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- THE WAY FORWARD

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PROGRAMME BOOK

Session 1.3: Risk Management

Chair : Lean Hooi Hooi (Universiti Sains Malaysia)

1. Implementation and Accuracy of Value-at-Risk and Conditional Value-at-Risk
   - Mohammad Nourani Dargiri *(Multimedia University)*
   - Chan Kok Thim *(Multimedia University)*

2. Risk Exposures in East Asian Countries
   - AlirezaTamadonnejad *(Universiti Kebangsaan Malaysia)*
   - Mariani Badul Majid *(Universiti Kebangsaan Malaysia)*
   - Aisyah Abdul Rahman *(Universiti Kebangsaan Malaysia)*
   - Mansor Jusoh *(Universiti Kebangsaan Malaysia)*

3. What Drives Islamic Banks' Credit Risk In The Long Run? A Macroeconomic Approach
   - Muhamad Abduh *(IIUM Institute of Islamic Banking and Finance)*
   - Nursechafia *(International Islamic University Malaysia)*

4. Bank Risk And Deposit Insurance Premium In A Dynamic Panel Model: Evidence From Malaysian Dual Banking System
   - Sharifah Adlina Binti Syed Abdullah *(Universiti Malaya)*
   - Rubi Ahmad *(Universiti Malaya)*

Discussants for paper:

1. Sharifah Adlina Binti Syed Abdullah *(Universiti Malaya)*
2. Muhamad Abduh *(IIUM Institute of Islamic Banking and Finance)*
3. Alireza Tamadonnejad *(Universiti Kebangsaan Malaysia)*
4. Mohammad NouraniDargiri *(Multimedia University)*

3. **What Drives Islamic Banks' Credit Risk in the Long Run? A Macroeconomic Approach**

Muhamad Abduh (IIUM Institute of Islamic Banking and Finance)
Nursechafia (International Islamic University Malaysia)

Credit risk is the most anticipated risk in the banking system. It is one of the key elements to measure systemic risk and stress testing financial fragility which is very helpful to formulate macro-prudential surveillance in financial systems. Unlike the conventional banking, stress testing for macro-credit risk in Islamic banking is still an underdeveloped area. Consequently, a further research regarding the stability in Islamic banking industry has risen to the substantial agenda. The paper hence aims to determine and assess the long run vulnerabilities of Islamic financing quality as a response to changes in key macroeconomic variables using econometrics approaches. It is found that exchange rate, supply side-inflation, and growth are negatively drive credit risk rate in Islamic banking. While money supply and Islamic interbank money market rate are positively drive the risk rate.

4. **Bank Risk and Deposit Insurance Premium in a Dynamic Panel Model: Evidence from Malaysian Dual Banking System**

Sharifah Adlina Binti Syed Abdullah (Universiti Malaya)
Rubi Ahmad (Universiti Malaya)

During the financial crisis 2007/2008, Islamic banking has grown its importance as an alternative to the conventional banking that appears riskier than the Islamic banks. However, the impact of deposit insurance system on the Islamic banks has not been analyzed as rigorously as the conventional banks. We analyze the impact of the introduction of deposit insurance for both the conventional banks and Islamic banks in a dual banking system like Malaysia during the period 2002-2010. Added to that is whether the insurance premium system exerts as an important tool in mitigating the moral hazard problem. To overcome the endogeneity problem in panel data, we use instrumental variables that are the lagged explanatory variable in our dynamic panel data methodology. Specifically, we employ the System Generalized Method of Moment estimator. Our original findings disclose that there is a significant difference in bank risk taking between the conventional banks and Islamic banks. We find strong evidence that bank risk through insolvency risk and operational risk increases only in the conventional banks but not in the Islamic banks following the introduction of deposit insurance system. We are first to estimate the banks' deposit insurance premium to investigate whether the magnitude of the annual premium paid is positively correlated with bank risk in the risk-based premium system to mitigate the moral hazard problem. We provide strong evidence that the risk-premium in the risk-based insurance premium is sensitive with bank risk and penalize riskier banks with higher premiums. Our results have several important policy implications.