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LABUAN IOFC OFFSHORE BANKING AND  
INDUSTRY: THE GROWTH THROUGH  
PRODUCT/SERVICE INNOVATION

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# **LABUAN IOFC OFFSHORE BANKING INDUSTRY: THE GROWTH THROUGH PRODUCT/SERVICE INNOVATIONS**

## **SINOPSIS**

Labuan IOFC adalah pusat kewangan antarabangsa yang terletak di kedudukan pusat dalam kawasan Asia Pasifik. Pusat ini bergerak ke hadapan untuk menjadi sebuah pusat kewangan luar pesisir terpenting dalam dunia. Pada masa yang sama, ia mempromosikan banyak aktiviti dan perkhidmatan sehingga menjadi pusat pembekal perkhidmatan gabungan asli. Maka, aktiviti baru and produk inovatif senantiasia dibangunkan di Labuan yang akan memberi manfaat kepada pelabur dan pemain luar pesisir. Ia menawarkan kepelbagaian perkhidmatan dan produk kewangan luar pesisir dan menjadi pelengkap Kuala Lumpur sebagai pusat kewangan kawasan. Tambahan lagi, kerangka undang-undangnya bukan sahaja mesra perniagaan tetapi berhemat dalam memelihara reputasi Labuan dan imej sebuah pusat kewangan luar pesisir. Objektif utama penyelidikan ini adalah untuk mengenalpasti pertumbuhan perkhidmatan dan produk kewangan dalam Industri Perbankan Luar Pesisir Labuan IOFC. Kepentingan kajian meliputi sumbangan terhadap hala tuju pemasaran perkhidmatan dan produk kewangan serta menarik pelanggan yang telah bertukar menerusi inovasi perkhidmatan dan pertumbuhan produk kewangan. Melalui inovasi produk dan perkhidmatan, ahli perbankan luar pesisir mungkin menimbangkan produk dan perkhidmatan utama untuk mencapai kelebihan bersaing. Di samping itu, melalui penyelidikan ini, Labuan dan ekonomi Negara akan bertambah baik hasil daripada perkhidmatan kewangan dan keuntungan daripada industri perbankan luar pesisir.

# **LABUAN IOFC OFFSHORE BANKING INDUSTRY: THE GROWTH THROUGH PRODUCT/SERVICE INNOVATIONS**

## **SYNOPSIS**

Labuan IOFC is an international financial center located at the “positioned center” of the Asia-Pacific basin. The center is moving ahead to become a premier offshore financial center in the world. In the mean time, it promotes more activities and services to a great extent a truly integrated service provider center. Hence, new activities and innovative products are continuously being developed in Labuan which will benefit investors and other offshore players. It offers wide range of offshore financial products and services and complements Kuala Lumpur as a regional financial center. Besides, the legislative framework is not only business friendly but also prudent to safeguard Labuan’s reputation and image as offshore financial center. The main objective of this research is to identify the growth of financial products and services in Labuan IOFC Offshore Banking Industry. The significance of the research includes contributing the direction of marketing financial products and services and attracting customers that has changed through the growth of financial product and service innovations. Through product and service innovations, the offshore bankers may consider the key product and service to achieve competitive edge. Moreover, by conducting this research, Labuan and national economy may be improved through better financial services and higher profit from the offshore banking industry.

## 1.0 INTRODUCTION

Unlike traditional financial centers such as London, New York, Chicago, Frankfurt, Hong Kong, and Tokyo which developed as the natural outcome of international trade, Labuan International Offshore Financial Center (IOFC) was set up entirely from scratch based on the idea of the former Malaysian Prime Minister, Tun Dr. Mahathir Mohamad. The Malaysian government's objectives in declaring Labuan as an International Offshore Financial Center (IOFC) in 1990 were to complement the onshore financial system centered in Kuala Lumpur, strengthen the contribution of the financial sector towards the Gross National Product (GNP) of Malaysia, enhance the attractiveness of Malaysia as an investment center, and promote the economic development of Labuan and its vicinity (BNM 2001).

Labuan sets ahead of the rest of the major players in the Asia –Pacific region is its unequalled infrastructure efficiently administered by a single-dedicated regulatory body, the Labuan Offshore Financial Services Authority (LOFSA) and its status as a federal territory governed by federally enacted laws. LOFSA also is the role authority responsible for supervising offshore business activities in Labuan and independent from domestic authorities, except for exchange control and tax matters which are administer by Central Bank of Malaysia and Inland Revenue Board, respectively. In others words, placing in Labuan all the necessary elements of the successful Malaysian domestic financial market with the objective of turning Labuan into a significant regional hub for the banking industry.

Since its inception as an IOFC, Labuan has achieved substantial growths and international recognitions. In 15 February 1996 Labuan Offshore Financial Services Authority (LOFSA) was established and acts as a one-stop regulatory body thus

allowing easy and simple business dealing with the Government. Investment Guarantee Agreements have been signed between Malaysia and more than 60 countries, providing additional protection against nationalization of investment undertaken in Labuan. LOFSA is also responsible for setting objectives, policies, promotional and developmental aspects of Labuan.

As an international offshore financial center, Labuan IOFC is offering credit facilities and receiving deposits, offshore investment banking business, Islamic Banking business, building credit business, credit token business, development finance business, leasing business or such activities as approved by the Minister Finance.

The move was logical as Labuan IOFC could complement the domestic financial market in financing the high-growth Malaysian economy, which from 1960 to 1997 had the real economic growth rates of between 6.8 to 8.0% per annum. From a political perspective, the Malaysia government hoped that the IOFC status would be able to improve Labuan's underdeveloped economy. Besides, Labuan was in the same time zone as major financial centers in the region, and stable political regime. The other important rationale behind the Labuan IOFC was 'the desire to capitalize on the anticipated flight of capital from Hong Kong after its return to China in 1997. Such a crisis of confidence did not occur, in fact the reverse was true: following the 1997 status change more funds flowed to Hong Kong'.

During the early stage of its operations the Labuan IOFC has made considerable progresses, and would have remain so if not for the 1997-1998 Asian Crisis which hit the region. As at December 1996, the height of the economic boom there were 60 offshore banks operating in Labuan. However, the 1997-1998 Asian Crisis has taken

its toll on Labuan. Mergers and closures of some of the foreign banks have brought the number down to 50 operational banks (LOFSA Annual Report 2002), The offshore banking has been stagnant since 1997, and banking assets declined from USD11.75 billion in 1996 to USD10.48 billion in 2002 (LOFSA Annual Reports 1996 & 2002).

