ADVANTAGES AND RISKS OF ISLAMIC INVESTMENT

Toto[1]
Elin Herlina[2]
Nana Darna[3]

Abstract: *In the Islamic context, investing is highly recommended so that the future can be guaranteed. Of course, investments made by Muslims must be following Islamic rules. Investing in economy Islamic concepts will provide a sense of security and comfort for Muslim investors, without fear of deviating from Islamic teachings. As a devout Muslim, of course, investment choices must be appropriate and following the concept of Islam. The difference between conventional Islamic investment lies in the benefits given. The advantages of Islamic investment are in the form of profit-sharing, while the conventional concept is interest. In the teachings of Islam, interest is haram, because it does not recognize the value for money. In the view of Islam, the money will not be developed by itself but must go through productive and ruleful efforts. The purpose of making this paper is to discuss the advantages and risks of Islamic investment. This paper uses a literature review approach that comes from journals, books, the internet, and other sources. The results show that the advantages of Islamic investment are riba-free, minimal risk, Islamic management, halal, and promoting social activities. Meanwhile, the risks that may be faced by investors are the risk of losing capital, the risk of uncertainty of return, and the difficulty of selling investment products. From the results, it was found that currently Islamic investment products are favored by non-Muslims alike. The concept of profit sharing is considered more profitable than interest. It can be concluded that Islamic rules can now be accepted by various groups of people in the world.*
Keywords: *Islamic Investment, Islamic Economy, Profit Sharing, Riba.*

The Introduction

The development of the business world, which is growing rapidly in line with technological developments, has had a major impact on the development of the Indonesian economy. This can be seen from the intense competition in the business world, both in the trade and in the product and service industry, as well as an increase in consumer demands not only for the products or goods consumed by them, but also an increase in the quality of services for these products. This increasingly fierce competition requires companies to manage all existing resources optimally to survive in a business world that tends to change rapidly. Globalization, technology, and innovation continue to change and go along with the times, where market developments are very dynamic and full of competition, companies will find it difficult to maintain their existence if they only survive on their current products. Therefore, new product development is an important matter for the company.

This development includes the creation of new and new products or improvements to existing products and services by taking into account the

[1] Fakultas Ekonomi Universitas Galuh, Email: totofeunigal@gmail.com
[2] Fakultas Ekonomi Universitas Galuh, Email: mrs.elinherlina@gmail.com
[3] Fakultas Ekonomi Universitas Galuh, Email: nanadarna7@gmail.com

wants and needs of consumers and can create satisfaction for consumers (customers).

In general, there are 2 (two) types of products offered to customers. The first is manufactured products (goods), which are products that are real, physically present, can be seen and touched. The second is a product in the form of a service, where service is a service aimed at customers in meeting the needs of these customers. The nature of service is the opposite of a manufactured product, its shape cannot be seen, cannot be touched, and cannot physically be known its shape, it can only be felt whether it can fulfill customer desires or not.

In general, services are any activity or benefit offered (by one party to another) which is intangible and does not result in ownership. Kotler stated that services are various efforts that can be made by one party in providing an offer to another party in an invisible form and do not result in ownership of something; the production may or may not be tied to a product physically.

Service quality is a dynamic condition related to products, services, people, processes, and the environment that meet or exceed expectations. The characteristics of quality service are sympathetic, responsible discipline, and full attention to give satisfaction to the services provided.

Service quality is closely related to standardization of input factors (personnel, funds, facilities and infrastructure) and process factors (workflow, 3 practices, or service behavior). This will have a positive impact on reducing variations in the service process so that the results (output) will be better and more consistent. As the community becomes more critical, they will increasingly demand better and quality services in every line and type of service, so the service function needs to be continuously improved.

Syria bank is a form of service business that provides banking services to the public, BPRS Al-Madinah has a very important role in supporting the level of economic progress of the community and in creating quality human resources. To realize the quality services above, professional employees with high competence and loyalty are needed.

