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Maha Alandejani, Ali M. Kutan, Nahla Samargandi

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DO ISLAMIC BANKS FAIL MORE THAN CONVENTIONAL BANKS?

Maha Alandejani∗, Ali M. Kutan and Nahla Samargandi*****

∗ Alandejani - Department of Economics, Faculty of Economics and Administration, King Abdulaziz University, Jeddah, Saudi Arabia; E-mail: malandejani@kau.edu.sa; Global Risk Intelligence (GRI), London, UK, and Washington, DC, USA

** Kutan - Department of Economics and Finance, Southern Illinois University Edwardsville, IL 62025. Email: akutan@siue.edu

*** Samargandi - Department of Economics, Faculty of Economics and Administration, King Abdulaziz University, Jeddah, Saudi Arabia; E-mail: nsamrgandi@kau.edu.sa; Brunel Macroeconomics Research Centre (BMRC), Brunel University; Member of Eurasia Business and Economics Society (EBES).

Abstract

This study aims to investigate the survival time of Islamic and conventional banks in the Gulf Cooperation Council (GCC) countries, taking into account the impact of the global financial crisis by employing the discrete-time duration models. The empirical application is comprised of 56 commercial banks based in five GCC countries over the period 1995 to 2011. In addition, to examine the differences between banks, a range of explanatory variables from both the bank-level and macro-level are included in several models. The results of hazard and survivor functions indicate that Islamic banks have a higher incidence rate of failure and therefore a shorter survival time than conventional banks. The discrete-time duration model (or the complementary *log-log* model) findings for the all-banks-pooled model confirm that the hazard rate increases with Islamic banks. Furthermore, the analysis of each bank type reveals that the effect of explanatory variables on survival time differs between Islamic and conventional banks. For instance, increasing the net interest margin ratio causes the hazard rate in Islamic banks to rise, whereas this rate is lowered in conventional banks. Among the macro-level variables, a higher inflation rate leads to a higher hazard rate; improving the regulatory quality correspondingly reduces the hazard rate of survival time in the banking sector of countries within the GCC.

Keywords: Islamic banking; conventional banking; survival analysis; continuous-time duration model; discrete-time duration model; GCC.

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