

RISK GOVERNANCE AND FINANCIAL STABILITY OF ISLAMIC BANKS: A SYSTEMATIC LITERATURE REVIEW

Bouchaib Marnouch *, Abdelbari El Khamlichi **

* Corresponding author, Laboratory of Studies and Research in Economics Sciences and Management, Chouaib Doukkali University, El Jadida, Morocco

Contact details: Laboratory of Studies and Research in Economics Sciences and Management, Chouaib Doukkali University, El Jadida, Casablanca-Settat Region, 24000, Morocco

** Laboratory of Studies and Research in Economics Sciences and Management, Chouaib Doukkali University, El Jadida, Morocco



Abstract

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The objective of this study is to identify studies that have addressed the impact of risk governance on the financial stability of Islamic banks. This study applied the preferred reporting items for systematic reviews and meta-analyses (PRISMA) method to identify and collect all studies that have addressed the impact of risk governance on the financial stability of Islamic banks. We worked only on articles published between 2000 and 2022. We found a wealth of literature on risk governance and financial stability. Our results identified 80 articles out of a total of 301 considered relevant to our analysis. Our results show that risk governance and financial stability are analyzed separately by researchers, and most researchers have analyzed the impact of risk governance on the performance of conventional, and Islamic banks. Battaglia et al. (2014), Jallali and Zoghalmi (2022), and Raouf and Ahmed (2022) are among the researchers who have analyzed the impact of risk governance on financial stability. This study is the first to carry out a systematic review of the literature on the impact of risk governance on the financial stability of Islamic banks. It could be useful for future academic studies and researchers in this field.

Keywords: Corporate Governance, Risk Governance, Financial Stability, Islamic Banks

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1. INTRODUCTION

The 2007 financial crisis highlighted several weaknesses in the banking sector that led to instability in the banking market. Several shortcomings have been identified in the governance system and risk management in companies particularly within financial institutions (Allemand & Brullebaut, 2010). Over the past ten years, Islamic banking has become one of the fastest-growing industries in the world, with financial assets meeting Islamic criteria increasing after the 2007 financial crisis, reaching \$1.761 billion in 2012; this

expansion reached \$3.058 billion by the end of December 2021 (Islamic Financial Services Board [IFSB], 2022). The business models and underlying products of Islamic banks differ from those of conventional banks insofar as the former follow Sharia rules and principles, which have implications for risk and return characteristics. Islamic commercial law prohibits *riba* (interest), *gharar* (legal ambiguity or excessive risk), *maysir* (gambling). Money is not considered a commodity, nor are depositors' profits and borrowers' costs predetermined by the financing of illegal activities and the sale of debt. Also, the difference between

the governance structure of Islamic financial institutions and the traditional governance structure is the presence of a Sharia committee, which makes the environment of Islamic banks more intense. This complex environment has an impact on the governance of institutions and the regulation of the industry (El Khamlichi et al., 2021).

Risk governance has become a necessity for all banks (including Islamic banks) to better protect them against financial and economic shocks, and to maintain greater financial stability.

Risk governance is defined as a characteristic of banking performance during financial crises (Bani Atta et al., 2023; Agnese et al., 2022; Gani & Mashamba, 2022; Mashamba & Gani, 2022; Aebi et al., 2012). It is also about the resilience of financial systems to stress (Ahmad et al., 2022; Kostyuk & Ivanyi, 2015). According to the International Risk Governance Council (IRGC, 2005), risk governance includes all actors, rules, conventions, processes, and mechanisms relating to the collection, analysis, and communication of relevant risk information, and how management decisions are made. Government authorities and private players collect, examine, and pass on essential risk data while implementing management measures that encompass all risk-related choices and approaches. Theoretically, risk governance refers to the board of directors and management set and control the strategy and risks. According to Rudnycky (2014) and Claessens and Horen (2015), the main role of risk governance is to improve the survival and growth potential of Islamic banks and reduce sudden shocks. Aebi et al. (2012) defined risk governance as a characteristic of banking performance during financial crises.

The notion of financial stability can be defined in many different ways, but broadly speaking, it refers to the absence of systemic events such as crises that impede the smooth functioning of the financial system. It also encompasses the ability of financial systems to withstand stresses (The World Bank, n.d.). According to Deutsche Bundesbank (2003), financial stability generally refers to a steady state in which the financial system efficiently performs essential economic functions such as resource allocation, risk management, and payment settlement. Even in the event of shocks, stressful situations, or major structural changes, risks and adjustments in payment settlement can still occur. According to Padoa-Schioppa and Tommaso (2002), financial stability refers to the ability of the financial system to withstand shocks without being affected by cumulative processes that could compromise the use of savings, investment opportunities, and the functioning of economic transactions.

The aim of this study is to identify studies that have addressed the impact of risk governance on the financial stability of Islamic banks by applying the preferred reporting items for systematic reviews and meta-analyses (PRISMA) method. To the best of our knowledge, this is the first study to systematically review the literature on the impact of risk governance on the financial stability of Islamic banks.

The following specific research questions will guide this systematic literature review:

RQ1: Which scholars have dealt with the governance of bank risks and financial stability?

RQ2: In what types of banks has risk governance and financial stability been studied?

RQ3: What research on risk governance and financial stability merits further study?

The rest of this paper is structured as follows. Section 2 presents a literature review. Section 3 explains the methodology used in this research, while Section 4 examines the results of the research. Section 5 discusses the results obtained in the previous section, and finally, Section 6 draws conclusions and provides perspectives for future research.

2. LITERATURE REVIEW

Despite the fact that Islamic banking has experienced rapid growth in various countries, the literature on Islamic banking remained limited. It was only after the global financial crisis that there was renewed interest among practitioners and academics in finding viable and resilient alternative models of financial intermediation (Beck et al., 2013).

A growing number of studies are conducting empirical investigations into the risk governance and financial stability of Islamic banks compared with conventional banks. Regarding risk governance, some scholars have analyzed the internal structure and mechanisms of risk governance in Islamic and conventional banks. Stein et al. (2019) have focused on the structure and characteristics of risk governance. Nahar et al.'s (2020) results indicate a positive relationship between risk disclosure and bank governance characteristics. Dupire and Slagmulder (2019) showed that financial institutions with strong ownership have less presence of the Chief Risk Officer (CRO) and Risk Committee.

Other specialists have carried out empirical studies to analyze the relationship between risk governance and the performance of Islamic and conventional banks (Aebi et al., 2011; Ellul & Yerramilli, 2013; Bezzina et al., 2013; Battaglia et al., 2014; Hassan & Mollah, 2014; Zemzema & Kacem, 2014; Battaglia & Gallo, 2015; Cavezzali & Gardenal, 2015; Rahim et al., 2015; Mullah et al., 2016; Nahar et al., 2016; Farhan Malik et al., 2019; Erin et al., 2018; Karyani et al., 2019; Chen et al., 2019; Hassan et al., 2019; Yahaya et al., 2020; Agnese & Capuano, 2020; Nahar & Jahan, 2021; Bhuiyan et al., 2021; Zhang et al., 2021). Their empirical studies indicate a positive impact of risk governance on performance. These studies drew the same conclusions despite differences in location, sample, and methodology.

