

# Comments of

**Remali Yusoff\***

on

## **Measuring Depositor's Behaviour of Malaysian Islamic Banking System: A Co-Integration Approach**

**By Sudin Haron**

### **1. General Comments**

The paper has very good review of the literature and previous research done as well as theoretical considerations on the subject matter.

#### **Religion as Motive**

One of the very important points brought up by the authors were the religious reasons behind a depositor's choice to save in Islamic banks or Islamic banking facilities in conventional banks. These were the three principles elaborated in section 3. Based on these principles, the authors have pointed out the religious reasons for savings in Islamic banks, the authors could have included a further study on the motives for saving in Islamic banks in particular for individual depositors.

#### **Choice of Variables**

The authors chose to test the relationship between level of savings in Islamic banks with rates of profits and general economic indicators. While the results may indicate some relationship between the rates of profits and general economic indicators, the choice of variables attracts fundamental questions as follows:-

a) Rates of Profits: If rates of profits are to be measured as reason to save or invest, any prudent investor would choose to save in an account providing higher returns or profits. Regardless of being in Islamic or conventional system, banks providing higher returns will attract more depositors or investors.

b) General Economic Indicators: General economic indicators will most likely affect the savings in all banks regardless of Islamic or conventional ones. Economic conditions are more likely to prevail in all situations and will affect all banks, Islamic or otherwise and therefore, unlikely to influence the choice of savings for depositors.

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### **Comparison with Conventional Banks**

A further study could be carried out to compare depositors behaviour towards conventional over the same period chosen. Such a study could further complement the results of the research carried out on Islamic banks. Any similarities in results for conventional banks, particularly in the relationships between savings level and the rate of profits and general economic indicators, could further strengthen the paper.

### **Further Study on Categories of Depositors**

In their review of level of savings in Islamic banks, the authors have also categorized the depositors in three main groups namely government, businesses and individuals. The authors did not indicate the magnitude of savings for each group. It would be appropriate to include such information as this would help understand the size of savings by each group and see the impact of such size to the banks.

At the same time, there is a need to discuss further on additional motives for choosing Islamic banks by the depositors particularly government and businesses. Some government bodies and businesses may be obligated to deposit funds for policy or credit requirement. Government policy may require government bodies to save in Islamic banks. Likewise, credit or loan arrangements may require businesses to save in Islamic banks.

In addition, it would also be interesting to study the motive of individuals to save in Islamic banks particularly along the religion of the individuals. Choice the Malaysia as the location of the study invites such a possibility as access to Islamic banking facilities in the country is open to all persons, without regards to religion or background.

## **2. Specific Comments**

The paper examines factors that are influencing depositor behaviour of Islamic banks in Malaysia using monthly data over the period 1998-2003. The factors to be considered are (i) interest rate on savings account, (ii) interest on fixed deposit account, (iii) rates of profit for Islamic savings account, (iv) Islamic investment accounts, (v) base lending rate, (vi) Kuala Lumpur composite index, (vii) consumer price index, (viii) supply and (ix) gross domestic product. Seven (7) models are estimated in the study using the JJ [(Johansen, S. & K. Juselius (1990)] cointegration methodology. The author(s) reported that the long-run relationship between the amounts of deposits placed in the Islamic banking system in Malaysia by various economic units and financial and economic variables. Moreover, Islamic bank depositors are influenced by financial and economic variables.

There are few directions that the paper could be further improved. In the Introduction Section, the author(s) could motivate the readers more directly to the theme of the paper by focussing on the case of Malaysia. Moreover, the objective

of the paper shall be stated clearly and the contributions of the paper shall be highlighted although the author(s) has mentioned them in paragraph 3 of the Introduction Section.

In the Data and Methodology Section, the author(s) shall specific more clearly the models used in the study. Are they in log form, semi-log form or etc.? What model of cointegration is used in the study? The lagged length used the estimation of cointegration is not reported?

In the Finding Section, the author(s) shall report specifications tests ( $R^2$ , LM test etc.) for error corrections models. The policy implications of the study shall be discussed or emphasised further.

Finally, it is not very clear in the Concluding Remarks Section (paragraph 1) that the author(s) stated “our findings suggest that economic units have similar behavioural patterns”. The further explanation and clarification will enable the readers to appreciate more the findings of the paper. Also, in the same section and in the same paragraph, “... Islamic bank depositors are influenced by both financial and economic variables”, are the statement implies all kind of Islamic bank depositors that are influenced by all financial and economic variables?

There are some specific matters in the paper to be improved such as:

- i. The author(s) shall state currency used in Table 1 (Malaysian Ringgit?); Page. 5.
- ii. In page 12 (the last sentence), it should be seven different models and not six models as written.
- iii. The author(s) has mentioned impulse response function in page 14 (the Data and Methodology Section). However, no results/discussions are provided in the following sections?
- iv. Juster and Watchel (1972) in page 6 does not appear in the References.

### 3. Some Other Issues

1. Section 4, page 10 – the variable stated – money supply (M3) is one of the explanatory variables. Why choose M3 instead of M2 in Malaysian case? It might be M2 is most appropriate than M3 and what is the M3 stand for?

2. In section 4, page 10, last paragraph, “..... according to classical economists, is a function of the rate of interest – any reference source?”

3. In page 12, paragraph 2 – M3 must be defining more details or the definition of M3 must be clear (meaning that money supply or M3 is one of the tools used by the government in managing its monetary policy instead of M2).

4. Table 3, page 16 – those hypothesis alternatives are not written properly or aren't fully true specified.

5. Table 3, page 16 – the results of the cointegration test are not matched as well as those models equation in page 13 (the number of results are not as well as the number of models equation).

6. Table 4, page 16 – the multivariate cointegration result for IdCA is not written properly (especially for  $RS_{is}$ ,  $RS_{cv}$ ,  $ARI_{is}$  and  $ARFD_{cv}$ ).

7. Table 5, page 20 – are those variables in first difference form as well as in equation 2 (page 14)?

In page 23, Johansen, S and K. Juselius (990) should be corrected to (1990).