

# The Impact of Perceived Transparency, Trust and Skepticism towards Banks on the Adoption of IFRS 9 in Malaysia

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## Abstract

The global financial crisis in 2008 eroded trust towards the banking industry overall. To make such institutions more transparent, the International Accounting Standard Board developed the International Financial Reporting Standard 9 (IFRS 9). After the announcement of IFRS 9, academic research has primarily focused on examining the stability of banks due to early loan-loss recognition guidelines under the new system. There appears to be a lack of understanding of how IFRS 9 has influenced institutional depositors' opinions of bank trustworthiness. Hence the goal of this study is to determine how the adoption of IFRS 9 by banks has impacted perceptions of transparency, trust, and skepticism, from the perspective of large institutional depositors. This research was conducted in the context of Malaysian banks that follow the IFRS 9 guidelines. A framework is proposed using the signaling theory, leading to the development of a set of hypotheses. The hypotheses are tested with data collected from 654 financial analysts working in Malaysian companies that are large institutional depositors. The results indicate that the adoption of IFRS 9 has led to higher levels of perceptions of bank transparency and trust, and lower levels of skepticism towards such banks.

**Keywords:** IFRS 9, Banks, Banking Industry, Transparency, Trust, Skepticism

**JEL Classification Code:** M40, M41, M48, M49

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## 1. Introduction

The banking industry plays a crucial role in the economic development of nations whether in advanced or emerging economies (Takasu & Nagano, 2019). The International Accounting Standards Board (IASB) enforces compliance with IFRS 9 rules by banks that deal with other banks beyond their borders to bring more transparency regarding the quality of assets (i.e., quality of loan portfolios) of banks.

IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Accordingly, from 2018 onwards, all major banks in Malaysia have switched from the IAS 39 regime to IFRS 9 (Deloitte Report, 2020). The adoption of the new accounting system necessitates early credit loss recognition that must be provisioned by banks and reflected in the public disclosure of their financial statements (Hameedi et al., 2021). Since the adoption of the new system, several studies have been undertaken globally as well as in Malaysia to determine how it impacts the stability of the banks (Hartmann-Wendels & Imanto, 2019). Most of these studies attempt to measure the stability of banks from the perspective of bank regulatory bodies such as the central bank in Malaysia (Bank Negara) (Hasnan, 2019). However, little is known about the perspective of large institutional depositors, after the adoption of IFRS 9, in terms of their perceptions about transparency, trust, and skepticism regarding such banks when they decide to place large deposits.

The focus on transparency, trust, and skepticism towards financial institutions came to the forefront particularly after the 2008 global financial crisis where many local and

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international banks were found to be involved in high-risk speculative financial investments that almost brought the system near to collapse (Jarvinen, 2014). Furthermore, some of the biggest names in banking such as the Deutsche Bank and HSBC Bank were found to be involved in different types of financial scandals (BBC News, 2020). As a result of such incidents, public perceptions of financial institutions' stability have worsened, particularly among institutional depositors such as insurance companies and pension funds. (This has eroded the confidence about publicly disclosed financial information that is put out by such banks (Hameedi et al., 2021). Hence, financial statements are viewed with skepticism by professionals who advise decision-makers on bank deposits, implying that there is a lack of confidence and overall negative perception of transparency in the disclosures made by such institutions.

One of the primary sources of low levels of trust and high levels of skepticism is related to the disclosure of the value of assets of such banks (i.e., quality of the loans made to clients). In the past, central banks were constantly trying to devise mechanisms to ensure that banks provide more clarity about the quality of loans made to their borrowers. For instance, in Malaysia, Bank Negara requires that when a borrower misses three consecutive loan installments on time, such accounts are classified as, special mention accounts (Hameedi et al., 2021). However, once the borrower fails to make three consecutive payments, the account should be classified as doubtful, which is a prelude to bad debt (Sundra & Low, 2019). Nevertheless, bank managers tend to disguise the quality of loans by working around such guidelines (Hameedi et al., 2021). Such practices place a burden on financial analysts working for large institutional depositors to closely scrutinize the loan quality, which is not reflected accurately in the financial disclosures based on IAS 39. However, with the adoption of IFRS 9, the potential bad debts are front-loaded. IFRS 9 Financial Instruments introduced changes to the calculation of bad debt provisions on trade receivables. Previously, companies provided for amounts when the loss had actually occurred. Under IFRS 9, companies are required to account for what they expect the loss to be on the day they raise the invoice – and they revise their estimate of that loss until the date they get paid (ESRB, 2017).

In Malaysia, large institutional investors are typically organizations such as insurance companies and pension funds that control over MYR100 million (USD 25 Million approx.) in cash reserves that are usually placed in either government securities such as bonds and notes or commercial banks licensed by Bank Negara. These depositors employ teams of financial analysts who carefully examine financial institutions that approach them for deposits and provide recommendations based on their assessments of the banks' financial health. Such suggestions are taken up

by the executive committees under the board of directors, which make decisions based on trust and skepticism about the bank management's honesty and the integrity of its disclosures (Hasnan, 2019). One of the core objectives of institutionalizing the adoption of IFRS 9 in the global banking industry is to bring about more transparency in their operations and public disclosures. However, whether adoption of IFRS 9 into banks, influences perceptions about bank transparency leading to greater perceptions of trust and lower levels of skepticism among financial analysts working for large institutional depositors is not clearly understood.

