



Case Study 5 Bank Rakyat Malaysia: Vision Remains while Mission is Revisited

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Abstract: The slogan, “of the people, for the people, by the people” comes home. Bank Rakyat Malaysia (BRM) offers a different kind of retail banking. Bank Rakyat underwent a drastic evolution from a cooperative system of management to a highly creative market entity ready to face the very aggressive competitive market forces of the Islamic banking and finance industry. The BRM was a cooperative bank before it entered the Islamic banking and finance industry. It needed to create a culture of change and flexibility to adapt to the changing external environments. The challenge was to remain consistent in its vision but revisit its mission. The consistency had to be maintained as it was in line with the founding fathers’ idea of serving its members. Thus the vision of serving its members was maintained while a new structure was created to aid efficient decision making and communication with stakeholders. This change subsequently facilitated the implementation of its growth strategies and planning activities, an imperative for its survival. All of this change was being effected while sustaining its image as a responsive, transparent and honest corporate citizen despite a host of issues and challenges that lie ahead.

HISTORICAL BACKGROUND

The cooperative movement in Malaysia is quite well established and has a long history. The first credit cooperative registered was the Postal and Telecommunications Co-operative Thrift And Loan Society Limited in 1922. Syarikat Kampung Teluk Haji Musa Bekerjasama-sama Dengan Tanggungan Berhad, Parit Buntar Krian, Perak was registered in 1923. Starting with only a single activity such as credit or rice milling, the cooperative movement diversified into a range of business activities such as consumer, housing, transport, land development, and production that benefited the members.

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As a socio-economic movement, the cooperatives have grown steadily in terms of participation in the economic activities of the country.¹ Malaysia's cooperative movement has 4,553 cooperatives with 5.4 million members.² The total number of cooperatives in 2004 stood at 4651 with a total membership of 5.391 million members and total assets of RM 25.977 billion. The total shares (subscription) were worth RM6.664 billion and during the same period, loans extended to 586,620 borrowers reached RM 5.10 billion.³

Bank Rakyat was established in September 1954 under the Cooperative Ordinance 1948, following an expansion of the cooperative movement in Peninsular Malaysia. To facilitate the expansion of the cooperative movement, the cooperatives set up their respective union banks to provide for financial needs of their members. On 28 September 1954, 11 of these union banks decided to merge and form Bank Agong (Apex Bank). In 1967, Bank Kerjasama Malaysia Berhad replaced Bank Agong with the membership being opened not only to the cooperatives, but also to individuals. Subsequent changes in the by-laws also resulted in the creation of subsidiary companies and opening of branches to serve customers as well as members. On 6 January 1973, the bank saw a name change to Bank Kerjasama Rakyat Malaysia Berhad or better known as Bank Rakyat (BRM). BRM is governed by its by-laws and Bank Kerjasama Rakyat (M) Berhad Act 1978 (Special Provision 202), which allows the Bank to provide financing to non-members. In 1989 Bank Rakyat was placed under the Ministry of Land and Cooperative Development and the Ministry of Finance. In 1993, the Cooperative Act was reviewed allowing the Bank to operate in Sabah and Sarawak. On 8 May 1993, BRM took a giant step towards becoming a *Syariah*-compliant cooperative bank by introducing Islamic banking products at four of its branches. BRM became a full-fledged Islamic cooperative bank in 2002. Hence, with this major decision, BRM marked another milestone in its history where it became the third bank to offer a total range of Islamic banking products in Malaysia. On 15 February 2002, the Bank, together with six other financial and development institutions, was placed directly under the supervision of Bank Negara Malaysia (Central Bank of Malaysia) under the Development of Financial Institutions Act (DFIA). On 27 March 2004, BRM was placed under the supervision of the Ministry of Entrepreneurship and Cooperative Development. At present, the BRM has a total of 111 branches offering Islamic banking facilities to its customers.

