CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

This study tested the hypothesis that liberalization and deregulation of financial institutions leads to efficiency increases in two core processes - production and intermediation. Every phase of the analysis, the total efficiency scores of production and intermediation processes or of ownership structure, suggest that liberalization provides the anticipated efficiency gains. For the banking industry, the average efficiency scores are mixed. Foreign-owned banks outperformed their domestically owned counterparts in both processes. For finance companies, efficiency scores improved after financial deregulation in 1997, but after foreign participation in one finance company in 2002, the efficiency score for intermediation and production approaches decreased. While the foreign-owned finance companies outperformed their domestic competitors in the intermediation process, they still underperformed with regards to the production process. Lastly, for life insurance companies, the efficiency scores decreased after the introduction of liberalization and the increase in number of insurers. Domestic companies outperformed their foreign-owned counterparts in every year of the study.

During the six-year aftermath of the financial crisis (1998-2003), the efficiency scores in the commercial bank sector were mixed. The results from the intermediation model showed improvement after the new regulations and relaxation of foreign ownership and foreign-owned companies outperformed their domestic-owned ones. This is consistent with the global advantage hypothesis that posits that foreign financial institutions from strong home environments may carry their efficiency advantage overseas. The study found that Bangkok Bank, Thai Military Bank, Standard Charterred Nakornthon Bank and UOB Radanasin Bank do not differ in efficiency, with all at 100% efficiency, whereas Kasikorn Bank is less efficient than the others. For the production approaches, the efficiency score moved into a downward trend after the financial crisis and new regulations were implemented in 1997. Foreign banks were shown to outperform domestic banks, which is in line with the study of the intermediation process.

The efficiency in finance companies was mixed over the period under study. The statistical results of the intermediation process show that the efficiency scores in the finance sector fluctuated over the period 1994-2003. Efficiency diminished in the first stage of study but then improved after 1997, when the new financial sector regulations were implemented. However, in 2002, efficiency scores began falling again after foreign participation in one finance company, with the foreign company outperforming domestic ones. For the production approach, the efficiency scores were more stable over the period, until in 2002, after the participation of a foreign investor in Tisco Finance Company, efficiency turned down and reached its lowest level in 2003.

The study also discovered that National Finance Company had 100% efficiency for both intermediation and production model while Tisco Finance had a 100% score only for the intermediation approach. It was shown that foreign finance companies are more efficient than domestic finance companies, with domestic companies outperforming foreign in the production model.

As mentioned in a previous section, we looked only at the production model for life insurance companies because of limited data. The statistical results of the production model reveal that efficiency as represented in Table 4.5 and Figure 4.7 in the insurance sector diminished over the nine-year period (1995-2003) because new regulations opened the market to new insurers, thereby heightening the level of competition in the life insurance market.

The study found that American International Assurance and SAHA Life-insurance Insurance had 100% efficiency score and suggested that domestic insurance companies are more efficient and outperformed their foreign insurers.

5.2 Limitations

The limitations of this study are incomplete data, such as some financial items for life insurance companies. This is the main reason we excluded the intermediation process for life insurance companies and did only the production model.

5.3 Recommendations

The study examined the impact of liberalization and deregulation on financial institutions by using a non-parametric approach, the DEA model. There are, however, other factors that should be considered in future research. Addition of some controlled variables may provide new findings that influence overall efficiency and performance. Future researchers should extend the period under study for finance companies, as new foreign investors only began to participate in this market in 2002 and 2003. For life insurance companies, the study should be extended, as we began to see an upward trend in 2003.