The extant literature on trust and skepticism in terms of stakeholder perspectives indicates that several factors drive these constructs. For instance, some of the established antecedents of trust are opportunistic behavior, shared value, integrity perceptions, etc. While factors that have been commonly used to predict skepticism regarding financial institutions are communication, media reports, reputation, etc., (Van Esterik-Plasmeijer & Van Raaij, 2017). Trust and skepticism have been widely covered in the marketing literature especially related to consumer perceptions about product advertisements, etc. (Kim et al., 2019). However, there appears to be insufficient understanding of how trust and skepticism in the banking industry are influenced, especially when such banks claim to be more transparent by complying with globally recognized financial systems such as IFRS 9.

Relationships between transparency and trust and skepticism, have been studied in the fields of marketing, information technology, media, healthcare services, and public policy (Schmidt et al., 2020). Nevertheless, there appears to be a dearth of studies that investigated if the adoption of new financial systems such as IFRS 9 leads to improved perceptions of bank transparency. Furthermore, there is insufficient understanding about whether such transparency perceptions, in turn, impacts perceptions of trust and skepticism about banks, particularly from the perspective of financial analysts working in organizations that recommend placement of large deposits with banks and other financial institutions.

The current study utilizes the signaling theory (Spence, 1973) to propose a framework linking the adoption of IFRS 9 with perceived transparency regarding banks that subsequently influences trust and skepticism. A set of hypotheses are developed based on theory and with the support of empirical evidence and rational arguments. The hypotheses are tested using survey data from a sample of 654 financial analysts working in 127 organizations in Malaysia that are considered large institutional depositors. The goal of this study is to empirically determine if the adoption of IFRS 9 in the banking industry in Malaysia has led to greater levels of perceived transparency regarding such banks, and subsequently if such perceptions have led to

improved perceptions of trust and lower levels of skepticism regarding public disclosures made by these banks. The outcome of the study is expected to have significance for literature related to trust and transparency in the banking industry, and at the same time provide meaningful knowledge to key stakeholders connected to the sector.

## 2. Literature Review

The extant literature related to the primary constructs of this study is summarized in the subsections below.

### 2.1. IFRS 9

Around July of 2014, IASB (International Accounting Standards Board) issued the final version of IFRS 9 that relates to *Financial Instruments*, which was made effective from January 01, 2018. This new version brings together both classification and measurement of impairment and hedge accounting stages of the project launched by IASB, which replaces IAS 39 along with all previous versions of IFRS 9. In the wake of key concerns arising from the financial crisis in 2008, IASB asserted that the loss calculation model under IAS 39 contributed to the delayed recognition of credit losses (Hartmann-Wendels & Imanto, 2019). Therefore, IFRS 9 introduced the front-loading of expected credit loss (ECL) to provide for likely default (Takasu & Nakano, 2019).

The aim of front-loading of credit losses stipulated by IFRS 9 had multiple objectives, of which one of the key goals was to prevent the so-called “cliff effect”, which happens when jumps in sudden losses in asset values are reported after the credit losses are reported (Hameedi et al., 2021). However, the front-loading approach that recognizes early credit loss has also induced some degree of concern among many bankers, as they are yet to gauge the impact of such measures on the stability of their banks (Hameedi et al., 2021). This concern is rooted in the notion that the new guidelines stipulated by IFRS 9 will reduce the amount of earnings the banks can retain, as retained earnings are a vital component of CET1 (Common Equity Tier-1) (EBA, 2019). For instance, the European Banking Authority (EBA) estimates that additional capital of around 45 basis points of CET1 will be required to keep pace with the new guidelines. Furthermore, during economic downturns, the banking sector will be put to severe tests if they try to keep up with the ECL mechanism put forth by IFRS 9.

#### 2.1.1. Contrast between IAS 39 and IFRS 9

The balance sheet entries under the former IAS 39 considered credit losses after they were incurred. This means that impairment losses were only reported after objective evidence showed that the bank’s investment portfolio had

lost value. Such a practice delayed recognition of losses that may have occurred at the initial stages of the loan cycle, and yet a reflection of the loss was delayed as of the balance sheet date (Gaston & Song, 2015). Nevertheless, the global financial crisis in 2008 drew the attention of stakeholders to this delay in recognition of losses that allowed inflated asset values to be carried until it was no longer possible to keep the losses out of the purview of the financial reports, thus inducing a sudden drop (i.e., cliff-effect) in the bank’s asset value (Ernst & Young, 2014). Furthermore, there were ample reasons to believe that the delayed reporting of credit losses exacerbated the financial distress of the banking sector (Ernst & Young, 2014).

In response to the above dilemma, the IASB went through a painstaking process of gathering stakeholder inputs over several years in revising the accounting standards by developing a forward-looking expected credit loss model that requires timely recognition of impairments. The evolution addresses the weakness of the IAS 39 where credit loss recognition was delayed till it actually occurred. In fact, IFRS 9 mandates recognition of expected credit loss (ECL) right from the initial lifecycle of a loan. A key difference between IAS 39 and IFRS 9 is the detailed guidelines provided by IASB for recognizing credit quality on stages.

#### 2.1.2. Recognition of Credit Quality in 3 Stages Under IFRS 9

An important aspect of the IFRS 9 impairment model is the three stages approach that categorizes financial instruments according to their credit quality (i.e., ‘Stage 1’, ‘Stage 2’ and ‘Stage 3’). The three-stage process lessens the impact of the cliff-effect by gradually recognizing losses over the lifecycle of the loan. The assessment of stages is based on the change in credit risks since the initial recognition of the potential credit loss and prescribes the methodology for calculating expected credit loss.

