Editorial

Tastaftiyan Risfandy

Faculty of Economics and Business
& Center for Fintech and Banking,
Universitas Sebelas Maret,
Jl. Ir. Sutami 36A Surakarta 57126, Indonesia
Email: tastaftiyan.risfandy@staff.uns.ac.id

Siong Hook Law and Wan Azman Saini Wan Ngah

School of Business and Economics,
Universiti Putra Malaysia,
43400 Seri Kembangan, Selangor, Malaysia
Email: lawsh@upm.edu.my
Email: wazman@upm.edu.my

Jamal Wiwoho

Faculty of Law,
Universitas Sebelas Maret,
Jl. Ir. Sutami 36A Surakarta 57126, Indonesia
Email: jamalwiwoho@staff.uns.ac.id

Irwan Trinugroho

Faculty of Economics and Business
& Center for Fintech and Banking,
Universitas Sebelas Maret,
Jl. Ir. Sutami 36A Surakarta 57126, Indonesia
Email: irwan_t@staff.uns.ac.id

Biographical notes: Tastaftiyan Risfandy earned his PhD from Université de Limoges, France, in 2018. He is now an Assistant Professor at Universitas Sebelas Maret, Indonesia. Currently, he serves as a Coordinator of publication and international relations, a secretary of the Center for Fintech and Banking, and head of undergraduate program of digital business, at Universitas Sebelas Maret. Recently, he visited the University of New Orleans as a post-doctoral awardee under the grant from Fulbright. He has also visited a dozen countries, particularly for research and conference. He has numerous publications in top-tier journals. He is also an active reviewer in many reputable journals. His research interests are banking, finance, Islamic banking, and fintech.

Siong Hook Law is currently a Professor in the School of Business and Economics of Universiti Putra Malaysia (UPM). He holds a PhD in Economics

from the University of Leicester, UK. He was a visiting scholar at Department of Economics, University of California Santa Cruz and Nanyang Technological University of Singapore. He has published more than 120 papers in refereed journals. Most of his published papers utilise panel estimation methods and time series analysis to address issues in development economics, governance, financial development, human capital and innovation. He also published a book entitled "Applied Panel Data Analysis: Short Panels" by UPM press. He was listed as top two percent scientists in the world in the field of economics, based on the 2019 and 2020 Scopus citation rank studied by Stanford University. Publications include *Journal of Banking and Finance, Finance Research letters, Research in International Business and Finance, Journal of Development Economics, Economic Modelling, Journal of Comparative Economics, Economic Systems, World Economy, Economic Letters*, etc.

Wan Azman Saini Wan Ngah is currently an Associate Professor in the School of Business and Economics of Universiti Putra Malaysia (UPM). He holds a PhD in economics from the University of Southampton, UK. He has published more than 70 articles in refereed journals. Most of his published papers utilise time series analysis and panel estimation methods to address issues in international economics, FDI, financial development, and innovation. His publications can be found in *Economic Modelling, Economic Letters, Journal of Banking and Finance, Finance Research letters, the World Economy*, and many others.

Jamal Wiwoho is a Full Professor of Law and currently the Rector of Universitas Sebelas Maret (UNS) for the 2019–2023 period. He graduated with a Doctoral Degree in Law, major in Tax Law and Public Policy in 2005 from the Graduate Program, Universitas Diponegoro, Semarang. In addition to his career as academic staff at the Graduate Program, Faculty of Law of UNS, he served as the Vice Rector for General Affairs and Finance UNS for 2011–2015; the Inspector General of the Ministry of Research, Technology and Higher Education (2015–2019), the Acting Rector of Universitas Negeri Manado (2016) and the Chairman, Council of Rector of Indonesia State Universities (2020–2022). He has published dozens of scientific papers in international and nationally accredited journals; textbooks; research and community development reports; as well as papers in various national newspapers. Moreover, he has been invited to deliver talk and speech in numerous seminar and workshop at national and international levels.

Irwan Trinugroho is a Full Professor of Finance at the Faculty of Economics and Business, Universitas Sebelas Maret (FEB UNS), Indonesia. Currently, he is also the Director of Partnership, Development and International of UNS and the Chairman of the Center of Fintech and Banking UNS. He has published a number of papers in reputed journals including *Journal of Financial Stability, Economic Modelling, Finance Research Letters, Global Finance Journal, British Accounting Review, Economic Systems, Research in International Business and Finance, Journal of Behavioral and Experimental Finance, Borsa Istanbul Review, International Economics, Economics Bulletin, Emerging Markets Finance and Trade, Singapore Economic Review, International Journal of Emerging Markets and Journal of Asia Business Studies*. He also serves as managing editor and associate editor to some reputable journals.

