

[Look Up Full Text](#)
[Full Text from Publisher](#)
[Find PDF](#)
[Export...](#)
[Add to Marked List](#)

◀ 1 of 1 ▶

Can profit and loss sharing (PLS) financing instruments reduce the credit risk of Islamic banks?

 By: [Farihana, S](#) (Farihana, Shahari)^[1]; [Rahman, MS](#) (Rahman, Md. Saifur)^[2]

EMPIRICAL ECONOMICS

DOI: 10.1007/s00181-020-01912-5

Early Access: JUL 2020

Document Type: Article; Early Access

[View Journal Impact](#)

Abstract

An Islamic bank is an interest-free financial institution that is growing rapidly in both Muslim and non-Muslim countries. It provides loans based on both PLS and non-PLS concepts, where the PLS concept shares both profit and loss with the customers, while the non-PLS concept allows charging a fixed profit rate. The customers are treated as partners who invest either labor or an equal portion of capital. The PLS financing raises an issue of whether the Islamic bank is able to recover the financing amount which is disbursed without any form of collateral. Therefore, this paper explores the possible implication of PLS theory and examines whether the PLS financing instrument reduces the credit risk of Islamic banks. PLS financing is a focus variable, while bank-specific and macroeconomic variables are considered as control variables that enable us to draw a reliable and unbiased result. The study evaluates several hypotheses by employing two-step system GMM estimation technique. It offers several outcomes; PLS financing instrument reduces credit risk. The bank-specific and macroeconomic variables have a mixed effect on credit risk. The study suggests significant policy implications for the Islamic banks for sustaining the competitive banking industries.

Keywords

 Author Keywords: [Islamic banks](#); [PLS financing instrument](#); [Credit risk](#); [System GMM](#); [Macroeconomy](#)

 KeyWords Plus: [DETERMINANTS](#); [BUSINESS](#); [BEHAVIOR](#); [GROWTH](#)

Author Information

Reprint Address:

Royal Melbourne Institute of Technology (RMIT) RMIT Univ, Dept Econ Finance & Mkt, Coll Business, Melbourne, Vic, Australia.

Corresponding Address: Rahman, MS (corresponding author)

+ RMIT Univ, Dept Econ Finance & Mkt, Coll Business, Melbourne, Vic, Australia.

Addresses:

+ [1] Int Islamic Univ Malaysia, Dept Finance Kulliyah Econ & Management Sci, Kuala Lumpur 53100, Gombak, Malaysia

+ [2] RMIT Univ, Dept Econ Finance & Mkt, Coll Business, Melbourne, Vic, Australia

 E-mail Addresses: farihana_shahari@iium.edu.my; masaifur@yahoo.com

Funding

Funding Agency	Grant Number
IIUM Research Management Center	KENMS-RG19-006-0006

[View funding text](#)

Publisher

PHYSICA-VERLAG GMBH & CO, PO BOX 10 52 80, 69042 HEIDELBERG, GERMANY

Journal Information

 Impact Factor: [Journal Citation Reports](#)

Categories / Classification

 Research Areas: [Business & Economics](#); [Mathematical Methods In Social Sciences](#)

Citation Network

In Web of Science Core Collection

0

Times Cited

[Create Citation Alert](#)

40

Cited References

[View Related Records](#)

Use in Web of Science

Web of Science Usage Count

2

Last 180 Days

2

Since 2013

[Learn more](#)

This record is from:

 Web of Science Core Collection
 - Social Sciences Citation Index

[Suggest a correction](#)

 If you would like to improve the quality of the data in this record, please [suggest a correction](#).

Web of Science Categories: Economics; Social Sciences, Mathematical Methods

[See more data fields](#)

◀ 1 of 1 ▶

Cited References: 40Showing 30 of 40 [View All in Cited References page](#)*(from Web of Science Core Collection)*

1. [Failure and potential of profit-loss sharing contracts: A perspective of New Institutional, Economic \(NIE\) Theory](#) Times Cited: 27
By: Abdul-Rahman, Aisyah; Latif, Radziah Abdul; Muda, Ruhaini; et al.
PACIFIC-BASIN FINANCE JOURNAL Volume: 28 Special Issue: SI Pages: 136-151 Published: JUN 2014
2. [Risk in Islamic Banking](#) Times Cited: 172
By: Abedifar, Pejman; Molyneux, Philip; Tarazi, Amine
REVIEW OF FINANCE Volume: 17 Issue: 6 Pages: 2035-2096 Published: NOV 2013
3. [Islamic banks and investment financing](#) Times Cited: 145
By: Aggarwal, RK; Yousef, T
JOURNAL OF MONEY CREDIT AND BANKING Volume: 32 Issue: 1 Pages: 93-120 Published: FEB 2000
4. [Financial liberalization, financial sector development and growth: Evidence from Malaysia](#) Times Cited: 253
By: Ang, James B.; McKibbin, Warwick J.
JOURNAL OF DEVELOPMENT ECONOMICS Volume: 84 Issue: 1 Pages: 215-233 Published: SEP 2007
5. [ANOTHER LOOK AT THE INSTRUMENTAL VARIABLE ESTIMATION OF ERROR-COMPONENTS MODELS](#) Times Cited: 5,797
By: ARELLANO, M; BOVER, O
JOURNAL OF ECONOMETRICS Volume: 68 Issue: 1 Pages: 29-51 Published: JUL 1995
6. [An empirical analysis of credit risk factors of the Slovenian banking system](#) Times Cited: 10
By: Aver, B.
Managing Global Transitions Volume: 6 Issue: 3 Pages: 317-334 Published: 2008
7. [Initial conditions and moment restrictions in dynamic panel data models](#) Times Cited: 7,634
By: Blundell, R; Bond, S
JOURNAL OF ECONOMETRICS Volume: 87 Issue: 1 Pages: 115-143 Published: NOV 1998
8. [Bank specific, business and institutional environment determinants of banks nonperforming loans: evidence from MENA countries](#) Times Cited: 8
By: Boudriga, A; Taktak, NB; Jellouli, S.
Economic research forum, working paper 547 Published: 2010
9. [Is credit risk really higher in Islamic banks?](#) Times Cited: 19
By: Boumediene, Aniss
JOURNAL OF CREDIT RISK Volume: 7 Issue: 3 Pages: 97-129 Published: FAL 2011
10. [Understanding the behavior of bank spreads in Latin America](#) Times Cited: 102
By: Brock, PL; Suarez, LR
JOURNAL OF DEVELOPMENT ECONOMICS Volume: 63 Issue: 1 Special Issue: SI Pages: 113-134 Published: OCT 2000
11. [Macroeconomic determinants of the credit risk in the banking system: The case of the GIPSI](#) Times Cited: 78
By: Castro, Vitor
ECONOMIC MODELLING Volume: 31 Pages: 672-683 Published: MAR 2013
12. [Islamic banking: Interest-free or interest-based?](#) Times Cited: 254
By: Chong, Beng Soon; Liu, Ming-Hua
PACIFIC-BASIN FINANCE JOURNAL Volume: 17 Issue: 1 Pages: 125-144 Published: JAN 2009
13. [Determinants of credit risk in indian state-owned banks: an empirical investigation](#) Times Cited: 1
By: Das, A; Ghosh, S.
MPRA paper, No. 1 Published: 2007
URL: <http://mpra.ub.uni-muenchen.de/17301/>