##### Stage 1:

When a loan is originated or purchased, expected credit losses (ECLs) resulting from default events that are possible within the next 12 months are recognized (12-month ECL) and a loss allowance is established (PwC, 2014). On subsequent reporting dates, 12-month ECL also applies to existing loans with no significant increase in credit risk since their initial recognition (Hartmann-Wendels & Imanto, 2019). Interest revenue is calculated on the loan’s gross carrying amount (that is, without deduction for ECLs). In determining whether a significant increase in credit risk has occurred since initial recognition, a bank is to assess the change, if any, in the risk of default over the expected life of the loan (that is, the change in the probability of default, as opposed to the amount of ECLs) (KPMG, 2014).

**Stage 2:**

If a loan's credit risk has increased significantly since initial recognition and is not considered low, lifetime ECLs are recognized. The calculation of interest revenue is the same as for Stage 1 (PwC, 2014). The assessment of ECL at this stage emerges from all potential default events over the expected lifecycle of the financial instrument. The guidelines require that at each reporting data the entities entrusted with reporting function are to evaluate whether there is the likelihood of a significant increase in the level of credit risk (KPMG, 2014). For this purpose, IASB provides a list of information as a checklist to assess whether there is any occurrence of significant credit risk deterioration. Furthermore, the assessment guideline also has a provision for determining lower levels of credit risk (i.e., risk exemptions) that allows the financial asset to remain in Stage 1 (Hartmann-Wendels & Imanto, 2019).

**Stage 3:**

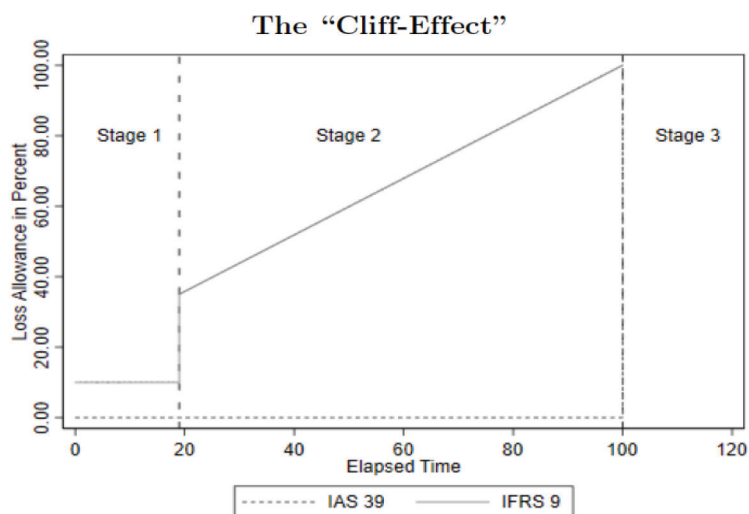
Beyond the Stage 2 assessment, if there appears to be further enhancement of credit risk that seems to be devolving into a non-performing loan (i.e., a credit-impaired asset), the corresponding financial instrument must be classified into Stage 3. If the loan's credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortized cost (that is, the gross carrying amount less the loss allowance). Lifetime ECLs are recognised, as in Stage 2 (KPMG, 2014). The broad criterion for a credit to be classified under Stage 3 are listed in the guidelines of IFRS 9 and are more or less similar to the clear evidence of the likelihood of loss event as stipulated under IAS 39 (Ernst & Young, 2014). The main distinction is that

the objective evidence of a loss event occurring is spread out during the predicted credit loss's lifecycle. Interest income is calculated using the asset's net carrying amount, which is equal to the gross carrying amount minus the loan loss allowance. The Stage 3 expected credit loss reflects the default position of the underlying assets, which means that ECL recognized at Stage 3 will be significantly larger than that in Stage 2 (Hartmann-Wendels & Imanto, 2019). Figure 1 demonstrates the comparison of ECL at each of the three stages.

**2.2. Perceived Bank Transparency**

Over the last few decades, the word “transparency” has become a popular term among government regulatory bodies, non-government watchdog organizations, consumer rights groups, policymakers, local and global industry stakeholders, financial institutions, etc. (Janning & Ingley, 2020). However, there appears to be a wide variation in the definition of transparency, as means different things to different entities. Even in the academic literature, there appear to be confused overlaps with other constructs such as “honesty” and “integrity” (Janning & Ingley, 2020). For instance, the information made public by banks is often confused with transparency, while such disclosures reveal very little about the credit quality of banks (Chen et al., 2015).

The Global Reporting Initiative (GRI) defines transparency as the complete disclosure of information on the topics and indicators required to reflect impacts and enable stakeholders to make decisions, by clearly understanding the processes, procedures, and assumptions used to prepare those disclosures. According to Nielsen and Madsen (2009), not all publicly disclosed information



**Figure 1:** Comparison of Cliff-Effect Between IFRS 9 & IAS 39

lead to transparency. The idea behind transparency is that information disclosed by firms should not be limited to positive information only, but also negative information must be equally made obvious to key stakeholders. In the context of the banking industry, this is crucial, as the income of the banks reflected on its profit and loss statement are based on interest and non-interest income (Trivedi, 2015). If the banks show income from loans that are not currently performing well, then the interest income will be inflated. With such opaqueness in the asset values of banks, it will be difficult for financial analysts outside the bank to properly forecast if there will be any sudden asset impairment losses. Hence, in the context of this study, perceived bank transparency is defined as the extent to which, a stakeholder perceives that a bank's conduct is forthright and open regarding matters relevant to the stakeholder (Chen et al., 2015).

