.8
Hong Leong	20.6
Average	35.7

Source : Banks annual report 2003

iii) Low/declining profitability

Whilst BMMB do not seem to have problem to attract deposit, its overall low loan base seems to adversely hurt its bottom line. This is reflected by its low Return On Asset and Return On Equity ratios compared to its competitors as depicted in the following table:

Table 4.7

Profitability ratios for 2003

(Source: Banks Annual Report 2003)

		2003	2002	2001	2000
1	Financing Yield (%)	7.3	6.6	6.6	9.8
2	Net Income Margin (%)	2.5	2.7	3.2	3.8
3	Return on Assets (%)	0.1	1.0	1.3	1.3
4	Return on Equity (%)	2.1	11.7	15.3	15.8

Table 4.8

Summary of BMMB's income statement 2001-2003

	2003	2002	2001
Income from financing (loan)	147,357	141,837	163,134
Income from investment	92,503	108,531	107,090
Income from money market	17,173	46,238	26,622
	257,033	296,606	296,846
Dividend and Hibah paid to depositors	(129,410)	(162,707)	(148,689)
Income attributable to the Bank	127,623	133,899	148,157
Financing (loan) losses and provisions	(36,583)	(29,398)	(32,890)
	91,040	104,501	115,267
Other income	30,184	27,894	31,976
	121,224	132,395	147,243
Operating expenses	(102,849)	(116,755)	(132,798)
Operating Profit	18,375	15,640	14,445

The high operating cost incurred, coupled with low turnover has adversely affected the bank's profitability as shown in the preceding table.

iv) Limited capital base

BMMB, with its paid-up capital of about RM300 million is somehow limited in its ability to lend. With a minimum Risk Weighted Capital Ratio of 8%, the maximum amount of loan that BMMB can extend will be RM3.7 billion. Based on 2004 gross loan figure of RM2.27 billion, the Bank can only expand its loan base by RM1.43 billion. Any further expansion in loan base would require additional capital injection.

v) Limited market-oriented culture

BMMB, with its existing business model that generally depends on walk-in customers at its branches for business is not market-oriented. While other banks are striving to deliver customer convenience through alternative delivery means including mobile sales force, internet banking and phone banking i.e 'hi-touch and hi-tech' banking; BMMB has yet to embark on similar efforts

4.3.3 Opportunities

i) Increasing popularity of Islamic banking.

Islamic banking industry is gaining popularity, evident by its average annual growth rate of 20% since its introduction in 1983. The Government's efforts to promote Malaysia as the Islamic banking hub are expected to further fuel the growth of the

industry. To date, Islamic banking in Malaysia is regarded as an alternative to conventional banking rather than a system that is in existence to cater specifically to the needs of Muslim alone.

ii) Continuous growth of consumer banking industry.

Demand for consumer credit, which currently makes up about 40% of total loan in the Malaysian banking system, is expected to remain as the dominating factor that drives the overall growth of credit supply in the banking system.

Demand for consumer products in the Islamic Banking System is more prominent. The share of consumer demand in Islamic Banking System is anticipated to expand to nearly 60% of the total Islamic financing.

iii) Opportunity to cross-sell non-banking products.

In line with the increasing trend of providing maximum convenience to customers, banks have embarked on strategic alliances with providers of insurance and other non-banking products and services that could be bundled together with banking products and services. In such arrangement, banks would gain from the sales commission (fee based income) thus contributing to its bottom line. BMMB could seize the opportunity by establishing strategic alliances with Takaful and Islamic unit trust providers.

4.3.4 Threats

i) Intensifying competition

Competition within the banking industry (Islamic banking in particular) will be further intensified with the entrants of 5 new players especially the 3 Middle East banks. As achieving customers' conviction may not be an issue to these banks, they are likely to compete on convenience by heavily leveraging on Information Technology. This may not be a big problem especially when capital is not an issue to them.

ii) Scarcity of skilled personnel

With the increase in the number of Islamic banks in Malaysia, demand for personnel that is not only knowledgeable in the fields of Syariah but also the banking discipline is expected to rise. Therefore, all Islamic banks will need to have an effective program to attract and retain talented personnel.