

 Look Up Full Text

Full Text from Publisher

 Export...

Add to Marked List

Risk management with a duration gap approach Empirical evidence from a cross-country study of dual banking systems

By: [Chattha, JA](#) (Chattha, Jamshaid Anwar)^[1,2]; [Alhabshi, SM](#) (Alhabshi, Sycd Musa)^[3]; [Meera, AKM](#) (Meera, Ahamed Kameel Mydin)^[4]

JOURNAL OF ISLAMIC ACCOUNTING AND BUSINESS RESEARCH

Volume: 11 Issue: 6 Pages: 1257-1300

DOI: 10.1108/JIABR-10-2017-0152

Published: JAN 2 2020

Early Access: JAN 2020

Document Type: Article

Abstract

Purpose

In line with the IFSB and BCBS methodology, the purpose of this study is to undertake a comparative analysis of dual banking systems for asset-liability management (ALM) practices with the duration gap, in Islamic Commercial Banks (ICBs) and Conventional Commercial Banks (CCBs). Based on the research objective, two research questions are developed: How do the duration gaps of ICBs compare with those of similar sized CCBs? Are there any country-specific and regional differences among ICBs in terms of managing their duration gaps?

Design/methodology/approach

The research methodology comprises two-stages: stage one uses a duration gap model to calculate the duration gaps of ICBs and CCBs; stage two applies parametric tests. In terms of the duration gap model, the study determines the duration gap with a four-step process. The study selected a sample of 100 banks (50 ICBs and 50 CCBs) from 13 countries for the period 2009-2015.

Findings

The paper provides empirical insights into the duration gap and ALM of ICBs and CCBs. The ICBs have more variations in their mean duration gap

Citation Network

In Web of Science Core Collection

1

Times Cited

 Create Citation Alert

All Times Cited Counts

1 in All Databases

See more counts

60

Cited References

View Related Records

Most recently cited by:

Harkati, Rafik; Alhabshi, Syed Musa; Kassim, Salina.

Does capital adequacy ratio influence risk-taking behaviour of conventional and Islamic banks differently? Empirical evidence from dual banking system of Malaysia.

compared to the CCBs, and they have a tendency for a higher (more) mean duration gap (28.37 years) in comparison to the CCBs (11.79 years). The study found ICBs as having 2.41 times more duration gap compared to the CCBs, and they are exposed to increasing rate of return (ROR) risk due to their larger duration gaps and severe liquidity mismatches. There are significant regional differences in terms of the duration gap and asset-liability management.

Originality/value

To the best of the authors' knowledge, this is a pioneer study in Islamic banking involving a sample of 100 banks (50 ICBs and 50 CCBs) from 13 countries. The results of the study provide original empirical evidence regarding the estimation of duration gap, and variations across jurisdictions in terms of vulnerability of ICBs and CCBs in dual banking systems.

Keywords

Author Keywords: ALM; Risk management; Pillar 2; ROR risk; Duration gap; ICBs; CCBs

KeyWords Plus: ISLAMIC BANKS

Author Information

Reprint Address:

Islamic Financial Serv Board, Kuala Lumpur, Malaysia.

International Islamic University Malaysia Int Islamic Univ Malaysia, Kuala Lumpur, Malaysia.

Corresponding Address: Chattha, JA (corresponding author)

Islamic Financial Serv Board, Kuala Lumpur, Malaysia.

Corresponding Address: Chattha, JA (corresponding author)

+ Int Islamic Univ Malaysia, Kuala Lumpur, Malaysia.

