

**The Liquidity Shortage in Islamic Banks: An Exploratory Study of
Saudi Islamic Banks**

A Thesis Submitted in Partial Fulfillment of the
Requirements for the (Master) Degree in
(Master in Islamic Financial Management)

by
(Amani Omar Bamokhayar)

Supervisor
(Dr. Umar Idriss)
Co-Supervisor
(Dr. Syahida Abudllah)

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نقص السيولة في البنوك الإسلامية: دراسة استكشافية للبنوك السعودية الإسلامية

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(أماني عمر بامخير)

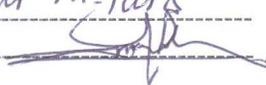
إشراف
(د. عمر أدریس)
(د. شاهدة عبدالله)

(2016 - 1438)

Effat University
Jeddah, Saudi Arabia
Deanship of Graduate Studies and Research

This thesis, written by *Amani. Amur. Bana. Ayar*..... under the direction of his/her thesis supervisor and approved by his/her thesis committee, has been presented to and accepted by the Dean of Graduate Studies and Research on *M.S.M*....., in partial fulfillment of the requirements for the degree of MASTER OF SCIENCE in *Islamic Finance Management*

Thesis Committee

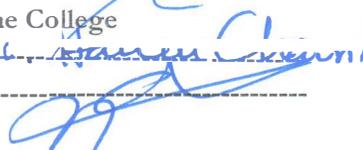
Thesis Supervisor
Name: *Umar M. Idris*
Signature: 

Co-supervisor/member
Name:-----
Signature:-----

External Member
Name:-----
Title:-----
Signature:-----

Member
Name: *Dr. Tayeb*
Title:-----
Signature: 

Department Chair
Name: *Dr. Tahar Tayeb*
Signature: 

Dean of the College
Name: *Dr. Hani Al-Sayid*
Signature: 

Dean of Graduate Studies & Research
Name: *Dr. Malak Al-Nory*
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جامعة عفت
جدة ، المملكة العربية السعودية
عمادة الدراسات العليا و البحث العلمي

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الحمد لله الذي بنعمته تتم
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Dedicate

*To whom light the learning way for me since
childhood...*

*To whom facilitate all obstacles by their prayer
for me...*

*To whom stand by me all time, all thanks to
them after God bless for what I reach now...*

To my PARENTS " God blessed them" ...

*To whom be patient and help me step by step
" my husband ABDULLAH and his family"...*

To my little princess "Mira"...

*To whom help and support me all time "my
brothers and sister"...*

To the respected professors who sustenance me...

I dedicate this modest effort to All of them...

Sincerely

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Abstract

Nowadays, all companies around the world have difficulties in many ways after the global financial crisis in 2008-2009. Numerous known institutions have suffered from liquidity problems and some of them had collapsed for the same reason. Thus, the liquidity shortage constitutes a major financial and banking problems in all over the world. Consequently, this research focuses on the reasons for the liquidity problems and clarifies its impacts on the Islamic banks and its performances. Then, this research tries to come up with some suitable solutions to the liquidity shortage problems. Regarding the study method, this research known as a phenomenology and pure qualitative study that seeks in a recent phenomenon, the method way I used in this research is the semi-structure interviews – which is common in qualitative measurement – with many scholars in the Islamic financial system and with the experts in the same context in order to go deeper into the problems and see their roots. These interviews designed to meet the research objectives and to answer all the research questions. This study concludes that Islamic banks in Saudi Arabia have to improve their performances and instruments in many ways in order to serve the clients and the economy in a better way. In addition, it also shows that the Sukuk market in the kingdom of Saudi Arabia is very weak and need for more improvement. It would help the Islamic financial institutions to cover any problem in the liquidity fields faster than before through the trading in the Sukuk market. Another finding may be clear in the experience that done in Sudan which may help all Islamic banks to cooperate together and come up with a strategy that is applicable to the sharia rule and in the same way it can help the liquidity enhancement among these banks. Finally, this study provides a number of recommendations for the proper and effective management of the liquidity in the banking industry as well as uncovering the areas of further research which will enhance the banking sector.

Keywords: Islamic Banks, Liquidity Shortage, Liquidity Solutions, Liquidity Effects.

ملخص

في الوقت الحاضر، الكثير من الشركات في جميع أنحاء العالم تواجه صعوبات في جوانب عديدة بعد الأزمة المالية العالمية في 2008-2009. في الواقع، عانت مؤسسات كثيرة معروفة من العديد من مشاكل السيولة وقد انهار البعض منها لنفس السبب. وعلى هذا الأساس فإن نقص السيولة يشكل مشكلة مالية ومصرفية كبرى ليس فقط في المملكة العربية السعودية ولكن في جميع أنحاء العالم. بناء على ذلك، يحاول هذا البحث ان يدرس مشاكل السيولة ويوضح مدى تأثيره على البنوك الإسلامية، وان يجد الحلول المناسبة لتغطية او الحد من نقص السيولة. اما فيما يتعلق بطريقة الدراسة، هذا البحث يعرف باسم دراسة الظواهر. والطريقة المستخدمة هنا في هذا البحث هي المقابلة شبه منظمة مع العديد من علماء الشريعة في النظام المالي الاسلامي وايضا مع العديد من الخبراء في نفس السياق من أجل التعمق في المشكلات ومعرفة جذورها. صممت هذه المقابلات خصيصا لكي تتناسب مع اهداف البحث ولتجيب على اسئلة البحث. هذا البحث لخص على أنه يجب على البنوك الإسلامية في المملكة العربية السعودية تحسين أدائهم وادواتهم بطرق مختلفة من أجل خدمة العملاء والاقتصاد. بالإضافة الى ذلك، هذه الدراسة وضحت ان هناك ضعف ملحوظ في سوق الصكوك في المملكة العربية السعودية وانها تحتاج الى مزيد من التطوير. قد يساعد هذا المؤسسات المالية الإسلامية في تغطية اي مشاكل تتعلق بالسيولة بطريقة اسرع من قبل عن طريق المتاجرة في سوق الصكوك. هناك ايضا استنتاج اخر يظهر بطريقة واضحة في التجربة المقامة في دولة السودان التي من شأنها مساعدة البنوك الإسلامية لتتعاون سويا والتوصل الى حل يكون مطابق مع الشريعة الإسلامية وفي نفس الوقت تساعد على تعزيز السيولة بين البنوك الإسلامية. وتقدم هذه الدراسة عددا من التوصيات للإدارة السليمة والفعالة للسيولة في القطاع المصرفي، وكذلك الكشف عن مجالات إجراء مزيد من البحوث التي من شأنها تعزيز القطاع المصرفي.

Table of contents

Chapter one-----	1
1. Introduction-----	2
1.1 Background of the study-----	2

1.2 Problem Statement-----	4
1.3 Research Questions -----	4
1.4 Research Objectives -----	4
1.5 The Scope of The Study -----	4
1.6 The Planning of The Study -----	5
Chapter two-----	6
2. Literature review-----	7
2.1 Introduction-----	7
2.2 The Liquidity in the banking sector-----	7
2.3 Liquidity challenges -----	9
2.4 Islamic banking-----	12
2.5 Solutions of liquidity from Islamic bankers views-----	14
2.6 Conclusion-----	15
Chapter three-----	16
3. Methodology and data-----	17
3.1 Introduction-----	17
3.2 The pressures of data collection -----	17
3.3 Research Method-----	17
3.4 Research Design-----	18
3.5 Target Population-----	19
3.6 Participant Profiles-----	19
3.7 Data collection-----	20
3.7.1 Interview preparation-----	21
3.7.2 Before starting the interview-----	21
3.7.3 Interview Recording-----	22

3.7.4 Transcription of The Data-----	22
3.8 Interview Themes or Variables-----	22
3.9 Research Hypothesis-----	22
3.10 Conclusion-----	23
Chapter Four-----	24
4. Data Analysis and Findings-----	25
4.1 Introduction-----	25
4.2 Interview Themes-----	25
4.2.1 The First Theme: The Reasons Behind The Liquidity Shortage -----	25
4.2.2 The Second Theme: The Impact of The Liquidity Shortage -----	25
4.2.3 The Third Theme: The Solution Against Liquidity-----	25
4.3 Thematic Analysis-----	26
4.3.1 Reasons-----	26
4.3.2 Impacts-----	28
4.3.3 Solutions for Liquidity Shortage in Islamic Bank-----	32
4.4 Discussion and Analysis-----	35
4.4.1 First Theme-----	36
4.4.1.1 Analysis -----	36
4.4.2 Second Theme -----	37
4.4.2.1 Analysis-----	38
4.4.3 Third Theme-----	39
4.4.3.1 Analysis -----	40
Chapter five-----	44
5. Conclusion and Recommendations-----	45
5.1 Conclusion-----	45

