Review of: "Financial Performance Uncovered: Asian Commercial, Savings, and Islamic Banks in Focus"

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Review of Financial Performance: Asian Commercial, Savings, and Islamic Banks

This review critically evaluates the findings of the paper titled "Financial Performance Uncovered: Asian Commercial, Savings, and Islamic Banks in Focus," which analyzes the financial performance of banks across five Asian economies: Hong Kong, South Korea, Taiwan, Malaysia, and Vietnam. The study highlights key performance metrics such as Return on Assets (ROA), Net Interest Margin (NIM), Non-Performing Loan (NPL) ratio, and Loan-to-Deposit (LTD) ratio. While the paper provides valuable insights, several areas warrant further exploration or improvement.

1. **Statistical Significance**: The paper reports that savings banks exhibit higher NIM and ROA compared to commercial banks, although these differences lack statistical significance. This raises concerns about the robustness of the conclusions. A more thorough analysis, potentially incorporating additional control variables such as bank size, market conditions, and regional economic factors, could enhance the understanding of these performance metrics. For example, exploring the impact of different economic conditions in the studied regions might provide a clearer context for the observed performance trends.
2. **External Factors**: The analysis primarily focuses on internal bank performance metrics without adequately considering external macroeconomic, political, and regulatory changes that significantly influence bank performance. Addressing these factors would provide a more comprehensive view of how external environments affect the financial outcomes of different banking models. For instance, the impact of regulatory frameworks in Malaysia and Vietnam on Islamic banks' performance could be explored further.
3. **Temporal Scope**: The study uses data from 2010 to 2022; however, it does not sufficiently capture long-term cyclical trends or the effects of the COVID-19 pandemic, which may have affected banking sectors in various ways across the studied regions. Including a discussion on the implications of recent economic shocks and their differential impacts on commercial, savings, and Islamic banks would add depth to the analysis.
4. **Islamic Banking Dynamics**: The paper mentions that Islamic banks adhere to Sharia principles but does not delve deeply into how these principles uniquely influence financial performance compared to conventional banks beyond the NIM and ROA metrics. A more nuanced exploration of specific Islamic financial products and their risk-return profiles would enrich the discussion and provide insights into the operational efficiencies or constraints faced by Islamic banks.
5. **Cross-Country Insights**: While the paper provides valuable cross-country comparisons, a more detailed examination of country-specific banking regulations and their impacts on financial performance would enhance the study's contribution. For instance, discussing how varying capital adequacy requirements in Hong Kong and South Korea

affect bank profitability could provide practical insights for stakeholders.

6. **Methodological Approaches**: The paper employs random effects regression and Two-Step System GMM for data analysis. While these methods are appropriate, employing advanced methodologies such as panel cointegration could yield a deeper understanding of the long-term relationships between performance metrics in the banking sector. Panel cointegration allows for identifying long-run equilibria between variables like ROA and NIM while addressing potential time-related biases, thereby providing a more accurate depiction of banking dynamics over extended periods.
7. **Literature Enhancement Suggestions**: To improve the scholarly quality of the paper, the authors are encouraged to integrate insights from the following literature:

    - Li, X., Rehman, A. U., et al. (2024). "Does corporate social sustainability influence the business environment? Impact of corporate governance on Sukuk issuers in Islamic banks." *International Review of Economics & Finance*. This study connects corporate governance with financial performance in Islamic finance and could improve discussions on risk management perspectives, especially concerning credit and default risk.
    - Malik, A. H., Jais, M. B., et al. (2023). "Significance of environmental sustainability to maintain financial stability." *Asia-Pacific Journal of Regional Science*. This research explores the interplay between financial inclusion, sustainability, and stability, which could deepen the analysis of Islamic banks' operational models and inform the regression model based on GMM.
    - Beck, T., Demirgüç-Kunt, A., & Merrouche, O. (2013). "Islamic vs. conventional banking: Business model, efficiency, and stability." *Journal of Banking & Finance*, 37(2), 273-292. This article offers insights into the operational frameworks of Islamic banks that could support a more comprehensive analysis.
    - Johnes, J., Izzeldin, M., & Pappas, V. (2014). "A comparative analysis of the financial performance of conventional and Islamic banks: The case of Malaysia." *Journal of Banking & Finance*, 40, 234-248. This study provides context for performance variations in a prominent Islamic banking environment, enhancing the current study's findings.

