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Influence of Economic Factors on Performance of Investment and Mudharabah Accounts in Maybank, Malaysia

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Abstract

This study examines relationship between investment and Mudharabah accounts in Maybank with economic factors. The data used are secondary data from various annual reports of Maybank from 1996 until 2007. The data are analyzed using Correlation and Multiple Regression analysis. The dependent variables studied are total investment and Mudharabh accounts and set of independent variables comprised of gross domestic product (GDP), unemployment rate (UER), income percapita (IPC) and consumer price index (CPI). The main objectives are to identify the relationship between the independent variables and to examine their influence on total deposits of investment and Mudharabah accounts. The results of Correlation showed that there is no relationship between all independent variables. The findings also proved that UER, GDP, IPC and CPI have significant relationships with investment and Mudharabah accounts. Finally, this study confirmed that UER is the most dominant factor that influenced both investment and Mudharabah accounts.

Keywords: Investment accounts, Mudharabah accounts, Economic factors, Maybank

1. Introduction

Over the years, many studies have been carried out to determine profitability of conventional banks. The literature divides bank profitability to internal and external measure. Meanwhile there are rarely studies pertaining to Islamic banks as compared to conventional banks. One of the earliest studies was done by Zakariya Man (1988). He compared the performance of BIMB with the conventional banks using ratios that represent capital structure, assets and deposits structure, and profitability. He found that the progress made by BIMB was encouraging and the experiences were somewhat similar to those of Islamic banks in other countries. The performance studies were also performed by Azzah Mahidin (1991) and Muhammad Anwar (1991). Both evaluated the performance of BIMB over a period of five years (1985; 1986-1990) in terms of growth of assets, shareholders' fund, profits, deposits and financing. Their studies found that BIMB had attained viability and growth, and its performance was excellent. Next many researchers moved to comparative studies between BIMB and the conventional banks. Dirar (1996) for example in his study compared the performance of BIMB with Maybank Berhad and BSN Commercial. In the study, he compared four factors which are growth, profitability, liquidity and capital adequacy ratios of the three selected banks. He found that BIMB's major financing was concentrated on trade-based investment compared to other two banks. In addition to that Saiful Azhar Rosly and Mohd Afandi Abu Bakar (2003) studied the performance of Islamic and mainstream banks in Malaysia. The results of their study showed that Islamic Banking Scheme (IBS) banks had recorded higher return on assets (ROA). In another research, Abdus Samad (1999) had studied the relative efficiency of BIMB and conventional banks of Malaysia during 1992-1996. The study examined productive and managerial efficiency in the sources and the uses of bank's funds. The weighted ratio approach was adopted in measuring various types of efficiencies of the banks. The measure of managerial test indicated that the managerial efficiency of the conventional banks was higher than that of the BIMB. All the profitability indexes indicated that profits earned by the BIMB were lower than the conventional banks. This meant that the Islamic bank had weaker efficiency compared to the conventional banks. The results were supported with ANOVA test. Unfortunately there is no study done on the performance of selected products of Islamic banking in Malaysia. Topics on the performance of total financing, deposits or investments in Islamic banks or Islamic windows are almost uncovered by the researchers. Lack of studies done on total deposits of investment accounts and Mudharabah

accounts in Islamic banking system has motivated the researcher to study that performance in relation to several economic factors in Malaysia. For the purpose of this study, Malayan Banking Berhad (Maybank) is chosen as the case of study. The objectives of this study are to examine the relationship between CPI with IPC, UER and GDP and to study the influence of those factors on total deposits of investment accounts and Mudharabah accounts in Maybank. There are three hypotheses to be investigated. First, there is no significant relationship between CPI with IPC, UER and GDP. Second, CPI, IPC, UER and GDP will not significantly explain the variance in total deposit of investment accounts in Maybank. CPI, IPC, UER and GDP will not significantly explain the variance in total deposit of Mudharabah accounts in Maybank.