5.2 The Limitation of The Study -----	46
5.2.1 Contacting The Target Population-----	46
5.2.2 Not Recordable Interview-----	46
5.2.3 Sharia Scholar Availability-----	46
5.3 Recommendations-----	47
References-----	49
Appendix -----	52

List of Figures and Tables

Figures

Figure 4.1 An Overview – Crude Oil in Saudi Arabia	26
Figure 4.2 Capital Structure, Liquidity and Leverage Ratios as per Basel III Framework...	24

Tables

Table 0.1 List of Acronyms-----	XIV
Table 3.1 Participant Profiles-----	19
Table 4.1 Minimum LCR on Basel III-----	41

0.1 List of Acronyms

Acronyms	Meaning
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
BASEL III	international banking regulations put forth by the (BCBS)
BCBS	Basel Committee on Banking Supervision
CB	Conventional Banks
CF	Collective fund
GCC	Gulf Cooperation Council
IFI	International Financial Institutions
IFSB	Islamic Financial Services Board
IRTI	Islamic Research and Training Institute
ISB	International School of Business
ISDB	Islamic Development Bank
LCR	Liquidity Coverage Ratio
PEG	The price/earnings to growth
PLS	Profit and Loss Sharing
SABB	Saudi British Bank
WGL	Working gathering in liquidity

Chapter ONE

Introduction

1. Introduction

1.1 Background of the study:

Islamic finance recently becomes one of the important phenomena which spread rapidly not only in the Islamic nations but all over the world. It has been a focus of attention of the financial institutions and banks sector in the European countries because of the superiority of its performance. The successful experience of the Islamic banking shows different impacts which appears in all transactions, performance, and its evaluation of the other banks and several investment projects.

In fact, the first experience of Islamic banking was in Egypt in 1963 and it named the Bank of domestic savings, founded by Dr. Ahmed Al-Najjar, but it just holds on for three months because it was not a successful experiment at that time. The first fully Islamic Bank was Dubai Islamic Bank, which founded in 1975. It has been fully compliant with the provisions of Islamic Sharia. Also, the first Islamic bank founded in Saudi Arabia was in 1975, it was Islamic Development Bank (IDB). After that, the established of Islamic banks keep moving up in many Arabic, foreign Islamic, non-Islamic countries. Khaled Aqeel, the head of Retail Banking in "SABB" and a member of the Islamic banking committee in SAMA mentioned that the value of Sharia-compliant assets reaches 1.87 trillion riyals (\$ 290 billion) in 2015, and it expected to jump to 2.56 trillion riyals (\$ 683 billion) by 2019 (Alhayat 2015).

In addition, there are a lot of differences among Islamic and conventional banks and we can illustrate the main different in four points:

- o The conventional banks is a financial intermediary who receives all interest-bearing deposits and this type is forbidden in the Islamic law. It also funds all the investors with an interest rate as a part of their revenue.

- o On the other hand, the Islamic bank that receives the deposits to be invested on behalf of its owners under their responsibility (such as Mudharaba contract). It also takes the responsibility of the investment risk on behalf of the depositors and distributes the return after deducted the profit of the bank.
- o Islamic bank depends on the sharia law in all transactions even the smallest one. It prevents usury, ignorance, ambiguity in the contracts, and it refuses the exchange futures and futures options. Also, the selling of what is not on the owner of the seller and other provisions.
- o The conventional bank is not commitment with any approach or religion while a lot of its transactions compliant with sharia law but it is inadvertently (and this shows that the Islamic financial system is the basis of all transactions).

The topic of liquidity is one of the most important topics that can take care of all bankers (Islamic and conventional). Liquidity considers as the oxygen and the heartbeat of the banking sector in general, the bank may lose a large number of customers if the sufficient funds are not available to meet their need at any time.

This study simply represents the liquidity in the banking sector to the reader with focuses on the liquidity shortage side. In fact, this research could aim to make the Islamic banks corporate against any liquidity issues.

1.2 Problem statement:

Eileen Rojas defined business research as the place to put the objectives and collecting the data which is related to the objectives to get the answer to a business

issue (Rojas 2015). The problem in this research is the liquidity management as one of the most important challenges nowadays in all banking sectors and how they got into this situation. Recently, the liquidity shortage effect on some of the banks' reputation and the clients start to worry about their deposits. Then, the clients decide to withdraw their deposits to be on the safe side. This research goes deeper into the liquidity problems and raises the following research questions:

1.3 Research questions:

- What are the reasons for the shortage of liquidity among Islamic banks in K.S.A ?
- How can this problem affect the bank's performance of present and future?
- What can be the best possible solutions to overcome the risk of liquidity?

1.4 Research objectives:

The study seeks to achieve the following objectives:

- To explain the concept of liquidity in the Islamic banks in Saudi Arabia.
- To clarify and reveal the reasons for instability of the level of liquidity in Saudi banks during 2015 and 2016.
- To demonstrate the importance of liquidity management in the context of globalization and liberalization of financial operations and banking.
- To suggest some strategies from the Islamic system perspective which can be adopted in the Islamic banks to solve all these problems and avoid it in future.

1.5 The scope of the study:

The duration of the study was two years, from 2015 to 2016, and it included all of the Islamic banks in the Kingdom of Saudi Arabia, Jeddah.

1.6 The planning of the thesis:

This Thesis is divided into five chapters with a wide explanation which made to serve a proper understanding of this research. This chapter is the first one which

represents the introduction for all reader to get into the subject and the aims of the research. Chapter two illustrates the literature review that shows all that have been written in this field from books, papers, articles, published reports, and other researchers relate to my research subject. The third chapter explains three categories: the way of collecting data (methodology), describes all the process through conducts this research, and all the limitation while I gather the information. After discussing the methods, findings and results come in the fourth chapter. It also includes the data analysis which leads to the results. At the end of this research, chapter five (conclusion and recommendation) comes up with the summary of the all the research with the opinions and suggestions of the researcher regarding the research goal.

Chapter TWO

Literature Review

2. Literature review

2.1 Introduction:

Based on the literature review a lot of potential problems that could happen in banking sector all over the world because of the poor management. The most important factor or issue is the liquidity shortage because it affects badly in the banks at all. The impacts might be worse on the Islamic banks because of the lack of products which used to cover the liquidity shortage comparing to the conventional banks (Zaheer and Farooq 2014).

2.2 The Liquidity in The Banking Sector

Liquidity in general means the ability of any type of business to pay all of its loans by exercising its liquid assets (CEBS 2009). Banks over the globe are confronting issues with the liquidity crisis as a result of tight liquidity administration. As each deal or obligation in any bank has a lot of impacts for the liquidity, controlling liquidity risks are of central significance (Frag, Harland, and Nixon 2013).

Banks and regulatory agencies are constantly focusing on monitoring liquidity positions to manage risks of failure and total collapse in the financial sector (Norgren 2010). The profit-sharing tradition in Islamic banks makes these financial instructions more stable, but liquidity risks continue to create financial distress to the point that they risk closure (Ali- IDB 2004). Several forms of risk such as operational and credit risks generally translate to liquidity problems for banks and the entire banking sector making it difficult to isolate and solve the risks (Nikolaou 2009). Saudi Arabia has put several measures in places such as stringent monetary policy and best practices in liquidity management to manage liquidity and counter associated problems that may pose risks or total collapse of its banks (Vossen and Ness 2010).

Monetary policy in this Gulf nation is controlled by the Saudi Riyal's "peg" with that of the US dollar (Alkhareif and Qualls 2016). This means that Saudi Arabia's fiscal policy is the chief tool for macroeconomic management. The nation's financial sector acknowledges the significance of the supportive role played by macro-prudent policies for macroeconomics management and operations focused on liquidity management (Norgren 2010). The Saudi Arabian Monetary Agency (SAMA) serves its mandate by designing effective tools to monitor and manage liquidity (Shinsuke, 2012).

