Journal of Islamic Finance (Special Issue) (2017)

IIUM Institute of Islamic Banking and Finance

Editorial Note

Assalamualaikum WBT. In the name of Allah the Most Compassionate and the Most Merciful. All praises be to Allah SWT for His blessings that this special issue is successfully released. We would like to take this opportunity to thank and congratulate those who have worked hard for the completion and the release of this special issue. May Allah SWT reward you all, abundantly InshaaAllah.

This special issue is to commemorate the success of the 4th ASEAN International Conference on Islamic Finance (AICIF) which was held from 6th-8th December 2016, in the state of Melaka, Malaysia. The conference was organized by the IIUM Institute of Islamic Banking and Finance (II*i*BF) with the Melaka State Government being the strategic partner. The conference was also co-organized by the Universitas Islam Sultan Agung (UNISSULA), the Universiti Islam Sultan Sharif Ali (UNISSA), the Universitas Darussalam Gontor (UNIDA) and the Universitas Islam Negeri Sunan Kalijaga.

With the theme: *A Re-evaluation and Way Forward*, the conference received many quality research papers on various topics and from backgrounds related to the theme. The papers were carefully reviewed and selected according to six sub-themes which include: Islamic Banking and Capital Market, Governance of Islamic Financial Institutions, Payment System/Non-Bank Financial Institutions (NBFIs), and Takaful and Risk Management of Islamic Financial Institutions. Other sub-themes are Islamic Social Finance, Microfinance Financial Inclusion, Financial Literacy and Impact of Financial Innovations on Islamic Finance. Out of the selected papers presented in the conference, 17 best papers were then scrutinized further to be included in this special issue.

Aware of the dynamic presence of Islamic banking and finance in the global financial scenario, it is undoubtedly crucial and timely to evaluate the current state of Islamic finance and highlight the issues and challenges facing the industry today. A re-assessment of the current state of the Islamic finance industry is no doubt immensely important. A way of doing so is by having fruitful discussions in such conference as challenges faced are highlighted, discussed and solutions are recommended. This effort is indeed imperative to all players in the field including various Islamic banking and finance stakeholders, customers, practitioners, policy-makers, as well as the academia. Responding to the urgent needs, the objectives of the conference are to highlight, discuss, evaluate the latest development in the Islamic banking and finance industry, the current issues and challenges and ultimately provide recommendation for future betterment of the industry. Furthermore, such platform would help to strengthen the relationship among the universities in ASEAN offering Islamic banking and finance program by having a jointly organized international conference such as AICIF. This special issue epitomizes such great efforts of all.

This special issue begins its discussion with a research done by Abdesslam Menacer and Saheed Adebowale Nurein with the title “macroeconomic variables and Islamic bank stock returns: panel data evidence from GCC countries”. The study provided an empirical evidence of the relationship between macroeconomic variables and bank stock returns in the context of GCC countries using a panel data approach. The findings revealed that there is a positive relationship between macroeconomic variables and Islamic bank returns. This impies that most banks in GCC countries engage in numerous off-balance sheet transactions and implement efficient and effective methods of risk management, which reduces their exposure to changes in macroeconomic variables. The authors highlighted that maintaining an effective and efficient risk management method should be a priority for all banks because weak risk management methods affect bank stock returns specifically through the macroeconomic variables

Another paper investigated the dynamic linkages among four selected equity markets from the Organization of the Islamic Conference (OIC) members which are Saudi Arabia, Ankara (Turkey), Malaysia and Indonesia. These four countries are the proposed Muslim BRICS called SAMI. The authors Grimes Youcef and Adewale Abideen Adeyemi split the data into two sub-periods before and after the global financial crisis and depicted that the Indonesian, Malaysian, Saudi Arabian and Turkish stock markets are co-integrated during both periods. Their analyses revealed that a unidirectional relationship exist in the pre-crisis period between Saudi Arabia and Indonesia. However, bidirectional causality relationships were detected between almost all the four stock markets during the post-crisis period. This finding according to the authors may provide an indication on the stock markets behaviour which is imperative to the different economic agents and industry players in pursuing effective measures and mechanisms in the area of risk management and hedging for the purpose of safeguarding their investments in times of uncertainty.

Norzitah Abdul Karim together with her co-authors Syed Musa Syed Jaafar Alhabshi, Salina Kassim and Razali Haron provided further evidence on the stability of Islamic and conventional banks in selected GCC countries from 1999 to 2015. The authors found that the GCC Islamic banks are more stable and less prone to financial crisis than their conventional counterparts. Findings of this study as claimed by the authors contribute to the literature and fill the gap towards extending the theory of financial intermediation through empirical works of investigating the stability of the Islamic and the conventional banks.

Another investigation was done on the determinants of Islamic banks' margins in Asian countries by Nurhafiza Abdul Kader Malim, Tajul Ariffin Masron and Anwar Allah Pitchay. The results suggest the main factors that influence the margins of Islamic banks including bank size, default risk, overhead cost, capitalization, market concentration, GDP growth and inflation. The authors claimed that enhancing macroeconomic policies, risk management capabilities and operational efficiency could help in lowering the margins.

