

Bank Competition: On the Relationship with Revenue Diversification and Funding Strategy from Selected ASEAN Countries

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Abstract : Association of Southeast Asian Countries Nations (ASEAN) is moving forward to the next level of regional integration by the initiation of ASEAN Economic Community (AEC) which is already started in 2015, 8 years after its declaration for the creation of AEC in 2007. This commitment imposes financial integration in the region is one of the main agenda which will be achieved until 2025. Therefore, the commitment to financial integration including banking integration will bring new landscape in the competition and business model in this region. This study investigates the effect of competition on bank business model using a sample of 324 banks from seven members of Association of Southeast Asian Nations (ASEAN) countries (Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam). We use market power approach and Boone indicator as competition measures, while income diversification and bank funding strategies are employed as bank business model representation. Moreover, we also evaluate bank business model based by grouping the banks based on the main banking characteristics. We use unbalanced bank-specific annual panel data over the period of 2003 - 2015. Our empirical analysis shows that the banking industries in ASEAN countries adapt their business model by increasing non-interest income proportion due to the level of competition increase in the sector.

Keywords : bank business model, banking competition, Boone indicator, market power

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