The reality of banks is to follow the regulations of almost-identical risk disclosure under securities laws (IFRS 7) and the regulation of banking (Column 3 of the Basel II accord). The disclosures of the risk improvement transport into raising liquidity level based on Pillar 3 but not IFRS 7 (Bischof, Daske, and Elfers 2016). A study done by Abdullah AL-Mutairi and Kamal Naser in 2015 for the liquidity within the GCC countries showed that the mean of 13.3 percent and a median of 10.2 percent with 14 percent standard deviation. This assumes that there is high variation in liquidity within the banks in GCC. So, the liquidity framework is among 1.02% and 150.7% (AL-Mutairi and Naser 2015).

Liquidity surplus may drag competitiveness, but the shortage in liquidity usually poses risks of a total collapse of banks (ALI 2013). Episodes of systemic failure in several conventional banks in the past and present times and reports of distress endured by Islamic banks validate the significance of liquidity to financial institutions (Ariffin, Archer & Karim, 2009).

2.3 Liquidity challenges

In December 2006, the Basel Board of trustees on Managing Banking Supervision (BCBS) builds up the Working Group on Liquidity (WGL) to survey liquidity supervision exercises in the member nations. In December 2010, The Basel Committee on Banking Supervision (BCBS) released an international regulatory scope, known as Basel III to create more flexible banks and banking systems (Basel Committee on Banking Supervision 2008). All the requirements of Basel III's new liquidity management are in one of the over many year's stages, and some of its portions that cannot be into effect until 2018 (Gassmann, Wackerbeck, and Fiedler 2012). So, the capital market looks forward to complying the banks all the new strategies for a better performance and that means all the treasury departments should adjust their transactions sooner as much as they can (Financial Stability Report 2016).

The challenges that faced the liquidity are extremely important to be managed by all banks (Islamic or conventional). These challenges can be either the challenge of liquidity risk management, funding from capital markets, securitization, complex financial instruments, collateral usage, payments systems and intraday liquidity needs, or cross-border flows (Basel Committee on Banking Supervision 2008). Also, there are a lot of the National liquidity regimes that should be applied to avoid these challenges and gives banks some lessons from the current situation time so they can handle any other risk (Bank for International Settlements 2008). SAMA is an agency in Saudi Arabia constantly aims to reduce the challenge of the volatility of the fiscal base through implementing frameworks for liquidity forecasting and taking adequate measures to strengthen the mechanism for transmitting monetary policy (Al Bakr 2015). The uses of a macro-prudent policy to effectively manage risks in Saudi banks bring benefits when

formal frameworks for this tool establishes and SAMA acts as the assigned authority to assess financial risks and publish early warning facilities and indicators of liquidity in Saudi Arabia (Hasanuz, 2001).

Similarly, a global perspective of liquidity management is ideal for institutions that provide Islamic banking services. This strategy helps in counter the challenges that hinder effective liquidity management. Efforts to come up with a globally acceptable liquidity management tool that captures global standardization have been futile leading to uncertainties in the financial sector including that in Saudi Arabia. A global liquidity management tool would enhance transparency and confidence in Islamic finance that currently experience challenges, especially in terms of Shariah compliance to liquidity management (Dusuki, 2007). There are other challenges such as gaps due to inadequate short-term fiscal instruments, infrastructure and liquidity market, documentation standards, regulatory and legal frameworks, integrated settlement and payment system, a system for liquidity monitoring, and accounting and tax uniformity. It is crucial for Saudi Arabia to develop a globally acceptable process to maintain an effective liquidity management tool or framework because liquidity management is crucial in the banking sector (Hartlage, 2012)

Monetary policy in Saudi Arabia should be adequately flexible to counter liquidity risks. Volatility in commodity prices in countries with abundant resources like Saudi Arabia pose great challenges to financial sector policy makers (Frankel 2012). The vital question to be raised is how the conventional bank's financial statement, including resource mobilization, has been affected by the replacement of interest-based transactions by profit margin based transactions? ISBs concept of equity capital and demand deposits have not changed compared to conventional

banks (CBs). The term deposits are removed and replaced by a pool of funds and investment accounts which carry profit margin rather than the interest rate. It might be argued that following the change in the structure of the bank, Islamic banks (ISBs) mainly use low-cost demand deposits (interest-free with some fixed administrative costs) to finance investment and hence tend to be more profitable, and hence expanding rapidly.

Demand deposits have high rates of turnover and if used for long duration projects /activities, the possibility of liquidity crisis cannot be ruled out. In order to short the high turnover of deposits coupled with problems of deposits, mobilization poses a threat to the growth of ISBs. In sum, the change in the structure of assets & liability from interest-based on profit-share-based & the high turnover of deposits is hypothesized to cause a liquidity crisis in the future, and ISBs can improve their performances. Another argument besides being a low-cost liability to Islamic banks, demand deposits do not get returns and so they should not be exposed to risk. Improving liquidity position by changing the structure of equity and liabilities. Moreover, the macroeconomic environment and the Central Banks' regulatory conditions and policies influence mobilization of deposits. The conditions in the global market for commodities may trigger volatility that may swing export trade and spill over to regional and national economies. Significant rises in commodity prices bring high revenues that strengthen the extent of external balance and promote increased government spending that boosts transactions in non-commodity sectors of their economies.

This trend means that liquidity influx brings asset and credit prices closer to the cycle of commodity price that result to a boost in customers confidence. Significant drops in commodity prices lead to reverse effects by putting undue pressure on

borrowers and banks exposed in the event of an upswing. These cycles are often triggered by external factors, but Saudi Arabia should design effective policies to manage the impacts of these forces (Chaplin & Ian 2000).

2.4 Islamic banking

The banking sector is a financial institution that provides several and wide financial services, especially the lending. It also offers a huge amount of financial services for any business facility. It is known as institutions which accept the money as deposits and respects any order from their clients to withdraw their money and these banks invest the access deposits from this transactions. Islamic banks can be characterized as a financial institution that (1) comply with sharia standards in the greater part of its exercises through its part as a money related middle person among savers and investors;(2) offer managing an account services inside the structure of legitimate contracts; and (3) accomplish a harmony among financial and social return (Abdul Majid and Ghazal 2012). The source of Islamic finance goes back to the beginning of Islam 1,400 years earlier. Recorded books written through the early years of Islam showed that amid the 1st century of Islam, a few forms of banking activities existed that were comparable to modern banking deals (Alharbi 2015). Islamic banking is now honed in more than 50 nations around the world (Chong and Liu 2009). There are more than 300 Islamic financial organizations in all over the world, consist of banks, mortgages organizations, Takaful organizations and venture reserves (IDB, IFSB, and IRTI). There are numerous markers that show the significance of Islamic financial fund. The estimation of advantages of Islamic budgetary foundations (IFIs) was around five billion U.S. dollars in 1985 (Iqbal, 1997).

An empirical study done in two banks: one Islamic "Albaraka" and another conventional "Amen bank" in Tunisia. The target of this study is to discuss whether it is potential to differentiate among an Islamic bank (Albaraka) and a conventional bank (Amen bank) on the foundation of financial proportion that measures the profit and the bank adequacy, risk, asset types, and liquidity. It showed that a huge different between these two types (Islamic and conventional) which illustrated that the Islamic is more profitable and less risky from the conventional, but the efficiency in the conventional is higher than the Islamic banks (Bougatef 2010). In fact, the estimation of the present size of the Islamic financial market runs from \$1.66 Trillion to \$2.1 Trillion with desires of market size to be \$3.4 Trillion by end of 2018 (Naveed 2016).

Saudi Arabia is one of the pioneers in the scope of Islamic banking in all world, the Saudi banks are two types; either completely Islamic or having windows and branches in Islamic banking. Al Rajhi Bank of Saudi Arabia has made a history by turning into the most secure Islamic banks in GCC (Lone and Alshehri 2015). A study was done in the differences between the Islamic and conventional banks present that no differences in the quality of assets among the two banks types. The liquidity proportion changes from 7% to 87%, with a mean of 37%. Islamic banks are essentially less fluid than conventional banks. Since the onset of the emergency, nonetheless, Islamic banks have indicated altogether higher liquidity holds (Beck, Demirgüç-Kunt, and Merrouche 2010).