Another category of researchers (Aljughaiman & Salama, 2019; Abid et al., 2021; Bhuiyan et al., 2021) found a relationship between risk governance, risk management, and risk-taking in conventional and Islamic banks.

In terms of financial stability, some scholars (Hassan & Dridi, 2010; Ahmad & Noor, 2011; Shajari et al., 2012; Altaee et al., 2013; Chakroun & Gallali, 2015; Al-Wesabi & Yusof, 2020) have found a negative impact of the financial crisis on the financial stability of banks. In contrast, Alharthi (2017) and Alqahtani et al. (2018) found that the financial crisis had no impact on the financial stability of banks.

Gamaginta and Rokhim (2011), Rahim and Zakaria (2012), Bourkhis and Nabi (2013), Rajhi and Hassairi (2013), Abedifar et al. (2015), Korbi and

Bougatef (2017), Sakarya (2016), Elbadri and Bektaş (2017), Hossain and Imam (2018), Abdul Karim et al. (2018), Ghassan and Guendouz (2019), Nosheen & Rashid (2021), Boulanouar et al. (2021), Safiullah (2021), Tekdogan and Atasoy (2021), Albaity et al. (2021), Mabkhot and Al-Wesabi (2022), Asif et al. (2022), and Hafez (2022) have compared the financial stability of Islamic banks with that of conventional banks.

Ashraf et al. (2016), Alharthi (2017), Kadir et al. (2017), Yomna and Kammoun (2020), and Ledhem (2022) analyzed only the financial stability of Islamic banks.

Overall, the literature on risk governance and financial stability of Islamic and conventional banks presents different results. Previous studies show differences in samples, research contexts, research periods, and estimation methods.

3. METHODOLOGY

Systematic reviews have become increasingly important in the financial sector, making it possible

to update information on a given subject regularly. Indeed, several methods can be used to conduct a systematic literature review, such as the preferred reporting items for systematic reviews and meta-analyses (PRISMA) method, the protocol, search, appraisal, synthesis, analysis, and report (PSALSAR) method, and the search, appraisal, synthesis, and analysis (SALSA) method. Consequently, we conducted a systematic review of the literature using the PRISMA method. This systematic approach involves the following three main steps. The first is identification, which consists of collecting and recording all studies dealing with our subject. Second, we screened through filtering and excluding research outside the scope of the research topic. Third, all the studies were included in the analysis.

To frame the research work, we used the following keywords: "Risk governance", "Financial stability", "Islamic banks", and "Financial crisis". In addition, a search for terms in English was performed.

Table 1 below shows the expressions and combinations used in the search.

Table 1. Combinations of selected keywords and their synonyms used in the study

Letter	Keywords	Synonym 1	Synonym 2	Combination
A	Risk governance	Risk management	Risk management	A+B+C
B	Financial stability	Financial security	-	B+A+C
C	Islamic banks	Islamic financial institutions	Islamic finance	C+D+A C+D+B
D	Financial crisis	Economic crisis	-	A+B+D

Source: Authors' elaboration.

Our working database includes all articles published between 2000 and 2022. For this study, the articles were retrieved from the following databases: Science Direct, Scopus, Emerald, Springer Link, Jstor, and Google Scholar.

The software then conducted the analysis and transcription of the selected articles (Nvivo 11). The coding and grouping phase of articles by nodes was based on a methodical approach following a word or word cloud query method to identify, in the selected articles, words that are often repeated and whose relevance is apparent in the word cloud.

The selection criteria for the articles included and excluded from the study were as follows:

Inclusion criteria:

- Included articles must contain one of the following keywords: "Risk governance", "Financial stability", and "Islamic banks".

- Articles that explore the impact of risk governance on the financial stability of Islamic banks.

Exclusion criteria:

- Repeated articles.
- Articles published before 2000.
- Articles published in languages other than French and English.
- Off-topic articles.
- Documents other than journal articles.

4. RESULTS

In total 301 articles were included. After excluding articles that did not meet the inclusion criteria, 120 were obtained (Table 2).

Table 2. Results of the exclusion process

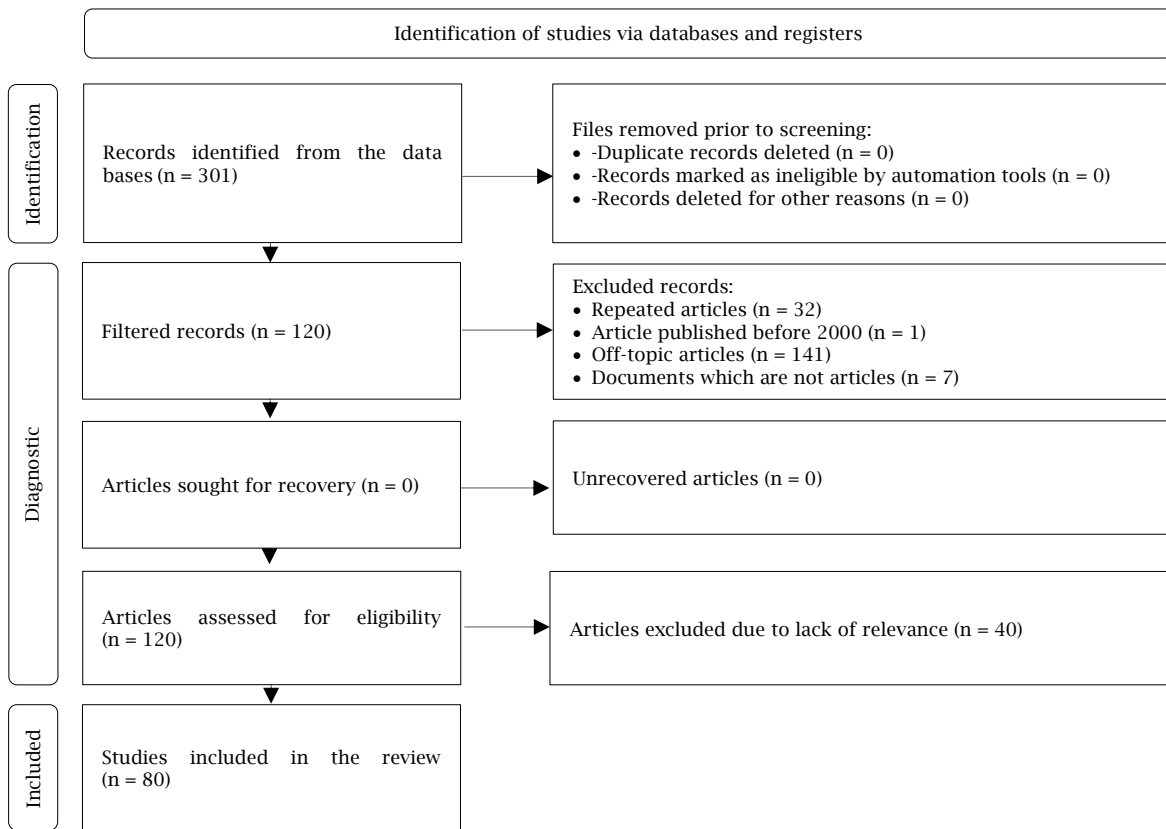
Database	Collected articles	Repeated articles	Articles published before 2000	Articles published in languages other than French and English	Off-topic articles	Documents other than articles	Selected articles
Google Scholar	96	12	0	0	47	4	33
Emerald	35	3	0	0	9	0	23
Science Direct	48	9	1	0	14	0	24
Scopus	105	8	0	0	62	3	32
Springer Link	8	0	0	0	2	0	6
Jstor	8	0	0	0	5	0	3
Total	301	32	1	0	141	7	120

Source: Authors' elaboration.