### 2.3. Trust

The concept of trust regarding organizations has been extensively covered in the marketing literature that primarily looks at the perceived credibility of claims made by organizations regarding their products and services (Eisingerich & Bell, 2008). The concept basically reflects the willingness of the target entities to rely on and be vulnerable to whatever the organization is advertising in its public disclosures (Takasu & Nakano, 2019). Trust has been found to be a mediator between actions taken by firms and actions taken by stakeholders (Chen et al., 2015).

In connection with banks, trust is considered a vital component for any effective financial system, yet surprisingly little is known about the determinants of trust with regards to banks (Fungacova et al., 2019). The literature indicates that there are a few country-specific studies that discuss factors related to trust. Many of these studies focus on socio-demographic factors that influence trust, such as the difference between men and women in terms of trust towards banks, and other factors such as age, education, etc (Chen et al., 2015). Other studies have looked at the influence of religious, economic, and political values that affect trust towards banks (Fungacova et al., 2019). Finally, there are several studies that examined the behavior of bank depositors based on events and negative media reports.

Research also indicates that trust in banks diminishes during periods of economic turmoil, especially with large institutional depositors that move their liquidity to other forms of investments such as gold, government securities, and even the stock market (Fungacova et al., 2019). Institutional depositors are better equipped to analyze the health of banks and then forecast possible trends compared to individuals. Therefore, such a class of depositors, look deeply into the value of assets claimed to be under the

management of banks, by trying to understand the quality of their loan portfolios (Chen et al., 2015). The concern with trust with regards to banks has been further exacerbated by the various scandals where globally recognized audit firms were also found to be complicit in frauds committed by bank officials, such as the LIBOR rate rigging scandal involving Deutsche Bank officials in 2012 (Jermakowicz & Hayes, 2011). As a result, the trustworthiness of banks has suffered, and consequently, institutional depositors try to closely examine the asset quality of banks before recommending the placement of deposits.

### 2.4. Skepticism

Skepticism refers to the tendency to disbelieve or question a firm's motives and claims. While Obermiller and Spangeberg (2000) defined it as the inclination to disbelieve an argument. The extant literature indicates that a large portion of empirical studies are either focused on consumer skepticism related to product marketing information, or perceptions regarding corporate CSR programs. The other research fields that have looked at this concept are related to social and political contexts, such as the impact of globalization, climate change, public policy, etc. (Kahn & Zhao, 2017). However, studies related to the financial industry are mostly limited to skepticism among bank clients regarding the use of online banking, mobile banking, etc. (Benamati & Serva, 2007; Moscato & Altshuller, 2012).

Research related to skepticism about banks in terms of risk to deposits has been primarily conducted by either central banks or studies undertaken by large accounting and consulting firms, and such studies are not usually made public (Chen et al., 2015). However, there appears to be a dearth of academic research related to the perceptions of depositors about claims made by banks in their public disclosures. This may be due to the fact that internal reports regarding the asset quality of loans are not easily accessible for academic researchers (Liu et al., 2020). Nevertheless, when it comes to professionals working in institutions that make recommendations for depositing large sums of money into banks, there is intense scrutiny of a bank's financial health before any decisions are made. Such analysis involves understanding the true value of the bank's assets (i.e., loan quality), as a result, financial analysts examine figures with a degree of skepticism when they look at publicly disclosed information (Chen et al., 2015).

## 3. Research Framework and Hypotheses Development

The framework proposed for this study (Figure 2) linking the constructs is based on signaling theory (Spence, 2002). Management scholars have been applying

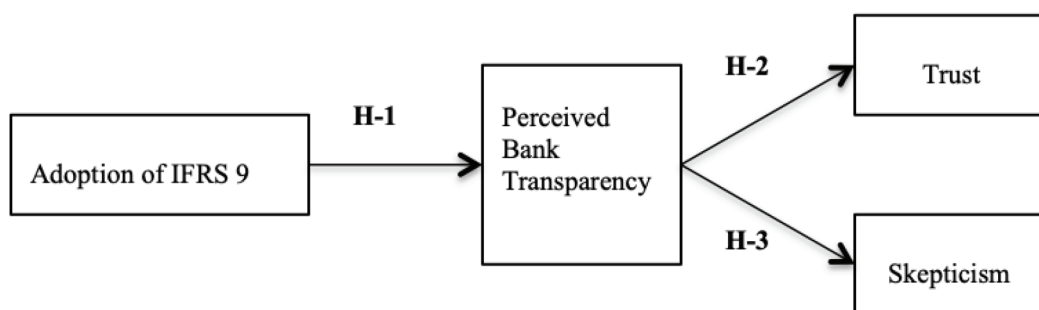


Figure 2: Research Framework

signaling theory to explain the effect of information asymmetries in multiple streams of research and various contexts. Information asymmetries occur due to the different levels of information, one that is available in the public domain and the other type that are private and accessible to a small group of people (Stiglitz, 2002). Often organizations desire to signal to external entities about certain positive elements of their internal dynamics, and they do it through communication, subtle or overt actions such as the adoption of new systems or policies, etc. (Elitzur & Gavious, 2003).