2.5 Solutions of liquidity from Islamic banking view

In addition, there are several best practices in liquidity management through fiscal policy that Saudi Arabia can apply by virtue of being the largest exporter of oil worldwide (International Monetary Fund 2016). The nation can mix its macro-prudent regulations, liquidity management activities and fiscal policies to manage risks in the financial sector and promote economic activity in case if there is an independent policy covering interest rates. The peg of the Saudi's Riyal to that of the US dollar controls Saudi Arabia's fiscal policy and has yielded success in the past three decades in terms of countering liquidity (Al-Jasser and Banafe 2005). This is mainly evident through stabilizing trade and providing credibility to fiscal policy, financial assets, and income flows. The only challenge is that the peg limits the flexibility of Saudi's fiscal policy because even short-term policies for interest rates rely on the Federal Reserve provisions on rates in the US (Alkhareif and Qualls 2016). Liquidity management activities and macro prudent policy are complementary in alleviating the liquidity problem in Saudi Arabia. In addition, Robust policy frameworks in the nation will help the financial sector to prepare mechanisms to overcome liquidity challenges emerging from both the global and domestic market (Alsweilem 2015).

Islamic banks are more stable because of the profit loss sharing (Salman, 2013). Actually, the problem of liquidity shortage is less exposed in the Islamic banks because the reward of deposits is not guarantee fixed rewards. In addition, the more the distribution proportion of PLS deposits is critical, the less the Islamic banks are presented to liquidity risk. In this manner, based on the PLS paradigm, it minimized money creation that minimized inflation constraints the liquidity risk. Financially, the reduced money creation may hold the financing of economic development (Jedidia and Hamza 2010).

2.6 Conclusion

In conclusion, Saudi Arabia can strengthen its monetary policies and adopt best financial practices to manage liquidity challenges in its banks. Similarly, the Saudi government can create awareness, promote sufficient cross-border liquidity, and embrace international monetary standards to enhance its liquidity management in the banking sector.

Chapter THREE

Methodology

3. Methodology

3.1 Introduction

In this chapter, the research methodology and data collection will be presented and explained that the most appropriate method for the qualitative data which is interviews. First, the reason for choosing this method is clearly presented. Then, data collection and how it was executed will be mentioned. It will include the processes of the data gathering such as preparing, searching for experts' contacts, and also how to conduct the interview; all of these points will be summarized in this chapter.

3.2 The procedure of data collection

This research uses the qualitative method and includes selecting a sample population that would represent a known population. This research strategy has built on the basis of the research questions, which examines the possibility of having the good strategy for the Islamic banks to protect themselves against the liquidity shortage since covering this problem in the Islamic banks have fewer opportunities comparable to the conventional banks. The procedure of collecting the data was through searching for the target population and contact them in different ways to get an appointment for a meeting. Then, prepare the questions with a small review of the research and send the review to the participant to get a general idea about my topic. Finally, I went to the interview in the scheduled time and collect the data from the interviewee.

3.3 Research method

The type of this research is completely descriptive in nature and explains how things are instead of how things ought to be. Qualitative Research is fundamentally exploratory research and it utilizes to pick up a comprehension of fundamental

reasons, thoughts, and motivations. It gives experiences into the issue or creates thoughts or theories for potential quantitative research. Qualitative Research is likewise used to reveal trends in thought and ideas and jump further into the issue (Wyse 2011). Qualitative research has some advantages as it gives complicated text detailing of how individuals encounter a given research issue. The qualitative technique is more resilient as it permits more spontaneity and fit the connection between the researcher and the interviewee.

It helps in the need to describe an occasion, action, or phenomenon, the apropos named phenomenological study is a proper qualitative strategy. In a phenomenological method, you will use a blend of techniques, for example, leading meetings, perusing reports, watching videos, or going and visiting some spots and occasions, to comprehend the meaning member place on whatever is being inspected. You depend on the members' own points of view to give knowledge into their motivations (Sauro 2015). The resilience in searching and the complication of this research is the basic reason of making semi-standardized interviews in this research. In addition, this research can be classified as an explanatory and descriptive research as it describes and explains the reasons behind the liquidity shortage in the Islamic banks in Saudi Arabia and find a good strategy that can provide by Islamic banks to protect themselves from any liquidity problems.

3.4 Research design

This research is an exploratory which is a form of research that made for the problems which have not been clearly identified. Exploratory research helps in determine the best design for the search, and the method of data collection and identification the subjects.

3.5 Target population:

Target population defined as a group of people to whom we want our research finding to apply (Vonk 2016). This research has a specific population which consists of the sharia scholar or the experts on the Islamic banking who deal with the sharia board because this research is focusing on the banks who applicable the sharia law in all transactions..

3.6 Participant Profiles

Table 3.1 Participant Profiles

1) Participant A:	<ul style="list-style-type: none"> a) The head of the Sharia department in one of the famous conventional banks in Saudi Arabia. b) Member of the Commission of Sharia standards. c) 9Experience: more than thirty years in the field of Sharia consulting.
2) Participant B:	<ul style="list-style-type: none"> a) The of an Islamic banking advisory institution. b) General consultant for an Islamic bank magazine and other newspapers regarding Islamic banking sector. c) Experience: more than twenty years in the sharia field.
3) Participant C:	<ul style="list-style-type: none"> a) Sharia consultant "in the advisory service department" in one of the Islamic research institute which is related to one of the Islamic banks
4) Participant D:	<ul style="list-style-type: none"> a) The Vice Chairman of an asset management company. b) Experts in the field of Islamic banks. c) Experience: more than ten years in the sharia field.
5) Participant E:	<ul style="list-style-type: none"> a) Investment officer in the treasury department of a famous Islamic bank.
6) Participant F:	<ul style="list-style-type: none"> a) Sharia consultant "in the advisory service department" in one of the Islamic research institute which is related to one of the Islamic banks
7) Participant G:	<ul style="list-style-type: none"> a) Manager of the Islamic economics and finance

	<ul style="list-style-type: none"> research division of an Islamic bank. b) Experience: more than twenty years in the sharia field.
8) Participant H:	<ul style="list-style-type: none"> a) A financial analyst in Islamic banks.
9) Participant M:	<ul style="list-style-type: none"> a) Head of the financial product development center. b) The writer of many books in Islamic finance field. c) Experience: than twenty years of experience in the Islamic banking field.
10) Participant S:	<ul style="list-style-type: none"> a) Lead operational risk specialist in one of the Islamic bank. b) Experience: more than fifteen years of experience in managing risks in banks
11) Participant Z:	<ul style="list-style-type: none"> a) Foresight strategist in an Islamic bank.

3.7 Data collection:

Dr. Jennifer Vonk (2016) defined research sample as the members of the study population from whom we collect our data. The sampling technique that I used in this research is the non-probability sample "also called haphazard sampling (Vonk 2016)" and it also is known as a simple non-random because I collect the population within the banking sector and from the sharia scholar. This technique is known as non-Probability sampling that does not try to choose an irregular sample from the number of people of benefit (Michael 2011). As long as this research is a study of critical cases which need to the researcher judgment to choose the sample based on the subject and the matter.

This research was conducted in Islamic banks of Saudi Arabia " Jeddah" which some of them are fully Sharia compliant banks and other are conventional banks with Islamic windows. The study conducts between November and December 2016

in Jeddah. The empirical data for the study consists of semi-structured interviews. The response of the interviewees were in various levels of the banks and included senior, and middle-grade management. The interviewees were altogether 11 and all of them are responded.

The interview used as a method to collect the data because interviews can be used to acquire first hand information on personal views, motivations, and experiences of participants. The interviews included the face-to-face meetings with the interviewee. These interviews lasted for about 30 minutes for each respondent and this enables me to collect and take more notes and to explain some of the ambiguous questions to the interviewee and ask further questions.

3.7.1 Interview Preparation

Based on my literature review which explains that there is a specific way to prepare an appropriate interview to be asked for interviewees in an academic way. Also, the questions were preparing depend on the interviewees' profiles and their organizations. For each interview meeting, I sent an email to get the appointment and explain my research problem in a brief overview to give the interviewees an idea about the topic to prepare themselves for answering the questions. I also mention the type of the interview, the questions number, the estimated duration and finally the language will speak in the interviews.

3.7.2 Before starting the interview

At the beginning of each interview I consider some points to inform the interviewee which are:

- ✓ A thankful note of giving me his time.
- ✓ Remind the interviewee about my topic.
- ✓ Inform the interviewee that he/she has a complete right to refuse the answer of any question.