We collected 301 articles in the identification phase based on the keywords listed in Table 1. In the screening phase, we excluded 180 articles including 32 repeated articles, only one article published before 2000, 141 off-topic articles (based on reading the title and abstract), and 7 documents

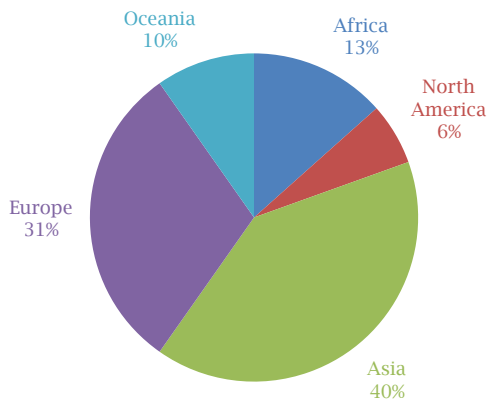
that were not articles. In the inclusion phase, 120 articles that met the inclusion criteria were selected. After reading and analyzing all selected articles, we removed 40 articles and retained only 80 articles for systematic review.

Figure 1. Diagram showing the steps of the systematic literature review



We found that original articles from Asia and Europe account for 40% and 31% of all articles that are included in the systematic review, respectively. Africa accounted for 13%, Oceania for 10%, and North America for 6%.

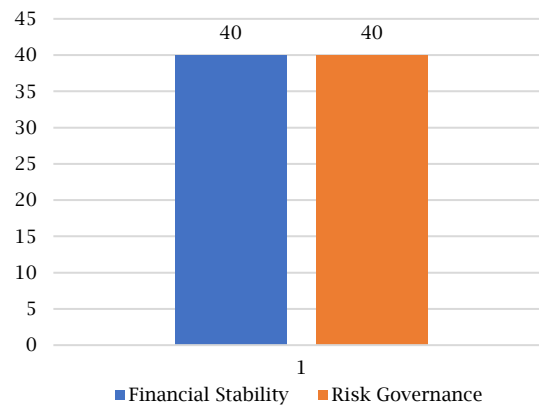
Figure 2. Continents and publications



Source: Authors' elaboration.

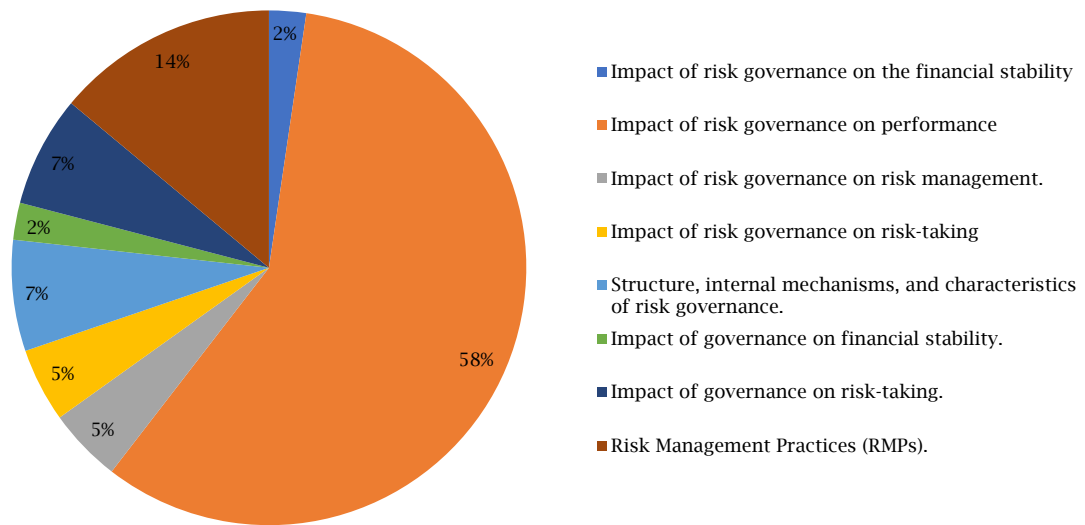
After a thorough reading of 80 selected articles, we filtered the articles according to whether they dealt with “Risk governance” and “Financial stability”. We identified 40 articles dealing with financial stability and 40 articles on risk governance.

Figure 3. Articles by theme



Source: Authors' elaboration.

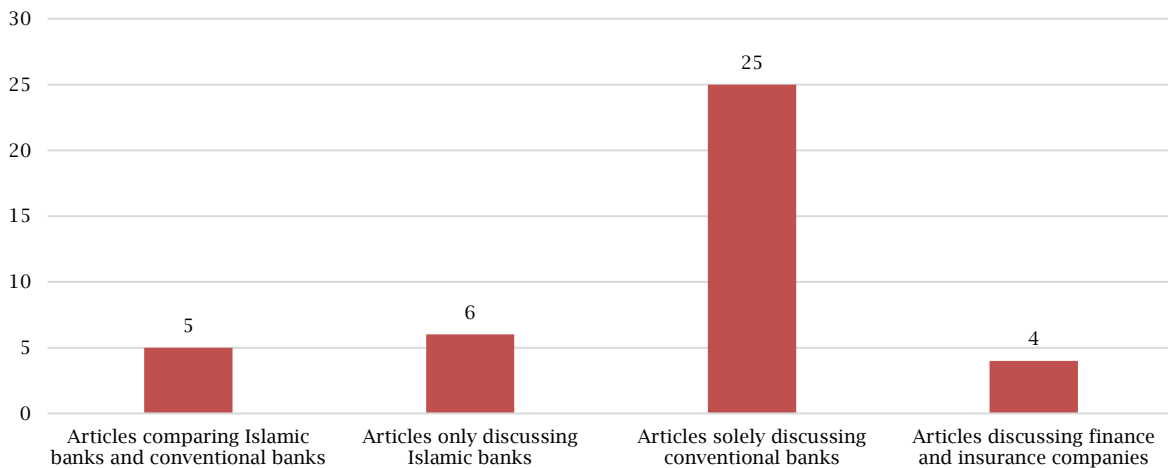
Figure 7. Key directions for risk governance



Source: Authors' elaboration.

We identified 5 articles comparing Islamic and conventional banks, 6 articles dealing only with Islamic banks, and 4 articles dealing with finance and insurance companies. As a result, the majority of researchers examined risk governance within conventional banks, with a total of 25 articles.

Figure 8. Risk governance: Distribution of articles by bank type



Source: Authors' elaboration.

