Bank Capital Adequacy And Liquidity Management: Conventional Vs Islamic Bank

Fédi Kalai  
Lille University  
kalai_fedi@yahoo.fr

Prof. Jean Baptiste Desquilbet  
Lille University  
jean-baptiste.desquilbet@univ-lille1.fr

Abstract

We consider liquidity creation alternatively in an Islamic banking system and in a conventional one, adapting the Diamond and Dybvig (1983) model to take into account the specifics of Islamic deposit contracts: a contingent payment, a predetermined sharing ratio, a secured but non-remunerated principal in case of early withdrawal. We show that, in the equilibrium without runs, an Islamic banking system would offer deposit contracts that are less favourable to depositors, hold more liquid assets and have a lower equity to deposit ratio than a conventional banking system.

Key Words: Islamic Banking, Liquidity, Deposit Contract, Equity-To-Deposit Ratio.