- ✓ Ask the interviewee to record the interview to show the importance of the speech.
- ✓ Remind them that all the information are sharply confidentiality

3.7.3 Interview Recording

Recording the interview to collecting data is one of the important things to remember all the details during the interview. It is not enough to write the information and taking notes during the interviews but the records are very important to recheck all the information and more deep understanding. After finishing the recording of the interview, it is necessary to empty the records for easy analysis and comprehensive.

3.7.4 Transcription of The Data

All results of the recorded interviews and notes that took during interviews were grouped together for analysis. Then, the researcher tries to link these results and finding to the previous hypothesis.

In this research, I focus on an important point which is the liquidity in the banking sector and narrowed it down to the liquidity shortage in the Islamic banks and find the possibility to find or create any instrument against these problems and that was during the questions designed to suit the purpose of all the study.

3.8 Interview Themes or Variables

For each interview, there must be a theme to follow up in all academic researchers. The theme of my interview was prepared with my supervisor to be appropriate.

3.9 Research hypothesis:

This research assumes that the Islamic economic system has many ways to solve the liquidity problem with these banks, and this problem is only a purely behavioral problem because of the lack in applying the sharia system which causes the poor liquidity manage in the banks.

3.10 Conclusion

Based on the nature of this topic which is the investigation of the reasons of the poor liquidity in Islamic banks and also to go deeper to the possibility of have instruments in the Islamic banking system that make them easily cover this shortage, I use the face-to-face semi-structure interview to collect the information from the sharia scholars and the experts in banks of Saudi Arabia following a very specific techniques to conduct the questions and even make the interviews in academic way.

Chapter FOUR

Data Analysis and

Findings

4. Data Analysis and Findings

4.1 Introduction

Eleven semi-structured interviews were done with many different experts and scholars and each one of them had his/her own point of view but all of them at the end give this research valuable information that can help to deeper comprehensive. All the interviews were with high-level experts and scholars. As I mentioned before, this type of interviews was the best for my topic because it aims to explore more behind the surface of reality through providing more basic and important information and data. All the interviewees were very helpful for me and answer all the questions. However, two of the interviewees were in Arabic and the rest were in English.

4.2 interviews theme

The interviews were semi-structured with basically three main themes:

4.2.1 The first theme: the reasons behind the liquidity shortage:

The questions under this part will discover the problems in the Islamic banks that lead to liquidity shortage. The questions will also focus in the recent situation in the region of Saudi Arabia in Islamic banks.

4.2.2 The second theme: the impact of the liquidity shortage:

The questions in this section show the impacts of the liquidity shortage in the long term.

4.2.3 The third theme: the solution against liquidity shortage:

This part will illustrate the solutions of the problems of the subject.

4.3 Thematic Analytic

4.3.1 Reasons

1- In your point of view, what are the reasons of the poor liquidity in Saudi banks in general?

From the answers we got from most of the interviewees (8 out of 11) 75%, the main reasons behind liquidity problems are similar. They are as follows:

Firstly, (7 out of 11) 60% said that the decrease in the oil prices is the main reason. In addition, lower oil prices generally led to a decline in the government spending in the Saudi Arabia because of reducing the revenue due to the oil prices and as we know that the Saudi economic based on the government spending which associated mainly to the oil prices. So, if the oil prices are good then the government spending will be stable but if the prices dropped, it will affect in a negative way on the projects in the state and thus it will affect the level of liquidity in the country which lead to the liquidity shortage in the banking sector.

Figure 4.1

The crude oil prices in Saudi Arabia lately in 2016.



- Investing.com: an overview – crude oil in Saudi Arabia

<http://sa.investing.com/commodities/crude-oil#>

Secondly, (6 out of 11) 55% of the responders (11) agree on the political situation as a reason which makes the expenditure larger than the revenue. Actually, banks in

Saudi Arabia depend on the deposits for the liquidity issues but in this case (because of the reducing of the oil prices) the government withdrew their deposits and sometimes borrow or lend money from banks to cover their needs which led to the sudden lack of liquidity in banks. This was not the only solution that took from the country but they also issue some bonds and Sukuk which also financed by the banks and it affects badly on the level of the bank's liquidity. One of the legitimate administration managers in one of the Saudi banks, he said "it supposed for the government to take the advantage of the credit confidence that they have and the good credit rating in borrowing money from the international market rather than weaken the liquidity in the local banks" he continued " There was a miscalculation on the liquidity size in Saudi Arabia and another miscalculation of the effect of the bonds issuance on the banking sector in Saudi Arabia, which led for the first time in Saudi Arabia since eight years to raise the SIBER¹¹ ratio and that could affect negatively in all economic sectors in the country".

All the unstable regimes lately and the latest issue in Saudi Arabia was the imposition of the tax which had a significant role in exodus large number of money from the banking sector, either through releasing from the economic cycle and being deposits and turn them into gold bars or invest their money outside of Saudi Arabia, which led to a kind of poor liquidity based on Basel III which illustrate in Table 4.1 in chapter 4.

While others (4 out of 11) 30% of them believe that the liquidity problem in the Islamic banks in general always happens either in Saudi Arabia or abroad in two ways: the management of the excess liquidity and the shortages in liquidity. It is a problem raised by the Islamic banks because other banks (conventional or

¹ SIBER is the price of the interest of the interbank lending (Alsalmim 2011)

commercial) have many tools' markets such as lending and borrowing even if it was only overnight lending while Islamic banks have a lack in these mechanisms.

Lack of Islamic banks' instruments means that the liquidity coverage in the commercial or conventional banks much faster compared to the Islamic ones. This calls for improving some instruments and it should be applicable to the sharia law which supports the Islamic banks during the deficit in liquidity situations either the excess or the shortages in liquidity. On the other hand, the Sharia consultant (Advisory Services Division) explain that there is no problem of liquidity generally in Saudi Arabia's Islamic banks and the liquidity problem here is only a part of the state budget as evidenced by the 2030 vision² of the Prince Mohammed bin Salman³ to reevaluate the government budget.

2- What is the relationship between the interest rates and the level of liquidity in the banks?

The relationship is 100% an inverse relation between them, which the high-interest rate leads to limit the rate of lending, and vice versa.

4.3.2 Impacts

3- How can this problem affect the bank's performance in future?

(The collapse of the banking sector), this was the phrase which repeated in every interview, after mentioning this question directly. Then, they complete that the track in banks will enter into a critical stage called (systematic risk) means the regular risks and it shows that if one bank of the Islamic banks has faced liquidity shortage, it will affect directly on the other banks due to the fact that all banks borrowed from each other. Thus, if customers felt that this problem will occur, there will be run and

² See the full vision (<http://saudigazette.com.sa/saudi-arabia/full-text-saudi-arabias-vision-2030/>).

³ MOHAMMAD BIN ABDULAZIZ AL-SAUD Chairman of the council of economic and development affairs of Saudi Arabia.

withdraw their deposits because they will be afraid of and don't have confidence in the ability of banks to give them if they asked for their money.

In fact, the impact was evident and clear when the lending rate become higher. The banks actually were not keen on the establishment of the liabilities products. It called the side to attract the money because of the full accreditation was on deposits and the current accounts. It considered as free money to the bank which becomes lower due to the decline in income of individuals. After that, banks start issuing Mudaraba certificates to attract customers and to deposit their money into banks and feed their liquidity.

4- Do you think that the effect of the poor liquidity in the Islamic banks is the same as the conventional banks? How?

The effect may be equal sometimes in both Islamic and conventional banks, but we find that the conventional banks can cover the shortfall in liquidity more quickly because of the availability of appropriate liquidity products such as interbank lending or using the overnight lending. While the Islamic banks do not have enough products to help in covers the deficit in liquidity. Thus, the impact on the budget of Islamic banks is bigger than conventional banks. On the other hand, the legitimate administration director in one of the large Islamic banks in Saudi Arabia said that Islamic banks may be less effective due to the lower cost of money because most of the deposits in the Islamic banks are short-term (current accounts) and this means that customers will not take interest and the banks will not pay benefits. Currently, Twarroq operations in Islamic banks became more used and led to speed coverage of liquidity problems and based on that the effect will be equal in all types of banks.