Research in Islamic banks has grown rapidly in line with the development of Islamic banks worldwide. It has been noted by Narayan and Phan (2017) that, by 2017, more than hundreds of papers are published in good journals, and this condition differs from ten years back when the empirical paper was sparse. It has been predicted that studies that compare Islamic vs. conventional banks' business models and performance will be no longer popular, but recent empirical papers still focus on the comparisons between the two bank types (Albaity et al., 2022; Bilgin et al., 2021; Dibooglu et al., 2022; Risfandy et al., 2022; Suripto, 2022). The impact of Covid-19 has also been taken into account to enrich the comparison issue (Aliani et al., 2022; Ashraf et al., 2022). One of the main reasons comparing two bank types remains popular for empirical approach in Islamic banks research is the availability of data. The data for Islamic banks, especially the annual report (balance sheet and income statements), is available both on the banks' websites or in databases such as BvD BankFocus and BvD Osiris. Combining two samples will give an advantage regarding the number of observations and the regression results from the combined sample is usually better. Another reason why the researchers are still interested in comparing two bank types is that the empirical result of investigating Islamic banks' sole performance without comparing them to conventional banks is relatively unsound, flawed, and imperfect.

However, papers focusing solely on Islamic banks' characteristics and performance are actually also developing rapidly. New issues have been investigated in recent publications, such as equity financing (Meslier et al., 2020; Risfandy et al., 2019), 'Islamicity' (Bakhouche et al., 2022), religious agency (Shahzad Virk et al., 2022), spin-off policy for Islamic windows (Trinugroho et al., 2021), and intellectual capital efficiency (Ur Rehman et al., 2022). This special issue, entitled "Islamic banks: Novel topics and challenges", is created to fill the gap in the Islamic banking literature and empirical approach, particularly on the analysis of Islamic banks solely. However, this special issue also contains a comparative analysis of Islamic and its conventional counterparts by considering new empirical strategies. In total, the issue contains five papers that can enrich empirical literature in Islamic banks, especially focusing on recent phenomena that previously have been muted.

The first paper in this issue by Utami et al. (2022) provides a case study of the establishment of Bank Syariah Indonesia (BSI). The new Islamic bank is created through mergers of three state-owned Islamic banks in Indonesia. With total assets of around IDR 240 trillion, BSI is the biggest Islamic bank in Indonesia and ranked 7th among all Indonesian banks. The merger is initiated because of two reasons: (1) to increase the competitiveness of Islamic banks (*market forces reason*) and (2) to increase the capital (*regulatory reason*). Utami et al. (2022), by looking at the concentration ratio and Herfindahl index, finds that the competition in the Indonesian Islamic banking market decreases after the merger. This might be good for the market because dual market competition often leads to lower bank stability, confirming the 'competition-fragility' nexus (Kabir and Worthington, 2017; Risfandy et al., 2022). However, the Indonesian regulator should also be cautious because although the BSI merger previously brought a positive reaction in the stock markets, the stock price of BSI consistently decreased after the mergers.

The second paper, written by Mukhibad et al. (2022), also focuses solely on Islamic banks. They investigate the accounting-based performance of Islamic banks and their relationship with *the Shariah* supervisory board and *maqasid syariah* (the goal of the Islamic law implementation).Using *maqasid shariah* Index, the authors find that *maqasid shariah* is positively associated with profitability. In other words, the more banks comply to the *Shariah*, the better their performance will be. However, Mukhibad et al. (2022) do not find a significant impact on governance variables such as SSB Size, SSB Meeting, SSB Tenure, and SSB expert. The non-significant impact of the SSB could be because of the limited sample size (only Indonesian Islamic banks) that the authors have.

The analysis of only Islamic banks samples and 'ignoring' their conventional counterparts is also presented in the third paper on this issue written by Fairuz et al. (2022). Motivated by the lack of research that associate mosque and Islamic banks, Fairuz et al. (2022) investigate the factors that influence financial inclusion in Indonesian mosques and determinants of mosque leaders' Islamic banks' account ownership. The authors argue that the position of the mosque leaders is important and powerful, as they can influence the governance of the mosque to use only Islamic bank services because of the prohibition of interest/usury (*riba*). The mosque leaders can also have the opportunity to influence their hundreds or even thousands of followers to use only Islamic banks account and ignore conventional bank products. Overall, Fairuz et al. (2022) find that the level of Islamic financial inclusion in Indonesian mosques is considerably low, as most of the Indonesian mosques do not have an Islamic bank account. They also find that the higher education level of the mosque's leader is positively associated with the ownership of Islamic bank accounts, jointly with other factors such as the number of congregants, the size of the building, and how much the donation that the mosque can obtain regularly. The result of the study calls the policymakers (e.g., the ministry of religion) to provide training and workshop to the mosque administrators. The government can also directly intervene in the mosque by suggesting using Islamic banking products.

