

5 Conclusion and Recommendation

5.1 Introduction

This is the last chapter of the report that presents the summary of the research activities and the major findings including interpretation of them. This chapter also presents the limitation of this study which might have some implications on the research result. In the end, this chapter presents recommendation for the future researches in similar topic and discussion.

5.2 Overview of the study

This research originally was influenced by the other research presented by Stiroh (2004) on how diversification is viewed in the perspective of non interest income as component that constructs the banking institution's revenue. Starting from that research, I then explored more to other researches that having similar topic of discussion. Based on the exploration result, the objectives of this research were then developed by using Malaysian banking industry as the research object.

A further exploration and review to several of literatures leads the development of theoretical framework of this research to put more focus on three topic discussions:

- Revenue volatility of banking institutions
- Determinants of non Interest Income
- Determinants of bank performance comparison to diversification

Anyway, the results of this study do not support the previous research findings. This is not a surprise, as the previous researches have already presented some findings that

discussion of diversification might lead to a different result. The main reason explained is diversification, especially in generating non interest income based activities, will have highly dependency to the market of the target research object. It is also presented by other researches done for the European banking industry, showing a different research results compared to the US banking industry. In this case, Malaysian banking industry could have a different result which is interesting to be further explored.

5.3 Interpretation of Major Findings

There are some interesting findings in the research result. Based on the first objective of the research which is to analyze the revenue volatility of banking institutions, surprisingly Malaysian banking institutions managed to maintain its share of the portion of non interest income to their total income for two decade. This shows us that Malaysian banking institutions are not interested in diversification activities that involve in non interest based income stream. In facts, the volatility of revenue can be reduced in the time after banking crisis 1998. With stable portion of share of non interest based income generating activities, the banking institutions managed to stabilize also the volatility of non interest income. This is the major contribution to the relatively stable total income stream, as from the research findings, it is presented that the volatility of net interest income is higher after the banking crisis 1998.

In the discussion of non interest income determinants, there are interesting findings presented as well. The results support the previous researches on the factors that determine the decision of the management of the bank in the focus of non interest based income generating activities. The bank size, bank risk, funding strategy, macroeconomic

indicators of the country and also the stock market have positive relationship to the share of non interest income stream in the banking institutions.

The testing of the last objective shows a contrary result with the previous research. Banking institution diversification, which is represented by the share of non interest income revenue and the share of non interest based funding strategy, shows a negative relationship with bank performance. It means that the bank performance will be better if the management of banking institutions lowers the portion of diversification on the non interest based income and non interest based funding strategy.

Those findings of course are not expected based on diversification theory. This can be explained by looking at the banking industry in Malaysia especially on the strategy on the diversification. In the recent years, a lot of banking institutions in Malaysia have been investing aggressively in the foreign country such Indonesia. This is actually also to show another form of diversification in the banking industry. Perhaps the managements of the banking institutions have their own reason why they choose the location based diversification instead of non interest activity based diversification. Small population and tough competition could be the potential reasons taken.

5.4 Limitation of the Study

There are limitations in this study. The most crucial is on the data collection stages. Sources of data especially on the revenue and income breakdown are very limited, especially if we want to extent our time frame of the study. If the breakdown of the revenue data such as fee based income, service charges income, fiduciary income and other non interest income type can be obtained, a more comprehensive testing approach might be conducted and better research analysis result can be achieved.

Secondly, this research is also not looking at the implication of diversification to the risk of banking institutions, which potentially might enrich the reason on the interpretation of analysis result.

5.5 Implications of Study

This study delivers some valuable knowledge that can be used as references by other institutions. Bank Negara Malaysia as banking regulator can develop a proper framework supported by strong policies in managing non interest based income activity generations implemented by the banking institutions. As it is found in the research, the non interest based income generating activity has a strong relationship with the bank internal factors especially with bank risk. If it is not managed properly, another potential bank risk issue that leads to bank crisis is possible to happen.

The management of the bank can use the research findings as reference in the decision of bank diversification. They can compare the potential values in doing location based diversification, which is being done by most of Malaysian banks, and non interest income based diversification presented in this research. Even a combination of both diversification approaches might contribute in better banking institution performance.

The academic and research based institutions can use the findings of this research as different perspective of reference in doing banking related research and study. By combining a different perspective in understanding banking study, a comprehensive analysis result can be achieved and better recommendation in managing banking can be proposed.

5.6 Recommendation for Future Research

Non interest based income generating activities is quite recent topic in bank diversification as part of banking topic and discussion. There are many sides and perspectives that are very interesting to be explored. In the same time, there are no proper regulations imposed by the banking authority on how the banking institutions should manage their diversification activities. A further research on the comparison of other type of diversification and also further exploration on the bank diversification risk, might contribute a significant knowledge to the banking industry stakeholders.