Despite these setbacks the Malaysian government remains committed to the development of Labuan as a premier IOFC in the region. Lessons learnt from the crisis prompted the Malaysian government to direct Bank Negara Malaysia to formulate the Financial Sector Master Plan in March 2001 as means to create a more stable and secured financial industry in the country. As discussed, Labuan IOFC was included in chapter eight of the master plan, which spelt out three major recommendations;

- (i) Promote and diversify further the players and activities in the IOFC;
- (ii) Promote the development of Islamic banking and Islamic insurance business; and
- (iii) Develop and strength the capital market, e-commerce and the ancillary activities.

Theories reviewed in above suggest for an offshore financial center to be successful it must have the "necessary" conditions. These are liberal environment, strategic geographic location, stable political environment, stable economic performance, the presence of international banks, quality labor force, a developed financial and physical infrastructure, and the assurance of confidentiality and secrecy. The Malaysian government presumption indicates that Labuan has all the above attributes, which form the basis for its competitive advantages, and this presumption

has not been adequately supported by any empirical study. The first attempt to validate this presumption was done by Aralas, Subramaniam and Chong (2000) where they identified factors that contributed to the functioning of Labuan as an offshore financial center. The study concluded that Labuan has all the attributes of successful offshore financial center.

However, both the Malaysian government's presumptions and the findings of Aralas et al. (2000) were to some extent unable to explain the predicaments currently faced by the offshore banking industry in Labuan. As discussed in above the offshore banking business has been stagnant since the 1997. More empirical studies should be directed toward this area especially to determine whether Labuan has the necessary infrastructure, or a strategic geographic location. The outcomes of such studies would be helpful to the decision-makers in formulating new strategies, and making sensitive adjustments to current policies and regulations to suit the prevailing market realities.



### The Growth of Number of Banks, Deposits and Loans

Year (end of)	1996	1997	1998	1999	2000	2001
Number of banks in operation	49	54	62	61	60	54
Total Deposits (US\$m)						
• Malaysian Offshore Banks	2543	2834	601	1399	2197	1545
• Foreign Offshore Banks	1770	2485	2117	2827	2632	2112
Total	4313	5319	2718	4226	4829	3657
Total Loans (US\$m)						
• Malaysian Offshore Banks	2907	5159	3709	3073	2214	2441
• Foreign Offshore Bank	9055	12294	11414	10288	9212	8797
Total	11962	17453	15123	13361	11426	11237

**Source: reproduced from Malaysian Business, November 1, 1999 and LOFSA 2001 Annual.**

Table above shows some significant trends in total deposits and loans among the Malaysia and Foreign Offshore banks. The total deposit in the Malaysian Banks was greater than that in the foreign banks from 1996 to 1997. After 1997, the situation reversed. The Foreign Banks have received total deposits more than that Malaysian Banks, signaling as if there has been an attitude switch by the depositors. The depositors appeared to be more confident in depositing their money in the Foreign Banks rather than in the Malaysian Banks during the financial crisis.

Meanwhile, the total loans for both offshore banks show the same up and down trend. The total loans given increased from 1996 to 1997 but decreased after that.

Since its establishment in 1990, the development of Labuan IOFC is a long term agenda for the Government, not one for the short –term gain. The unwavering commitment and support of the Government together with the offshore players will ensure that Labuan IOFC continues to grow. In the initial years, the strategic focus of the IOFC was to attract critical mass of core and top-notch players to serve the needs of investors coming to invest in this region. Labuan has succeeded in this area. Offshore business activities conducted in Labuan such as banking, insurance, fund management and leasing have shown commendable progress over the years.

### **1.1 Definition**

The meaning of IOFC as a jurisdiction that offers liberal operating environment and low rates of tax as well as ensures confidentiality of investors information. Labuan IOFC that caters to genuine business, providing them with their rightful privacy whilst meeting its international commitments in terms of cooperation and information exchanges. The offshore centre has also built a strong foundation in Islamic finance and is at the forefront in the development of innovative Islamic financial instruments. It offers a wide spectrum of offshore financial services and products to customer worldwide, particularly in the Asia Pacific. It includes offshore banking, offshore insurances and insurances-related services, fund management, offshore trust, Islamic financial services and products, leasing and factoring.

The meaning of an offshore financial center also is all international financial centers deal in external or “offshore” currencies as compared to domestic or onshore currency of a national financial center because financial transactions in the center are

not directly linked with the domestic banking system. Offshore centers are generally free of the taxes and exchange control that are imposed on domestic financial markets. This asymmetry in government regulation between offshore and domestic financial market has been frequently cited as one of the major reason for the phenomenal growth of the currency market and offshore financial centers over the past two decades.

A current definition of an offshore financial (OFC) center is a center that hosts financial activities that are separated from major regulating units (states) by geography and by legislations. This may be a physical separations, as in as island territory or within a city such as London or the New York International Banking Facilities.

Meanwhile, offshore banking is the cross-border intermediation of fund and provision of services by banks residing in Offshore Financial Centers (OFC) to nonresident. Typically, offshore banks deal almost always with other financial institutions and transact wholesale business denominated in currencies other than that of the country hosting the OFC.

Offshore banking is typically carried out through offshore branches or subsidiaries. Offshore branches are legally indistinguishable from the onshore parent banks. This facilitates the uploading and downloading of assets and liabilities to and from parent banks as intra branch transfers.

Nowadays, development of offshore financial centers (OFC) has been a natural response by banking institutions to benefit from economics of scale in their

international operations. Modern offshore financial centers require sophisticated and costly infrastructure, such as telecommunications, air transportations, and accounting and legal services. By locating most international banking and infrastructure in one central place, banks can spread their overhead cost in servicing client in various countries.

## **1.2 Background of the study**

In 1990, with a goal of developing an international Malaysia capital market, Labuan was declared an International Offshore financial Centre (IOFC), with the objectives of complementing the onshore financial system centered in Kuala Lumpur, strengthening the contribution of the financial sector towards the Gross National Product (GNP) of Malaysia, enhancing the attractiveness of Malaysia as an investment center, and promoting the economic development of Labuan and its vicinity. IOFC means a jurisdiction that offers liberal operating environment and low rates of tax as well as ensures confidentiality of investors' information. Currently, there are more than 70 IOFCs around the world and most of them are located in Europe and the Caribbean.

Today Labuan is surging ahead. It is progressing well in its development as an IOFC and as a new tourist destination. It stands to progress further as its vast potentials are gradually exploited.

Labuan IOFC has the major essentials in place. It offers a strong regulatory and a conducive environment in which to do legitimate business. It is responsive,

responsible and forward-looking, with potential for so much more as we continue to focus our resources on areas such as Islamic Finance, Capital Management, Banking and Insurance. What we have and what we are doing need to be made known to the world, so an important initiative for LOFSA is to increase our visibility internationally through a more aggressive marketing and promotion strategy. When the global economy recovers and Asia is again an economic force to be reckoned with, international offshore players and investors would know that Labuan IOFC is the place in which to do business. According to the chairman of LOFSA, for the Labuan IOFC, the year 2000 had been an active and fruitful year.

