

# RE-EXAMINING THE DETERMINANTS OF ISLAMIC BANK PERFORMANCE: NEW EVIDENCE FROM DYNAMIC GMM, QUANTILE REGRESSION, AND WAVELET COHERENCE APPROACHES

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## Keywords:

- Bank-specific and macroeconomic determinants
- Financial performance • Quantile regression
- Wavelet coherence • GMM

## Introduction

- With 15%–20% annual growth, Islamic banking has widened its operation to more than 75 countries worldwide.
- Profitability ratios of the Islamic banking industry prior to crisis year (2005–2007), were strong with ROA of 2.5% and ROE of 15%.
- Returns became subdued during the financial crisis of 2008–2009, reaching lows of ROA 0.74% and ROE 6.16% in 2009 (IFSB, 2016).
- Slowdown in returns during 2008–2010 was experienced most strongly by Islamic banks in GCC regions namely Bahrain, UAE, and Kuwait (IFSB, 2014).
- The regulatory framework of Islamic banks is different in GCC compared to Southeast Asian.

| Research gaps   | Contributions of this article:   |
|---|--|
| <ul style="list-style-type: none"> <li>• Only a limited number of studies examined the efficiency of banks' profitability using dynamic panel techniques models.</li> </ul> | <ul style="list-style-type: none"> <li>• Improves on identifying the main determinants of the Islamic banks' profitability in the GCC region.</li> <li>• Employs robustness checks on consistency between the determinants of profitability and ROA across different percentiles or distributions.</li> <li>• Studied the lead-lag relationship among variables at different timescales or investment horizons from time-frequency domain.</li> <li>• Demonstrates the necessity of employing relatively advanced techniques to provide reliable and accurate results for managers and policy-makers.</li> </ul> |

## Data Collection

| Data of:  | Databases:   |  |
|---|--|--|
| 29 Islamic banks from 5 Gulf Cooperation Council (GCC) countries (Kuwait, Bahrain, UAE, Saudi Arabia, and Qatar) over the period 2005–2013. | Bankscope  | World Bank and IMF Financial Statistics (IFS)  |
|   | Bank-specific variables: total assets, non-interest expense to total assets, equity to total assets, and net loan to total assets. | Macroeconomic data: GDP growth rate, inflation, money supply, market capitalizations, and oil price. |

## Concluding remarks and policy implications:

### Suggestions for Islamic banks:

- Increase the portfolio of equity financing rather than relying heavily on debt financing.
- Increase the use of partnership contracts, such as *Mudaraba* and *Musharaka*, where the principle of risk-sharing can be established (Askari et al., 2012).
- Manage costs efficiently relative to income to maximize return on assets.
- Improve internal factors such as cost-efficiency and capital adequacy.

### Future Research:

Future research can be expanded/conducted:

- by studying a larger sample size.
- for specific GCC countries.
- to include variables such as taxation and regulation indicators, exchange rates, and indicators of the quality of the offered services.
- on examining differences in the determinants of small and large or high or low profitability banks.

### Policy Implications:

- Provides useful insights for investors, practitioners, regulators, and policy-makers – can help improve the management of risk and profitability in financial institutions.

## References

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