Examples of how signaling is used to influence public opinion about organizations are actions such as stacking the board of directors of a firm with prominent individuals with high social standing to signal the legitimacy of the company (Zhang & Triana, 2009). Or when companies bring in more women into their board or senior management to signal gender diversity in the organization leading to a positive social image (Miller & Triana, 2009). Therefore, in the context of the current study, the theory serves as a suitable lens to propose linkage between the adoption of IFRS 9 into banks to signal that the bank's public disclosures are more revealing about the quality of their loan portfolios, and as a consequence sending out signals to key stakeholders such as depositors that the bank is more transparent in its operations and financial reporting practices. Therefore, it is hypothesized that:

**H1:** *Adoption of IFRS 9 will lead to higher perceptions of transparency about a bank.*

Conceptually, trust and transparency are distinct constructs. Transparency captures openness and forthrightness, whereas trust is more about willingness to accept and rely on claims made by an organization. However, the extant literature indicates that trust may be a consequence of transparency (Byant, 2010). According to Vaccaro and Madsen (2009), transparency is a crucial

ingredient in developing accountable and trustworthy institutions. To create trustworthiness and credibility of an organization the first step is to assure external stakeholders that the organization promotes and practices transparency.

When organizational leaders are consistent about disclosing both negative and positive information to stakeholders, in a manner that is timely, balanced, and accurate, such actions reinforce stakeholder trust towards the leadership of the organization. Forbes magazine publishes an annual list of most reputable banks in America each year, and one of the key criteria of the survey-based ranking is, trust perceptions about the bank. The banks that consistently rank among the top on this list rank very high on the trust scale (Gara, 2020). Furthermore, Esterik-Plasmeijer and Van Raij (2017) conducted a study on loyalty and trust among stockholders of banks in the Netherlands and found that one of the drivers of trust was transparency. Therefore, in light of the above discourse, the following hypothesis is posited:

**H2:** *Perceived bank transparency has a positive relationship with trust.*

According to Obermiller and Spangeberg (2000), skepticism is the inclination to disbelieve a statement. Therefore, in terms of skepticism towards public disclosures made by banks, skepticism would mean harboring a certain degree of doubt regarding the credibility of figures in the financial statements such as the declared interest income, quality, and value of the bank's loan portfolio, etc. However, if the banking institutions are perceived to have a satisfactory degree of transparency, then there are likely to be lower levels of skepticism. For instance, in studies related to product reviews by third-party organizations, research indicates that consumers recorded lower levels of skepticism when they perceived the reviewers to have a high degree of transparency in their evaluation processes (Herr et al., 1991; Obermiller & Spangenberg, 1998). Therefore, it is hypothesized that:

**H3:** *Perceived bank transparency has a negative relationship with skepticism.*

The conceptual framework of this study is depicted in Figure 2.

## 4. Research Methodology

This section presents the sample selection and data collection procedure followed by discussions on scales used to measure the constructs.

### 4.1. Sample and Data Collection

To test the hypotheses, it was necessary to survey financial analysts working in organizations that have a large amount of assets in the form of cash that needs to be placed into short-term deposits with banks. According to Moody's Investor Services, in Malaysia, most organizations that fit such a profile are typically insurance companies and pension fund managers (Foon, 2019). With the help of a local credit rating agency, it was possible to obtain names and valid e-mail addresses of 1,139 financial analysts working in 127 organizations in Malaysia. These individuals are frequently surveyed by other credit rating organizations when they prepare their annual assessment of the health of the financial sector in Malaysia.

The survey instrument was sent by e-mail to all the individuals on the mailing list. The initial response was dismal with only about 10% of the respondents returning the survey. Thereafter, a second set of e-mails was sent with the assistance of a prominent credit rating organization, as a result, 668 individuals responded to the survey (i.e., a response rate of 58.7%). After visually examining the returned survey forms, 14 forms were discarded because more than 25% of the questions were left unanswered or they had monotone responses (Hair et al., 2003). Finally, 654 cases were usable for further analysis.

### 4.2. Measurement of Variables

The survey instrument was developed using scales to measure the variables adopted or adapted from studies published in top-tier journals. There was no need to measure the adoption of IFRS 9 by banks, as based on the guidelines of Bank Negara, all commercial banks in Malaysia have adopted and are in compliance with IFRS 9 since 2018.

#### 4.2.1. Perceived Bank Transparency

To measure transparency, the 7-item scale developed by Dapko (2012) to measure "perceived firm transparency" was used with minor adaptations. The measurements are on

a 5-point Likert scale ranging from strongly disagree = 1 to strongly agree = 5 (Appendix-A1).

#### 4.2.2. Trust

To measure trust, a 5-point Likert-type scale with 11-items developed by Ennew and Sekhon (2007) was deployed. The items required minor adaptations as the original scale was targeted towards retail bank customers (Appendix-A2).

#### 4.2.3. Skepticism

This study utilizes the 5-point Likert type scale with 9-items developed by Zhang et al. (2016). The scale is based on the original 9-item scale developed by Obermiller and Spangenberg (1998) to measure consumer skepticism towards advertisement. The items have minor adaptations to suit the objectives of this study (Appendix-A3).

The survey instrument was placed to a panel of five academic researchers from relevant backgrounds for feedback on content and face validity (Hardesty & Bearden, 2004; Rowley, 2014). These researchers are teaching and conducting research on the regulatory compliance of banks at public universities in Malaysia. Based on the comments and suggestions of the panel, necessary modifications were made.

## 5. Results

In this study, the following two software were deployed for data analysis: SPSS (Version 24) and Smart-PLS (Version 3.2). The analysis was conducted in two distinct phases. In the first phase, SPSS was used to complete the following tasks: (i) Data preparation (e.g., coding, checking and treating missing data, monotone response, test for outliers, etc.), (ii) to generate demographic characteristics of the respondents, and (iii) to conduct analysis for Common Method Variance (CMV). SPSS is widely used by researchers for data analysis techniques (Hair et al., 2017; Ramayah et al., 2018).