Addresses:

[1] Islamic Financial Serv Board, Kuala Lumpur, Malaysia

+ [2] Int Islamic Univ Malaysia, Kuala Lumpur, Malaysia

+ [3] Int Islamic Univ Malaysia, IiiBF, Kuala Lumpur, Malaysia

+ [4] Int Islamic Univ Malaysia, Dept Finance, Kuala Lumpur, Malaysia

E-mail Addresses: jamshaid.anwar@gmail.com

Publisher

EMERALD GROUP PUBLISHING LTD, HOWARD HOUSE, WAGON LANE, BINGLEY BD16 1WA, W YORKSHIRE, ENGLAND

Categories / Classification

Research Areas: Business & Economics

Web of Science Categories: Business, Finance

JOURNAL OF ISLAMIC ACCOUNTING AND
BUSINESS RESEARCH (2020)

[View All](#)

Use in Web of Science

Web of Science Usage Count

2

2

Last 180 Days

Since 2013

[Learn more](#)

This record is from:

Web of Science Core Collection

- Emerging Sources Citation Index

Suggest a correction

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

Cited References: 60

Showing 30 of 60 [View All in Cited References page](#)

(from Web of Science Core Collection)

- Risk management practices of conventional and Islamic banks in Bahrain** Times Cited: 19
By: Abu Hussain, Hameeda; Al-Ajmi, Jasim
JOURNAL OF RISK FINANCE Volume: 13 Issue: 3 Pages: 215-239 Published: 2012
- Risk Management Practices and Islamic Banks: An Empirical Investigation from Pakistan** Times Cited: 10
By: Ahmed, N.; Akhtar, M. F.; Usman, M.
Interdisciplinary Journal of Research in Business Volume: 1 Issue: 6 Pages: 50-57 Published: 2011
- Proactive risk management in emerging and Islamic financial markets Evidence from the Moroccan financial markets** Times Cited: 5
By: Al Janabi, Mazin
HUMANOMICS Volume: 24 Issue: 2 Pages: 74 -+ Published: 2008
- Banks' risk management: a comparison study of UAE national and foreign banks** Times Cited: 51
By: Al-Tamimi, Hussein A. Hassan; Al-Mazrooei, Faris Mohammed
JOURNAL OF RISK FINANCE Volume: 8 Issue: 4 Special Issue: SI Pages: 394-409 Published: 2007
- Risk management practices: a critical diagnosis of some selected commercial banks in Bangladesh** Times Cited: 5
By: Alam, M. Z.; Masukujjaman, M.
Journal of Business and Technology Volume: 6 Issue: 1 Pages: 15-34 Published: 2011
- Gap management: Managing interest rate in banks and thrifts** Times Cited: 2
By: Alden, L.T.
Federal Reserve Bank of San Francisco, Economic Review Pages: 20-35 Published: 1983
- Risk management practices of selected Islamic banks in Malaysia** Times Cited: 1
By: Ariffin, N.M.; Kassim, S.
Aceh International Journal of Social Science Volume: 3 Issue: 1 Pages: 26-36 Published: 2014

8. **Risks in Islamic banks: Evidence from empirical research** Times Cited: 27
By: Ariffin, Noraini Mohd; Archer, Simon; Karim, Rifaat Ahmed Abdel
JOURNAL OF BANKING REGULATION Volume: 10 Issue: 2 Pages: 153-163 Published: MAR 2009
9. Title: [not available] Times Cited: 6
By: Bacha, O.I.
Dual banking systems and interest rate risk for Islamic banks Published: 2004
Retrieved 2014, from Munich Personal RePEc Archive
Publisher: International Islamic University Malaysia
URL: <http://mpra.ub.uni-muenchen.de/12763/>
10. **Determinants of interest rate exposure of Spanish banking industry** Times Cited: 2
By: Ballester, L.; Ferrer, R.; Gonzalez, C.; et al.
Working Paper Published: 2009
Publisher: Department of Economics and Finance , Universidad de Castilla-La Mancha, Spain
[\[Show additional data\]](#)
11. Title: [not available] Times Cited: 127
Group Author(s): BCBS
International Convergence of Capital Measurements and Capital Stan-dards: A Revised Framework Comprehensive version. Published: 2006
12. Title: [not available] Times Cited: 7
Group Author(s): BCBS
Principles for the Management and Supervision of Interest Rate Risk Published: 2004
Publisher: Bank for International Settlement, Basel
13. Title: [not available] Times Cited: 50
By: Bierwag, G.O.
Duration analysis: Managing interest rate risk Published: 1987
Publisher: Ballinger publishing company
14. **Duration analysis: an historical perspective** Times Cited: 9
By: Bierwag, G.O.; Fooladi, I.J.
Journal of Applied Finance Volume: 16 Issue: 2 Pages: 144-160 Published: 2006
15. **Duration gaps with futures and swaps for managing interest rate risk at depository institutions** Times Cited: 5
By: Bierwag, G.O.; Kaufman, G.G.
Journal of Financial Services Research Volume: 5 Issue: 3 Pages: 217-234 Published: 1992
16. **Risk management with duration: Potential and limitations** Times Cited: 2