- 5- As what we hear recently that on Sunday 25 of September 2016, SAMA supports the banking sector by paying SR20 billion (\$5.33 billion) to cover the poor liquidity and keep the stability in the financial market. In fact, this time was the first time for them to announce that they pump this liquidity; how do you see this announcement, and how do you evaluate this SR 20 billion?**

Most interviewees (10 out of 11) agree that the reason behind this announcement was only to reassure the customers and even banks' administration especially the treasury departments and give them a good signal which illustrates that the market is stable and it's no need to worry about their deposits. However, others have said that the reason is that this is the first time for the Kingdom of Saudi Arabia to face this level of weakness in its economy.

In the case of evaluating the amount mentioned above, different evaluations of the interviewees. (4 out of 11) of them said that this amount is insufficient and it just paid to reassure clients and to stop raising the interest rate, the other (6 out of 11) believes that this amount is sufficient and it was based on studies that held by Saudi Arabian Monetary Agency "SAMA" to determine the banks' needs. The rest (2 out 11), they believe that the amount is very low compared with the current situation in the country and declare that SAMA will have to pump other amounts to cover the liquidity shortage.

- 6- Do you think that SAMA will continue to pump money into banks for a long time?**

This question got unified answers by all respondents which are that this is the main duty of SAMA to support the banks in the event of fall or default and they call it the final solution for banks because the fall of banks will lead to the collapse of the whole

economy in the country in general. They add that the SAMA can issue bonds or Sukuk in the event of a decrease its liquidity.

7- In your point of view, what are the reasons of the poor liquidity in Islamic banks while they say that they extremely apply the sharia system in all transactions?

The answers to this question were different every time, some of them (4 out of 11) said that the improper application will lead to many problems. For example, banks that rely on two types of contracts which are Mudaraba and Musharaka. They will face the risks in these two contracts. It is very high compared to the other contracts and if the banks did not get the specific target, it may threat the liquidity of the bank. So, banks tried to use the Murabaha contracts rather than speculative and Musharaka because of the risk ratio of the lower here.

On the other hand, the answers declared that the reason could be related to the lower instruments number in the Islamic banks which make this liquidity problem are always raising in Islamic banks and the improper implication could be unintentional. Actually, one of the things that might be obstacles faced the liquidity in Islamic banks is the depends on the deposits such as Murabaha and these deposits is not tradable in the secondary market while the Mudaraba and Musharaka can be tradable to solve the liquidity problems. As a result for that, the Islamic banks have concerns to choose the suitable contract in their transactions.

The head, financial product development center in an Islamic bank in Saudi Arabia said that the real situation is that there are not a significant difference in the transactions among conventional and Islamic banks. The Islamic finance supposed to prevent debt to be doubled while the situation now in Islamic banks is very different. Islamic banks must apply "Wadh Aljawaneh"⁴ which is an Islamic law or it called the

⁴ See "Put pandemics in Islamic jurisprudence theory" by Dr. Hussain Al-madhab, 2011.

theory of emergency conditions when faced with difficulties such as cutting off part of the employees' salaries or Pandemic to protect the clients.

Other participant "Sharia Consultant, Advisory Services Division" report that the reason is that all of the employees "specially the treasury department "in the Islamic banks come originally from the conventional banks and have a good experience in the conventional tools which make it very hard for these employees to change their mechanism and not easy for them to understand all the Islamic financial system and that led to the lack implication of the Islamic rules. He continued, Sheikh Ottoman, the chairman of AAOIFI "Accounting and Auditing Organization for Islamic Financial Institutions" said in 2008 that 80% of Islamic instruments are not applicable to the sharia law because they try to be close to the traditional bond's structure and since that time the Islamic banking had a huge improvement in finding solutions for the management of liquidity in Islamic banks.

4.3.3 Solution for liquidity shortage in Islamic banks

8- What is the most appropriate organization that can support the banks in this case? How?

Central Banks are always the safer. Unfortunately what people do not know is that when Central Banks is mentioned, it refers to the general public indirectly. In the case of Saudi Arabia, SAMA is the responsible in such conditions. It will help the banks if they faced any shortfall by putting injections of money till making them stable enough.

9- This research assumed that the Islamic financial system has perfect ways and means to solve the liquidity problem with these banks. So, how can Islamic banking provide protection for banks against the poor liquidity?

There have been many solutions and suggestions on this part. The first thing was to hire the good management of liquidity in Islamic banks is considered as one of the daily responsibilities of any bank especially in the Treasury Department in order to be ready all the time to confront any type of crises that may be faced by the Bank. The internal solutions that can be set by banks to protect liquidity could be the marketing and offer to open current accounts. the external solutions, the interbank lending may include. For example, shorts term lending. Borrowing may also obtain from the Central Bank "SAMA" and it called last lending Resort and it can be available in the absence of outside aid. Banks can also borrow from abroad and invest this money internally by sell shares. Also, it is possible to have deals between the Islamic and conventional bank as what happened in the era of Prophet Muhammad, "peace be upon him" when he died, the Prophet left his armor to a Jew and this means that the prophet had liquidity problems and deal with the Jewish to solve them.

While for others, their views were different that the fact of preventing the banks from the lack of liquidity is never can happen because the one who has the long-term liquidity management tools are "SAMA" in Saudi Arabia". However, Islamic banks have only the short-term control of the liquidity level under the supervision of the Treasury Department and these problems often need simple solutions because of the troubles in applying the liquidity management strategies. Some of the interviewees pointed to "Alqardh Al-Hasan" transaction among Islamic banks as a solution to reduce the lack of liquidity or the possibility of establishing a fund call "Takaful Fund" between Islamic banks to guarantee each other for a long time. Also, activate

the Sukuk market in Saudi Arabia, which may be a perfect solution to the problems of liquidity in all Islamic institutions, not only Islamic banks. Basel III has been mentioned with more than one participant and its huge role in playing in the level of liquidity in the banks. Most of the requirements of the Basel 3 had a side effect on the liquidity. Due to this fact, Islamic banks have resorted to the use the tools or instruments that have a close structure to the conventional banks' tools such as Tawarrog because the rate of risk is very small or almost non-existent compared with tools such as Mudharaba or Musharaka.

The lead risk management specialist at one of the Islamic banks pointed to the Islamic treasury bills experience in Egypt as a solution for the liquidity shortage in Islamic banks. Treasury bills mean that when the banks are investing and then they facing suddenly a deficit in liquidity; they will resort to the central bank by giving them the treasury bills with a promise to repurchase at the end of the month or when the liquidity is available in the bank (repurchase agreement). After that, the central bank will give the bank cash (fund) and this fund comes from the reserve ratio in the bank Central, "which Originally comes from the reserve ratio on the other banks and save it in the Central Bank". In fact, the banks at the end will benefit from this process in the re-infusion of cash to the banks in the event of a lack of liquidity "buybacks transactions". There is another solution that the country will re-inject the funds that have been pulled through the general budget of the country or through their revenue.

Head, financial product development center see that there are many solutions, but the problems are the resistance in a society that limits the application because of their fear of the difficulty during the usage. He believes that the ideal solution is the one that applies in Sudan and it can easily apply in Saudi Arabia, but Islamic banks have

dispensing these solutions by the Tawarroq contracts where risks may be non-existent in these types of contracts.

10- Finally, do you think that it is easy to implement these strategies in reality or it is depending on other factors in order to apply?

All responders (11) agree that it is not easy to apply in the reality because it depends on many other factors, but if there is an active market for issuing the Sukuk in Saudi Arabia and also they can establish a private financial regulator to issue Sukuk on the stock market and they can make this organization the supervision of the issuing process.

4.4 Discussion and Analysis

In this part, the responses are discussed and analyzed to meet the objectives of this study, it will be explained in the following points:

4.4.1 First theme: the reasons that may cause the liquidity shortage in Islamic banks

The reasons behind the liquidity problems are mainly due to the reduce of oil prices in Saudi Arabia and its effect on the Islamic banking institution. The other reasons include the political conditions, and that led the clients⁵ to withdraw deposits from the banks. After that, the government issuing Sukuk to cover the budget deficiency and this Sukuk was financed by banks which also effect on the bank's liquidity. Islamic banks have less amount of tools that help to make the liquidity stable.

4.4.1.1 Analysis

The answers to the question on the first theme were similar among all the respondents, when all of them have agreed that there is a liquidity shortage in all

⁵ The clients are governments and other customers.

