



A Review of the Relationship Between Islamic Banks and Financial System Stability

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Abstract: This study seeks to discuss the relationship between Islamic banks and financial system stability using the Scopus database from 2017 to 2023 to provide a clear picture of the concept of the relationship in theory. The research also provides recommendations on potential subjects to study and develop further. There were 10 articles analyzed through bibliometric analysis using the VOSviewer software, which allows the display of visualized patterns, such as the simultaneous occurrence of keywords. The researchers found many results, including key information on the article, sources, and relevant authors. These findings will be very useful as a reference in future research on Islamic banks and financial system stability.

Keywords: Bibliometric analysis, Islamic banks, Scopus Financial System Stability, VOSviewer

Introduction

The Islamic banking system has attracted the attention of various parties, including researchers, customers, and policymakers. Good Islamic banking development was seen in several countries, such as Iran, Sudan, Bangladesh, Brunei, Kuwait, Malaysia, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen. The high number of Muslim populations is one of the factors driving the significant growth of Islamic banks in these countries. Islamic banks are financial institutions whose core business is focused on providing financing and other financial services in the flow of payments and money circulation. Its operations are based on Islamic economic principles. As a banking entity that performs the function of a financial intermediary between parties with excess funds (surplus units), conceptually, Islamic banks play the role of intermediaries as well as catalysts for the creation of various economic transactions (Asutay, 2015). In the real sector, Islamic banks have a direct impact on the progress of national development. Through the prohibition on *riba* (interest), funds managed by Islamic banks can be allocated directly to existing real sectors.

The small potential market power of Islamic banks compared to conventional banks can be an inhibiting factor for their willingness to provide financing (Leon & Weill, 2017). In this context, Islamic banks can profit through the practice of sharia arbitration, where labeling products in accordance with sharia principles can make their demands more inelastic, as customers are motivated by religious motives. The nature of deposits in Islamic banks is theoretically different from conventional banks, because Islamic banks follow the principle of profit sharing. This means that savers cannot expect a fixed rate of return on savings. In the context of dual banking, the religious character of depositors plays a crucial role in the decision to move their funds from conventional banks to Islamic banks (Aysan et al., 2015). Meslier et al. (2017) prove that in response to the penetration of sharia in the banking sector, conventional banks tend to offer higher deposit interest rates when their market strength is lower. Meanwhile, the competitiveness of conventional banks is influenced by the presence of Islamic banks, which is only influenced by the level of competition within the Islamic bank itself.

Research Method

This review uses the motto of bibliometric analysis by taking specific topics from several literature data. Literature data was downloaded in December using the scopus website which is widely used as a research method because it is suitable for information systems (Julia et al, 2020). This analysis also provides information about the institution for scientific information and ranking of papers. Scopus is used to avoid the same data as other data (Biancone et al, 2020). Therefore, scopus is used in this analysis for these reasons.

The bibliometric analysis structure used in this study follows similar methods that have been carried out on other topics. The first step in bibliometric analysis is the search for documents using several keywords, such as "Islamic bank", "financial system", "Islamic finance", which appear in the title-abstract-keyword until 2023.

Table 1. Initial keywords

Document Type	Number of Documents
Article	3.728
Book Chapter	390
Conference Paper	374
Reviews	132
Book	80
Data Paper	2
Conference Review	14
Sum	4.720

The second step is to improve the initial results by removing documents other than articles from 4,720 to 30 documents collected from 2017 and 2023. The third step is to filter out non-English documents as well as exclude such articles in the press stage and consider only the final project. The fourth step is to examine the discontinued journals and remove the documents from the journal for the analysis process. Finally, some of the selected articles are analyzed under the Scopus Analyze Search Results menu, mendeley, and the VOSviewer software to analyze and visualize co-authoring, citation analysis, and co-occurrences.

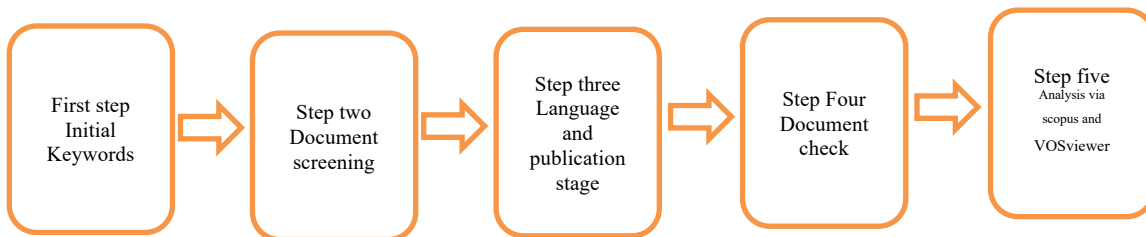


Figure 1. Stages of Data Collection.