To enhance their analysis, the authors can integrate external factors by focusing on several key areas that influence banking performance. Utilizing a **mixed-methods approach**—combining quantitative and qualitative data—can provide a more nuanced understanding of these external factors and their impacts on banking performance. Here are some specific examples to consider:

Integration of External Factors

Macroeconomic Indicators:

- **GDP Growth Rates**: The authors could analyze how variations in GDP growth across the five economies affect the financial performance of commercial, savings, and Islamic banks. For example, a strong economic growth period may lead to higher loan demand, affecting ROA and NIM. Quantitative data on GDP could be supplemented with qualitative interviews with bank executives to gain insights into their strategic responses to economic changes.

Regulatory Changes:

- **Capital Adequacy Requirements**: Discussing how changes in capital requirements, especially in response to economic crises or financial stability measures, impact the performance of banks differently could provide valuable insights. This analysis can be complemented by case studies of specific banks that have navigated regulatory changes effectively or struggled to adapt.
- **Banking Reforms**: Analyzing specific banking reforms in countries like Malaysia and South Korea that promote Islamic finance or enhance the operational capabilities of commercial banks can offer context to performance metrics. Qualitative research could involve interviews with policymakers to understand the motivations behind these reforms.

Political Stability and Governance:

- **Regulatory Environment**: Examining how the political climate and governance in each country influence banking stability and performance metrics would be crucial. For instance, political uncertainty could impact loan recovery rates and increase the NPL ratio. Qualitative analysis could include stakeholder interviews to discuss perceptions of political risk among bank executives.
- **Institutional Quality**: A comparison of institutional frameworks and their effectiveness in ensuring financial stability could be beneficial. Authors could look into how better governance structures in certain countries facilitate superior bank performance through case studies or qualitative surveys of banking professionals.

Technological Advances:

- **Fintech Integration**: Exploring the role of fintech in transforming traditional banking practices in each country, including its impact on operational efficiency, customer outreach, and financial performance metrics. Mixed methods could include quantitative performance metrics from fintech firms and qualitative insights from banking executives about their experiences with fintech adoption.
- **Digital Banking Trends**: Assessing how the rise of digital banking affects competition and profitability among different types of banks could be supported with both statistical data on digital adoption rates and qualitative data from user experience surveys.

Addressing the Impact of COVID-19

Data on Performance Metrics During the Pandemic:

- The authors could include performance data from 2020 to 2022, focusing on changes in ROA, NIM, NPL ratios, and LTD ratios as a result of the pandemic. This quantitative analysis could be enriched with qualitative interviews with bank managers regarding their operational responses to the pandemic.

Loan Moratoriums and Regulatory Responses:

- Analyzing how different banks responded to government-imposed loan moratoriums and relief measures would provide insights into their resilience and adaptability during the crisis. This could be complemented by qualitative assessments from stakeholders about the effectiveness of these measures.

Customer Behavior Shifts:

- Including surveys or data on shifts in customer behavior during the pandemic, such as changes in savings patterns or loan demands, could contextualize the financial performance metrics. Understanding how consumer confidence and behavior altered during COVID-19 can help explain changes in banking performance. Mixed methods could be used to gather both quantitative survey results and qualitative interviews to understand customer sentiments.

Sector-Specific Impacts:

- Identifying which sectors (e.g., tourism, retail, manufacturing) were most affected by the pandemic and how this influenced banks' loan portfolios and default rates could provide valuable insights. This could further enhance understanding of the NPL ratios in the context of sectoral vulnerabilities. Case studies of affected sectors could provide qualitative depth to the quantitative data.

Comparative Analysis with Previous Crises:

- Conducting a comparative analysis of banking performance during COVID-19 with previous crises (e.g., the 2008 financial crisis) can provide a broader perspective on how well banks adapted to different economic shocks. This can involve a mixed-methods approach that combines historical performance data with interviews of industry experts reflecting on lessons learned.

By integrating these external factors and insights related to the COVID-19 pandemic using a mixed-methods approach, the authors can create a more comprehensive analysis that captures the complex interplay between banking performance and external influences in the studied economies. This approach not only enriches the analysis but also enhances the relevance of the findings for policymakers and stakeholders in the banking sector.

In summary, while the paper contributes valuable insights into the financial performance of various banking types, addressing the outlined limitations and incorporating relevant literature could significantly enhance its depth and scholarly contribution. Linking these points to specific sections within the text allows for a more structured critique and a clearer pathway for improvement.