Islamic Insurance (Takaful) Models and Their Accounting Dichotomy

By

Mohd Ma'Sum Billah, PhD
Yousef Abdullah Basodan, PhD

Abstract

Islamic Insurance (Takaful) which is similar to the conventional insurance has its own specific procedures and business discipline. It is governed in Malaysia by the Takaful Act 1984[1] *and conventional Insurance Act 1963*[2]*. The Islamic Insurance (Takaful) and Insurance business are supervised by Bank Negara Malaysia. In Saudi Arabia, it is supervised by Saudi Arabian Monetary Agency (SAMA) and governed by the Law on Supervision of Cooperative Insurance Companies that was issued by the Royal Decree number (32/m) in 2003, in addition to a number of rules and regulations.*[3] *To meet the specific rules and requirements in accordance with Islamic business concept, Islamic Insurance (Takaful) has developed its own specialized accounting system. Islamic Insurance (Takaful) Accounting System complies generally with the existing International Accounting Standard (IAS)*[64]*. But most importantly, the system applied is in accordance with Islamic requirements as mentioned in the holy Qur'an: "So establish weight with justice and fall not short in the balance"*[5]*.*

---

1 *The Takaful Act* (Malaysia) 1984 (Replaced by *the Islamic Financial Services Act* 2013).
2 *The Insurance Act* (Malaysia) 1996 (Replaced by *the Financial Services Act* 2013).
3 *Law on Supervision of Cooperative Insurance Companies (SAMA, Saudi Arabia) 1424H - 2003G.*
4 *International Accounting Standard* (IAS).

Sensitivity of Interbank Overnight Lending Rates and the impact on Banks' Returns: An Asymmetric GARCH Approach

By

Muhammad Asghar Khan

Abstract

This study employs an asymmetric GARCH model to investigate the relative sensitivities of lending rates and their impact of bank stock return distribution. Bank returns are instruments of money market which are affected by lending rates. This study analyzed the instability of lending rates and their impact on the bank returns. Asymmetric approach of GARCH is used to analyze the data. Two portfolios are formed representing the conventional and Islamic banks. Both conventional and Islamic banks have been taken from banks in Pakistan. The sample includes weekly, monthly, quarterly and semi-annual data over the 2012-2013 period. 3 banks (HBL, MCB and Allied) are selected for conventional portfolio and 3 banks selected for Islamic portfolio are Askari Islamic, Meezan and Bank Islami. The findings indicate that short term and long-term interest rates and their volatilities do exert significant and differential impacts on the return of bank portfolios. These findings have implications on bank hedging strategies against the interest rate risk, regulatory decisions concerning risk-based capital requirement, and investor's choice of a portfolio mix.

---

[5] *Surah al-Rahman*: 9.

Is Islamic Banking More Sustainable than Conventional Banking? An Empirical Study on Selected Banks of Bangladesh[ψ]

By

Mohammed Syedul Islam, Md. Rafiqul Islam Rafiq

Abstract

Bangladesh Bank adopted various green banking initiatives to respond with global warming and ecosystem changes; particularly it circulated the green banking guidelines to all commercial banks of Bangladesh in 2011. Based on green banking practices, this paper aims to compare the performance of Islamic banks over the conventional banks in Bangladesh for the period of 2011-2014. In addition to secondary data, this study uses primary data collected by a questionnaire survey which was conducting among green banking officials of sample banks. Different ratio such as green budget, environmentally safe finance, energy efficiency, climate risk reduction and employees' awareness toward green banking have been done on the sample banks. This study reveals that Islamic banks are more sustainable than conventional counterpart except employees' awareness on green banking. This paper finally recommends that the Bangladesh Bank should provide Shari'ah complaint re-finance scheme facilities to Islamic banks, Islamic banks may introduce some Shari'ah-based investment products to facilitate low cost green technology among the clients, and Islamic banks should follow uniform annual disclosure in publishing green banking practices and cover necessary information to avoid uncertainty (gharar) from the Islamic banking industry.

ψ The draft version of this manuscript has been presented at the 6th Islamic Economic System Conference (29-30 September 2015), Krabi, Thailand. However, the authors has revised and improved this paper with more rigorous methodology.

Exploring the Impact of Real Sector Shocks on Islamic Banking in Pakistan: A VECM Approach

By

Salman Ahmed Shaikh
Tahir Suleman

Abstract

A distinguishing feature of Islamic banking is the use of real assets in financing operations. The requirement to use real assets makes manufacturing sector an important market for Islamic banking financing operations. Manufacturing sector in Pakistan has had to cope up with surge in oil prices due to slack in domestic oil production and rise in imported oil prices. In this study, we use quarterly data for the period 2006-2016 and apply Vector Error Correction Model (VECM). We want to find how external shocks to the economy and shocks to international crude oil price and manufacturing output affects financing, non-performing loans and profitability of the Islamic banking industry. Our results indicate that a shock in large scale manufacturing index has an increasing effect on financing and investments, while a shock in exchange rate has a declining effect. Moreover, our findings reveal that a shock in large scale manufacturing index has an amplifying effect on non-performing loans, but a shock in exchange rate does not affect non-performing loans by much. We also show that a shock in oil price has a dampening effect on non-performing loans. Finally, for profitability, our analysis highlights that a shock in exchange rate and international oil price has a declining effect on ROE, whereas a shock in LSM index enhances profitability.

Maqasid-al-Shari'ah and Debt Financing Contracts: Some Observations

By

Syed Munawar-Shah
Mariani Abdul-Majid, Zulkefly Abdul Karim
& AnowarZahid

Abstract

According to advocates of Islamic banking, the Shari'ah compliant debt contracts are the right call in addressing both the issue of asymmetric information and 'fairness and justice in contrast to the standard debt contract used in the conventional banking. In this paper, we discuss the Shari'ah principles that are used in the product management with respect to Shari'ah compliant and controversial contracts. In addition to it, we assess the debt financing contracts in terms of consequences, including financialization and risk-sharing. The controversial contracts are not good at resolving the issue of risk-sharing and may lead to adverse macroeconomic effects similar to the standard debt contract. The Shari'ah principles agreed by all schools of thoughts may be best in ensuring limitation on the financialization and as well as enhancing risk-sharing.

Barriers to Service Quality in the Banks of Pakistan: A Comparative Study of Islamic and Conventional Banks in Pakistan with Qatar

By

Malik Shahzad Shabbir
Awais Ur Rehman

Abstract:

Service quality has become crucial to the banking institutions due to fierce competition. Banks may have their own environment specific barriers in procuring it. This study was the first-ever attempt to compare these barriers between Islamic and conventional banks. Primary data was collected through pretested adopted questionnaire, from the higher ranked banker. Through the technique of Cronbach Alpha, the data validity was ascertained. One sample states that biggest barrier to service quality in banking industry is Human Resources (HR) environment. While independent sample test results that Islamic financial institutions are fortunate to face expressively less barriers than Interest bearing counterparts. Except in the case of personnel hiring, Islamic banks are having less meritocracy conventional banks. It was recommended that Islamic financial institutions must hire the staff with dual intellect of finance and Sharia to serve better quality. In Pakistan the Islamic banks are having an advantage and a disadvantage as compared to those in the Arab world. Advantage is the better empowerment of its employees and the experience sharing culture in the banks while the low level of economic development in Pakistan is responsible to bring about the financial constraints to augment the barriers in their way to deliver quality of service.