In the second phase, Partial Least Squares-Structural Equation Modeling (PLS-SEM) using SmartPLS (v.3.2) was used to assess construct validity and internal consistency reliability of the measurements and to test the hypotheses by evaluating the structural model.

### 5.1. Demographic Features of Respondents & Common Method Variance

The demographic features of the 654 respondents, Table 1 reflects that the overall ratio of female to male gender was quite close, with slightly more female respondents (52.1%) compared to males (49.9%). The majority of the respondents are in the age groups of 21–30 years (34.7%),

**Table 1:** Frequency Distribution of Demographic Features

| Variables                            | Level                        | Frequency | Percent |
|--------------------------------------|------------------------------|-----------|---------|
| Gender                               | Male                         | 313       | 47.9    |
|                                      | Female                       | 341       | 52.1    |
| Age                                  | 21–30                        | 227       | 34.7    |
|                                      | 31–40                        | 149       | 22.8    |
|                                      | 41–50                        | 212       | 32.4    |
|                                      | Older than 51                | 66        | 10.1    |
| Education                            | Primary school               | 0         | 0       |
|                                      | High School                  | 81        | 12.4    |
|                                      | University or College Degree | 283       | 43.3    |
|                                      | Master's Degree/MBA          | 241       | 36.9    |
|                                      | Doctoral degree              | 35        | 5.4     |
|                                      | Other                        | 14        | 2.1     |
| Job Position                         | Senior Manager               | 45        | 7.0     |
|                                      | Middle Manager               | 101       | 15.5    |
|                                      | Junior Manager/Supervisor    | 259       | 39.6    |
|                                      | Professional                 | 96        | 14.7    |
|                                      | Others                       | 153       | 23.4    |
| Years of service in this Family Firm |                              |           |         |
|                                      | More than 10 years           | 173       | 26.4    |
|                                      | >5 years, but <10 years      | 286       | 43.7    |
|                                      | >1 year, but <5 years        | 135       | 20.6    |
|                                      | Less than 1 year             | 60        | 9.2     |

*N* = 654 persons (Respondents are financial analysts working in insurance companies and pension fund management firms in Malaysia).

followed by 41–50 years (32.4%) and 31–40 years (22.8%). This result is in conformity with the past experience of researchers in Malaysia where mail surveys typically show a higher response from younger female employees (Kutty & Sreeramareddy, 2014). The majority of the non-family employees were in positions of junior managers or supervisors (39.6%) and 15.5% in middle manager positions with only 7% in senior management levels. An overwhelming number of respondents had university (i.e., college) degrees (43.3%), while 36.9% had a master's degree or MBA. Most of the respondents have served in their respective companies between 5 to 10 years (43.7%), with 26.4% having worked there over 10 years. This last information is important as it indicates that most employees had sufficient time to develop the experience necessary to evaluate financial disclosures of banks to make recommendations based on their faith in the numbers. Furthermore, the respondents got substantial time to get a grasp of how the adoption of IFRS 9

guidelines are followed in presenting the quality of the bank's assets.

Harman's single-factor test was applied to assess the common method variance (CMV). The first factor accounts for 21.512% of the overall variance, which shows that CMV does not affect the results (Podsakoff & Organ, 1986). Furthermore, since Smart-PLS does not require the assumption of normal distribution of data, a test for normality was not deemed necessary (Hair et al., 2017).

## 5.2. Testing the Measurement Model

The measures indicate a reflective model; hence the outer model is analyzed to check for internal consistency reliability and convergent validity of the measures used to assess the variables in this study. The AVE values being (>0.5) indicate that convergent validity has been achieved (Hair et al., 2017), composite reliability (CR) values above the recommended benchmarks (CR > 0.7), suggests internal



consistency reliability was met (Ramayah et al., 2018). With regards to indicator loadings, although Hair et al. (2017) suggested loadings >0.708 as the benchmark, Ramayah et al. (2018) suggested that loadings >0.4 are acceptable if the summation of loadings results in high loadings scores, contributing to AVE scores >0.5. Therefore, all the indicators with loadings >0.4 were retained. Appendix B displays results for reliability and convergent validity.

The discriminant validity was tested using HTMT (Hetrotrait-Monotrait ratio of correlations) (Henseler et al., 2015). HTMT is a relatively newer approach to assess discriminant validity in variance-based SEM, and it estimates what would be the true correlation between two constructs if they were perfectly measured (i.e., if they are perfectly reliable with no error). Results indicated that adequate discriminant validity was demonstrated.

### 5.3. Hypotheses Tests: Path Analysis

Evaluation of the structural model focuses firstly on the overall model fit, followed by the size, direction, and significance of the hypothesized parameter estimates (Hair et al., 2017). The bootstrapping approach was used to evaluate the significance of the proposed research hypotheses for the path model. Bootstrapping includes the random re-sampling of the original dataset to generate new samples of the same size as the original dataset (Chin, 2010). As shown in Table 2, the path coefficients ( $\beta$ -values) and significance of the paths ( $p$ -values) were computed. The paths were deemed significant at  $p$ -values < 0.05.

The results of bootstrapping indicated impact of adoption of IFRS 9 on perceived bank transparency ( $\beta = 0.224$  and  $p = 0.006$ ), impact of transparency on trust ( $\beta = 0.204$  and  $p = 0.002$ ), and scepticism ( $\beta = -0.326$  and  $p < 0.001$ ). Therefore, all the paths were significant, suggesting that hypotheses H1, H2, and H3 were all supported.

