

Is Islamic Banks Better Than Conventional Banks in The Time of Uncertainty?

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Abstract

This research aims to examine how uncertainty affects the banks risk and bank performance of Islamic and conventional banks in OIC countries. Also, to investigate contagion effects of bank risk and bank performance among OIC countries. I use a sample of 201 banks from 16 OIC countries between 2013-2020 in yearly-basis data. In order to achieve those aims, the first approach will use spatial data panel models as the baseline estimations, including SAR, SEM, and SDM. For robustness checks, spatial weighting comparison will be used. GDP will be used as the weighting of the main estimation, while trade volume and country distance are used for robustness checks. Afterwards, a qualitative approach with questionnaire will be used to re-validate the estimations by accomodating expert opinion through a FGD and in-depth interview. The research finding shows that Islamic bank has more resiliency than conventional banks. The increment of uncertainty is significantly followed by the rising conventional bank risk, while on contrary, Islamic bank doesn't shows any a significant result. Also, there is strong evidence of spatial relationship of bank risk between host and neighboring OIC countries. These results are robust due to the consistent outcome throughout all weighting matrices and questionnaire response.

Keywords: uncertainty, islamic bank, bank risk, bank performance, spatial econometrics