Table 3a. Risk governance: Articles comparing Islamic banks and conventional banks

Aspects discussed	Authors
Impact of risk governance on the financial stability of Islamic and conventional banks	Raouf and Ahmed (2022)
Impact of risk governance on risk management	Aljughaiman and Salama (2019)
Impact of risk governance on risk-taking	Aljughaiman and Salama (2019)
Risk Management Practices (RMPs)	Abu Hussain and Al-Ajmi (2012), Shafique et al. (2013), and Elgharbawy (2020)

Source: Authors' elaboration.

Table 3b. Risk governance: Articles discussing only Islamic banks

Aspects discussed	Authors
Impact of risk governance on performance	Mullah et al. (2014), Rahim et al. (2015), Mullah et al. (2016), Jallali and Zoghlami (2022)
Risk management practices (RMPs)	Hassan (2009), Khalid and Amjad (2012)

Source: Authors' elaboration.

Table 3c. Risk governance: Articles discussing only conventional banks

<i>Aspects discussed</i>	<i>Authors</i>
Impact of risk governance on performance	Aebi et al. (2011), Ellul & Yerramilli (2013), Bezzina et al. (2013), Battaglia et al. (2014), Zemzema & Kacem (2014), Cavezzali and Gardenal (2015), Battaglia and Gallo (2015), Nahar et al. (2016), Amoozegar et al. (2017), Karyani et al. (2019), Chen et al. (2019), Hassan et al. (2019), Yahaya et al. (2020), Agnese and Capuano (2020, 2021), Nahar and Jahan (2021), Zhang et al. (2021), Zhang et al. (2022)
Impact of governance on risk-taking	Akhigbe et al. (2008), Pathan (2009), Laeven and Levine (2009)
Impact of risk governance on risk-taking	Abid et al. (2021)
Structure, internal mechanisms, and characteristics of risk governance	Dupire and Slagmulder (2019), Nahar et al. (2020)
Impact of governance on financial stability	Ellis et al. (2014)
Risk management practices (RMPs)	Bezzina et al. (2013)

Source: Authors' elaboration.

Table 3d. Risk governance: Articles discussing finance and insurance companies

<i>Aspects discussed</i>	<i>Authors</i>
Impact of risk governance on performance	Erin et al. (2018), Farhan Malik et al. (2019), Bhuiyan et al. (2021)
Impact of risk governance on risk management	Bhuiyan et al. (2021)
Structure, internal mechanisms, and characteristics of risk governance	Stein et al. (2019)

Source: Authors' elaboration.

Ellis et al. (2014) explored the links between the governance of banking institutions, systemic risk, and financial stability. They examined three important incentives for leaders to take risks. These incentives give rise to three distinct principal-agent problems. The first delegation challenge stems from the asymmetry of the returns of shareholders and creditors. The second problem for principals and agents is the divergence of interests between shareholders and managers. The ultimate principal-agent problem arises between debtors and businesses.

Rahim et al. (2015) explored the influence of risk governance on Islamic bank performance using a sample of 200 Islamic institutions across 21 countries for the year 2014. The results of this study revealed that risk governance acts as a mediating variable that significantly effects on the performance of Islamic banks. They also noted that risk management has a significant influence on the results of banking institutions.

Nahar et al. (2016) examined the link between risk governance and bank performance in a country where risk disclosure is virtually left to the discretion of financial institutions. The study is based on a sample of 30 listed commercial banks in Bangladesh between 2006 and 2012. The results showed a significant correlation between risk governance and performance measures in the banking sector.

Amoozegar et al. (2017) examined whether CROs and their risk management staff can protect financial institutions from litigation-prone securities law violations and whether these can improve bank performance. Results showed that good risk governance reduces a company's likelihood of litigation.

Erin et al. (2018) examined the impact of risk governance on the performance of 11 deposit banks in Nigeria for the period 2012 to 2016. The empirical results showed that, with the exception of Chief Risk Officer centrality (CRO_centrality), all explanatory variables have a significant positive impact on the performance of Nigerian listed banks.

Chen et al. (2019) examined the extent and effectiveness of improvements in bank risk governance following the 2007–2008 financial crisis. In their analysis, the researchers used a sample of 30 matched banks that were at the center of the financial crisis. The results showed that banks with poorer capital performance had weaker risk governance in the year prior to the financial crisis, compared with banks with superior capital performance. Two years after the financial crisis, underperforming banks took corrective action to improve risk governance, enhance risk management, and boost equity performance.

Aljughaiman and Salama (2019) firstly examined the effects of establishing a board-level risk committee and appointing a chief risk officer on the risk-taking practices of financial institutions. Secondly, they examined whether these mechanisms enhance the risk management effectiveness of 65 banks (28 conventional banks and 37 Islamic banks) in the Middle East and North Africa (MENA) region over the period 2005 to 2015. The results found a negative relationship between the Risk Governance Index (RGI) of both types of banks and their post-crisis risk outlook. In addition, the researchers found that the performance of traditional banks was more closely linked to risk-taking in banks with stronger risk committees. Furthermore, the board-level risk committee improves the effectiveness of credit institutions' internal risk management but does not affect the effectiveness of credit institutions' internal risk management.

Karyani et al. (2019) studied the impact of risk governance on operational risk disclosure and performance of banks in five Asian countries. The researchers worked on a sample of 285 annual bank observations, including data collected manually between 2010 and 2014. The results suggested that, in line with agency and stakeholder theory, risk governance practices can support banks to enhance operational risk disclosure whereas reducing ROA and price-earnings ratio.

Hassan et al. (2019) explored the relationship between risk governance mechanisms and the performance of a sample of 109 banks from 8 Asian emerging economies between 2011 and 2015. The results proved that there is a noticeable positive correlation between risk governance mechanisms and bank performance represented by liquidity.

Nahar et al. (2020) explore the association between risk disclosure and bank governance characteristics. Their results indicate a positive relationship between risk disclosure and bank' governance characteristics. Dupire and Slagmulder (2019) studied the risk governance practices of European financial institutions and how corporate governance characteristics quantitatively regroup, in particular the ownership structure and independence of the board of directors. The results showed that financial institutions with strong ownership (i.e., those with more than 20% ownership) have less presence of the CRO and Risk Committee. Furthermore, state-controlled institutions and those with independent boards of directors have more autonomous risk committees.

Yahaya et al. (2020) examined the impact of risk governance on the performance of 50 listed commercial banks in the Sub-Saharan African region of six Sub-Saharan African countries was constituted between the periods 2010–2018. The results revealed that members with risk experience have a significant positive impact on bank performance. Recognition of the CRO function in bank corporate governance also contributes to improved bank performance.

Abid et al. (2021) examined the impact of Risk Committee characteristics and the CRO on risk-taking behavior in 185 Asian commercial banks after the global financial crisis, during the period 2010–2017. The results point to a significant negative impact between risk governance mechanisms and risk-taking by private banks compared with Asian public banks. Furthermore, risk governance mechanisms had a positive impact on the performance of Asian private banks, while they had no impact on the performance of Asian public banks.