2. Methodology

2.1 Research design

The purpose of this study is to examine and compare the relationship of total investment accounts and Mudharabah accounts in Maybank with the economic factors. The economic factors selected for analysis are CPI, IPC, UER and GDP.

2.2 Data analysis

The data used in this study are secondary data, which are taken from various income statements and balance sheets from annual reports of Maybank and reports of Central Bank of Malaysia from 1996 until 2007. The Statistical Package for Social Sciences (SPSS) Version 15.0 is used to analyze the data. Statistical testing such as Correlation and Multiple Regression are applied in the analysis in order to test the hypotheses developed for the research.

3. Results

Pearson Correlation is used to show the relationship CPI rate with IPC, UER and GDP. Next the study applied Multiple Regression analysis to analyze the influence of CPI, IPC, UER and GDP on designated dependent variable i.e total deposits of investment accounts and Mudharabah accounts. The results of this analysis are shown by the ANOVA, F-test, t-test and the correlation tables.

3.1 Correlation analysis

This analysis is to look the relationship among the set of independent variables i.e UER with IPC, CPI and GDP. Table 1 shows UER has a negative relationship with GDP, CPI and PCI. The entire variable is at low correlation. The conclusion is rejecting alternative hypothesis. Thus the result is there is no significant relationship between CPI with IPC, UER and GDP.

3.2 Multiple Regression analysis

The analysis is done separately for the total deposits of investment accounts and Mudharabah accounts. The results are shown in the tables of model summary, ANOVA and coefficients.

3.2.1 Total deposits of Investment Accounts

The result of R Square is shown in Table 2. It shows the value of R Square for investment accounts is 0.781 (78.1%). It means that UER, IPC, CPI and GDP explain 78.1 percent of the variance in total deposits of investment accounts. Thus the result shows that the model of regression is fit. The balance of 21.9 percent of the variance is explained by other variables which are not included in this study.

The following Table 3 shows the tests of the overall significance of the model (ANOVA) for the regression equation. Based on the significance level of 5 percent, the value of F-test in is $F(4, 7) = 6.224$, $p < 0.018$. Since the significance of the F value is below 0.05 ($0.018 < 0.05$), it is concluded that the overall model is significant. Thus, CPI, IPC, UER and GDP significantly explain the variance in total deposits of investment accounts in Maybank.

Table 4 presents the results of coefficients. Thus the Regression model of equation for this study is written as follows:

$$\mathbf{TDI = C + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon}$$

TDI = -182,923,608.389 + 251,027,580.437 IPC + 771,229,614.548 CPI + 5835291958.125 UER + 137390060.211 GDP

The amounts of Beta under the Standardized Coefficients show that UER is the highest Beta, which is 1.118, compared to the other variables. It means UER is the strongest unique factor to explain the variance in total deposits of investment accounts. Meanwhile GDP has the lowest value for Beta which is only .317. Thus it means that GDP contributes less in explaining the variance in total deposits of investment accounts offered by Maybank. The results also present that there is positive relationship between all independent variables (UER, IPC, CPI and GDP) with the investment accounts. It means that when an independent variable increases one percent the total deposit will also increase. In this case when UER increases one percent total deposits will be increased by 58352919.581. Same with IPC, when it increases one percent total deposits will be increased by 2510275.804. For CPI, if CPI increases one percent total deposits increased

by 7712296.145 and last when GDP increases by one percent, total deposits increased by 1373900.602. On top of that only UER shows the significant result.

3.2.2 Total deposits of Mudharabah accounts

The value of R Square for Mudharabah accounts is 0.892 (Table 5). This means that UER, IPC, CPI and GDP explain 89.2 percent of the variance in total deposits of Mudharabah accounts in Maybank. The bigger value signifies that the model of equation is fit. While, the balance 10.8 percent of the variance are remain unexplained by the selected variables.