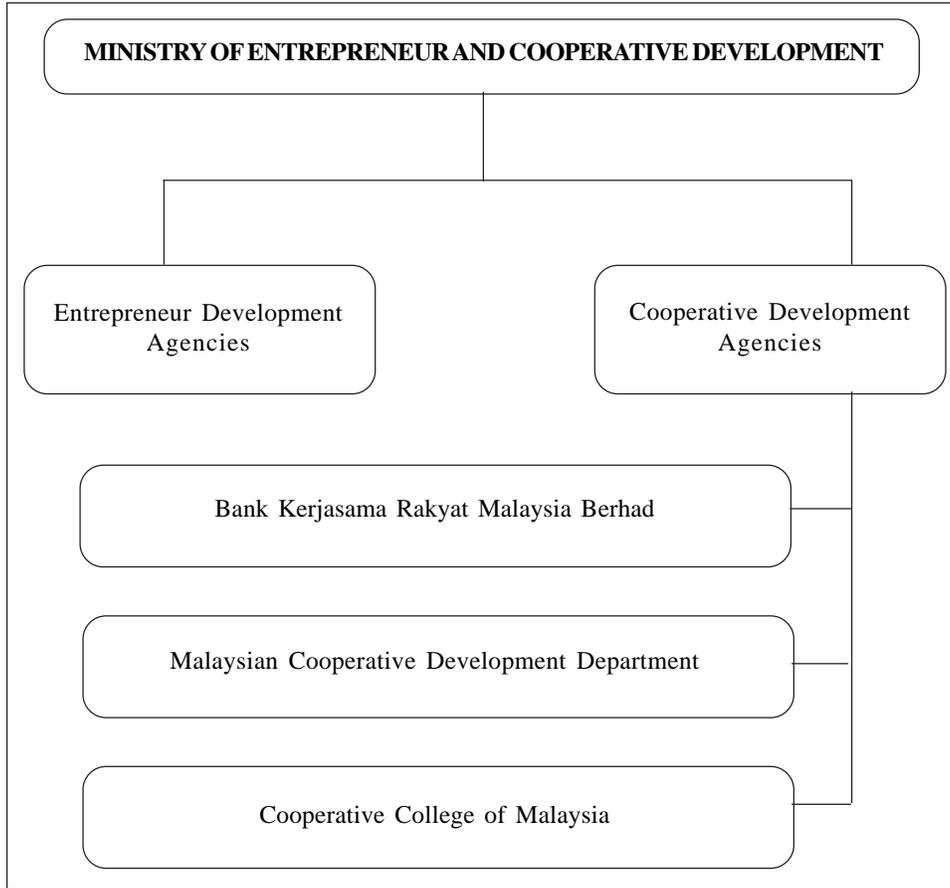
BRM is among a family of organisations under the Ministry of Entrepreneurship and Cooperative Development as shown in Exhibit-1. As a full-fledged Islamic

¹ Website of Cooperative Development Department of Malaysia at <http://www.jpk.gov.my/default%20page%20202.htm> [Retrieved 22 April 2005].

² 'Cooperative Bank Interests Iranians,' says Khaled. *Bernama*, 7 March 2005.

³ 'Focus on the cooperatives: New commission to tighten operations.' *New Straits Times*, Kuala Lumpur, 6 March 2005.

Exhibit 1. Organisations under the Ministry of Entrepreneur and Cooperative Development



cooperative bank, the BRM has an eminent Board of Directors and a *Shariah* Advisory Council comprising learned Islamic scholars. Besides, it has the mandatory Audit Committee reporting to the Board.

THE VISION AND THE MISSION

The BRM’s vision statement of ‘Your Choice Bank’ explains its Mission as follows: “To raise the economic well-being of our members by providing financing facilities at reasonable rates for agriculture, production, marketing, industrial, fishery, transportation, housing, business, and other beneficial activities.”

The objective of the bank is: To ensure a satisfactory profit towards meeting dividend payments to its members while charging reasonable profit rates which are not a burden to its members.

The functions that the Bank assigned its branches are: “to provide financing and accept deposits as well as producing satisfactory dividend returns for the betterment of its members.”

The strategies that the Bank has outlined so as to operate efficiently are as follows:

- **Market:** Widen and penetrate the market through effective marketing efforts.
- **Product:** Determine a unique product and ensure a simple and timely delivery.
- **Customer:** Provide valuable offerings through a service that is sensitive to customer needs.
- **Social responsibilities:** Increase contribution towards social development and members’ needs.
- **Product range:** Explore business opportunities beyond retail banking.

