

Maturity Transformation Risk Factors in Islamic Banking: An Implication of Basel III Liquidity Regulations

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Abstract : Maturity transformation risk is highlighted as one of the major causes of recent global financial crisis. Basel III has proposed new liquidity regulations for transformation function of banks and hence to monitor this risk. Specifically, net stable funding ratio (NSFR) is introduced to enhance medium- and long-term resilience against liquidity shocks. Islamic banking is widely accepted in many parts of the world and contributes to a significant portion of the financial sector in many countries. Using a dataset of 68 fully fledged Islamic banks from 11 different countries, over a period from 2005 - 2014, this study has attempted to analyze various factors that may significantly affect the maturity transformation risk in these banks. We utilize 2-step system GMM estimation technique on unbalanced panel and find bank capital, credit risk, financing, size and market power are most significant among the bank specific factors. Also, gross domestic product and inflation are the significant macro-economic factors influencing this risk. However, bank profitability, asset efficiency, and income diversity are found insignificant in determining the maturity transformation risk in Islamic banking model.

Keywords : Basel III, Islamic banking, maturity transformation risk, net stable funding ratio

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