

*Readings in*

# Islamic Banking

## Performance, Efficiency & Stability



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# INTRODUCTION

Need for developing a series of readings materials on Islamic economics and finance arises from the dearth of academic literature or textbooks meant for undergraduate and graduate students at universities particularly in Bangladesh. Islamic banking and finance, currently a \$3 trillion industry in about 75 countries of the world, is a rapidly growing sector side by side with the conventional financial system worldwide. There is a growing interest in the concept, operational procedures of Islamic banking as well as its performance, efficiency and stability in particular. This is the 5<sup>th</sup> of the 10 readings series dedicated to meet the need of the time.

## **A. Structure of the Readings Series-5**

The series including this one are prepared following stylish standard syllabuses fit to the requirements of appropriate university level curricula adhering to object-oriented and outcome-based education (OBE) scheme. The 3-part book of the series-5 consists of 8 chapters. Contents placed under each part and chapter vividly reflect depth and breadth of the content and structure of the reading series.

Readings in Islamic Banking: Performance, Efficiency and Stability, like other ones in the series, is a compilation of judiciously selected professional articles published in journals of international repute. While selecting the articles for a chapter from among host of similar articles, due attentions have been paid to authority of the author as well as standard and reputation of the journals in which these are published. An overview on the structure of the book below may provide instant sense of what the book is all about.

The book is structured in four parts: Part I: Perspective and Performance of Islamic Banking; Part II: Efficiency and Resilience of Islamic Banking; and Part III: Global Integration, Policy Environment and Challenges for Islamic Banking.

## **B. Contents Covered**

### **I. Perspective in and Performance of Islamic and Conventional Banking**

Part-I, comprised of chapter 1 & 2 of this readings series, illustrates perspective of the development of Islamic banking, and participative financial intermediation and financial contracting theory from Islamic and conventional banking perspective (Kozuharov et al, 2017; Nedra, 2012; Khaldi et al, 2012; Ajmi et al, 2002) from regional and global perspective. While Alebrahim (2019) assessed financial performance and efficiency of Islamic and conventional banks in the post-crisis period in global context, Hazman et al (2018) made a comparative performance assessment of the banking systems among the Malaysian conventional and Islamic banks. While Noman (2015) conducted an investigation on the profitability of Islamic banks in Bangladesh, Mollah et al (2016) studied performance of Islamic banks in terms of governance and risk-taking.

### **II. Efficiency, Stability and Resilience of Islamic Banking**

Part II deals with the three most fascinating aspects of banking, particularly from Islamic perspective adding comparative conventional banking perspectives to it where and the ways relevant. These are efficiency, stability and resilience, the issues of very much contemporary concerns and mass discussed at technical discourses and highlighted in local and international media.

#### ***Efficiency and Stability***

Chapter 3 deals with the theorization of banking efficiency analysis framework (Akkas, S. M. A., 1982, 1985, & 1996); studies of business orientation, efficiency and credit quality across business cycles (Nosheen & Rashid, 2019) and financial stability of conventional and Islamic banking systems (Ghassan & Krichene, 2017 & Belouafi, Bourakba & Saci, 1993).

#### ***Resilience***

Assessment of resilience in the Islamic banking industry (IFSB, 2019), its contribution to solving current financial crisis (Bashir, 2010) and role of Islamic finance as a catalyst for shared opportunity are studied (World Bank & IsDB, 2016) in Chapter-4.

#### ***Social, Green and Sustainable Banking by Islamic Banks***

Chapter-5 discusses Green banking practices from Islamic and western perspective (Bouteraa, Iskandar and Zsinol, 2020); Islamic green practices as catalyst for Islamic sustainable development in the Industrial Revolution 4.0 (Ahmad, Norhaniza Hasan & Dahlal, 2018); and Exploring green banking performance of Islamic banks vs Conventional banks in Bangladesh based on maqasid al-Shari'ah framework (Julia and Kassim, 2020).

### **III. Global Integration, Policy Environment and Challenges for Islamic Banking**

#### *Macro-Monetary Policy Environment for Islamic Banking*

Chapter-6 studies monetary policy in the presence of Islamic banking (Khatat 2016, IMF); Islamic monetary policy and Rastin swap bonds (Bidabad, 2019); and evolving monetary economics in Islamic perspective (Ayub & Khan, M. Fahim (2021).

#### *Integration of Islamic Banking into Global Financial System*

Chapter-7, on the other hand, investigates globalization of Islamic banking and finance (Khan & Bhatti, 2006); and current situation and globalization of Islamic banking (Novikov, Britikova, Yarushikina & Kovalenko, 2019).

#### *Issues, Challenges and the Future of Islamic Banking*

Finally, Chapter-8 concludes with the analysis of issues and challenges of Islamic banking with the recommendations for future Islamic banking.

Arshad, M. U., Yousoff, M. E. & Tahi, M. S (2016) discuss issues in the transformation from conventional banking to Islamic banking such as financial stability, regulatory and governance, and the issues related to Shariah governance. Shah, S. F., Raza, M. W. & Khurshid, M. R. (2012) deals with Islamic banking controversies and challenges. Uppal, J. Y. and Mangla, I. U. (2014), on the other hand, revisited state of the art of Islamic banking and finance during the last forty years to identify its global challenges. Islamic Financial Service Board (IFSB) made an exclusive study on Bangladesh to look into the prospects and challenges in the development of Islamic banking and finance mainly in terms of legal, regulatory and enabling framework perspective.

### **C. Analysis and Findings**

Studies in this series adopted theoretical as well as empirical and case methods. Chief among these analyses are theoretical, statistical, mathematical, referencing and very few are case studies. However, these provide ample evidences, though not sufficient, to draw conclusion on the performance, efficiency and stability of the Islamic banking and financial system compared to its conventional counterpart. In that case, findings may not be certainly of that much conclusive. This is because of the facts that Islamic banking is, though not at nascent, still in tethering phase with lots of doings left in theoretical and empirical works.

For example, Akkas (1985, 1992 and 1996) warned in the eighties and nineties on the inevitable theoretical and empirical risks of floating Islamic banks under conventional banking framework with the resulting productive, allocative, distributional and stabilization efficiency losses, thereby inviting self-defeating consequences. This happens, according to his doctoral thesis, due to lack of legal coverage of PLS-financing and perpetuation of conventional banking operation in spite of its non-compliance to aforesaid economic efficiency conditions thereby forcing Islamic banks to limit their operations only within conventional type modes of financing.

Hence, humankind is going to miss an invaluable opportunity of Islamic banking and finance services having built-in capability to promote productive, allocative, distributive and stabilization efficiency that Islamic finance can offer by adding profit-loss sharing financing modes and establishing a direct connection between the financiers and entrepreneurs involved in real economic activities which eliminates/reduces the disrupting effects of the *internal source cause* (debt-financing) of financial crises and business cycles.

Prominent among other works on the identification of issues and challenges

### **D. Conclusion and Recommendations**

#### **The Editor**