MARKETING MANAGEMENT

The typical profile of Bank Rakyat’s customer is the retired person who has saved money for a comfortable post-retirement life and therefore needs a safe and sound avenue for his or her hard-earned money. In early 2006, the Bank had almost 45,000 such customers and therefore the focus of marketing efforts had been towards consumer financing products as nearly 95% of its loans portfolio constituted retailing including housing, personal, and car loans. In 2006, the Bank targeted a loan growth of 25% to reach RM18 billion. It signed a memorandum of understanding with Takaful Ikhlas (a Malaysian company offering Islamic insurance services) to offer a new product - Personal Financing-i - that offers insurance to customers at nominal premium rates.⁴ The bank aimed to disburse RM50 million worth of Personal Financing-i loans in the first year, beginning with the bank’s existing 10,000 customers who are civil servants. Bank Rakyat’s customers include over 700,000 individuals and 1,200 cooperatives.⁵

The BRM financial statements and range of products and services being extensively marketed are presented in Exhibits 2 and 3 respectively.

PUTTING INFORMATION TECHNOLOGY TO WORK

The BRM operated directly under the supervision of the Central Bank of Malaysia (Bank Negara Malaysia) under the Development of Financial Institutions Act (DFIA). In order to comply with this Act, financial institutions must have the highest levels of network security. Though an old and established institution, Bank Rakyat started facing increasing pressure to deliver high volumes of transactional and operational data, securely and in real-time. By 2002, BRM’s existing network had reached maximum

⁴ “Bank Rakyat expects to give out RM18bil loans this year.” The Star , 9 February 2006.

⁵ “Bank Rakyat expects loans to rise 25%.” The Edge Daily. 8 February 2006.

Exhibit 2. Financial Highlights

Items	Year Ended 31 December		Change %
	2007 Million	2006 Million	
1. Profit & Loss Account			
i. Total Income	2,387.21	1,961.21	21.72
ii. Profit before Tax & Zakat	828.83	626.63	32.27
2. Balance Sheet			
• Total Assets Including Commitments and Contingencies	34,900.15	27,491.93	26.95
• Dealing and Investment Securities	6,825.55	3,910.96	74.52
• Financing and Advance	22,936.31	19,022.26	20.58
• Deposits and Savings	27,253.58	22,710.81	20.00
• Deposits and Placements with Financial Institutions	2,296.02	2,511.39	(8.58)
• Shareholders' Funds	3,964.09	3,634.01	9.08
3. Financial Ratio			
	Percentage	Percentage	
i. Returns Before Tax and Zakat on Average of Shareholders' Funds	21.82	17.19	26.90
ii. Returns Before Tax and Zakat on Average of Total Assets	2.66	2.43	9.12
iii. Financing and Advances on Total Deposit	84.16	83.76	0.48
iv. Risk Weighted Capital Ratio	19.19	21.53	(10.88)
v. General Provision	2.90	2.85	1.75
vi. Coverage on Non- Performing Financing	107.58	101.43	6.07
vii. Non-Performing Financial Ratio	2.37	2.75	(13.82)

Source: Bank Rakyat's website at:

http://www.bankrakyat.com.my/web/guest/profil?p_p_id=56_INSTANCE_RETP&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-5&p_p_col_count=1&page=2/ [Retrieved 7 April, 2009]

Exhibit-3. Products and Services of Bank Rakyat

Investment/ Savings	Financing
<i>Qiradh</i> Investment Account – 1 Bank Rakyat’s Financing Certificate – 1 <i>Warge Emas</i> Investment Account – 1 <i>Tilmiz</i> Savings Account – 1 <i>Shabab</i> Savings Account – 1 <i>Taufir</i> Savings Account - 1	<i>Aslah</i> Personal Financing – 1 <i>Mudarris</i> Personal Financing – 1 <i>Shifa’</i> Personal Financing – 1 <i>Manzili</i> Home Financing –1 <i>Manzili 2</i> Home Financing <i>Manzili 3</i> Home Financing <i>Aitab</i> Car Hire Purchase Financing <i>Al Falah</i> Education Financing <i>Ar Rahnu</i> Pawn Broking <i>Az Zahb</i> Pawn Broking <i>Tijari</i> Contact Financing Personal Financing
Insurance	Services
<i>Takaful Rakyat-I-Hayati</i> Scheme	Kad Rakyat One-stop Bill Payment Centre Electronic Banking Centre Bankcard ATM Services

Source: Bank Rakyat’s website at: <http://www.bankrakyat.com.my/index.php?idx=main&lang=en> [Retrieved 16 April 2005]

capacity and would not have been able to support new services to be implemented in the near future. As a result, its branches decided to upgrade the existing network as part of their five-year strategy to be a leading Islamic Cooperative Bank, respected both domestically and internationally. In line with this, the Bank installed a CISCO network system particularly to augment the organisation’s capacity to install and manage the vast amounts of data that its day-do-day operations generated.⁶