The Malaysian government had spent several hundred millions of ringgit building state-of-the-art infrastructure in Labuan to portray the image of world class IOFC. However, the 1997-1998 Crisis had caused some serious damage to the aspiring IOFC, and the offshore banking business has been stagnant since the crisis. Despite these setbacks the Malaysian government is determined to develop Labuan as a premier international offshore financial center in the region. In order to ensure of the Malaysian government's continued attention, Bank Negara Malaysia has included Labuan IOFC in chapter eight of its ten-year Financial Sector Master Plan. This paper details the results of an empirical survey on the Labuan offshore bankers, which solicited their opinions and perceptions of Labuan as an IOFC. The survey used the whole population of banks, which enabled the researcher to ignore the problems of bias in the sampling. The total number of offshore banks was 49, of which 10 were Malaysian banks and 39 foreign banks. The questionnaire was sent to all the 49 managers responsible for the overall affairs of the banks. Of these, 36 completed questionnaires were returned representing a response rate of 73%. Data collected

from the survey were analyzed using descriptive statistics, using mean, standard deviation, and frequency counts.

The results of the survey indicated that offshore banking transactions were predominantly functional, where banks carried out actual transactions. The products offered by the Labuan offshore banks were limited to lending, and issuance of standby letter of credit (SBLC) and bank guarantee (BG). Most of the offshore banks were adversely affected by the 1997-1998 Asian Crises, and were responding with strategic adjustments by downsizing, switching to investment banking and closing down. The offshore bankers also viewed that the Malaysian government's objective of setting the IOFC as a mean to develop Labuan has overshadowed the offshore banking industry. The major benefits for banks to set up offices in Labuan were reliability of the Malaysian legal system, low taxes, confidentiality, liberal central bank policies, minimum exchange control restrictions, and political stability. Singapore and Hong Kong were viewed as the major threats to Labuan IOFC. It was also perceived that Labuan was not a suitable location for an offshore banking or offshore banker, and at a disadvantage compared to Singapore and Hong Kong. The Labuan offshore bankers predominately agreed that Kuala Lumpur was a more suitable location, and would stand a better chance to compete with Singapore and Hong Kong. The implications of these findings required Labuan IOFC to have a more diversified products and services besides lending, issuance of SBLC and BG. There was also a need for more flexible rules and regulations to facilitate the offshore banking business. Lastly, there was a need to have proactive strategies to enable the Malaysian offshore banking industry to face up to the challenges from the well-established centers in the region.

### **1.3 Objective of the study**

The purpose of this research was to examine the business of offshore banking in Labuan, and determine the growth of financial product and service in Labuan IOFC Banking Industry. The supporting objectives of this study are to assess the offshore banks approach in terms of promoting product and service innovations, to increase the awareness level of financial products and service innovations among the offshore bankers and lastly to recommend strategic approaches for innovating more financial product and services to offshore banking industry.

To answer the question an empirical survey on Labuan offshore banks was carried out, highlighting the perceptions and opinions of those directly involved with the offshore banking industry. These perceptions and opinions are important, as they would have an impact on the offshore banks' actions, which in turn would determine the future of Labuan as an offshore financial center.

### **1.4 Significant of the study**

What are the important benefits of Labuan IOFC for Malaysian and Malaysia? More research have show Labuan has undergone rapid infrastructure and economic development. So, they are many significant of this study. Firstly via product and service innovations, the offshore bankers may consider the key product and service to achieve competitive edge, second is direction of marketing financial product and services and also attracting customers has changed through the growth of financial product and service innovations and third is to increase the pool of knowledge of Labuan IOFC Offshore Banking Industry. By conducting the above research, Labuan

and national economy may be improved through better financial services and higher profit from the banking industry.

## **1.5 Offshore Banking in Labuan IOFC**

### **Development**

One of the name Offshore Financial Center in the world is Labuan Offshore Financial Centers is an integrated IOFC, offering a wide range of offshore financial product and services to customer worldwide, including banking, investment banking, trust business, insurants, leasing, captives, tax planning, fund management, offshore companies, company management, capital market (issuances), Islamic financing and International shipping register (ISR). Other Labuan activities are banking OBA, insurance OIA, Trust Company LTCA, securities LOSIA and purpose vehicles OCA, LOLPA and LOTA.

Under the Offshore Banking Act (OBA) 1990, offshore banking is defined as the business providing credit facilities and receiving deposits, offshore investment banking business, Islamic banking business, credit token business, development finance business, leasing business or other activities as approved by the Minister of Finance.

In Labuan, Offshore banks can be classified into three main groups such as subsidiaries of domestic Malaysian banks, branches or subsidiaries of foreign banks



with domestic banking licenses, and branches or subsidiaries of foreign bank without a presence in Malaysia.

All transactions must be denominated in a foreign currency other than the Malaysian Ringgit. Malaysia Financial Institution can set up wholly owned subsidiaries in Labuan to have access to international borrowers and the opportunities to tap the global market. Opportunities also arise in new financial products and the acquisition of expertise which would not be possible in the domestic banking industry.

The year 2000 marked another significant chapter in the history of Labuan as it completed ten years of operations following the launch by the Malaysian Government of the International Offshore Financial Center (IOFC) in Labuan in October 1990. During this period the IOFC has evolved, matured and gained recognition in the offshore world. Labuan is recognized as one of the major offshore financial centers in the Asia-Pacific region.

For the Labuan IOFC, the year 1999 until 2003 had been an active and fruitful year. Labuan IOFC continued to record another year of commendable growth as reflected by the higher number of offshore companies being incorporated and registered, and the significant increase in the number of banker. A total of 56 bankers were registered in the year 2003 compare with 52 bankers in 1996. The profitability of the pre-tax profits of the banking and trust industries had been increased by more than 108% and 14% respectively.

As part of the effort to develop the Islamic niche for the Labuan IOFC, the development of a global network of Islamic financial markets known as the

International Islamic Financial markets (IIFM) to take advantage of the tremendous market opportunities in Islamic finance in the global financial markets made a major stride in 2000. The international group comprising the Islamic Development Bank, LOFSA, Bahrain Monetary Agency formed to implement to the project had been joined by Bank Indonesia and bank of Sudan. In addition, this project is support by Saudi Arabia and Brunei.

