

## Constrains to Financial Engineering for Liquidity Management: A Multiple Case Study of Islamic Banks

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**Abstract :** Islamic banks have excess liquidity, which needs proper management to earn a high rate of return on them to remain competitive. However, they lack assets-backed avenues and rely on a few sukuks, which led them to liquidity management issues. Financial engineering comes forward to innovate and develop instruments for the requisite financial problem. Still, they face many challenges, explored in the context of liquidity management in Islamic banks. The rigorous literature review shows that Shariah compliance, competition from the conventional banks, lack of sufficient instruments, derivatives are still not accepted as legitimate products, the inter-bank market being less developed, and no possibility of lender of last resort is the six significant constraints to financial engineering for liquidity management of Islamic banks. To further explore the problem, a multiple case study strategy is used to extend and develop the theory with the philosophical stance of social constructivism. Narrative in-depth interviews over the telephone are conducted with key personnel at treasury departments of selected banks. Data is segregated and displayed using NVivo 11 software, and the thematic analysis approach identifies themes related to the constraints. The exploration of further constraints to financial engineering for liquidity management of Islamic banks achieves the research aim. The theory is further developed by the addition of three more constraints to the theoretical framework, which are i) lack of skilled human resources, ii) lack of unified vision, and iii) lack of government support to the Islamic banks. These study findings are fruitful for the use of the government, regulatory authorities of the banking sector, the State Bank of Pakistan (Central Bank), and the product design & development division of Islamic banks to make the financial engineering process feasible and resolve liquidity management issues of Islamic banks.

**Keywords :** financial engineering, liquidity management, Islamic banks, shariah compliance

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