

Accepted Manuscript

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PII: S0927-538X(17)30407-9

DOI: <https://doi.org/10.1016/j.pacfin.2017.12.008>

Reference: PACFIN 986

To appear in: *Pacific-Basin Finance Journal*

Received date: 22 August 2017

Revised date: 31 October 2017

Accepted date: 13 December 2017

Please cite this article as: Md Safiullah, Abul Shamsuddin , Risk in Islamic banking and corporate governance. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Pacfin(2017), <https://doi.org/10.1016/j.pacfin.2017.12.008>

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Risk in Islamic banking and corporate governance

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Abstract

We examine the differences in risk between Islamic and conventional banks with specific attention to the role of Shariah supervisory board (SSB) composition on risk in Islamic banks. Using a sample of banks from 28 countries, we find that Islamic banks have a higher liquidity risk, lower credit risk, lower insolvency risk, but encounter similar operational risk in comparison with conventional banks. Operational and insolvency risks in Islamic banks decline with an increase in SSB size and SSB members' academic qualifications, but increase with an increase in reputed Shariah scholars on the SSB. The SSB attributes do not have significant influence on liquidity and credit risks. The findings are robust to alternative risk measures, and the use of a system GMM estimator.

Key words: Islamic banking, Shariah supervisory board, Ownership concentration, Risk

JEL classification: G21, G32, G34

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We thank Iftekhar Hasan and other discussants for their helpful comments at the Accounting and Finance discipline workshop, 13th–14th July 2016, University of Newcastle, Australia. We also acknowledge helpful comments from participants at the Applied Financial Modelling Conference, 2-3 February 2017, Melbourne, Australia.

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