Table 6 shows the tests of the overall significance of the model for the regression equation. The value of F-test in this study is $F(4, 7) = 14.440$, $p < 0.002$. Here, the significance of the F value is below 0.05 ($0.002 < 0.05$), so it is concluded the overall that the model is significant. Since this is the smallest value, at which we can reject the hypothesis. Thus the CPI, IPC, UER and GDP significantly explain the variance in total deposits of Mudharabah accounts in Maybank.

The results of coefficients for Mudharabah accounts are shown in Table 7. Therefore the Regression model of equation is written as follows: $\mathbf{TDM = C + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon}$

TDM = -15517352.659 + 282794.396 IPC + (84323.327 CPI) + 5254818.988 UER + 13452.835 GDP

The amount of Beta under the Standardized Coefficients shows that UER is the highest Beta, which is .918. It means that UER is the independent variable which contributes most to the total deposits of Mudharabah accounts. Meanwhile the variable that gives less support to the dependent variable is GDP which is only .029. The results also demonstrate a positive relationship between UER, GDP and IPC with total deposits of Mudharabah accounts. Only CPI has a negative relationship. It means that when CPI increases by one percent, total deposits for Mudharabah accounts will reduce by 84323.327. From the result it shows that only two independent variables are significance i.e UER and IPC. While other show insignificance relationships.

4. Conclusions

The general conclusions derived from this study are, first the results of Correlation showed that there is no significant relationship between CPI with IPC, UER and GDP. Second, the findings proved that UER, GDP, IPC and CPI have significant relationships with total deposits of investment accounts and Mudharabah accounts. Finally, this study confirmed that UER is the most dominant factor that influences both total deposits of investment and Mudharabah accounts in Maybank.

This study concentrates only on total deposits of investment accounts and Mudharabah accounts as the dependent variables. While only four economic factors i.e UER, GDP, IPC and CPI are selected as independent variables. So, it is recommended for future researchers to include other factors such as employment rate, base lending rate and others in their researches. Furthermore, the findings can be generalized if the sample size is increased to include other banks such as CIMB, RHB, BIMB and other Islamic banking institutions in Malaysia.

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Table 1. Correlations

		UER	GDP	CPI	PCI
UER	Pearson Correlation	1	-.309	-.372	-.301
	Sig. (2-tailed)	.	.329	.234	.342
	N	12	12	12	12

Table 2. Model Summary - Total Deposist of Investment Accounts

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.883(a)	.781	.655	11580553.4

a. Predictors: (Constant), GDP, UER, PCI, CPI

b. Dependent Variable: Investment

Table 3. ANOVA - Total Deposits for Investment Accounts

Model		df	F	Sig.
1	Regression	4	6.224	.018(a)
	Residual	7		
	Total	11		

Table 4. Coefficients - Total Deposits of Investment Accounts

Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.
		B	Beta		
1	(Constant)	-182923608.389		-3.463	.011
	UER	58352919.581	1.118	4.657	.002
	IPC	2510275.804	.460	2.010	.084
	CPI	7712296.145	.473	1.849	.107
	GDP	1373900.602	.317	1.159	.285

Table 5. Model Summary - Total Deposit of Mudharabah Accounts

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944(a)	.892	.830	872225.937

a. Predictors: (Constant), GDP, UER, PCI, CPI

b. Dependent Variable: Mudharabah

Table 6. ANOVA - Total Deposits for Mudharabah Accounts

Model		df	F	Sig.
1	Regression	4	14.440	.002(a)
	Residual	7		
	Total	11		

Table 7. Coefficients - Total Deposits of Mudharabah Accounts

Model		Unstandardized Coefficients	Standardized Coefficients	T	Sig.
		B	Beta		
1	(Constant)	-15517352.659		-3.900	.006
	UER	5254818.988	.938	5.568	.001
	GDP	13452.835	.029	.151	.885
	CPI	-84323.327	-.048	-.268	.796
	IPC	282794.396	.483	3.007	.020