Congruent to the promotion of Islamic banking and finance in Labuan, a Shariah Advisory Council was established within LOFSA to provide input for the development of Islamic banking, finance and takaful. The council comprises international representatives, scholars and practitioners with strong credentials and wide experience to ensure that it has the credibility and acceptance in the global financial community. Nowadays, Labuan is well placed to play a leading role in global Islamic banking and finance. The presence of top financial players, including Islamic banking and takaful companies, in Labuan is another plus factor for the IOFC to undertake this leading role.

In the year 2000, The Offshore Banking Act 1990 was amended to allow non-bank institutions to conduct leasing business and provide electronic fund transfer services. The revised guidelines on offshore leasing have made the business more attractive for offshore players. The largest banks in the world, eight are present in Labuan IOFC, while of the top 20 banks, 17 are in Labuan IOFC and if one were consider the world's top 50 banks, 34 of them are in Labuan IOFC.

## 2.0 LITERATURE REVIEW

Labuan is an island strategically located in the Asia-Pacific region, off the coast of east Malaysia. It is administered by the Federal Government of Malaysia, easily accessible, has a development infrastructure, satellite telecommunication, and political stability, low cost of operation and shares the same time zone with other major Asian cities. Labuan also attributes its success to the Malaysian government's commitment to develop Labuan to its fullest potential. Labuan is an integrated IOFC, offering a wide range of offshore financial products and services to customers worldwide, including banking and investment banking, insurance, captives, trust business, fund management, investment holding, company management and Islamic financing (COFSA 2002).

Labuan was declared as an International Offshore Financial Centre (IOFC) in 1990 with a goal of developing an international Malaysian capital market. As an international offshore financial center, Labuan is offering credit facilities and receiving deposit, offshore investment banking business, Islamic banking business, building credit business, credit token business, development finance business, leasing business or such activities as approved by the Minister of Finance. The Offshore banking Act (OBA) 1990 provides a regulatory framework for Labuan. (Nursilah Ahmad and Zurina Zulkefli 2002). The complementing and developing Malaysian capital market are dwi-pronged goals of Labuan IOFC. Three main objectives to establish Labuan IOFC is to complement Kuala Lumpur to turn Malaysia into a regional financial centre, to promote the economies development of Labuan and its vicinity and to strengthen contribution of financial services to the Gross National Product (IOFC 1990).

For many years an economic backwater, in 1991 the Malaysia government adopted a strategy to develop the island as a premier OFC in the Asia-Pacific region. From the beginning Labuan was envisaged as a well regulated OFC, aiming to attract both businesses from the world's leading international banks and legitimate funds rather than those from more dubious sources. Furthermore, to distinguish itself from compositors Labuan also sought to develop as an IOFC that also specialized in offshore Islamic Banking. One of the principal reasons behind the Malaysia Government's decision to set up an IOFC in Labuan was its commitment to regional economic development (Jason Abbott 2000). At the end of 2001, more than 300 offshore and supporting companies have been established in Labuan (LOFSA 2001).

One of the exciting developments in Labuan IOFC is the Labuan International Financial Exchange (LFX) which was officially launched in 23<sup>rd</sup> November 2000. The goal of LFX is to facilitate the influx of funds through the listing, structuring and trading of financial instruments (Islamic Banking Product 2004). According to Dr Zeti who is also Bank Negara Malaysia Governor, said that Labuan IOFC has the potential to be a leading international Centre in Islamic Banking and finance. With the benefit found in Labuan IOFC and with no or low taxes, it can attract individual and companies to invest in Labuan.

Offshore centers contribute to the local and regional economies in a number of ways. First, an offshore center promotes integration of national capital markets, thus encouraging mobilization and allocation of saving on regional basis that helps to eliminate local and sectoral monopoly and monophony and stimulates the formation and international pooling of saving. Location of an offshore center in a developing

country stimulates the growth of financial infrastructure for a local capital market (Y.S. Park, 1982).

Meanwhile, offshore banking can be explained as the carrying on of banking and financial activities in an environment which is essentially free of fiscal and exchange controls ( What Makes Owning an Offshore Bank so Special at). These are banks that have established themselves as a tax haven to attract clients for low tax or tax free investment and security and confidentiality. They would normally offer the usual banking facilities such as multi currency accounts, deposits, cheque books, international transfers, standing orders and debit/credit cards (International Financial Services). The benefits of offshore banking can accrue to the banking institution and clients ( Welcome to the World of Offshore Banking at).

LOFSA has implemented policies that facilitate the creation of a competitive and attractive business environment in Labuan. Labuan's legislative framework is not only business-friendly but also prudent to safeguard. Labuan's international image is a clean and reputable offshore financial center (LOFSA 1996). Labuan provides and non-fiscal incentives to banking, insurance, trust management, corporate funding, investment and professional services. With the commitment from the Malaysian Government to develop Labuan as a tourist destination and an international offshore centre, it is poised to become the hub of Asian capital markets. As an offshore financial centre Labuan provides attractive tax and non-fiscal incentives for offshore companies to undertake any offshore business activities in, from, or through Labuan (COFSA 2002).

### 3.0 RESEARCH METHODOLOGY

All offshore banks in Labuan will automatically be the study population. Study samples will be chosen based on Labuan Offshore Financial Services Authority's (LOFSA) Offshore Bank directory and website. The targeted respondents of the study will comprise of the Chief Executive Officer, General Manager and Operation Manager of the offshore bank. A total of 60 respondents will be gathered for this research. These potential respondents are not mainly domicile in Labuan since the Malaysian Government now allows the Labuan offshore banks' marketing department to have offices in Kuala Lumpur and Johor Bharu. In addition to sampling procedures, permission will be obtained from the management before distributing the questionnaire. Instrument-Questionnaire method will be used to gather primary data for the research. Data collection and analysis – Interview method will be used in this study. Analysis of the data will be done using SPSS 10.0. Regression analysis will be utilized to determine the strength of relationship between variables. The dependant variable of this research is the "Growth of Financial Product and Service Innovations". There are four identified independent variables namely; market segments, types of customers, types of products and services and competitiveness. The moderators for this research would be company profile, government policy and legal framework. Factor analysis will be used to explain the pattern of correlation with a set of observed variables.