Result and Discussion

There are 30 articles related to Islamic banks after the screening on the Scopus website, and table 1 shows the number of document publications per year. Articles on macroprudential policy first appeared in scopus in 1985, with Nienhaus, Volker as the authors of the article. However, after screening, the first year that started there was an article about Islamic banks in 2017 which amounted to 1 article. In addition, the number of sharia microfinance articles developed in the publication of microfinance documents is less than compared to conventional microfinance publications. There are several articles that do not only discuss Islamic banks.

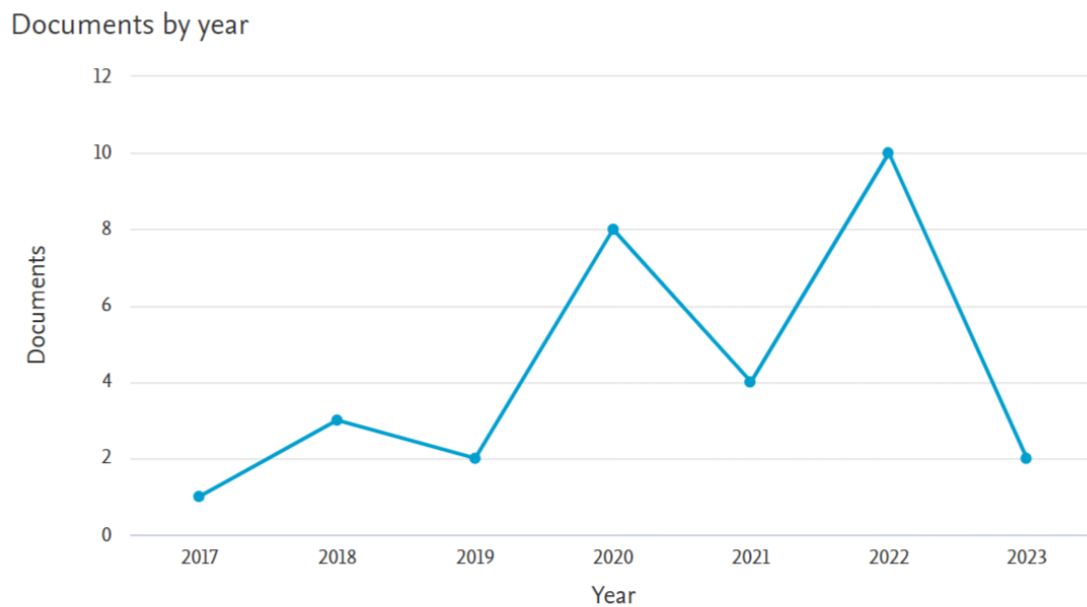


Figure 2. Number of Sharia Bank Documents by Year

Figure 2 shows that there was an article on Islamic banks and financial system stability in 2017 which was the beginning of observations. In 2018 the number increased to three articles. Then in 2019 it again dropped to two articles, in 2020 it again rose to eight articles, in 2021 it again dropped to four articles, and at the peak, namely in 2022 with a total of 10 articles, but in 2023 it decreased drastically to two articles.

Table 2. Most Productive Publishers

Ranking	Document Source	Number of Documents
1	Journal of Islamic Monetary Economics and finance	8
2	Banks and Bank Systems	5
3	Malaysian Economic Journal	2
4	Journal of Sustainable Finance and Investment	2
5	Research In International Business and Finance	1
6	Pacific Basin finance Journal	1
7	Isra International Journal of Islamic Finance	1

In table 2 above, the Journal of Islamic Monetary Economics and Finance ranks first with a total of 8 documents, then there is Banks and Banks System ranks second with a total of five documents. In the third stage onwards with a total of two and one document only.