Agnese and Capuano (2021) examined how recent literature analyses aspects of risk governance within financial institutions in order to identify possible relationships between bank profitability and risk. The results of the literature review showed that the literature on risk governance has progressed since the outbreak of the global financial crisis and that the quantitative research carried out has used multiple regression models in its studies. Although the literature has shown, the conclusions drawn from the literature review point to a general trend of increasing attention to risk governance by financial institutions, which tends to be linked to better performance.

Zhang et al. (2021) examined the link between risk governance mechanisms and risk-taking performance of 44 Chinese banks listed on the stock exchange from 2005 to 2018. The results confirm the crucial role of governance as a business driver, highlighting the contribution of internal risk governance and external capital regulation to increasing bank profitability. Although the higher the risk governance index, the weaker the effect of

risk governance on reducing banks' risk-taking behavior, the stronger the effect on bank performance.

Zhang et al. (2022) explained the effect of risk governance on the increase in risk, and decrease in the benefits of economic uncertainty, and on the profitability of Chinese commercial banks during the period 2005–2018. The results showed that when strong risk governance mechanisms are in place, economic uncertainty tends to have a less significant impact on bank risk and performance. Furthermore, risk governance plays an essential role in mitigating the negative effects of economic uncertainty on banks and promoting sustainable growth in the banking sector.

Jallali and Zoghلامي (2022) studied the mediating role of risk governance mechanisms in explaining the following two relationships: that between corporate governance and bank performance, and that between risk management and bank performance. The results showed the important role of risk governance mechanisms in enhancing the effectiveness of corporate governance and risk management. Furthermore, risk governance fully explains the relationship between corporate governance and bank performance.

Raouf and Ahmed (2022) examined the specific role of risk governance in strengthening the financial stability of banks. This study developed a Risk Governance Index (RGI) based on 325 observations to assess the robustness of risk governance systems. They examined the impact on the financial stability of traditional and Islamic banks in the Gulf Cooperation Council (GCC) countries. The results showed that the RGI of Islamic banks is lower than that of conventional banks and that risk governance in Islamic banks has an unfavorable impact on stability measures.

Regarding the impact of risk governance on the performance of Islamic and conventional banks, most empirical studies indicate a generally positive impact of risk governance on performance (Aebi et al., 2011; Ellul & Yerramilli, 2013; Bezzina et al., 2013; Battaglia et al., 2014; Hassan & Mollah, 2014; Zemzema & Kacem, 2014; Battaglia & Gallo, 2015; Cavezzali & Gardenal, 2015; Rahim et al., 2015; Mullah et al., 2016; Nahar et al., 2016; Farhan Malik et al., 2019; Erin et al., 2018; Karyani et al., 2019; Chen et al., 2019; Hassan et al., 2019; Yahaya et al., 2020; Agnese & Capuano, 2020; Nahar & Jahan, 2021; Bhuiyan et al., 2021; Zhang et al., 2021). These studies came to similar conclusions, even if the locations, samples, and methods were different.

Other studies have dealt with the relationship between risk governance and risk-taking in Islamic banks (Pathan, 2009; Laeven & Levine, 2009; Akhigbe et al., 2008) and have proven the positive impact of risk governance on risk-taking.

Other researchers have also focused on the structure and characteristics of risk governance. Stein et al. (2019) framed the concept of risk governance in the field of governance and risk management research.

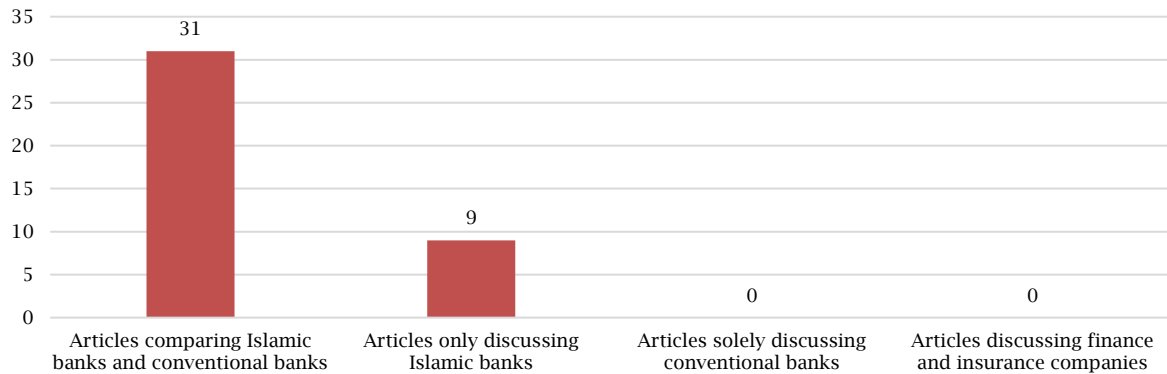
Other researchers (Hassan, 2009; Shafique et al., 2013; Bezzina et al., 2013; Abu Hussain & Al-Ajmi, 2012; Khalid & Amjad, 2012; Khalid & Amjad, 2012; Elgharbawy, 2020) have highlighted the risk management practices adopted by Islamic and conventional banks in countries such as

Pakistan, Bahrain, Brunei Darussalam, and Malta. Researchers have conducted qualitative empirical studies. Their results concluded that banks in these countries have a good understanding of the different types of risks and risk management, as well as effective risk identification and management practices.

4.2. Financial stability

We have 9 articles that analysed only Islamic banks. Indeed, most researchers are much more interested in comparing financial stability between conventional and Islamic banks, with a total of 31 studies.

Figure 9. Financial stability: Articles distribution by bank type



Source: Authors' elaboration.

Table 4a. Financial stability: Articles comparing Islamic banks and conventional banks

Aspects discussed	Authors
Financial stability	Gamaginta and Rokhim (2011), Rahim and Zakaria (2012), Nguyen et al. (2012), Beck et al. (2013), Abedifar et al. (2015), Mirza et al. (2015), Altaee et al. (2013), Bourkhis and Nabi (2013), Hassan and Dridi (2010), Chakroun and Gallali (2015), Belouafi et al. (2015), Korbi and Bougatef (2017), Rashid et al. (2017), Elbadri and Bektaş (2017), Yomna and Kammoun (2020), Shajari et al. (2012), Alqahtani et al. (2018), Rajhi and Hassairi (2013), Hossain and Imam (2017), Abdul Karim et al. (2018), Ghassan and Guendouz (2019), Kamran et al. (2019), Al-Wesabi and Yusof (2020), Nosheen and Rashid (2021), Boulanouar et al. (2021), Safiullah (2021), Tekdogan and Atasoy (2021), Albaity et al. (2021), Mabkhot and Al-Wesabi (2022), Asif et al. (2022), Hafez (2022)

Source: Authors' elaboration.

Table 4b. Financial stability: Articles discussing only Islamic banks

Aspects discussed	Authors
Financial stability	Čihák and Hesse (2010), Ahmad and Noor (2011), Faye et al. (2013), Ghosh (2014), Alharthi (2017), Ashraf et al. (2016), Sakarya (2016), Kadir et al. (2017), Ledhem (2022)

Source: Authors' elaboration.

Čihák and Hesse (2010) provide a cross-national empirical analysis of the role of Islamic banking institutions in maintaining financial stability. They used the Z-score as a measure of the individual stability of the banks in the sample. They found that, in general, large Islamic banks had a higher level of risk than small Islamic banks and banks of similar size. On the other hand, small Islamic banks tended to be more stable than small commercial banks.