#### 4.0 ANALYSIS of FINDINGS

**Table 1.0 Location of Company**

Where is your company located

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Amsterdam	1	2.9	2.9	2.9
	Australia	1	2.9	2.9	5.7
	Belgium	1	2.9	2.9	8.6
	France	1	2.9	2.9	11.4
	Germany	4	11.4	11.4	22.9
	Hong Kong	1	2.9	2.9	25.7
	Japan	1	2.9	2.9	28.6
	Jeddah	1	2.9	2.9	31.4
	Kuala Lumpur	3	8.6	8.6	40.0
	Labuan	6	17.1	17.1	57.1
	New York	3	8.6	8.6	65.7
	San Francisco	1	2.9	2.9	68.6
	Singapore	2	5.7	5.7	74.3
	Switzerland	1	2.9	2.9	77.1
	Taiwan	2	5.7	5.7	82.9
	Tokyo	2	5.7	5.7	88.6
	United Kingdom	4	11.4	11.4	100.0
	Total	35	100.0	100.0	

**Source: SPSS output**

Majority of the companies interviewed were located in Labuan (17.1%), followed by United Kingdom and Germany (4% respectively), Kuala Lumpur and New York (8.6% respectively), Taiwan, Tokyo, Singapore (5.7% respectively) and Australia, Amsterdam, Belgium, France, Hong Kong, Japan, Jeddah, San Francisco and Switzerland (with 2.9% respectively) (Refer to Table 1.0).

**Table 2.0 Location of Headquarters**

The headquarters of your company in the Asia-Pacific region is located at:-

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Labuan IOFC	6	17.1	17.6	17.6
	Singapore	8	22.9	23.5	41.2
	Hong Kong	8	22.9	23.5	64.7
	Taiwan	2	5.7	5.9	70.6
	Others (please specify)	1	2.9	2.9	73.5
	Tokyo	3	8.6	8.8	82.4
	Kuala Lumpur	6	17.1	17.6	100.0
	Total	34	97.1	100.0	
Missing	System	1	2.9		
Total		35	100.0		

**Source: SPSS output**

Respondents were also asked regarding the location of their respective headquarters. A total of 22.9 percent stated that their headquarters was located in Singapore and Hong Kong respectively. This was followed by Labuan and Kuala Lumpur (17.1 percent respectively), Tokyo (8.6 percent) and Taiwan (5.7 percent).

**Table 3.0 Type of Licenses**

What type of banking licenses do you hold?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Offshore banking	31	88.6	88.6	88.6
	Offshore investment banking	4	11.4	11.4	100.0
	Total	35	100.0	100.0	

**Source: SPSS output**

Four types of licenses were stated under question three of the questionnaire namely; offshore banking license, offshore investment banking license, offshore insurance license and offshore leasing license. A majority of the respondents indicated that



their company was holding offshore banking license (88.6 percent) and 11.4 percent were holding investment banking license (Refer to Table 3.0, page 2).

**Table 4.0 Years of Operation in Labuan**

When did your company set up in Labuan IOFC?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3 years ago	5	14.3	14.7	14.7
	7 years age	2	5.7	5.9	20.6
	8 years ago	3	8.6	8.8	29.4
	9 years ago	6	17.1	17.6	47.1
	10 years ago	5	14.3	14.7	61.8
	11 years ago	6	17.1	17.6	79.4
	12 years ago	4	11.4	11.8	91.2
	more than 12 years ago	3	8.6	8.8	100.0
	Total	34	97.1	100.0	
Missing	System	1	2.9		
Total		35	100.0		

**Source: SPSS output**

A total of 8.6 percent of the companies interviewed have been in Labuan for more than 12 years, 11.4 percent have been in operation for 12 years, 17.1 percent respectively for companies that have been in the business for 11 years and 9 years. This is followed by 14.3 percent respectively for companies operating for 10 years and 3 years, 8.6 percent respectively for companies operating since 1997 and 5.7 percent operating in Labuan since 1998 (Refer to Table 4.0 Years of Operation in Labuan).

**Table 5.0 Setting Company Factors in Labuan**

**The primary factors that lured your company to set up in Labuan?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Location	3	8.6	8.8	8.8
	Tax incentives	16	45.7	47.1	55.9
	Confidence on Malaysia Government	2	5.7	5.9	61.8
	Others (Please specify)	2	5.7	5.9	67.6
	Location, tax incentives, friendly legal f/work & confidence	3	8.6	8.8	76.5
	Tax incentives and confidence on Malaysian Government	5	14.3	14.7	91.2
	Location, tax incentives and friendly legal framework	1	2.9	2.9	94.1
	Tax incentives and friendly legal framework	1	2.9	2.9	97.1
	Tax incentives, friendly legal framework and confidence	1	2.9	2.9	100.0
	Total	34	97.1	100.0	
Missing	System	1	2.9		
Total		35	100.0		

**Source: SPSS output**

Majority of the respondents indicated that the main or the primary factors for them setting up their company in Labuan is due to the tax incentives (45.7 percent) being offered to them by IOFC. Confidence on the services being provided by both the banks and the government (14.3 percent) also played an important role for them to set-up their company in Labuan. Only 8.3 percent indicated that location played an important role in the company's location.

**Table 6.0 Paid-Up Capital or Reserved Funds**

**What is your company paid up capital or reserve funds?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than USD10 million	3	8.6	10.7	10.7
	USD10.1 million to USD30 million	6	17.1	21.4	32.1
	USD30.1 million to USD50 million	1	2.9	3.6	35.7
	USD50.1 million and above	17	48.6	60.7	96.4
	Others (Please specify)	1	2.9	3.6	100.0
	Total	28	80.0	100.0	
Missing	System	7	20.0		
Total		35	100.0		

**Source: SPSS output**

In terms of paid-up capital or reserved funds for the company, majority of the company interviewed stated that their paid-up capital or reserve funds were USD50.1 million and above (48.6 percent). A total of 17.1 percent responded that their paid-up capital was between USD 10.1 million to USD30 million.

**Table 7.0 Annual Business Transaction/Turnover**

**What is your company annual business transaction/turnover in USD for the past two years?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than USD10 million	6	17.1	23.1	23.1
	USD10.1 million to USD30 million	4	11.4	15.4	38.5
	USD30.1 million to USD50 million	1	2.9	3.8	42.3
	USD50.1 million and above	15	42.9	57.7	100.0
	Total	26	74.3	100.0	
Missing	System	9	25.7		
Total		35	100.0		

**Source: SPSS output**

Respondent were also asked about "Annual business transaction/turnover" in this study. Approximately, 42.9 percent of the total respondents indicated an annual

business transaction/turnover of USD50.1 million and above. This was followed by “less than USD10 million” at 17.1 percent and between USD 10.1 million to USD 30 million at 11.7 percent. Respondents also stated that their company made profit since its inception (82.9 percent) in Labuan (refer to Table 8.0)

**Table 8.0 Profit since Inception**

Is your company making profit since the inception?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	29	82.9	100.0	100.0
Missing System	6	17.1		
Total	35	100.0		

**Source: SPSS output**

**Table 9.0 Profit Range**

If yes, please indicate the profit range: -

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than USD10 million	15	42.9	57.7	57.7
USD10.1 million to USD30 million	7	20.0	26.9	84.6
USD50.1 million and above	3	8.6	11.5	96.2
Others (Please specify)	1	2.9	3.8	100.0
Total	26	74.3	100.0	
Missing System	9	25.7		
Total	35	100.0		

**Source: SPSS output**

Respondent were further asked about the range of profit gain by their company and 42.9 percent responded that their company’s profit range was less than USD10 million, whereas 20.0 percent indicated a profit range between USD10.1 million to USD30 million and only 2.9 percent stated a profit range of USD50.1 million and above (Table 9.0).

