

Efficiency and bank margins: a comparative analysis of Islamic and conventional banks in Yemen

Fekri Ali Shawtari

Islamic Finance Department, Business School, Universiti Kuala Lumpur, Kuala Lumpur, Malaysia and Business Department, Community College of Qatar, Doha, Qatar, and

Received 29 July 2015
Revised 4 November 2015
31 March 2016
27 December 2016
Accepted 22 March 2017

Mohamed Ariff and Shaikh Hamzah Abdul Razak
International Center for Education in Islamic Finance, Kuala Lumpur, Malaysia

Abstract

Purpose – The purpose of this paper is to examine the determinants of bank margins in the Yemeni banking sector for Islamic and conventional banks. The first objective is to investigate whether there is a significant difference between the margins of conventional and Islamic banks. The second objective is to examine whether efficiency represents an influential factor in determining bank margins for Islamic and conventional banks controlling for other micro and macro variables.

Design/methodology/approach – Using a data set of banks in Yemen for the post-liberalisation period from 1996 to 2011, the study utilises panel data with unbalanced observations for 16 banks, of which four are Islamic banks and the remainder conventional banks. Parametric and non-parametric techniques are complemented by dummy variable regression using random effects. Panel fixed effects regression was also undertaken as a robustness check.

Findings – The paper finds that the overall bank margin in Yemen has steadily decreased during the observation period with the exception of the year 2011. The parametric and non-parametric results show that the bank margins are significantly higher for conventional banks than for Islamic banks. The results provide evidence that bank margins are related to neither types of efficiency, but are affected by capitalisation, size, the opportunity cost of the reserve and liquidity, although the impact is shaped differently for Islamic and conventional banks.

Practical implications – The paper provides a basis for regulators and bankers for assessing the viability of the banking sector and proposes policies to restructure the industry to enhance its performance.

Originality/value – This paper adds value to the literature for the Yemeni banking sector and extends the previous research on the determinants of bank margins by focusing on the impact of efficiency on bank margins. Also, it compares the Islamic banks with different types of conventional banks in Yemen in their margins trend.

Keywords Yemen, Efficiency, Bank margins, Islamic banks, Conventional banks

Paper type Research paper



1. Introduction

Banks play a crucial role in the economic growth of countries through their intermediation function, especially in countries that lack capital markets (Poghosyan, 2012). Conventional and Islamic banks are involved in the intermediation process by receiving funds from surplus units and channelling those funds to deficit units. Unlike the conventional banking