Table 3. Most Cited Documents

Writer	Heading	Quoted by	Journal
Meslier, C., Risfandy, T., Tarazi, A. (2020)	Islamic bank's equity financing, Shariah supervisory board, and banking environment	32	Pacific Basin Finance Journal
Soedarmono, W., Pramono, S.E., Tarazi, A (2017)	The procyclicality of loan loss provisions in Islamic banks	28	Research in International Business and Finance
Laldin, M.A., Furqani, H. (2018)	Islamic financial services Act (IFSA) 2013 and the Shari'ah- complicated requirement of the Islamic finance industry in Malaysia	22	ISRA International Journal of Islamic finance
Ridwan, R., Mayapada, A.G. (2022)	Does sharia governance influence corporate social responsibility disclosure in Indonesia Islamic banks?	22	Journal of Sustainable Finance and Investment
Risfandy, T., Tarazi, A.,	Competition in dual markets: Implications for banking	20	Global Finance Journal

Trinugroho, I. (2022)	system stability		
Alhammadi, S., alotaibi, K.O., Hakam, D.F (2022)	Analysing Islamic banking ethical performance from Maqasid al-shariah perspective: evidence from Indonesia	14	Journal of Sustainable Finance and Investment
Shah, S.A.A., Sukmana, R., Fianto, B.A. (2020)	Integration of Islamic bank specific risks and their impact on the portfolios of Islamic bank	9	International Journal of Islamic and Middle Eastern Finance and Management
Herianingrum, S., Ratnasari, R.T., Widiastuti, T., Amalia, R.C., Fadhilillah, H. (2019)	The Impact of Islamic bank financing on business	9	Entrepreneurship and Sustainability Issues

The four most cited documents are articles written by Meslier, C., Risfandy, T., Tarazi, A. (2020), Soedarmono, W., Pramono, S.E., Tarazi, A (2017), Laldin, M.A., Furqani, H. (2018), Ridwan, R., Mayapada, A.G. (2022), with 32, 28, 22, 22 citations, respectively. The article C., Risfandy, T., Tarazi, A. (2020) discusses the risk sharing feature in equity financing but has not been successfully applied in Islamic banking activities. The article Soedarmono, W., Pramono, S.E., Tarazi, A (2017) examines the reserve of procyclical Islamic bank loan losses through the business cycle. The article Laldin, M.A., Furqani, H. (2018) discusses the observation of the development of sharia governance requirements in the Malaysian Islamic finance industry from its inception to the present. The article Ridwan, R., Mayapada, A.G. (2022) discusses the sharia supervisory board at Indonesian Islamic banks, only focusing on the compliance of Islamic banks with sharia principles.

Table 4. The Most Productive Writer

Writer	Lembaga	Number of Documents
Risfandy, Tastaftiyan	University of Eleven March	3
Tarazi, Amine	University of Limoges	3
Fakhrunnas, hunting	Islamic University of Indonesia	2
Rani, Lina Nugraha	Universitas Airlangga	2
Alhammadi, wrong	Arab Open University Kuwait	1
Ali, A. M. Hasan	Syarif Hidayatullah State Islamic University Jakarta	1

The most productive authors on Islamic banks are Risfandy, Tastaftiyan and Tarazi, Amine from the University of Sebelas Maret and [the Université de Limoges](#) with three articles each. The second prolific writers are Fakhrunnas, Faaza and Rani, Lina Nugraha from the Islamic University of Indonesia and Airlangga University with two articles each. Finally, Alhammadi, Salah and Ali, A. M. Hasan from [Arab Open University Kuwait](#) and [Syarif Hidayatullah State Islamic University Jakarta](#) with one article each. Many Indonesians are productive in writing articles about Islamic banks.