**Table 10.0 Income Contribution**

What type of pricing/income contributed to your company net profit?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Products/Services interest income	5	14.3	15.2	15.2
	Products/Services interest and fee income	28	80.0	84.8	100.0
	Total	33	94.3	100.0	
Missing	System	2	5.7		
Total		35	100.0		

**Source: SPSS output**

In relation to income contribution, 80.0 percent of the company interviewed stated that their income contribution source was namely form products/services interest and fee income. A total of 14.3 percent indicated product/services interest income as their main income contributor.

**Table 11.0 Market Segments**

What types of market segments your company focuses on?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Corporate Syndication Banking Sector	16	45.7	47.1	47.1
	Corporate Bilateral Banking Sector	3	8.6	8.8	55.9
	Islamic Banking Sector	3	8.6	8.8	64.7
	Retail Banking Sector	2	5.7	5.9	70.6
	Investment Banking	1	2.9	2.9	73.5
	Corporate Syndication and Corporate Bilateral Banking	9	25.7	26.5	100.0
	Total	34	97.1	100.0	
Missing	System	1	2.9		
Total		35	100.0		

**Source: SPSS output**

**Table 12.0 Marketing of Product and Services**

Please list down five major key products/services your company currently actively in marketing?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	8	22.9	22.9	22.9
Corporate banking, Islamic banking, Fixed income, Fee base products, treasury products	1	2.9	2.9	25.7
Deposits, loans, guarantee, foreign exchange, e-solution business	1	2.9	2.9	28.6
Equity financing, personal term loan, corporate financing	1	2.9	2.9	31.4
Financing, deposit, investment, corporate advisory, treasury	1	2.9	2.9	34.3
Islamic bonds, savings product, investment products	1	2.9	2.9	37.1
Loan Syndication	1	2.9	2.9	40.0
Loan, deposit, guarantee, standby letter & credit, financial derivatives	1	2.9	2.9	42.9
Loans and deposits, guarantees	1	2.9	2.9	45.7
Loans, guarantees, trade related transactions	1	2.9	2.9	48.6
Loans, investment, trade finance, deposits and trust services	1	2.9	2.9	51.4
Loans, Time Deposits	1	2.9	2.9	54.3
Long term financing, Derivatives	1	2.9	2.9	57.1
M&A, Advisory, Lending, Treasury & FX & Derivative & Islamic	1	2.9	2.9	60.0
Money Markets Products	1	2.9	2.9	62.9
Overseas property finance	1	2.9	2.9	65.7
Please check	2	5.7	5.7	71.4
Syndicated loan, deposits, foreign exchange swap, interest rate swap, loan trading	1	2.9	2.9	74.3
Syndication loans	1	2.9	2.9	77.1
Syndication, Bilateral term loan, Bank Guarantee, Sale, Deposits	1	2.9	2.9	80.0
Syndication, structure finance, bilateral, trade	1	2.9	2.9	82.9
Term Loan, Syndication Loan, Banker's Guarantee, Bond, Fix Loan	1	2.9	2.9	85.7
Term loan/Syndication loan, Revolving credit facilities, guarantee/stand-by letter of credit, floating rate notes, Islamic product-Sukuk, Al Bithaman	1	2.9	2.9	88.6
Term loans	1	2.9	2.9	91.4
Term loans, derivatives and guarantees	1	2.9	2.9	94.3
Time deposit, Current account, Term loan, Trade finance	1	2.9	2.9	97.1
Time loan/Term loan, guarantees, SBLC, investment, cash management, derivatives/fx	1	2.9	2.9	100.0
Total	35	100.0	100.0	

Source: SPSS output

Respondents were also asked about the types of market segments their company focuses on. A total of 45.7 percent of the respondent stated that they are targeting Corporate Syndication Banking sector, while Corporate Bilateral Banking sector and Islamic Banking sector was targeted by 8.6 percent of the total respondent respectively.

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**Table 13.0 Target Customer**

**Who are your target customers?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Public listed corporations	17	48.6	48.6	48.6
	Private limited corporation	2	5.7	5.7	54.3
	High net worth individuals	2	5.7	5.7	60.0
	All of the above	4	11.4	11.4	71.4
	PLO & GOVT R.C	1	2.9	2.9	74.3
	Public listed and Private limited corporations	4	11.4	11.4	85.7
	Public enterperises, listed corp, NGO, & private limited cor	4	11.4	11.4	97.1
	Private limited and high net worth individuals	1	2.9	2.9	100.0
	Total	35	100.0	100.0	

**Source: SPSS output**

Based on the survey, respondents indicated that their target customer are public listed companies (48.6 percent), public enterprises, listed corporation, NGO and private limited corporation (11.4 percent), and public listed and private limited corporations (11.4 percent).



**Table 14.0 Country Origin of Customers**

**The origin country-region and nationality of your major customers?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	South East Asia	18	51.4	54.5	54.5
	Middle East	1	2.9	3.0	57.6
	All of the above	3	8.6	9.1	66.7
	Malaysian	7	20.0	21.2	87.9
	East Asia	1	2.9	3.0	90.9
	South East Asia and Middle East	1	2.9	3.0	93.9
	South East Asia and Europe	1	2.9	3.0	97.0
	South East Asia and America	1	2.9	3.0	100.0
	Total	33	94.3	100.0	
Missing	System	2	5.7		
Total		35	100.0		

**Source: SPSS output**

Majority of the respondents also indicated that the origin of their customer is from South East Asia (51.4 percent) followed by Malaysia (20.0 percent).

**Table 15.0 Customers' Preference**

**Why did your customers chose to bank with you in Labuan IOFC?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Location	3	8.6	8.8	8.8
	Pricing	4	11.4	11.8	20.6
	Products and services	12	34.3	35.3	55.9
	Customer services	2	5.7	5.9	61.8
	All of the above	4	11.4	11.8	73.5
	Pricing, product and services	3	8.6	8.8	82.4
	Pricing, product, services and customer services	4	11.4	11.8	94.1
	Location and products and services	1	2.9	2.9	97.1
	Product and services plus foreign currency	1	2.9	2.9	100.0
	Total	34	97.1	100.0	
Missing	System	1	2.9		
Total		35	100.0		

**Source: SPSS output**

Respondents were also asked to categorize the reason why their present customer chose them. Among the reasons given were location, pricing, products and services and customer service. Approximately 34.3 percent of the respondent says that their present customers chose their company because of the product and services offered by them. This was followed by pricing (11.4 percent), pricing, product and customer services (11.4 percent), and all of the above (11.4 percent).