Hassan and Dridi (2010) examined the impact of the crisis on profitability, credit, and asset growth, as well as the external assessments of a group of countries characterized by significant dual banking activity and market share. The research shows that from 2008 to 2009, Islamic banks recorded higher credit and asset growth than conventional banks. This trend has played an important role in maintaining financial and economic stability. Moreover, the intrinsic characteristics of Islamic banks' operating models played a crucial role in mitigating the negative impact on profitability in 2008. Nevertheless, imperfections in some Islamic banks' risk

management practices led to a sharper decline in profitability compared with conventional banks in 2009.

Ahmad and Noor (2011) examined the performance of global Islamic banks in the context of the 1997 Asian financial crisis and the 2008 global financial crisis. Their study covered 25 countries in the Muslim world between 1997 and 2009. The empirical findings of this study suggest that Islamic banks were prepared for a global financial crisis.

Gamaginta and Rokhim (2011) conducted an empirical study of 83 Indonesian banks, including 12 Islamic banks, between 2004 and 2009. The results showed that Islamic banks reported a low level of stability compared with their conventional counterparts. Nevertheless, the stability of small Islamic banks is comparable to that of small conventional banks.

Rahim and Zakaria (2012) studied the behavior of 21 conventional and 17 Islamic banks in Malaysia between 2005 and 2010. They used the Z-score to measure financial stability. The results show that

the financial stability of Islamic banks outstrips that of conventional banks.

Shajari et al. (2012) studied financial stability, examining the Z-score of the Islamic banking system in 20 countries over the period from 2000 to 2010. They compared the stability of Islamic banks with commercial banks, both before and after the financial crisis. The empirical results show that large Islamic banks are more stable than large commercial banks, while small Islamic banks have lower Z-score than small commercial banks. Also, the study indicates that small Islamic banks are more stable than large Islamic banks after the financial crisis.

Nguyen et al. (2012) explored the drivers of financial stability among South Asian banks in 4 countries (Bangladesh, India, Pakistan, and Sri Lanka) for the period 1998–2008. They use the Z-score. The results show that market banks are more stable when they diversify into non-traditional activities. In addition, size, total non-interest income, capital ratio, market capitalization as a percentage of gross domestic product (GDP), and GDP growth rate increase the Z-score.

Beck et al. (2013) analyzed the commercial orientation, efficiency, and stability of traditional and Islamic banks. The average Z-score indicators revealed that Islamic banks have a significantly lower credit risk. Moreover, most of the results show no significant differences between the two banking systems.

Altaee et al. (2013) selected a sample of 97 banks including 42 Islamic banks in the GCC countries between 2003 and 2010. The results showed no significant difference in financial stability between conventional and Islamic banks over the periods 2003–2010, 2003–2007, and 2008–2010. However, it has been observed that traditional banks generally show stronger financial health than Islamic banks after a financial crisis.

Bourkhis and Nabi (2013) selected a sample of 68 banks, including three Islamic banks, in 16 countries from 1998 to 2009. The results show that Islamic banks are more stable than conventional banks, although no significant difference is observed between the two types of banks.

Rajhi and Hassairi (2013) conducted an empirical study to compare the financial stability of Islamic and conventional banks, based on a sample of banks in 16 countries where both types of banks coexisted over the period 2000–2008. Their study also explored the factors contributing to insolvency risk among nations in the Middle East, North Africa, and South Asia. The results show that Islamic banks have on average higher Z-score than conventional banks. These results differ from those of Čihák and Hesse (2010). The results also show that credit risk and income diversification are the most common factors associated with Islamic bank insolvency.

Faye et al. (2013) explored the resilience of Islamic finance in 15 African countries over the period 2005–2012, using the Z-score and the ratio of equity to total assets (ROA). Their results show that financial stability and capitalization are significantly and inversely impacted by bank size. In addition, greater restrictions on banking activities imposed by the government have improved financial stability and reduced the risk of insolvency.

Ghosh (2014) shows that banks typically reduce capital in response to increased risk rather than out of bad behaviour. Also, Islamic banks have increased their capital relative to their counterparts.

Abedifar et al. (2015) compared the stability of Islamic and conventional banks in 24 countries over the period 1999 to 2009. The results show that small conventional banks are less stable than small Islamic banks, due to their higher-level capitalization.

Chakroun and Gallali (2015) surveyed the differences between Islamic and traditional models in terms of stability and bank risk. Their study was carried out on 136 banks operating in the GCC countries between 2003 and 2012, using the Z-score as an indicator of financial stability. These banks included 50 Islamic banks and 86 conventional banks. They found that traditional banks were the hardest hit by the financial crisis. Next, they study the impact of Islamic banking institutions on financial soundness by assessing how their market share influences the supply of credit. The results suggest that an increase in the market share of lending by Islamic banks has a negative effect on financial stability, leading to an increase in the market share of conventional banks and thus improving overall financial stability.

Belouafi et al. (2015) presented a critical review of the literature on Islamic economics and finance, assessing the stability of the Islamic financial system and its institutions compared with the conventional interest-based system. The authors analyzed 34 surveys conducted over 30 years, from 1983 to 2013. The results made it possible to identify two main periods: The subprime era before and after the financial crisis. Before the crisis, theoretical research was the main focus, and after the crisis, empirical research was the main focus. The results also reveal a significant disparity between the theory and practice of Islamic finance.

Mirza et al. (2015) examined the potential performance of traditional banks, Islamic banks, and non-bank financial institutions (NBFIs) in Pakistan. The analysis took into account elements such as business dynamics, profitability, asset quality, and financial stability, using data collected between 2005 and 2013. The results show that Islamic banks have greater financial stability and asset quality than conventional banks.

Ashraf et al. (2016) focus in their study on the financial stability indicators of 173 Islamic banks in 30 countries. The results of their study highlight those large Islamic banks are less stable than smaller ones. Moreover, during the global financial crisis of 2007–2009, Islamic banks managed to improve their financial stability. Finally, Islamic banks operating in Muslim-majority countries show greater stability than those in non-Islamic countries.

Sakarya (2016) also used the Z-score to assess the soundness of Islamic versus conventional banks in Turkey. The results show that Islamic banks demonstrate higher stability than their conventional counterparts.

Korbi and Bougatef (2017) compared the insolvency risk of 224 banks, 68 of which were Islamic, for the period 1999–2014. The results showed that the financial stability of conventional banks is superior to that of Islamic banks, furthermore, the researchers explored the factors

impacting the financial stability of 2 types of Islamic and conventional banks. Their main conclusion is that regulatory capital plays a crucial role in financial stability, demonstrating a positive correlation with the strength of the banking sector.

Alharthi (2017), based on data collected between 2005 and 2014 from 18 Islamic banks operating in the GCC countries, highlights that the size and stability of Islamic banks have a significantly positive impact on their profitability. With regard to external factors, it is interesting to note that inflation has a significant negative effect on profitability, while market capitalization has a positive and significant impact on returns. Overall, the global financial crisis has not affected the financial performance or stability of Islamic banks.