## 6. Discussion

This study investigates how the adoption of IFRS 9 accounting guidelines by banks in Malaysia has influenced perceptions about bank transparency among financial analysts who work for organizations that rely on their recommendations to place large deposits into such banks.

Furthermore, the study examines how perceptions of transparency lead to improved trust towards such banks and lower levels of skepticism regarding the public disclosures made by such banks. A research framework is proposed using signaling theory to develop a set of hypotheses. The posited hypotheses are tested with data collected from relevant respondents who work for large institutional depositors. The results indicate that the adoption of IFRS 9 has a significant and positive impact on perceived transparency regarding Malaysian banks. Such perceptions of transparency have a positive influence on trust and a negative impact on skepticism. This discovery is important because the majority of the empirical studies on the impact of IFRS 9 adoption are focused on the stability of banks from the perspective of either regulatory bodies, shareholders, bank directors, or senior management of such banks.

The reason why the findings of this study are significant, especially for senior management of banks is that after the enforcement of IFRS 9, many media reports and statements made by industry pundits along with several empirical studies have painted negative outcomes for banks as a result of early recognition of potential defaults by borrowers. As a result of front-loading of expected credit losses, the banks will have to make substantial provisions for potential defaults. Such measures will place immense strain on the retained earnings of the banks leading to erosion of shareholder value. Even reports released by top accounting firms such as KPMG have expressed concern regarding such stringent measures (KPMG, 2015). According to KPMG, the new guidelines stipulated by IFRS 9 will reduce the amount of earnings the banks can retain, which may put severe stress on banks during periods of economic downturn.

Despite the concerns regarding potential negative fallouts of IFRS 9 being imposed on banks, the outcome of this study presents a more positive picture especially for senior management of banks. Banks are constantly competing for bringing in deposits, especially from large institutional clients. Compared to retail depositors, large institutional depositors are more cost-effective to maintain (Chen et al., 2020). However, since the global financial crisis in 2008, there has been a general erosion of trust towards banks. For instance, in the aftermath of the collapse of established names such as Lehman Brothers, Merrill Lynch, etc., financial professionals have been skeptical about placing too

**Table 2:** Results of Bootstrapping for Path Analysis with Standardised Values

| Path                             | $\beta$ | SE    | t-Value | p-Value |
|----------------------------------|---------|-------|---------|---------|
| Adopting of IFRS 9 -Transparency | 0.224   | 0.082 | 2.748   | 0.006   |
| Transparency -Trust              | 0.204   | 0.066 | 3.075   | 0.002   |
| Transparency - Skepticism        | -0.326  | 0.072 | 4.564   | <0.001  |

$p$ -values significant when < 0.05.

much cash with banks, and have instead been recommending greater diversification of investment portfolios (Erfani & Vasigh, 2018).

The findings of this study show that the adoption of IFRS 9 has improved perceptions of bank transparency, and subsequently lead to higher levels of trust and lower levels of skepticism. Such a trend is likely to restore confidence amongst large institutional investors when they examine the strength of a bank before recommending the placement of large deposits with such banks. The study is also significant for academic research on transparency and trustworthiness of organizations, as the relationships between actions taken to address concerns of stakeholders demonstrate a positive signal to such stakeholders, thus impacting positive outcomes such as perceptions of transparency, enhanced levels of trust, and lower levels of skepticism. In the long run, there are possibilities that the positive outcomes of the adoption of IFRS 9 by banks will outweigh the negative apprehensions regarding the stability of banks due to early credit loss recognition.

## 7. Conclusion and Limitations

The banking industry has been plagued by the outbreak of many scandals that have shown that even well-established and respected financial institutions have been caught doing unethical practices. The main concern was that publicly disclosed information by banks is opaque, and the true value of their loan quality is disguised. Every now and then, media reports indicate that C-level executives of banks failed to disclose potential bad loans to show higher profits. Higher the profits that can be shown on the financial statements, higher will be the performance bonuses for managers. Such practices have seriously eroded trust regarding banks, and especially institutional depositors try to dig deeper into the bank's financial health before reaching any conclusions about how safe it is to recommend large deposits with a bank. However, the IFRS 9 guidelines force banks to be more conservative in their evaluation of loan quality. Therefore, the outcome of this study validates the objectives behind the development of strict guidelines developed under IFRS 9 by the International Accounting Standards Board.

The current study only considered a direct relationship between the adoption of IFRS 9 guidelines and its consequences on perceived bank transparency, trust, and skepticism. The study has several limitations that may perhaps be addressed by future researchers. First, there are possibilities that other variables not considered in this study are also influencing the endogenous variables. Second, there may be moderators and mediators not considered here that have a significant role in the association between the variables. Third, instead of doing a cross-sectional survey to determine how the adoption of IFRS 9 has influenced perceptions of institutional depositors regarding banks,

a more robust study could have been done by conducting an experimental study comparing the strength of relationships between IAS 39 and IFRS 9 on the outcome variables. However, in this case, it was not possible, as all the banks in Malaysia have already switched to IFRS 9. Nevertheless, this experiment may be done using university students of finance and banking, as surrogates for real-world financial analysts (Trottier & Gordon, 2018). Although some scholars argue that using students, as surrogates for real-world managers is questionable (Hughes & Gibson, 1991), yet many studies have conducted such experiments and published them in reputable journals (Chen et al., 2015). Future, researchers may look into such possibilities.