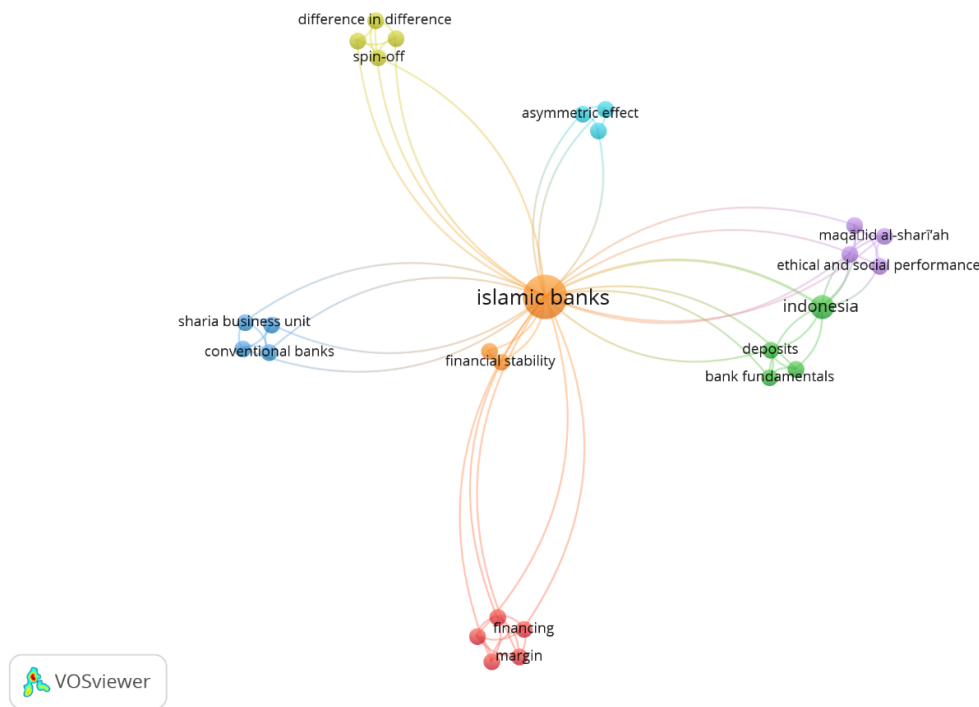


Figure 3. Visualization of keywords with at least 4 appearances

Show a map of the network of keyword articles related to Islamic banks, consisting of twenty-seven (27) keywords. The words in the picture represent the weight of each keyword, and are large, like an Islamic bank and show a larger network. One of the most prominent keywords is discussed in the article in the analyst, and the results are according to table 5, which shows the ten keywords that have the most links, furthermore, the table shows reasonable results, with the keyword "Islamic bank" having the largest network.

Table 5. Concurrent keyword occurrence

Keyword	Occurrences	Total link strength
Islamic banks	7	27
Indonesia	2	9
Ethical and social performance	1	5
Financing	1	5
Maqasid al-shari’ah	1	5
Maqasid al-shari’ah index (msi)	1	5
Margin	1	5
Murabaha	1	5
Simple additive	1	5

weighting (saw)

Small business

1

5

The link between one keyword in the image shows that the distance between the nodes reflects the strength of the relationship between these nodes of the word *kumci*, while a shorter distance indicates a stronger connection. In the picture above. The *kluster* consists of financing, margin. While green consists of Indonesia, deposits, bank fundamentals. On the other hand, the blue cluster has the keywords *sharia business unit*, conventional banks, asymmetric effect and while yellow means difference in difference, spin-off. Finally, the purple cluster contains the keywords *maq'ad al-shari'ah*, ethical and social performance.