**Table 16.0 Target Market**

Where are your target markets?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Global markets	12	34.3	34.3	34.3
Asia Pacific Regional markets	2	5.7	5.7	40.0
South East Asia markets	5	14.3	14.3	54.3
Malaysian markets	10	28.6	28.6	82.9
East Asia	2	5.7	5.7	88.6
Asia Pacific and South East Asia Market	4	11.4	11.4	100.0
Total	35	100.0	100.0	

**Source: SPSS output**

In terms of target market, 34.3 percent of the respondent says that their company target market was the Global market, 28.6 percent stated their target market is Malaysia and 14.3 percent says their target market is South East Asia.

**Table 17.0 Major Product or Services Contribution**

What is the major product or service contributing to your bottom line?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Syndication loans	6	17.1	17.6	17.6
Term loans	13	37.1	38.2	55.9
All of the above	5	14.3	14.7	70.6
Syndication and Terms Loans, Bank guarantee and Deposit	2	5.7	5.9	76.5
Investment products	1	2.9	2.9	79.4
Syndication loans, terms loans and bank guarantees	4	11.4	11.8	91.2
Syndication and term loans	3	8.6	8.8	100.0
Total	34	97.1	100.0	
Missing System	1	2.9		
Total	35	100.0		

**Source: SPSS output**

Respondents were also asked about what is the major product or services contributing to their bottom line. A total of 37.1 percent stated that term loans are the major contributors to their companies. Syndication loans (17.1 percent) and a combination of syndication loans, term loans and bank guarantees was at 11.8 percent.

**Table 18.0 Marketing Channel or Distribution Channel**

What is your marketing channel or distribution system?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary business (Business to customer)	20	57.1	62.5	62.5
	Referral business (Commission agent)	4	11.4	12.5	75.0
	Booking centers (Logistics Mediator)	2	5.7	6.3	81.3
	All of the above	2	5.7	6.3	87.5
	Primary business, secondary market and booking centers	1	2.9	3.1	90.6
	Primary business and secondary market	1	2.9	3.1	93.8
	Primary business and booking centers	1	2.9	3.1	96.9
	Primary buisness and referral business	1	2.9	3.1	100.0
	Total	32	91.4	100.0	
Missing	System	3	8.6		
Total		35	100.0		

**Source: SPSS output**

In terms of marketing channel or distribution channel, most of the companies are engaged in the primary business (business to customer) channel (57.1 percent). Followed by referral business (11.4 percent) and booking centers (5.7 percent).

**Table 19.0 Promotional Strategies**

**What types of promotional strategies your company engages to market the products and services**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Direct marketing	15	42.9	46.9	46.9
	Via Agent or Arranger	5	14.3	15.6	62.5
	Group business client referrals	5	14.3	15.6	78.1
	Direct marketing and via agent or arranger	3	8.6	9.4	87.5
	Own Website	1	2.9	3.1	90.6
	Direct marketing and group business referrals	2	5.7	6.3	96.9
	Girect marketing and mass advertisement	1	2.9	3.1	100.0
	Total	32	91.4	100.0	
Missing	System	3	8.6		
Total		35	100.0		

**Source: SPSS output**

In relation to marketing issues, respondents were asked about the types of promotional strategies that were used to engage customers to their present product and services. A total of 42.9 percent implemented direct marketing method, whereas via agent and group business client referral garnered 14.3 percent each respectively. Some of the respondents also used a combination of direct marketing and group business referrals (5.7 percent) in the promotional strategies.

**Table 20.0 Innovation of Product and Services for Growth**

**Is your company currently innovating any new products or services for growth?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	18	51.4	54.5	54.5
	No	15	42.9	45.5	100.0
	Total	33	94.3	100.0	
Missing	System	2	5.7		
Total		35	100.0		

**Source: SPSS output**

For future growth, respondents were asked if their company is currently innovating any new products or services to be offered to their present and potential customers. More than half (51.4 percent) indicated that their company is innovating new product and services, while 42.9 percent are not engaged in this strategy.

As a basic guideline for some of the reason why these companies are involved in innovating new products and services can be found in Table 21.0.

**Table 21.0 Reasons for Innovation of Product and Services**

If your answer is wither "yes" or "no" please state why.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	16	45.7	45.7	45.7
Competition purpose	1	2.9	2.9	48.6
Current product is enough	1	2.9	2.9	51.4
Currently re-organising and downsizing operation	1	2.9	2.9	54.3
Depends on [arent company strategy, core business operations & information support	1	2.9	2.9	57.1
Depends on parent company's strategy	1	2.9	2.9	60.0
Derivatives	1	2.9	2.9	62.9
Exploring other avenues suitable for offshore environment	1	2.9	2.9	65.7
Increase revenue source	1	2.9	2.9	68.6
Market is becoming too competitive	1	2.9	2.9	71.4
market is now competitive	1	2.9	2.9	74.3
No plan	1	2.9	2.9	77.1
Profit continuity	1	2.9	2.9	80.0
To capture new business and improve bottom line	1	2.9	2.9	82.9
To give more product variety to customers	1	2.9	2.9	85.7
To keep up with competition	1	2.9	2.9	88.6
To meet Bank's and shareholders objective	1	2.9	2.9	91.4
To stay competitive	1	2.9	2.9	94.3
To tap into new opportunity and to diversify income sound	1	2.9	2.9	97.1
We market conventional product	1	2.9	2.9	100.0
Total	35	100.0	100.0	

Source: SPSS output

**Table 22.0 Advantages Operating in Labuan IOFC**

What are the advantages of operating your company in Labuan IOFC?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	9	25.7	25.7	25.7
Ability to conduct business with Malaysia corporate	1	2.9	2.9	28.6
Ability to deal in non MYR products and reach to customers abroad	1	2.9	2.9	31.4
Attract customer because of tax haven	1	2.9	2.9	34.3
Attracting more foreign investors	1	2.9	2.9	37.1
Can access Malaysia's market	1	2.9	2.9	40.0
Low Tax	1	2.9	2.9	42.9
Low tax regime	2	5.7	5.7	48.6
Low tax, no WHT, no stamp duty payable	1	2.9	2.9	51.4
Secure Malaysia Business	1	2.9	2.9	54.3
Tax	2	5.7	5.7	60.0
Tax incentives	9	25.7	25.7	85.7
Tax incentives and Legal Framework	1	2.9	2.9	88.6
Tax incentives, same time zone with financial center	1	2.9	2.9	91.4
Tax incentives.	2	5.7	5.7	97.1
Tax incentives. The best in the region	1	2.9	2.9	100.0
Total	35	100.0	100.0	

**Source: SPSS output**

In terms of the advantages of operating in Labuan, most of the respondents (25.7 percent) singled out the tax incentive factors as an advantage operating in Labuan.