Nadhilah and Sudrajad (2022)'s work, presented as the fourth paper in this special issue, provides an analysis of the Islamic banks' business model and how it impacts performance and stability. They find that Islamic banks in Indonesia have three business model types: (1) profit-sharing oriented, (2) margin-oriented, and (3) customer-oriented. Nadhilah and Sudrajad (2022) find that only the first two tend to increase profitability and maintain the stability of Islamic banks. Although it uses only a single country, the authors provide an extensive investigation because they use a sample of both full-fledged Islamic banks and Islamic windows, with a total of 31 banks and 948 bank-year observations. Interestingly, Nadhilah and Sudrajad (2022) also provide robustness checks using generalised methods of moments (GMM), a very popular tool in banking and finance research nowadays. The result in overall very strong and several recommendations for future research are also provided by the authors.

Deposits in Islamic banks are a never-ending topic to be discussed. The fact that Islamic banks' deposits mimic their conventional peers have been known by Islamic banks stakeholders. Many papers have confirmed this issue, but it has to note that although Islamic banks' deposit is pegged to their conventional ones, the drivers of deposit rate setting in both bank types are different (Meslier et al., 2017). Islamic banks, therefore, seemed to be less impacted by the competition. Cahyono et al. (2022) provide a novel investigation of the determinants of the deposit rate of Islamic and conventional banks in Indonesia. Different from prior studies focusing on the bank-level determinant, the author focuses on country-level determinants such as industrial production index, inflation, and market interest rates. Cahyono et al. (2022) overall find that the hypothesised variables significantly impact the rate of deposits of Islamic and conventional banks.

The last paper presented in the special issue is a work from Fitri et al. (2022). Focusing on intellectual capital and its relation to performance, the paper is close to Ur Rehman et al. (2022). However, Fitri et al. (2022) uses a different sample. While Ur

Rehman et al. (2022) use 129 Islamic banks from 29 Muslim countries, Fitri et al. (2022) focus on a single country, Indonesia. They used 13 Islamic banks in Indonesia from 2010 to 2019, resulting in 130 bank-year observations. Although there is a cross-country study investigating a similar issue, a study that focuses on a single country is important because it can reveal some country characteristics that cannot be discovered in a multiple-country study. The authors find that intellectual capital positively affects the profitability of Islamic banks in Indonesia. However, as the authors also find that banks' liquidity and financing ineffectiveness also matter for performance, the Indonesian government should monitor those two and suggest that Islamic banks to behave prudently and minimise risk-taking.

All of the abovementioned six papers use Indonesia as a sample. We argue that this is not because of a lack of ideas and data by the authors. Instead, Indonesia provides a unique setting for Islamic banks' analysis because of a couple of factors. First, with approximately 230 million Muslims, Indonesia is the biggest Muslim country in the world. It, therefore, opens an opportunity for Islamic banks to develop and gain a higher market share. Second, according to Refinitiv (2021), Indonesia is ranked 2nd regarding Islamic finance development indicators. In other words, the Indonesian Islamic finance industry is ranked 2nd out of 135 countries worldwide. The assessment is based on five industry development criteria: quantitative development, knowledge, governance, corporate social responsibility, and awareness. Third, Indonesia has plenty of Islamic financial institution types such as Islamic banks, Islamic rural banks, *Baitul maal wat Tamwil* (Islamic cooperatives), Islamic peer-to-peer lending, etc. This setting enables researchers to empirically investigate particular issues using various regression methods.

All in all, the editor wishes that this special issue can provide a new perspective on Islamic banking research and provide an avenue for future empirical work.

References

Albaity, M., Noman, A.H.M., Saadaoui Mallek, R. and Al-Shboul, M. (2022) 'Cyclicality of bank credit growth: Conventional vs Islamic banks in the GCC', *Economic Systems*, Elsevier B.V., Vol. 46,, No. 1, p.100884.

Aliani, K., Alkayed, L. and Boujlil, R. (2022) 'COVID-19 effect on Islamic vs. conventional banks' stock prices: Case of GCC countries', *The Journal of Economic Asymmetries*, Elsevier B.V., p.e00263.

Ashraf, B.N., Tabash, M.I. and Hassan, M.K. (2022) 'Are Islamic banks more resilient to the crises vis-à-vis conventional banks? Evidence from the COVID-19 shock using stock market data', *Pacific-Basin Finance Journal*, Elsevier B.V., Vol. 73, No. May 2022, p.101774.

Bakhouche, A., El Ghak, T. and Alshiab, M. (2022) 'Does Islamicity matter for the stability of Islamic banks in dual banking systems?', *Heliyon*, The Authors, Vol. 8, No. 4, p.e09245.

Bilgin, M.H., Danisman, G.O., Demir, E. and Tarazi, A. (2021) 'Economic uncertainty and bank stability: Conventional vs. Islamic banking', *Journal of Financial Stability*, Elsevier B.V., Vol. 56, No. July, p.100911.

