CONCENTRATION, COMPETITION, AND EFFICIENCY OF MALAYSIAN BANKS: ISLAMIC VS CONVENTIONAL BANKS

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ABSTRACT

The presence study aims to examine the market concentration, competition and the efficiency performance of conventional and Islamic banks in Malaysian banking industry over the period of 2008 to 2014. This study employs concentration ratio and Herfindahl-Hirschman Index to measure the market concentration while H-statistics value computed by Panzar-Rosse method serves as the indicator of the market competition. Last but not least, the Data Envelopment Analysis is used to assess the efficiency performance of Malaysian banks. The results of market concentration show conventional banks are more concentrated and the H-statistics results suggest Malaysian banks are operating under monopolistic competition. Interestingly, the efficiency results indicate the foreign banks are more efficient than its counterpart under conventional banking; vice versa, the domestic banks are more efficient in the Islamic banking system.

Keywords: *Efficiency, Concentration, Competition, Banking, Malaysia*