**Table 23.0 Competition in Labuan IOFC**

Do you face competition in Labuan IOFC?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	28	80.0	80.0	80.0
	No	7	20.0	20.0	100.0
	Total	35	100.0	100.0	

Source: SPSS output

A total of 80.0 percent of the respondents stated they do face competition in Labuan. These competitions can be in the form of pricing (17.1 percent) products and services (14.3 percent), or a combination of pricing, product and services (17.1 percent).

**Table 24.0 Types of Competition**

If yes, what are the types of competition?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Pricing	6	17.1	22.2	22.2
	Products and services	5	14.3	18.5	40.7
	Market segment	2	5.7	7.4	48.1
	All of the above	2	5.7	7.4	55.6
	Pricing, products & services and customer services	3	8.6	11.1	66.7
	Pricing, products & services	6	17.1	22.2	88.9
	Pricing, customer service and market segment	3	8.6	11.1	100.0
	Total	27	77.1	100.0	
	Missing				
System		8	22.9		
Total		35	100.0		

Source: SPSS output

**Table 25.0 Competition from other International Offshore Financial Center**

Do you face any competition from other International offshore financial centers?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	25	71.4	71.4	71.4
No	10	28.6	28.6	100.0
Total	35	100.0	100.0	

Source: SPSS output

Respondents also indicated that they face competition from other international offshore financial centers (71.4 percent). These competitions ranged from locations to pricing, to products and services and customer services.

**Table 26.0 Types of Competition from other Offshore Financial Centers**

If yes, what are the types of competition? (from other International offshore financial centers)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Location	1	2.9	4.0	4.0
Pricing	2	5.7	8.0	12.0
Products and services	7	20.0	28.0	40.0
Customer service	1	2.9	4.0	44.0
All of the above	8	22.9	32.0	76.0
Regulatory framework	1	2.9	4.0	80.0
Pricing, products and services and customer service	3	8.6	12.0	92.0
Location, pricing and product and services	2	5.7	8.0	100.0
Total	25	71.4	100.0	
Missing System	10	28.6		
Total	35	100.0		

Source: SPSS output

**Table 27.0 Offshore Region Competition**

In relation to question 25, which offshore region the competition comes from?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Asia	13	37.1	50.0	50.0
	Europe	3	8.6	11.5	61.5
	Caribbean	1	2.9	3.8	65.4
	Asia and Europe	3	8.6	11.5	76.9
	UK and Australia	2	5.7	7.7	84.6
	ASEAN and OIC Countries	1	2.9	3.8	88.5
	Singapore, BVI, Brunei	1	2.9	3.8	92.3
	Europe and America	2	5.7	7.7	100.0
	Total	26	74.3	100.0	
	Missing System	9	25.7		
Total		35	100.0		

**Source: SPSS output**

Most of the competition comes from the Asia region (37.1 percent) followed by Europe (8.6 percent) and UK and Australia (5.7 percent).

**Table 29.0 Market Leader Factor**

**In your opinion, if Labuan IOFC Offshore Banking Industry is to thrive and to be the market leaders in competing directly with the international offshore banks in Singapore and Hong Kong, what is the key factor in contributing to the success rate**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Location with improved facilities and infrastructure	7	20.0	25.0	25.0
	Competitive pricing	1	2.9	3.6	28.6
	Innovative products and services	6	17.1	21.4	50.0
	All of the above	5	14.3	17.9	67.9
	Location & improve facilities, comp pricing & innovative P/S	6	17.1	21.4	89.3
	Location with improved F& I plus copetitive pricing	3	8.6	10.7	100.0
	Total	28	80.0	100.0	
Missing	System	7	20.0		
Total		35	100.0		

**Source: SPSS output**

In order for Labuan IOFC to be leaders in the offshore market, respondents indicated that location with improved facilities and infrastructure (20.0 percent) is the most important key factor in achieving this goal. This is followed by innovative product and services (17.1 percent) factor and a combination of all the options namely location with improved facilities and infrastructure, competitive pricing, and innovative products and services.

**Table 30.0 Types of New Product and Services for Competitive Edge**

**If product and service innovation were the key to achieve competitive edge, what types of new products and services your company would consider?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Innovation of conventional loans	3	8.6	10.7	10.7
	Derivative products	4	11.4	14.3	25.0
	Islamic Banking	7	20.0	25.0	50.0
	Innovative in channel and delivery system such as via online	2	5.7	7.1	57.1
	All of the above	8	22.9	28.6	85.7
	Not Available	1	2.9	3.6	89.3
	Derivative prod & Islam Banking Inova delivery sys (online)	3	8.6	10.7	100.0
	Total	28	80.0	100.0	
Missing	System	7	20.0		
Total		35	100.0		

**Source: SPSS output**

Respondent were also asked if the key to achieve competitive edge lies on the product and services factor, what type of innovation should be considered. Although majority of the respondent (22.9 percent) felt that all the options given to them can be considered, a total of 20.0 percent of the respondent singled out Islamic Banking factor as the key to achieve competitive edge if the strategy relies on product and services innovation.

## 5.0 CONCLUSION

Labuan IOFC gives a lot of benefits and soon will become complement to the Malaysian Onshore domestic financial system, which is situated in Kuala Lumpur. As we know in Labuan, LOFSA is a self-funded entity and their responsible for developing national objectives, policies and sets priorities, developing and promotion offshore business in Labuan, administrative and legislation, incorporation and registering companies. Labuan IOFC actually is different from other IOFCs. This is because Labuan IOFC has Islamic Finance and offers both conventional and Islamic products to the customer compare the other IOFC that do not offer those services. According to Dr. Zeti, who is also Bank Negara Malaysia Governor, said that Labuan IOFC has the potential to be a leading international Centre in Islamic Banking and Finance. With the benefit found in Labuan IOFC and with no or low taxes, it can attract individual and companies to invest in Labuan. Besides, indirectly it can develop Labuan IOFC to enhance Labuan as an investment centre, promote the economic development of Labuan and its vicinity, strengthen contribution of financial services to GNP, and to complement the Malaysia onshore domestic financial system in Kuala Lumpur.

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