

Deficiency Risk in Islamic and Conventional Banks

Authors : Korbi Fakhri

Abstract : The management of assets and liability is a vital task for every bank as far as a good direction allows its stability; however, a bad running forewarns its disappearance. Equity of a bank is among the most important rubrics in the liability side because, actually, these funds ensure three notably primordial functions for the survival of the bank. From one hand, equity is useful to bankroll the investments and cover the unexpected losses. From another hand, they attract the fund lessors since they inspire trust. So we are going to tackle some points including whether equity of the Islamic banks are oversized. In spite of the efforts made on the subject, the relationship between the capital and the deficiency probability has not been defined with certainty. In this article, we have elaborated a study over the nature of financial intermediation in Islamic banks by comparison to those of conventional ones. We have found a striking difference between two kinds of intermediation. We tried, from another side, to study the relationship between the capital level and deficiency risk relying on econometric model, and we have obtained a positive and significant relation between the capital and the deficiency risk for the conventional banks. This means that when the capital of these banks increases, the deficiency risk increases as well. In return, since the Islamic banks are constrained to respect the Sharia Committee as well as customers' demands who may, in certain contracts, choose to invest their capitals in projects they are interested in. These constraints have as effects to reduce the deficiency risk even when the capital increases.

Keywords : Islamic bank, conventional bank, deficiency risk, financial intermediation

Conference Title : ICIBFI 2015 : International Conference on Islamic Banking, Finance and Investment

Conference Location : Zurich, Switzerland

Conference Dates : January 13-14, 2015