

Market-Power, Stability, and Risk-Taking: An Analysis Surrounding the Riba-Free Banking

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Abstract : Analysis of the trade-off between competition and financial stability has been at the center of academic and policy debate for over two decades and especially since the 2007-2008 global financial crises. We use information on 10 OIC countries from 2005 to 2014 to investigate the influence of bank competition on individual bank stability and risk-taking. Alternatively, we explore whether the quality of prudential regulation may affect the nexus between competition and banking stability/risk-taking. We provide a particular attention to the Islamic banking system which principally involves with the Riba-free instruments as compared to the conventional interest-based system. We first run a dynamic panel regression (GMM), and then we apply a panel vector autoregressive (PVAR) methodology to compare both banking business models.

Keywords : Lerner index, Islamic banks, non-performing loans, prudential regulations, z-score

Conference Title : ICBEFMS 2017 : International Conference on Business, Economics, Finance and Management Sciences

Conference Location : Paris, France

Conference Dates : January 23-24, 2017