

Debts and Debt-Based Sukuk Related to Risk Shifting Behavior

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Abstract : This paper elaborates risk shifting in debt financing system as the ultimate cause of the global financial crisis. In contrast, risk sharing in equity financing like sukuk helps the economic system to be better sustained. Nevertheless, some types of sukuk are haunted by the issue of imitation with bonds. The critics on the imitation issue not only have raised doubt on the ability of sukuk to diminish risk shifting behavior but also the ability of this Islamic financial instrument to ensure better future financial stability. Through that, this paper provides discussion on the possibility of sukuk to induce risk shifting and how equity financing may help sukuk to be free from risk shifting. This paper is important in the sense that sukuk receives a significant demand from investors throughout the world. For this instrument to be supportive in the future economic stability, the issue of imitation needs to be identified and addressed. Furthermore, critics cannot be focused on debts and its ability to gauge the financial flux but also to sukuk due to their structures similarity.

Keywords : global financial crisis, debt, risk-shifting, risk sharing, equity, sukuk, bonds

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