There are two types of banking systems in the world, namely conventional banks and Islamic banks. Conventional banks are financial institutions that run their business conventionally. Meanwhile, the Islamic bank is a financial institution that runs its business based on Islamic rule (Alexakis, Pappas, & Tsikouras, 2016). The difference between them lies in the return and distribution of profits provided by the customer to the bank, or vice versa. Profit-sharing is the principle in Islamic banks, while interest is the principle for conventional banks (Sukmana & Ibrahim, 2017).

For a Muslim riba is haram. Small or large amounts of riba are the same. Riba done by itself or by an institution is the same. This is equally prohibited in the view of Islam (Bodenhorn, 2007; Glaeser and Scheinkman, 1998; Rogers, 2000). There are still many differences of interest opinion that are haram. But it has become the agreement of the scholars, that interest is haram (Glaeser and Scheinkman, 1998; Rogers, 2000).

In countries with a majority of the population adhering to Islam, the existence of financial institutions with an Islamic system is expected to be acceptable and growing (Ibrahim, 2015). Currently, conventional banks are still a financial institution for people in the world. For some Muslims who are still using conventional banks, they are only used as limited funds. They don't keep money in the bank for long until the money increases with interest. But not a few Muslim communities still keep their money in conventional banks (Budiono, 2017)

Islamic Bank gives offers on various investment products to the public. For Muslim communities who want to practice Islamic rule, choosing the right investment is sometimes a separate obstacle. The right choice of investment products, so as not to deviate from Islamic teachings, of course, provides a sense of security and comfort for investors. In Islam itself, investing is certainly not blamed. In fact, for Muslims, it is highly recommended that the future is guaranteed. Of course, the investment in question is an investment that is following Islamic teachings (Ibrahim, 2015; Dewandaru et al., 2015; Al-Khazali et al., 2014; Ashraf & Mohammad, 2014; Jawadi et al., 2014; Ho et al., 2014).

Muslims are not worried about Islamic investment, because the Islamic financial sector has shown significant growth as a financial services landscape (Alexakis et al., 2016). With total assets of around $ 1.8 trillion and strong growth rates each year, making Islamic finance an important part of the global financial system (EY, 2015; IMF, 2015). During the 2009-2013 period, the combined annual growth rate of this sector was around 18% (EY, 2015. In fact, during the global crisis, the Islamic finance sector has been ignored. The consistent growth of this sector has provided investment alternatives for everyone (EY, 2015).

In an academic perspective, various studies on various similarities and differences between Islamic finance and conventional. Islamic banks, for example, have been examined from the standpoint of business models, efficiency, financial characteristics and stability, as done by (Pappas et al., 2016; Johnes et al., 2014; Abedifar et al., 2013; Beck et al., 2013; Čihák & Hesse, 2010; Boumediene & Caby, 2009). Most of the results of this study explain that the two banking systems are very different.

The equity index of Islamic financial institutions is an important part of several research themes, as done by (Alaoui et al., 2015; El Khamlichi et al., 2014; BinMahfouz & Hassan, 2013). In this paper, the author aims to discuss Islamic investment, how and what excellence and investment risk are based on islamic principles. The results of this study are expected to provide recommendations for people around the world to choose investment products based on Islamic principles and can compare with conventional investments.

Research Methods

This study uses a literature study approach. The procedure for finding information about themes comes from various writings such as journals, books, the internet, and various other sources. This technique is carried out to answer research questions and reveal theories that are relevant to research problems, as a reference in the discussion of research results. This research is focused on the advantages and risks of Islamic system investment. Data analysis is done through several stages, namely data reduction, data presentation, and conclusion drawing.

Discussion and Results

Islamic Investment Product

At present, there are many types of investments that can be used to gain profits. One that is quite glimpsed at this time by many people is Islamic investment. What distinguishes between Islamic and conventional investment is the benefits obtained by the customer. If investment generally uses profits in the form of interest, but in a system of Islamic products is to use profit sharing (nisbah). This profit system will give an impression of fairness to investors and bank customers.

Some forms of Islamic investment are offered by banks, such as mudharabah deposits. This product is an agreement contract that is carried out between the customer (capital owner) and the bank (capital manager) to gain profit. That advantage will be divided according to the agreed ratio or agreement.