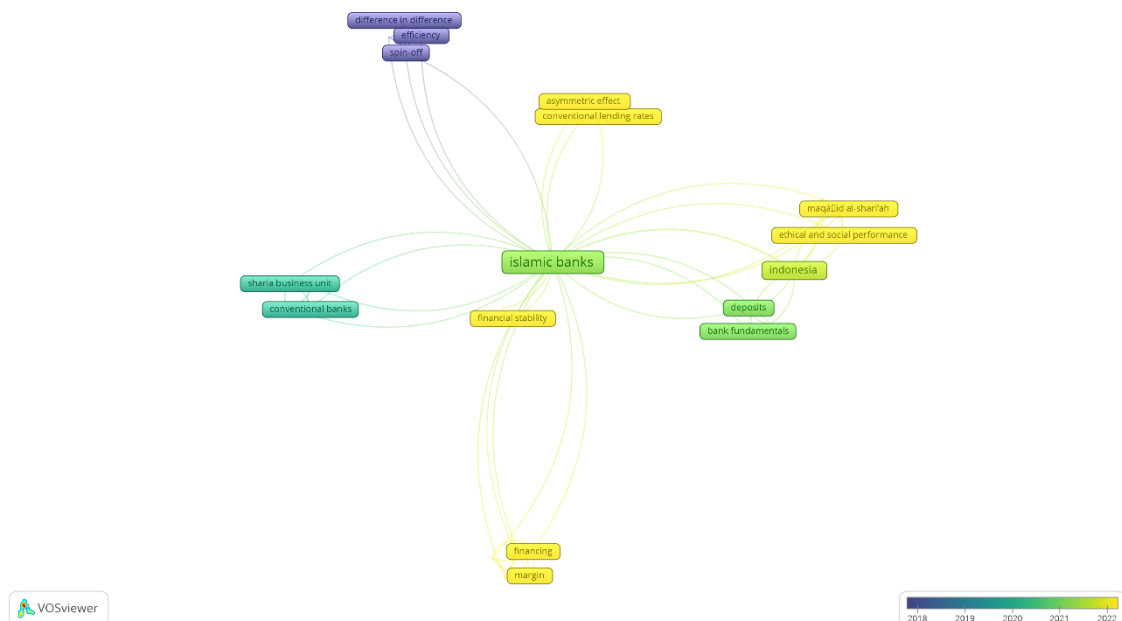


Figure 4. Visualization of current popular topics by keyword

Figure 4 is a visualization of the overlay results of the VOSviewer software, where the current topic is depicted in yellow. In this study, the keywords that will be discussed are Islamic banks, financial stability, and bank fundamentals. The first topic is Islamic banks, where in the last half century, we have witnessed the emergence of Islamic banking and finance, which was originally an expression of the diverse identity of Muslims, to become a mature, large, and rapidly growing industry. Especially since the recent global financial crisis, interest in Islamic banking has increased as a valid alternative to the conventional banking system. Islamic banks have proven to perform better compared to conventional banks, especially before the crisis, and show greater resilience during crises because they are based on the principle of risk sharing as well as the avoidance of leverage and speculative financial products (Suliyono & Risfandy, 2012).

Second, Recently, a growing body of literature has integrated these two dimensions by analyzing the impact of competition on bank stability and risk in the context of a dual banking system. In the existing literature, capitalization is considered a control variable when researching the relationship between competition and financial stability or risk-taking (Azmi et al., 2019). Anand et al. (2012) explored the implications for financial stability contained in bonds issued by banks. The results of the study show that protected bonds can improve the financial stability of banks. In addition, the study also investigated whether a bank's ownership of government bonds could improve the financial stability of the banking system during the sovereign debt crisis. Research findings suggest that government bond ownership can improve the banking system's ability to absorb shocks, and thus, improve overall financial stability (Neyer & Sterzel, 2017). Boyd and De Nicolo (2015) revealed the existence of a risk diversion effect, where increased competition can lower loan interest rates, reduce borrowers' credit risk, and ultimately increase financial stability. Therefore, there is a link between the level of competition and the stability of banks.

The last topic of banking fundamentals, the asset quality component functions to evaluate the condition of banking assets, including in anticipating the risk of default on financing activities. Meanwhile, the liquidity component is used to assess the bank's ability to maintain a stable level of liquidity. In addition, good corporate governance is used to assess the bank's internal managerial ability in carrying out its operations. Maechler and McDill (2006) Draw the conclusion that deposits without insurance protection are responsive to the basic elements of the bank, such as changes in interest rates. The focus is placed on the growth of bank deposits and interest rate differentials. There are several bank risk metrics as a fundamental representation of banks: (1) the ratio of loan loss reserves to gross loans as an indicator of credit risk; (2) the ratio of liquid instruments to total assets as a representation of liquidity risk; (3) a Z score to reflect the risk of bankruptcy; and (4) the logarithm of total assets as a proxy for bank size (Hadad et al., 2011). According to Meslier's (2017) research, conventional banks show sensitivity to the deposit rates of Islamic banks, while Islamic banks only show sensitivity to the deposit rates of Islamic banks which are influenced by their peers, especially in countries with a majority Muslim population.

Conclusion

By assessing 10 scopus articles from 2017 to 2023, it was found that studies related to Islamic banks are still few and these shortcomings can be overcome by developing special journals that focus on research related to Islamic banks. The benefit of this literature review is that it can be used as a reference in determining the next research topic related to Islamic banks. Some research is useful for reference in developing further research based on the identified topic trends, there are also several topics that are recommended to be discussed for researchers who focus on other than Islamic banks.

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