Islamic banking in Saudi Arabia during 2015 and 2016. In the end, we see that the great dependence on oil in Saudi Arabia may no longer be in its favor in various periods. As we know, oil prices are not fixed and volatile now. In the beginning, the government used their deposits from the Saudi Arabian Monetary Agency "SAMA" to finance the fiscal deficit. Then, since June 2015, they began in Issuance of domestic government securities and they signed a syndicated loan with other international banks to get 10 billion Dollars in the second quarter of 2016 (Algharsan, Alhamida, and others 2016). In fact, the price of oil fall to \$45 or \$40 for each barrel and it is, unfortunately, affecting in the banks badly and as we know the liquidity is the oxygen of the banking sector. This may affect the economy in general and particularly banks and more focusing on the Islamic banks. This happens due to the weakness that we find it in the tools that used to save the level of liquidity in Islamic banks, it may effect on the Islamic banks badly. In reality, Vision 2030 has focused on this point and tried to solve it by various ways and means. On the other hand, liquidity management problems may affect the performance of the Banks in general, and if these problems continue, it will lead to the collapse of the banking sector and then the collapse of the country's economy, as previously reported in the literature review (Frag, Harland, and Nixon 2013).

The increases in the interest rates will directly effect on the level of lending in banks which decreases the borrowing ratio. Then, the liquidity will also have a negative effect because clients will be no longer lend money from banks due to the high-interest rate.

4.4.2 Second theme: the possible impacts of the shortage of liquidity in Islamic banks

The effect of this liquidity shortage on the Islamic banks will not be easy and it could lead to collapse the whole system. It's going to increase the interest and decrease the lending levels which guide to lack in financing a lot of the investors and to the delay of paying the salaries for the employees. After that, the economy growth will be lower over time. Finally, it will lead to the collapse and the bankruptcy of banks and that means the high collapse of the economy.

The influence in both Islamic and conventional banks may be the same, but the main difference is how to solve and cover the shortfall in liquidity. Where traditional banks have enough of the products that may be used to cover liquidity such as interbank borrowing or it could be only overnight lending in emergency cases. On the other hand, Islamic banks have some problematics in the liquidity deficit due to lack of products comparing to the conventional banks where we actually know that even borrowing from the central bank does not applicable to the sharia law because of the interest. therefore, we find that the Islamic banks have started to use Tawarroq in its transactions to curb the liquidity problems. However, there was a view which was contrary to all other views which claim that Islamic banks are having advantage of the lack of cost of money because most deposits in Islamic banks are short-term which means that there is no interest and the bank will not pay to customers for their deposits and it will remain the liquidity stable in this case.

As for the advertising which done by the SAMA to pump 20 billion Saudi riyals, all participants agreed that it was to reassure the clients and the international market that the global financial situation in Saudi Arabia is stable. In addition, the amount mentioned, some views evaluate it as a sufficient amount based on the studies carried

out by SAMA of the current situation of banks liquidity. the others participants see that the amount is not enough because the liquidity position banks are serious may not end soon. Finally, all of the interviewees agree that this is, in fact, the main duty of SAMA which is helping banks in the deficient times till banks stand on their feet again.

The application of the Islamic financial system in the Islamic banks have different points of view among supporters and opponents. These problems in the application could happen unintentionally. The reason of that is that the employees at Islamic banks were originally employed in the conventional banks and this make the task of dealing the Islamic system, which is a radical change to what they used to do, something difficult to implement. It may also be the concept of the Islamic system is a new mechanism for them, making them face many questions during the application. For example, the reliance of banks on the debt is one of the things that may hamper liquidity because the debt cannot be traded in the secondary market.

4.4.2.1 Analysis

The work of banks are a huge part of the state's economy and this highlights the importance of the banking sector in any country, especially Islamic banking in this Islamic country, Saudi Arabia. From here, we see that this motivated Islamic banks to develop the Islamic products especially "issuing Sukuk" that may help the bank during the liquidity shortage and may also employ the liquidity surplus on the other hand which is not less important from its predecessor. This also will affect greatly in the reputation of the bank, which makes customer's demand decreases dramatically if the bank faces any problem in liquidity. Unfortunately, if that happened, the whole banking sectors will suffer from the same level of influence. After that, SAMA will be the good solution to help them to return to the market with a good level of liquidity. In

fact, the implication of the sharia law in the Saudi financial system is not completed up to now and it needs to help people into a deeper understanding of Islamic banking legislation and how to apply it in the real life. The evidence of that, they still using Tawarroq despite the intensity of the debates in the judgment on this contract whether if it is Halal or Haram and they still have low awareness of the Sukuk issuing structure. On the other hand, the formulas of the Islamic contracts sometimes are basically matching the conventional forms widely with different concepts. So, all of these factors could lead to a wrong application for the sharia financial system.

4.4.3 The third theme: the potential solutions against the liquidity shortage in Islamic banks

In the situation of liquidity problems, the only institution that may support and help banks are SAMA and they called this stage last lending resort. In some cases, banks may have to support each other through interbank lending among themselves, but these are only a short-term solutions and may issuing bonds or Sukuk if shortfall was huge.

The solutions differed in the views of the respondents from one to another that they have to follow and apply the Basel Convention 3 to maintain the liquidity needed or focus more on liquidity management in the Treasury offices department in banks, or issuing Sukuk, or maybe by dealing with conventional banks in the absence of other solutions. Qardh Al-Hassan between Islamic banks was a solution by many of the interviewees through establishing Takaful Fund only among Islamic banks. Revitalization the experience of Treasury bills in the central bank to help other banks in case of liquidity problems was also one of the solutions. Finally, the applying of these solutions are not easy because each one of them is depending on specific factors.

4.4.3.1 Analysis

First, Since the subject of this research is finding solutions to these types of problems, this section will speak about all the possible solutions to resolve liquidity shortfall in the Islamic banks. The fact that SAMA is considered as one among all radical solutions that could help to cover the liquidity deficit in the banking, this topic is not in the manner of discussion because this is its function toward the banks.

Second, the financial situation in Saudi Arabia is very important because it also assesses the economic situation. Based on that, the Islamic banks need to further development in their private products that provide liquidity and low-risk ratio. For example, Murabaha contract has a lower risk compared to Mudaraba and Musharaka, and based on this Islamic banks should find some solutions based on this type of contract and develop it in order to meet and serve the largest segment of customers. Also, the market of Sukuk needs to more improvement to serve the Islamic banks in all transactions. With the expanding issuance of Sukuk in the GCC, surely understood sharia researchers, remarkably Taqi Usmani, have addressed whether the structures embraced for Sukuk are really sharia agreeable. There has been specific worry over musharaka and modaraba Sukuk, as these agreements should include risk sharing without capital assurances to the investors to legitimize the benefits earned. Once the investors' capital is ensured, they become debt- rather than equity-type products (Wilson 2009).

Third, Basal III also have a good contribution in the liquidity subject in banks by making some regulation for banks during their investments to keep themselves away from the problems. Investopedia defined Basel III as an international regulatory deal that inserts a group of repairs which prepare to improve the system, get a higher control in the risk management within the banking sector. The Basel Committee on

The Liquidity Shortage in Islamic Banks: An Exploratory Study of Saudi Islamic Banks

Banking Supervision declare the first version of Basel III in late 2009, they give all banks about three years to fulfill all requirements. the main goal of basal 3 is to reform for improve a more flexible banking sector: the Liquidity Coverage Ratio (LCR). While the main target of LCR is to support the liquidity level in banks and make it resilience for short-term. the strategy of LCR is to ensure that all banks have enough stocks which can easily transfer into cash to meet the needs in liquidity within 30 days of liquidity stress. In fact, the plan of execution of the LCR based on basal 3, the minimum requirements by the beginning of 1 January 2015 should reach 60% and an increase in the equal annual rate of 10% yearly till reaching 100% by the beginning of January 2019 (Bank for International Settlements 2013).