BRM signed MOUs with Microlink Systems Sdn. Bhd. and Sun Microsystems Inc. to upgrade its Microlink Banking Solutions system in 2004 for RM2.8 million. With Internet banking facility, the goal of the bank was to be able to pre-approve loan applications online. “This feature reduces the time required for a loan to be approved and helps increase the bank’s share of the retail loans market”.⁷

BRM was the first non-commercial bank in the Malaysian Electronic Payment System Sdn Bhd (MEPS) network that operated as a shared automated teller machine

⁶ http://www.cisco.com/asiapac/channels/files/a_sound_investment_aug04.pdf [Retrieved 15March 2006].

⁷ ‘Bank Rakyat targets RM6b loans.’ *The Edge Daily*, 6 July 2004.

(ATM) network in South-east Asia. Its purpose was to enable member banks' cardholders to use ATM services for withdrawal, fund transfer and other transactions in the participating countries. The MEPS system is a part of the e-Asean initiative, a framework agreement first proposed in 2000 to establish information infrastructure and to promote electronic commerce. In Malaysia, there are 14 financial institutions including Public Bank Bhd and Malayan Banking Bhd. that jointly set up MEPS. It covers 10 anchor banks and two Islamic banks with 12 million ATM cardholders.⁸

FUTURE PLANS AND PROSPECTS

In a press conference on the occasion of the official launch of the bank's call centre, Tele-Rakyat, in Kuala Lumpur on January 12, 2006, the acting managing director of BRM, Kamaruzaman Che Mat said: "We aim to achieve this (i.e. increase loan disbursements from 15 to 25%) through our current and new market share in our niche products as well introducing new ones." He also said the bank would continue to focus on the retail segment with greater emphasis on personal loans, car and housing financing and maintain a pre-tax and pre-zakat profit annual growth target of 15% (*The Edge Daily*, 6 July 2004).

The Bank's personal loans accounted for 60%, car financing 10%, housing 25% and corporate financing 5%. In line with the bank's existing financing and portfolios' management, BRM is aiming to increase car financing from an existing level of 10% to 25% in the future. The Bank plans to work in collaboration with the SME Bank to identify areas in which it could facilitate loans to small and medium enterprises, as the SME Bank might not be able to cater to all loan applications.

Future plans include the setting up of several new branches in addition to the 107 already in the pipeline with four of the proposed branches being expected to be operational soon. The bank submitted its application to Bank Negara to launch Internet banking while repackaging some of its existing products.⁹ Bank Rakyat has a total of 126 branches after the launch of its branch in Kuala Nerang, Kedah on 23rd November, 2010. The branch is offering Islamic banking facilities to customers. To date the BRM has 127 branches with the addition of a Sarawak branch in 2011 offering Islamic banking facilities to customers (members). This branch offers one of the highest returns compared to any other commercial bank. This has enabled Bank Rakyat to march toward achieving its vision (**Vision:** Bank Rakyat is its members' Choice Bank as all its products and service offerings are the best compared with those provided by other competing financial institutions. Since membership in Bank Rakyat is very significant, there is no reason for them to look at others. This vision generates the tagline: "*Bank Rakyat Your Choice Bank*" by revisiting its business **Mission** which is

⁸ "MEPS to go regional" *The Edge Daily*, 8 July 2004

⁹ "Bank Rakyat targets 25% loan growth in 2006. *The Edge Daily*, 12 January 2006

to help improve the economic well-being of members by providing financing facilities at an affordable rate for agriculture, production, marketing, fishing, transportation, housing and business activities that are deemed beneficial to members and to also promote thrift and savings. All these will be achieved through *Article 5(i)* which has allowed Bank Rakyat to successfully embrace the character of an Islamic Bank while maintaining the cooperative nature of the bank.

DISCUSSION QUESTIONS

- Q1. Why did Bank Rakyat Malaysia make a shift from the conventional cooperative system (as envisioned by its founders) to an Islamic banking system?
- Q2. By evaluating and assessing the future direction of the banking industry, suggest the course of action for Bank Rakyat.
- Q3. Discuss the appropriateness of BRM's decision to adopt a technological component towards achieving its goals as a financial organisation *vis-a-vis* other commercial banks operating in the Malaysian environment.