17. **Lowly or negative benchmark rates bandwagon: any risk implications for Islamic banks?** Times Cited: 1
By: Chattha, J.A.; Alhabshi, S.M.
Al-Iqtishad Journal of Islamic Economics Volume: 10 Issue: 1 Pages: 115-134 Published: 2018
18. **Decoupling Shar'ah and prudential considerations: a case of commodity Murabahah** Times Cited: 1
By: Chattha, J.A.
Association of Chartered Islamic Finance Professionals - Newsletter Volume: 1 Issue: 1 Published: 2010
19. **Significance and key challenges in conducting stress testing for Islamic commercial banks** Times Cited: 4
By: Chattha, J.A.
Global Review of Islamic Economics and Business Volume: 1 Issue: 2 Pages: 85-98 Published: 2013
20. **Islamic finance and UN sustainable development goals: a regulatory perspective** Times Cited: 1
By: Chattha, J.A.
Islamic Finance News Volume: 14 Issue: 1 Pages: 21-23 Published: 2017
21. **Risk management in changing benchmark rates regime: prudential implications for Islamic banks and supervisors** Times Cited: 3
By: Chattha, J.A.; Alhabshi, S.M.
Journal of Islamic Finance Volume: 6 Pages: 205-230 Published: 2017
22. **Duration gap and net worth risk for Islamic and conventional banks: a comparative cross country analysis** Times Cited: 6
By: Chattha, J. A.; Bacha, O. I.
Review of Islamic Economics Volume: 13 Issue: 2 Pages: 5-33 Published: 2010
23. **Evaluation by the IFSB of core principles relevant to Islamic finance regulation** Times Cited: 2
By: Chattha, J.A.; Kartina, A.; Dong, C.; et al.
IFSB WORKING PAPER S Published: 2014
Publisher: Islamic Financial Services Board, Kuala Lumpur
[\[Show additional data\]](#)
24. Title: [not available] Times Cited: 6
By: CIHAK M
WP0816 INT MON FUND Published: 2008
25. **Irish loan-deposit interest rate margins: a duration-based approach** Times Cited: 3
By: David, C.

26. Title: [not available] Times Cited: 1
By: Dembiec, L.A.; Pogożelski, J.D.; Rowland, V.T.
The Measurement and Management of Interest Rate Risk Published: 1989
Publisher: Casualty Actuarial Society
27. Title: [not available] Times Cited: 2
By: Drechsler, I.; Savov, A.; Schnabl, P.
Banking on deposits: Maturity transformation without interest rate risk (No. w24582) Published: 2018
Publisher: National Bureau of Economic Research
28. Title: [not available] Times Cited: 2
By: Entrop, O.; Memmel, C.; Ruprecht, B.; et al.
Discussion Paper Published: 2012
Publisher: Deutsche Bundesbank
[\[Show additional data\]](#)
29. **Quantifying the Interest Rate Risk of Banks: Assumptions Do Matter** Times Cited: 8
By: Entrop, Oliver; Wilkens, Marco; Zeisler, Alexander
EUROPEAN FINANCIAL MANAGEMENT Volume: 15 Issue: 5 Pages: 1001-1018 Published: NOV 2009
30. **The management of interest rate risk during the crisis: evidence from Italian banks** Times Cited: 1
By: Esposito, L.; Nobili, A.; Ropele, T.
(Working Paper) No, 933 Published: 2013
Publisher: Bank of Italy Temi di Discussione

Showing 30 of 60 [View All in Cited References page](#)