Table 4.1

The minimum LCR from the basal III agreement

BASAL	3	1 January				
REQUIREMENT	2015	2016	2017	2018	2019	2019
Minimum LCR	60%	70%	80%	90%	100%	100%

* Bank for International Settlements¹

The LCR of Saudi banks during 2015 and 2016 were higher than the target of Basel 3 which is 70%, and we can illustrate it as the follow:

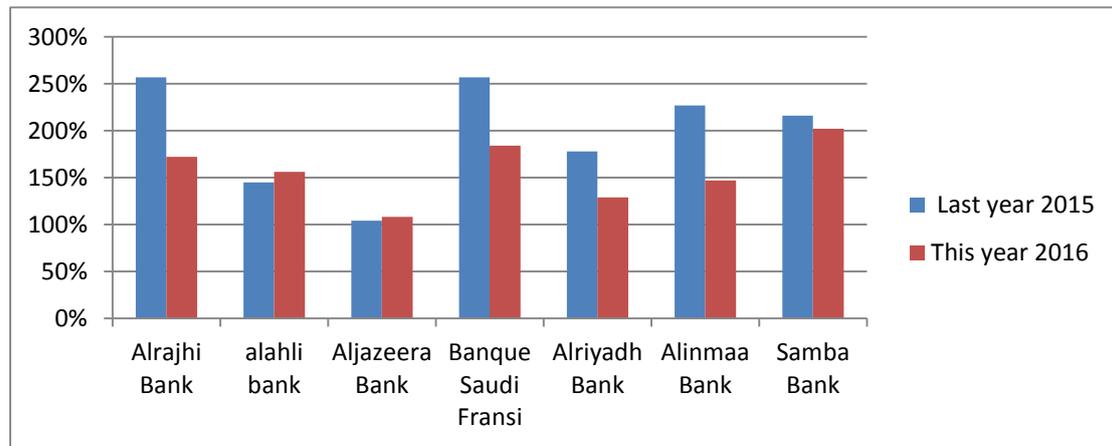


Figure 4.2 *Information on Capital Structure, Liquidity and Leverage Ratios as per Basel III Framework for Each Bank (2015-2016).

The fourth thing that may be possible to apply in the Saudi banks is the experience that done in Sudan. The idea was to raise in 2012, the financial investment bank introduced the idea of CF "Collective fund" to the Central Bank and the Union Bank of Sudanese banks for banks and to be managed by the Financial Investment Bank to support and help the participant banks in the prompt payment of any deficit occurring in their accounts within the immediate settlement system. In 2014, the liquidity Management Fund was established. There many goals behind the establishment of the CF which can be summarized in many points. First, helping the banking sectors to cover their shortfall to come up with the new systems. Then, the aims also will be for the surplus in liquidity and how to manage it correctly for short-term, activate the corporation and increase the issuing of Sukuk among banks, and issuing tradable short-term securities and the first goal is for liquidity management. Finally, achieve an appropriate return on the fund instruments that fit the nature of the instrument as a tool for liquidity management.

The legal formula for the management of the fund is restricted Mudaraba and all Sudanese banks are contributing to the fund. They also dealing with Alqardh Alhasan and issuing the Sukuk. The manager of the fund (Mudhareb) is the financial investment bank. The amount of the contribution in this fund is determining based on the average of the saving and current deposits and cash margins for each bank for the period attributed to the total bank deposits multiplied by the Fund's capital.

Finally, all the respondents agree that this idea is perfect to be applying in the Islamic Saudi banks. It will be a good tool to manage the liquidity and make it stable in this country. Generally speaking, I was very pleased with the results of the evaluation of the interviews because it approves my hypothesis that the Islamic banking system has many ways to fix all the liquidity problems in Islamic banks. The interviewees were useful with their participation in this research and made many remarkable comments.

Chapter Five

Conclusion & Recommendations

5. Conclusion & Recommendation

5.1 Conclusion

The liquidity situation of financial institutions is very critical recently due to the lack of instruments, tools, and techniques. It also because the sanctity of dealing with interest and the limitations of the Islamic money market among the others. From one side, these banks are keeping invest their funds in managing liquidity in the case of liquidity shortage. It directly leads to the problem of excess liquidity in banks. in fact, the excess of liquidity drives to lose a lot of the investment opportunities, and then drop the depositors' profits.

From the researcher side, the liquidity shortage is also a critical issue which really needs to deep investigate and find solutions to avoid it all time. Islamic banks start to deal with Tawarroq contract “which is not agreed upon by all scholars” as a tool that can be used to solve liquidity problems in Islamic banks. As a reason of that, all Islamic banks should try to find an alternative project of Twarroq with Sukuk as Islamic financial products. Islamic Sukuk can attract a lot of clients and even the clients from foreign countries to issue the Sukuk based on its regulation which is a complaint to the sharia law. In addition, banks should be aware of every step they take because it is going to effect in many ways on their performance. As what we see in the previous discussion, we can evaluate that the impact on the Islamic banking sector not easy and could drive to collapse the whole banking system consequently. From this research, we can say that the real problem of liquidity may affect not only the bank itself, which suffers from a deficit, but the effect on the entire banking sector and then to the state's economy. Finding appropriate solutions compliant with Islamic law to curb these problems which are the duty of Islamic banking toward its clients.

All the facilities in Islamic banks are very interested in the liquidity topic which shows how much this issue is a serious issue which really needs to improve and implicate the solution they have to get rid of all the problems that can effect on the bank's performances. There are many suggestions and recommendations in this chapter which can help the managements of the Islamic banks in providing a system which can make these banks away from such issues.

5.2 The Limitation of The Study

The limitation of this research comes in many aspects as follows:

5.2.1 Contacting The Target Population

I face some troubles in contacting the target population sometimes. Some of them were not responding the emails and even if I try to contact the secretary. Others had been refusing to interview me either for his reservations about his work or he believes that his background is unrelated to the interview topic and he did not give me a chance to explain the topic deeply for more understanding.

5.2.2 Not Recordable Interview

One of the interviewees was not accepted the idea of the interview recording and because of the long questions and long answers, I was not able to take the whole notes correctly. So, I missed up some of the information and I tried to contact him again to reinter view him if he available. After that, he asked me to send the questions through email and he will send me back the answers. Finally, I sent him the email and he did not reply anymore.

5.2.3 Sharia Scholar Availability

Regarding my target population, the scholars in Islamic banks are an important part of the whole data. Regrettably, most of the scholar are not in Jeddah but in Riyadh which makes it hard to reach them and makes the interviews with them.

5.3 Recommendation

- i.** Seeking to establish an Islamic central bank and the most important role is setting monetary policy and financial liquidity management in the Islamic banks, and works on the development of legal and regulatory frameworks for the management of liquidity.
- ii.** Unified the Islamic banks' efforts through the hire the scholars and specialists in Islamic banking together to create monetary financial instruments to manage liquidity in Islamic banks. it must take into account all the decisions of the fiqh councils and standards legitimacy of the Accounting and Auditing for Islamic Financial Institutions.
- iii.** The importance of having high-quality management members to manage the liquidity in the Islamic banks, and the hard working on providing a suitable environment for these banks to work in.
- iv.** Provide an internal controlling system to check the efficiency in liquidity management and good execution for all regulations.
- v.** Improve the Sukuk market that could really help in the liquidity problems situations.
- vi.** Work on the development of the secondary market for trading financial instruments that compliant with sharia law, so as to benefit from the liquidity of it when banks need.

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Appendix

Interview Questions

Question guide for (Sharia Scholars):

- 1- Nowadays, the liquidity in the banks of Saudi Arabia is not stable since the decline in oil price. In fact, the price of oil fall to \$45 or \$40 for each barrel and it is unfortunately affecting in the banks badly and as we know the liquidity is the oxygen of the banking sector. On the other hand, other sources show that it could be other reasons behind this decline or deficit in liquidity. In your point of view, what are the reasons of the poor liquidity in Saudi banks in general?
- 2- How can this problem effect the bank's performance in future?
- 3- What is the most appropriate organization that can support the banks in this case? How?
- 4- Do you think that the effect of the poor liquidity in the Islamic banks is the same as the conventional banks? How?
- 5- What is the relationship between the interest rates and the level of liquidity in the banks?
- 6- As what we hear recently that in Sunday 25 of September 2016, SAMA supports the banking sector by paying SR20 billion (\$5.33 billion) to cover the poor liquidity and keep the stability in the financial market. In fact, this time was the first time for them to announce that they pump this liquidity; how do see this announcement, and how do you evaluate this SR 20 billion?
- 7- Do you think that SAMA will continue to pump money into banks for a long time?
- 8- Some researchers mention that the liquidity problems in Islamic banks happen due to the improper implication of the sharia financial system, in your point of view what are the reasons of the poor liquidity in Islamic banks while they say that they extremely apply the sharia system in all transactions?
- 9- This research assumed that the Islamic financial system has perfect ways and means to solve the liquidity problem with these banks. So, how can Islamic banking provide protection for banks against the poor liquidity?
- 10- Finally, do you think that it is easy to implement these strategies in reality or it is depending on other factors in order to apply?