



**Journal of Management  
and Social Studies**

---

*Journal of Management and Social Studies*

*ISSN 2383-2320*

*Volume 1, Issue 12, December 2023, pp. 49-53*

Copyright© 2023. JMSS Publication

homepages: <http://jmssjournal.com/>

## **Impact of the financial crisis on Islamic banks and conventional banks – evidence from existing empirical studies**

53th International Conference Of Business, Economics, Management, Information

[1] *53th International Conference Of Business, Economics, Management, Information*

\*Corresponding author's E-mail: <http://icbemconf.com/>

---

### **ABSTRACT**

The literature provides considerable empirical evidence regarding the resilience and stability of the banking sector, the factors that enhance economic safety, and comparisons of the stability and robustness of Islamic versus conventional banks during the economic crisis. The first study to examine the solidity of Islamic versus conventional banks during the global financial crisis was that of Cihak& Hesse, which found that Islamic banks showed greater solidity across 18 countries. In the same year, Hasan &Dridi revealed that Islamic banks had higher growth in loans and assets during financial crises compared to conventional banks.

**Keywords:** crisis.

---

## **1. Introduction**

Shafique observed that banks everywhere in the world were badly affected by the global financial crisis, including Islamic banks, but that the financial performance of Islamic banks was better, with lower risk due to their interest-free nature. In 2009, Boumediene&Caby found that Islamic banks were more resilient during the 2007 crisis, but were not well protected from the negative impacts after the crisis. Similarly, Hasan &Drisi found that Islamic banks had only limited exposure to the adverse impact of the financial crisis in 2008, but became progressively weaker in 2009 than conventional banks.

## **2. Literature Review**

Parashar&Venketesh found mixed evidence, noting that during the crisis conventional banks suffered considerably more from poor liquidity and average returns on assets, whereas Islamic banks suffered more with poor average returns on equity, leverage and capital ratios, but they concluded that the Islamic banks performed better overall in 2006–2009. In contrast, Imam &Kpodar observed that Islamic banks are neither better nor worse but rather complementary to conventional banks, and argued that banks can remain stable during a financial crisis if their country has prudential regulations to ensure bank soundness during an uncertain financial environment. In contrast, Turk-Ariss found Islamic banks less stable and more vulnerable in uncertain financial situations because they are less competitive than conventional banks.

Hassan, Mohamed & Bader compared cost, revenue and profit efficiencies during the financial crisis and found no significant difference between Islamic and conventional banks using a sample of 40 banks in 11 OIC countries. Hassan &Dridi, using both Islamic and conventional banks in different countries such as Turkey, UAE, Saudi Arabia, Malaysia, Qatar, Kuwait, Jordan and Bahrain, reported that Islamic banks were affected differently from conventional banks in 2008, showing stronger resilience during the crisis period of 2007–2009 due to their lower leverage, higher solvency, smaller investment portfolios and particularly their adherence to *shari'ah* principles.

## **3. Methodology**

According to Kassim& Majid, both types of bank were equally vulnerable to the financial crisis. Similarly, Smolo&Mirakhor conclude that both conventional and Islamic banks were vulnerable during the financial crisis but the impact on Islamic banks was more limited. In contrast, Abduh argues that Islamic banks were more stable during the global crisis due to their profit-loss sharing. Zarrouk points out that Islamic banks avoided the worst exposure to the financial crisis in 2008 but may still suffer in a future global crisis.

## **4. Finding**

Siraj& Pillai found that Islamic banks in the GCC region fared much better between 2005 and 2010 than did conventional banks. They found that the Islamic banks were more equity financed, and that their performance indicators, including capital adequacy, liquidity and profitability, were less affected by the global financial crisis from 2007. Abdulle&Kassimanalysed how the global financial crisis affected Malaysian banks from 2006 to 2010, assessing indicators such as

credit risk, liquidity and profitability before, during and after the financial crisis. Islamic banks were shown to have greater liquidity than conventional banks and thus less liquidity risk exposure during the crisis.

Rafiuddin&Alam studied banks in the United Arab Emirates from 2005–2009 and observed that Islamic banks had lower risk and higher liquidity than conventional banks. However, unlike other studies, they found the conventional banks more profitable. They also noted a higher trend in registering Islamic than conventional banks after the 2008 meltdown.

Sehrish examined banks in Pakistan during 2007–2011, and found Islamic banks less efficient in expense management but also less risky in managing loans compared to conventional banks. Hidayat&Abdullah analysed the impact of the economic crisis on the financial performance of Islamic banks in Bahrain using a panel regression model, and noted no significant impact on these banks during the crisis period.