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## Appendix

### Appendix-A1: Scale Items for Measuring Perceived Bank Transparency

| Item Code | Description  | Average Cronbach's Alpha |
|-----------|--|--------------------------|
| Transp-1  | Since adopting IFRS 9, the banks in Malaysia are willing to share more information even when such information may make the bank look bad | 0.92                     |
| Transp-2  | Since adopting IFRS 9, the banks in Malaysia provide more learning opportunities about themselves  |                          |
| Transp-3  | Since adopting IFRS 9, the banks in Malaysia enable us to know what they are doing   |                          |
| Transp-4  | Since adopting IFRS 9, the banks in Malaysia are willing to explain their decisions to us  |                          |
| Transp-5  | Since adopting IFRS 9, the banks in Malaysia are willing to share just about any information requested from them                         |                          |
| Transp-6  | Since adopting IFRS 9, the banks in Malaysia want us to understand what they are doing   |                          |
| Transp-7  | Since adopting IFRS 9, the banks in Malaysia are more open with us   |                          |

Adapted from Dapko (2012).

**Appendix-A2: Scale Items for Measuring Trust**

| Item Code | Description   | Average Cronbach's Alpha |
|-----------|---|--------------------------|
| Trust-1   | I trust the banks in Malaysia to do what they say will do                                   | 0.88                     |
| Trust-2   | The banks in Malaysia have our best interests at heart                                      |                          |
| Trust-3   | The banks in Malaysia are very reliable   |                          |
| Trust-4   | The banks in Malaysia are always honest with us   |                          |
| Trust-5   | Overall, we can trust the banks in Malaysia   |                          |
| Trust-6   | The banks in Malaysia have a reputation for being reliable                                  |                          |
| Trust-7   | The banks in Malaysia have a reputation for being honest                                    |                          |
| Trust-8   | The banks in Malaysia have a reputation for being dependable                                |                          |
| Trust-9   | The banks in Malaysia have a reputation for looking after their customers                   |                          |
| Trust-10  | The banks in Malaysia have a reputation for having their customer's best interests at heart |                          |
| Trust-11  | Overall, I feel the banks in Malaysia are trustworthy                                       |                          |

Adapted from Ennew & Sekhon (2007).

**Appendix-A3: Scale Items for Measuring Skepticism**

| Item Code | Description   | Average Cronbach's Alpha |
|-----------|---|--------------------------|
| Skept-1   | We can hardly depend on getting the truth from banks in Malaysia  | 0.797                    |
| Skept-2   | Reviews about banks in Malaysia are generally not truthful  |                          |
| Skept-3   | In general, the publicly disclosed information from banks in Malaysia do not reflect the true picture of the bank |                          |
| Skept-4   | The real quality of assets of banks are not reflected in publicly disclosed information                           |                          |
| Skept-5   | Publicly disclosed information by banks in Malaysia are misleading  |                          |
| Skept-6   | Reviews written about banks in Malaysia are manipulated by banks  |                          |
| Skept-7   | Publicity by banks in Malaysia are more about luring more depositors  |                          |
| Skept-8   | The information released by banks in Malaysia in their financial statements are not reliable                      |                          |

Adapted from Zhang et al. (2016).

**Appendix B: Results of Test for Convergent Validity**

| Construct                     | Item     | Outer Loading | Cronbach's Alpha | CR    | AVE   |
|-------------------------------|----------|---------------|------------------|-------|-------|
| <b>Perceived Transparency</b> | Transp-1 | 0.545         | 0.857            | 0.894 | 0.585 |
|                               | Transp-2 | 0.757         |                  |       |       |
|                               | Transp-3 | 0.812         |                  |       |       |
|                               | Transp-4 | 0.738         |                  |       |       |
|                               | Transp-5 | 0.737         |                  |       |       |
|                               | Transp-6 | 0.724         |                  |       |       |
|                               | Transp-7 | 0.751         |                  |       |       |

**Appendix B:** Continued

| <b>Construct</b>  | <b>Item</b> | <b>Outer Loading</b> | <b>Cronbach's Alpha</b> | <b>CR</b> | <b>AVE</b> |
|-------------------|-------------|----------------------|-------------------------|-----------|------------|
| <b>Trust</b>      | Trust-1     | 0.625                | 0.803                   | 0.858     | 0.503      |
|                   | Trust-2     | 0.718                |                         |           |            |
|                   | Trust-3     | 0.719                |                         |           |            |
|                   | Trust-4     | 0.739                |                         |           |            |
|                   | Trust-5     | 0.739                |                         |           |            |
|                   | Trust-6     | 0.737                |                         |           |            |
|                   | Trust-7     | 0.801                |                         |           |            |
|                   | Trust-8     | 0.738                |                         |           |            |
|                   | Trust-9     | 0.722                |                         |           |            |
|                   | Trust-10    | 0.746                |                         |           |            |
|                   | Trust-11    | 0.721                |                         |           |            |
| <b>Scepticism</b> | Skept-1     | 0.749                | 0.800                   | 0.862     | 0.556      |
|                   | Skept-2     | 0.664                |                         |           |            |
|                   | Skept-3     | 0.698                |                         |           |            |
|                   | Skept-4     | 0.722                |                         |           |            |
|                   | Skept-5     | 0.801                |                         |           |            |
|                   | Skept-      | 0.721                |                         |           |            |
|                   | Skept-7     | 0.738                |                         |           |            |
|                   | Skept-8     | 0.665                |                         |           |            |