Addressing the challenges of Islamic debt restructuring in a multi creditor environment is the motivation for Rozita Abd Hafiz together with her other co-authors Zariah Abu Samah and Rusni Hassan to come out with thier research paper. This paper discusses some of the key issues faced when restructuring Islamic debts in a multi-creditor situation and how those issues and gaps are to be addressed with some recommended process flow, procedures and guidelines. Highlighting several key issues facing the industry when two financial systems co-exist, the authors outlined the challenges and possible mitigating measures in the hope that it would ease and resolve any discrepancies that may occur.

Is gold dinar the appropriate money in Islam? This is a very intriguing question posed by Bedjo Santoso, Ahamed Kameel Mydin Meera and Khaliq Ahmad. This study investigated the idea of gold as currency from the Islamic viewpoint. The survey included historical aspect, supremacy of gold currency and the weakness of fiat money by employing *maslahah-mursalah* approach. The law of gold, as money, from *maqasid al-Shari'ah* and *siyasah syar'iyya* approaches were discussed. The paper deliberated on some possible alternative forms of gold as money and then evaluated some obstacles and barriers in hope of finding the best model of gold as money to be implemented in the current economic system. The findings revealed that, money is not limited to gold and silver. However, by using derive law process from sources of law-making, the '*hukm*' of gold/silver as money is permissible. The *hukm* for the country to mint gold dinar is subject to change into *wajib*, if the objective is to protect nation and people from badness. *Maqasid al-Shari'ah* and *maslahah-mafsadah* studies have also strengthened the view. Moreover, the review indicated that gold as money serves *maslahah* while fiat money serves more *mafsadah*. However, it is difficult to implement in the current system due to some obstacles and barriers. Backed-up information/communication technology and gold are just employed as measurement of value; they could be implemented in certain communities including cooperatives. Nevertheless, the authors claimed that political support is needed.

Still looking at the issue of gold, Kamola Bayram, Adam Abdullah and Ahamed Kameel Mydin Meera examine the financial market risk and gold investment in an emerging market, focussing on Turkey. The focus of the study was to detect if gold acts as a safe haven or a hedge asset in times of distress. The authors found that gold has safe haven asset features implying that gold outperforms the average portfolio during times when stock market faces distress.

Agus Harjito and Hananta Wiratama in their study titled "The balance sheet network analysis for measuring systemic risk of Islamic commercial banks in Indonesia" provides early warning system regarding the systemic event by measuring the systemic risk in Indonesian Islamic commercial banks (ICBs). This study investigates the capital loss suffered by an individual institution in case of bank default in the system, the too-connected to fail (TCTF) risk which measures how risky the individual bank towards others and system, and the TCTF vulnerability which measures how vulnerable an individual bank in case of a bank default in the system. The authors claimed that study can be one of the references to the macro prudential and micro prudential supervisions in Indonesia.

Another study covering the Indonesian case was done by Laily Dwi Arsyianti and Salina Kassim. The authors examine the influence of financial education on consecutive debt-taking behaviour of low-income households in Indonesia. By adopting the Structural Equation Modelling (SEM) to analyse pertinent data elicited from 1,780 low-income households from six areas in Indonesia, the authors depicted that financial education has positive effect on using debt consecutively albeit wisely for fulfilling family needs. By wisely, it means that the low income households are able to control their desire and satisfaction, thus practicing the true spirit of consumption as proposed in Islam.

An analysis on Islamic social finance for protection and preservation of *maqaṣid al-Shari'ah* is another paper selected for this special issue in the attempt to understand further the challenges faced by this industry. Nor Razinah Mohd Zain and Engku Rabiah Adawiah Engku Ali provided a critical analysis on the Islamic social finance in relation to the *maqaṣid al-Shari'ah.* By using the doctrinal and qualitative methods the authors concluded that the OIC member states are already on the right track in implementing the Islamic social finance. Such right track ultimately is able to reach the preservation and protection of *maqaṣid al-Shari'ah*. However, due to the uniqueness of each of the OIC member states, their problems may be varied from one country to other country as such the practices of the Islamic social finance applied in OIC member states act as examples and reference. The authors concluded their study by listing some possible recommendations pertaining to future research related to the discussed topic.

Haroon Mahmood together with Christopher Gan and Cuong Nguyen analyse various factors that may significantly affect the maturity transformation risk in Islamic banks from the perspective of Basel III liquidity regulations. The authors identified bank capital, credit risk, financing, size and market power as significant bank specific factors in determining maturity transformation risk. Gross domestic product and inflation appeared to be the significant macroeconomic factors that influence this risk. Nevertheless, no evidence can be found for the effect of bank profitability, cost efficiency and income diversity on maturity transformation risk in Islamic banking system.