Cahyono, E.F., Rani, L.N. and Mardianto, M.F.F. (2022) 'The determinants of deposits in Islamic and conventional banks: an Indonesian study', *International Journal of Monetary Economics and Finance*, Vol. 15, No. 3, pp.273–292.

Dibooglu, S., Cevik, E.I. and Tamimi, H.A.H. Al. (2022) 'Credit default risk in Islamic and conventional banks: Evidence from a GARCH option pricing model', *Economic Analysis and Policy*, Elsevier B.V., Vol. 75, pp.396–411.

Fairuz, K., Nugraha, A.A., Yudantyo, F.M., Sambodo, N.P., Choiriyah, E.A.N., Pertiwi, U.W. and Sekaringsih, R.B. (2022) 'Do mosques use Islamic bank services? Evidence from Indonesia', *International Journal of Monetary Economics and Finance*, Vol. 15, No. 3, pp.232–252.

Fitri, F.A., Syukur, M., Majid, M.S.A., Farhana, I. and Hatta, F. (2022) 'Do intellectual capital and financing matter for the profitability of the Islamic banking industry in Indonesia?', *International Journal of Monetary Economics and Finance*, Vol. 15, No. 3, pp.293–308.

Kabir, M.N. and Worthington, A.C. (2017) 'The 'competition–stability/fragility' nexus: A comparative analysis of Islamic and conventional banks', *International Review of Financial Analysis*, Elsevier Inc., Vol. 50, pp.111–128.

Meslier, C., Risfandy, T. and Tarazi, A. (2017) 'Dual market competition and deposit rate setting in Islamic and conventional banks', *Economic Modelling*, Elsevier, Vol. 63, No. July, pp.318–333.

Meslier, C., Risfandy, T. and Tarazi, A. (2020) 'Islamic banks' equity financing, Shariah supervisory board, and banking environments', *Pacific-Basin Finance Journal*, Elsevier B.V., p.101354.

Mukhibad, H., Setiawan, D., Rahmawati, R., Rochmatullah, M.R. and Warsina, W. (2022) 'Sharia supervisory board, maqasid syariah, and accounting-based performance: evidence from Indonesia', *International Journal of Monetary Economics and Finance*, Vol. 15, No. 3, pp.213–231.

Nadhilah, F. and Sudrajad, O.Y. (2022) 'Do business models in Islamic bank matters? The effect of business models on bank performance and stability', *International Journal of Monetary Economics and Finance*, Vol. 15, No. 3, pp.253–272.

Narayan, P.K. and Phan, D. (2017) 'A survey of Islamic banking and finance literature: issues, challenges and future directions', *Pacific-Basin Finance Journal*, Elsevier, February, pp.1–13.

Utami, A.D., Risfandy, T. and Rahardjoputri, R. (2022) 'Islamic banks' merger: the case of Bank Syariah Indonesia', *International Journal of Monetary Economics and Finance*, Vol. 15, No. 3, pp.201–212.

Refinitiv. (2021) *Islamic Finance Development Report 2021: Advancing Economies*, available at: https://www.refinitiv.com/content/dam/marketing/en_us/documents/gated/reports/report-2021-all-color2.pdf.

Risfandy, T., Harahap, B., Hakim, A.R., Nugroho, L.I. and Trinugroho, I. (2019) 'Equity financing at Islamic banks: Do competition and bank fundamentals matter?', *Emerging Markets Finance and Trade*, Routledge, Vol. 00, No. 00, pp.1–15.

Risfandy, T., Tarazi, A. and Trinugroho, I. (2022) 'Competition in dual markets: Implications for banking system stability', *Global Finance Journal*, Elsevier Inc., Vol. 52, December 2019, p.100579.

Shahzad Virk, N., Nawaz, T. and Molyneux, P.(2022) 'A canary in a Coalmine! religious agency and its impact on the performance of Islamic banks', *Journal of International Financial Markets, Institutions and Money*, Elsevier B.V., Vol. 78, p.101559.

Suripto. (2022) 'Earnings management determinants: Comparison between Islamic and Conventional banks across the ASEAN region', *Asia Pacific Management Review*, The Authors, No. 3, pp.1–9.

Trinugroho, I., Santoso, W., Irawanto, R. and Pamungkas, P.(2021) 'Is spin-off policy an effective way to improve performance of Islamic banks? Evidence from Indonesia', *Research in International Business and Finance*, Elsevier B.V., Vol. 56, October 2020, p.101352.

Ur Rehman, A., Aslam, E. and Iqbal, A. (2022) 'Intellectual capital efficiency and bank performance: Evidence from islamic banks', *Borsa Istanbul Review*, The Authors, Vol. 22, No. 1, pp.113–121.