Aktas analysed bank stability in Turkey during the global economic crisis using a trend analysis on a yearly basis for the 2006–2011 period, and noted that in terms of liquidity, capital adequacy and profitability, Islamic banks were more stable than conventional banks, even in 2008.

## **5. Discussion & Conclusion**

Tabash&Dhankar investigated bank stability in the Kingdom of Saudi Arabia in 2005–2010, and revealed that Islamic banks were less exposed to liquidity risk because they held more liquid assets than conventional banks. They concluded that the limited scope for investment among Islamic banks could explain their higher liquidity ratio, which showed no significant difference before, during or after the financial crisis; they reliably held more short-term funds and high deposit percentages to meet sudden withdrawals. The Islamic banks were also more equity financed and dependent on the profit-loss sharing relationship, whereas conventional banks were highly dependent on a debt-credit relationship. There was also no significant difference in the capital adequacy of Islamic banks before, during or after the financial crisis, because of their asset-backed financing and distinctive Islamic principles.

## **References:**

1. M Cihak and H Hesse, 'Islamic banks and financial stability: an empirical analysis' (2010) 38 *FinancServ Res* 95-113.
2. M Hasan and J Dridi, 'The Effects of the global crisis on Islamic and conventional banks: A comparative study', IMF Working Paper WP/10/201 (International Monetary Fund 2010) 60.
3. A Shafique, M A Faheem and I Abdullah, 'Impact of global financial crises on the Islamic banking system: Analysis of Islamic financial system during financial crunch 2008' (2012) 1(9) *Arabian Journal of Business and Management Review* 124-134.
4. A Boumediene and J Caby, 'The stability of Islamic banks during the subprime crisis' (2012) 1(1) *SSRN Journal* 13.
5. Ibid.
6. S P Parashar and J Venkatesh, 'How did Islamic banks do during global financial crisis' (2010) 5(4) *Banks and Bank Systems* 54-62.

- 7.
8. P Imam and K Kpodar, 'Islamic banking: How has it diffused?' (2010) 10(195) IMF Working Papers 1.
9. A R Turk, 'On the implications of market power in banking: Evidence from developing countries' (2010) 34(4) Journal of Banking & Finance 765-775.
10. T Hassan, S Mohamed and M K I Bader, 'Efficiency of conventional versus Islamic Banks: Evidence from the Middle East' (2009) 2(1) Middle Eastern Finance and Management 46-65.
11. M Hasan and J Dridi, 'The effects of the global crisis on Islamic and conventional banks: A comparative study' (2010) 10(201) IMF Working Paper 1.
12. S H Kassim and M S A Majid, 'Impact of financial shocks on Islamic banks: Malaysian evidence during 1997 and 2007 financial crises' (2010) 3(4) International Journal of Islamic and Middle Eastern Finance and Management 291-305.
13. E Smolo and A Mirakhor, 'The global financial crisis and its implications for the Islamic financial industry' (2010) 3(4) International Journal of Islamic and Middle Eastern Finance and Management 372-385.
14. A Abduh, 'The impact of crisis and macroeconomic variables towards Islamic banking Deposits' (2011) 8(12) American Journal of Applied Sciences 1378.
15. H Zarrouk, 'Does financial crisis reduce Islamic banks' performance? Evidence from GCC countries' (2012) 1(1) Journal of Islamic Finance and Business Research 1-16.
16. K K Siraj and P S Pillai, 'Comparative study on performance of Islamic banks and conventional banks in GCC region' (2012) 2(3) Journal of Applied Finance & Banking 123-161.
17. M Abdulle and S Kassim, 'Impact of global financial crisis on the performance of Islamic and conventional banks: Empirical evidence from Malaysia' (2012) 8(4) Journal of Islamic Economics, Banking and Finance 9.
18. A Rafiuddin and Z Alam, 'Islamic banks and conventional banks in the QATAR before and after the recession' (2012) 1(1) International Journal of Financial Management 50-59.
19. S Sehrish, F Saleem, M Yasir, F Sehzaad and K Ahmed, 'Financial performance analysis of Islamic banks and conventional banks in Pakistan: A comparative study' (2012) 4(5) Interdisciplinary Journal of Contemporary Research Business 186-200.
20. S E Hidayat and A Abdullah, 'Does financial crisis give impacts on Bahrain Islamic banking performance? A panel regression analysis' (2011) 4(7) International Journal of Economics and Finance 79-87.
21. Ibid.
22. M I Tabash and R S Dhankar, 'The impact of global financial crisis on the stability of Islamic banks: An empirical evidence' (2014) 2(1) Journal of Islamic Banking and Finance.