Structuring model for corporate productive cash-*Waqf* in Indonesia (A Case Study for PT. Semen Indonesia) is another significant contribution to this special issue. Bambang Tutuko, Ahmad Hudaifah and Andi Zulfikar highlighted the development of *Waqf* in Indonesia and by using qualitative data, analysing important and relevant secondary data, direct observation of Semen Indonesia Group, and conducting interviews with key informants. The productive cash *Waqf* model has been recently developed for corporate *Waqf* equipped with information technology systems like E-*Waqf* applications to encourage Semen Indonesia's big community to donate to the cash *Waqf* program. The fund accumulation is managed in profitable investment around Semen Indonesia and society environment. The financial and managerial system of Semen Indonesia Company and holding is possibly adopting the productive cash *Waqf* concept when managed properly and transparently.

This study by Naji Mansour Nomran, Razali Haron and Rusni Hassan provided new empirical evidence on whether the impact of *Shari'ah* Supervisory Board (SSB) characteristics on Islamic Banks (IBs) performance can be affected by the size of the bank. Four SSB characteristics (size, cross-membership, reputation and experience) are found to play an important role in enhancing the performance of large IBs while only (reputation and experience) significantly affect the performance of small IBs. This confirms that the impact of SSB characteristics on performance concentrates more on large IBs as compared to the small banks. Thus, the authors concluded that there is a lack of *Shari'ah* governance practices in the small IBs in Malaysia and Indonesia as compared to the large banks.

Debt determinants of *Shariah* approved firms is another area of related study that is gaining popularity among researchers. Examination done by Nurshamimitul Ezza Ramli and Razali Haron revealed that certain firm-specific variables like growth opportunity, size, bankruptcy risk, non-debt tax shield (NDTS) and Herfindahl-Hirschman Index, while the macro variables like inflation, GDP and economic crisis are the robust evidence in determining the debt level of *Shari'ah* approved firms in Malaysia. In contrast to the prior studies that focuses on the non-*Shari'ah* approved firms, the output from this study provides new insight and understanding on the debt determinants of *Shari'ah* approved firms. The authors also claimed that this study contributes significantly in terms of the sampling selection in which a firm must consistently be *Shari'ah* approved during the period of analysis.

Risk management in changing benchmark rates regime: prudential implications for Islamic banks and supervisors is another selected paper included in this special issue. The authors Jamshaid Anwar Chattha and Syed Musa Syed Jaafar Alhabshi theoretically and empirically review the possible prudential implications of lowly and increasing benchmark rates risk, and provide a robust risk management and regulatory perspective for Islamic banks and supervisors. The results of their analyses indicate that persistently low benchmark rate regime carries strategic implications for Islamic banks including pressure on profitability, excessive risk taking and distortion in credit allocations. On the other hand, an increasing benchmark rate regime indicates the significant loss of the capital base, emergence of displaced commercial risk causing early withdrawals by the customers due to higher expectations in dual banking systems. The authors therefore conclude that implications under both scenarios demand for a better risk management with appropriate tools and effective supervisory oversight for Islamic banks.

The issue of unfair game in the Islamic home financing products between customers and the Islamic financial institutions has attracted many debates and interests from all players in the field of Islamic finance particularly the customers. Syuhaeda Aeni Mat Ali together with her co-authors Rusni Hassan and Ahmad Azam Othman examine the adequacy of present legislation in Malaysia; the Islamic Financial Services Act 2013, Financial Services Act 2013, *Shariah* Standard and Guidelines: Prohibited Business Conduct policy, Consumer Protection Act 1999, Consumer Protection (Amendment) Act 2010 and the Contracts Act 1950 relating to unfair terms of contract in *Musharakah Mutanaqisah* Home Financing. The authors adopted the statutory analysis whereby the relevant legislations were analysed in order to address this issue. The study found that the legislation are not sufficient to regulate unfair terms of contract in *Musharakah Mutanaqisah* Home Financing in Malaysia. To ensure the protection of the consumers in *Musharakah Mutanaqisah* Home Financing, the authors recommend the present legislation, particularly Consumer Protection Act 1999 and Contracts Act 1950 be reformed.

Lastly, a paper titled “HASBLE Card: Innovation on company funding using *Shari’ah* venture capital toward halal industry in Indonesia” is another interesting and comprehensive review done by Rifaldi Majid and Billal Andre Agassi. The comprehensive review was done in the attempt to understand further how *Halal* Sustainable (HASBLE) card, an innovation model of *mudharaba*h and *musyarakah* transaction, which are realized in a sustainable funding by *Shari’ah* venture capital firms to *halal* industry players plays its part in the industry. The allocation of the profit-sharing is based on the contract by setting some parts aside in the card as productive deposit. These deposits will be managed as a productive stimulus funds for the maintenance of *halal* certification, training and business assistance, and the balance of HASBLE card itself. HASBLE card is innovative model that has sustainable funding agreement involving several stakeholders in order to improve productivity, growth, and the existence of *halal* products in the global trade arena.

Editors

Assoc. Prof. Dr. Razali Haron
Assoc. Prof. Dr. Abideen Adeyemi Adewale