Kadir et al. (2017) studied the impact of Basel III-compliant capitalization, liquidity, and leverage ratios on the financial stability of Islamic banks in four specific Asian countries: Malaysia, Indonesia, Singapore, and Thailand. The results indicate that capital and leverage requirements have a significant impact on the stability of Islamic banks in these four Asian nations. In contrast, the liquidity ratio has no significant influence on the stability of Islamic banks.

Rashid et al. (2017) examined the impact of Islamic banks on financial stability in Pakistan by assessing the strength of their financial position and their overall contribution to banking system stability. In addition, they studied how the competitive behavior of banks is related to the stability of the banking system. This study was carried out with a sample of 20 banks in Pakistan (comprising 10 conventional banks, 4 Islamic banks, and 6 independent branches of conventional banks) for the period 2006 to 2012. The results indicate that income diversity, rate of return, loan-to-asset ratio, asset size, and degree of market concentration have a significant influence on bank stability, as assessed by the Z-Score. Furthermore, the findings demonstrate that Islamic banks outperform conventional banks in terms of performance, thus contributing more effectively to the stability of the financial sector.

Elbadri and Bektaş (2017) examined and compared the financial stability of banks operating in Turkey between 2006 and 2015, focusing on a sample of 5 Islamic and 24 conventional banks. Financial stability was measured using the Z-score. The results revealed several interesting findings. Firstly, large commercial banks show lower financial stability than small commercial banks, while large Islamic banks show lower financial stability than large conventional banks. Secondly, there is a trend towards better financial stability among small Islamic banks compared with large Islamic banks. In addition, internal variables such as bank size, loan-to-asset ratios, cost-to-income ratios, and income diversification have a negative impact on financial stability, as do external variables such as the financial crisis and oil price fluctuations. These external factors such as the financial crisis, oil price fluctuations, and political stability have a significant and negative impact on banks' financial stability. However, it is interesting to note that share prices have a positive and significant influence on the financial stability of banks operating in Turkey.

Furthermore, the impact of macroeconomic variables such as GDP and inflation on the financial stability of banks in Turkey has been considerable.

Alqahtani et al. (2018) conducted their analysis based on a sample of 76 banks in the GCC region between 2000 and 2013. They found that during the global financial crisis, the disparities between the two categories of banks were negligible. However, it became clear that Islamic banks were much more vulnerable to financial instability than their conventional counterparts.

Hossain and Imam (2018) studied the relative financial stability of Islamic banks in Bangladesh using a sample of 29 listed banks (23 conventional and 6 Islamic) between 2005 and 2016. The results of their analysis suggest that, according to a two-panel regression of Z-score (based on infection rate), Islamic banks exhibit superior financial stability. In addition, they found that the presence of Islamic banks contributes to the overall stability of the banking system, including that of conventional banks.

Abdul Karim et al. (2018) examined the differences in stability between Islamic banks, conventional banks, banks with Islamic subsidiaries, and conventional banks with Islamic subsidiaries between 1999 and 2015. Their research was conducted in three distinct periods: before the crisis (1999–2006), during the crisis (2007–2009), and after the crisis (2010–2015), using a sample of 81 banks in Indonesia (72 conventional banks, 4 Islamic banks, 3 conventional banks with Islamic subsidiaries and 2 subsidiary Islamic banks). The results showed that, overall, Islamic banks in Indonesia displayed relatively higher stability than conventional banks throughout the period studied. Specifically, before the crisis, Islamic banks in Indonesia were more stable than their conventional counterparts.

Ghassan and Guendouz (2019) measured the stability of the banking sector in Saudi Arabia made up of 11 banks, including Islamic and conventional banks between 2005 and 2009. The researchers used the Stability index model to determine the stability of the banking sector. The results showed that the financial stability index of Islamic banks (IBs) is relatively low; at the same time, they are effective in improving financial stability through asset diversification.

Kamran et al. (2019) examined how the way the country is governed, market concentration, and financial market dynamics influence the financial stability of banks in Pakistan. The researchers conducted their study on a sample of 28 commercial banks including Islamic and conventional banks between 2006 and 2016. The results indicated that government corruption and efficiency, capital adequacy ratio, market structure, and financial market development are important determinants negatively and significantly impacted the financial stability measured by the Z-score of the banks in the sample. Furthermore, the results showed that the main factors affecting the financial stability of traditional banks are: control of corruption, political instability, market structure, and credit risk. In contrast, the main determinants of financial stability for conventional banks are corruption, government efficiency, capital adequacy ratio, market structure, and financial market development.

Yomna and Kammoun (2020) conducted an empirical analysis of the financial stability of 81 Islamic banks in 22 countries during the period 2010–2014. The results indicate that all the elements examined in the empirical models have a statistically significant influence on the stability of Islamic banking institutions.

Al-Wesabi and Yusof (2020) examined the impact of capital ratios and liquidity risks in 5 GCC countries before, during, and after the 2008 global financial crisis. In addition, the impact of the global financial crisis on the financial stability of conventional and Islamic banks in the GCC. Also, to compare between the financial stability of Islamic banks and conventional banks. The researchers conducted their study on a sample of 62 banks (19 Islamic banks and 43 conventional banks) between 2000 and 2017. The results showed that factors such as capital ratios, liquidity risk, and other independent variables influence long-term financial stability for both conventional and Islamic banks. Moreover, Islamic banks performed better during the crisis than conventional banks and were also better capitalized and less exposed to liquidity risk.

Nosheen and Rashid (2021) studied the financial stability of nations that host both Islamic and conventional banking institutions, compared with those that have only conventional banking institutions. The researchers also examined the ability of Islamic banking institutions to guarantee the stability of the entire financial system. The researcher carried out his study on a sample of 136 conventional banks in countries with a single banking system. And 280 banks (62 Islamic banks and 218 conventional banks) for countries with a dual banking system over the period 1995–2014. The results showed that the presence of Islamic banks in the dual system enhances its stability compared with the single system. Furthermore, the results also showed that in the dual system, Islamic banks are more stable than conventional banks.

Boulanouar et al. (2021) empirically studied the impact of bank ownership and institutional factors on the financial stability of the banking sector of 76 banks (24 Islamic banks and 52 conventional banks) in GCC markets between 2000 and 2013. Initial results showed that small public banks are more stable than private banks. This means that bank size is a variable that has a significant impact on banking stability. Moreover, foreign-owned banks are more stable and less likely to fail than domestically-owned banks.

Safiullah (2021) examined the financial stability effectiveness of Islamic and conventional banks using a sample comprising 94 institutions of each type, from 28 countries and covering the period from 2003 to 2018. Financial stability was measured using the Z-score. The results showed that Islamic banks are more efficient than conventional banks in terms of financial stability.

Tekdogan and Atasoy (2021) evaluated the financial stability of two banking systems: the single system, which contains only conventional banks, and the dual system, which includes Islamic and conventional banks. The researchers worked on a sample of 15 conventional banks in the first system, and on 5 Islamic banks and 10 conventional

banks in the second system. The results indicate that Islamic banks play an important role in maintaining financial stability by providing a significant amount of liquidity during periods of financial crisis. In addition, they generate more liquidity than their conventional counterparts in terms of assets.

Albaity et al. (2021) studied the effect of bank concentration and competition on the financial stability of 50 conventional and 25 Islamic banks in the GCC between 2006 and 2016. The results showed a strong relationship between competition and financial stability. On the other hand, there was a negative relationship between bank concentration and financial stability. In addition, financial stability is positively impacted by variables such as bank size, profitability and capital regulation, and oil price growth. Nevertheless, stock market performance and debt-to-GDP ratios are conducive to bank financial instability.

Ledhem (2022) examined the impact of Islamic bond (sukuk) market development on the financial stability of all Islamic banks operating in Malaysia, Saudi Arabia, Indonesia, Turkey, and Brunei, over the period 2013–2019. The results indicate that the growth of the Islamic bond (sukuk) market has a positive impact on the financial stability of Islamic banks. This has the effect of reducing the risk taken by the latter.

Mabkhot and Al-Wesabi (2022) examined the impact of macroeconomic factors such as inflation rate, exchange rate, GDP growth, global financial crisis period (2008–2009), oil price fluctuation, and political instability on the financial stability of GCC Islamic and conventional banks between 2005 and 2020. The results indicated that the financial stability of GCC Islamic and conventional banks are negatively impacted by the inflation rate, the global financial crisis (2008–2009), and oil price fluctuations. However, Islamic banks are less affected than conventional banks by the inflation rate, oil price variations, the global financial crisis, and political instability.

Asif et al. (2022) studied the impact of diversification on the banking stability of Islamic and conventional banks as a function of bank size. The results indicated that diversification significantly impacts the financial stability of banks in mediation of bank size.

Hafez (2022) studied the impact of Egyptian bank efficiency on the financial stability of banks in Egypt. The study is carried out on a sample of 30 banks including 21 traditional banks, 5 Islamic banks, and 4 traditional banks with Islamic windows, during the period 2005–2020. The results showed a significant impact of the efficiency of Egyptian banks on financial stability. The efficiency of Islamic banks and conventional banks with Islamic windows had a positive and strong impact on financial stability, while the correlation between the efficiency of traditional banks and financial stability was weak.

5. DISCUSSION

Preliminary results indicate that significant work has been carried out on risk management and financial stability. Regarding the origin of the items, it can be noted that most of them come from Asia and Europe, especially from countries such as Saudi

Arabia, Malaysia, Pakistan, Indonesia, China, the United Kingdom, France, and Italy. On the other hand, there is a distinct lack of articles from Africa, Oceania and North America. Additionally, researchers only turned their attention to financial stability and risk governance after the financial crises of 2008 and COVID-19. In particular, there is a balance between articles dealing with risk governance and financial stability, with a total of 40 articles per subject.

With regard to risk governance, 25 articles explore its correlation with bank performance (Mullah et al., 2016; Mullah et al., 2014; Rahim et al. 2015; Jallali & Zoghلامي, 2022; Battaglia & Gallo, 2015; Battaglia et al., 2014; Bezzina et al., 2013; Zhang et al., 2021; Zhang et al., 2022; Aebi et al., 2011; Karyani et al., 2019; Zemzema & Kacem, 2014; Ellul & Yerramilli, 2013; Cavezzali & Gardenal, 2015; Yahaya et al., 2020; Agnese & Capuano, 2020, 2021; Nahar & Jahan, 2021; Chen et al., 2019; Hassan et al., 2019; Nahar et al., 2016; Amoozegar et al., 2017; Bhuiyan et al., 2021; Farhan Malik et al., 2019; Erin et al., 2018). However, most of these studies were carried out exclusively on a sample of conventional banks. It should be noted that few articles focus exclusively on Islamic banks. Moreover, Raouf and Ahmed (2022) study is the only one to examine the impact of risk governance and financial stability on both Islamic and conventional banks. Additionally, 3 articles (Aljughaiman & Salama, 2019; Abid et al., 2021; Bhuiyan et al., 2021) address the impact of risk governance on risk management and risk management.

With regard to financial stability, we selected 40 articles on banking financial stability, 31 of which specifically compared the financial stability of Islamic and conventional banks (Hassan & Dridi, 2010; Gamaginta & Rokhim, 2011; Rahim & Zakaria, 2012; Nguyen et al., 2012; Shajari et al., 2012; Altaee et al., 2013; Beck et al., 2013; Bourkhis & Nabi, 2013; Rajhi & Hassairi (2013), Mirza et al., (2015), Abedifar et al., 2015; Rashid et al., 2017; Elbadri & Bektaş, 2017; Hossain & Imam, 2017; Korbi & Bougatef, 2017; Abdul Karim et al., 2018; Alqahtani et al., 2018; Ghassan & Guendouz, 2019; Kamran et al., 2019; Al-Wesabi & Yusof, 2020; Nosheen & Rashid, 2021; Boulanouar et al., 2021; Safiullah, 2021; Tekdogan & Atasoy, 2021; Albaity et al., 2021; Albaity et al., 2021; Asif et al., 2022; Hafez, 2022). And only 9 articles dealing with the financial stability of Islamic banks (Cihák & Hesse, 2010; Ghosh, 2014; Ahmad & Noor, 2011; Alharthi, 2017; Faye et al., 2013; Ashraf et al., 2016; Sakarya, 2016; Kadir et al., 2017; Ledhem, 2022).

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6. CONCLUSION

The aim of this article is to carry out a systematic literature review of all theoretical and empirical studies that have focused on risk governance and bank financial stability in Islamic banks, using the PRISMA method. Although we used the largest databases indexing scientific research (Science Direct, Scopus, Emerald, Springer Link, Jstor, and Google Scholar), 80 articles out of a total of 301 were considered relevant for our analysis.

According to the results, the first thing detected is the abundant literature on risk governance and financial stability. And most of the articles come from Asia and Europe. In addition, the researchers were much more interested in analysing risk governance and financial stability within conventional banks and Islamic banks in the GCC countries and Asia. The results showed that researchers analyzed risk governance and financial stability separately, with most researchers analyzing the impact of risk governance on the performance of conventional and Islamic banks, and few studies focusing on the link between risk governance and financial stability, particularly in times of crisis. The only researchers to have analyzed the impact of risk governance on the financial stability of Islamic and conventional banks are Raouf and Ahmed (2022), and their results showed that the risk governance index of Islamic banks is lower than that of conventional banks and that the risk governance of Islamic banks has a negative impact on financial stability indicators.

Most studies adopted a quantitative methodology, and among the variables most used in empirical studies to measure risk governance, we cite the existence of a risk management director, risk committee, audit committee, and sharia committee for Islamic banks. With regard to financial stability, the researchers used variables such as Z-score, capital ratio, capital adequacy ratio, return on assets, and return on equity.

This study has the following limitations. We may have missed other studies that were outside the scope of the databases used in this research. In addition, articles in languages other than English were excluded from our search. Additionally, conference papers, book chapters, and articles were also excluded.

In terms of academic objectives, future work could lead to an exploratory study of the impact of risk governance on the financial stability of Islamic banks during the COVID-19 crisis.

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