Islamic insurance is another investment product. The difference with insurance generally lies in the source and the allocation of premiums that are borne by each customer to the insurance company. If at any time it will be claimed, it will be taken from the company. This is different from Islamic insurance, where the premium burden paid by customers will be collected and then allocated by the bank to new savings. The account can be used at any time if the customer experiences a disaster in the form of claim payment. This insurance is a form of investment because premiums managed by the company will be distributed at the end of the period to the customer.

Some Islamic banks provide educational savings products as one of their investment products. These savings are long-term, flexible in monthly deposits. This product provides a good investment compared to educational savings in conventional banks. also, the product provides insurance facilities and cooperation between the bank and the insurance company. With that, when customers experience a disaster, the children's education funds can be guaranteed in the future.

The other investment product is Islamic mutual funds. This product has the same concept as conventional products. It's just that Islamic mutual funds are carried out based on Islamic economic principles. on Islamic concepts, the buyer (customer) agrees with a mutual fund agent (Islamic bank) through a contract. Not only that, customer funds will be invested by investment managers who understand Islamic economic rule. The profits will be cleanly shared with investors.

The following are some forms of financing or contracts in Islamic banks: Qadrh contract, this contract can also be called a virtue loan where the Bank provides loans to customers without yield or fees, this qardh contract is divided into several types, there is a murabah contract, a salam contract, istishna contract, ijarah and multi-service contracts apart from that in Sayria bank there are also profit-sharing based loans, this is what distinguishes between Islamic banks and conventional banks, the form of the contract is a murabaha contract, a murabaha mutlaqah contract, a murabahah muqayyadah agreement and a musyarakat contract.

Islamic financial institutions also issue stock products. Investments in shares are also carried out using the principles of Islamic rule. Unlike planting conventional shares, Islamic stocks are a type of stock that comes from businesses that are not contrary to Islamic rule. There are so many examples of Islamic stocks from consumer companies.

The most preferred is an investment in gold. One of the Islamic financial institutions offers investment in gold. Gold is a precious metal with a fairly valuable value. So that it is often used as a fairly profitable investment. This is because the selling price of gold is more stable and is considered a substitute for the currency. The product can be cashed whenever needed. This investment is highly recommended, because its value continues to increase every time, making it suitable for the long term.

Certainly, various types of Islamic investments have their advantages, especially for Muslims. They prefer to invest according to Islamic rules. They will avoid investment activities that are prohibited by their religion. However, several Islamic investment products are now being looked at by non-Muslims because they are considered more profitable than conventional investments. As with the investment in general, of course, Islamic investment also has risks that might be faced by investors. The desired profit is sometimes not in line with expectations, or the investment does not even close the possibility of being detrimental. Based on the literature review, the following are the advantages and risks that occur if we use Islamic investment products.

Just like conventional banks, Islamic banks also have risks that can occur, because seen from the intermediary function, conventional banks and Islamic banks collect funds from the public to manage funds and channel these funds to people who need assistance from third parties, namely banks.

Bank Indonesia states that losses are potential losses as a result of a certain event. Good financial management at a bank will minimize the occurrence of losses for both the bank and for the customer. Deciding on financing, one example of a case in financial management, the financing proposed by the customer must approve or reject it because there will be a big risk when the wrong decision is made.

Risks that occur in Islamic banks

There are several types of risks involved in Islamic banks, based on their factors and based on their impact. Based on the factors, it is divided into two, namely business risk and non-business risk.

Business risks such as financial risk, this risk such as credit risk, bad credit, wrong take-out in providing financing cause the risk of not being able to pay.

Is does not have an impact on Islamic banks, it is seen from the characteristics of customers residing in the State of Indonesia that the majority are rational thinkers who see the returns generated by customers, so that interest rates at least affect Islamic bank customers themselves, then competition among banks, competition with other financing lending institutions. The next one is liquidity risk, this risk concerns the ability of a company to maintain its company finances (cash flow). Liquidity is very important for a bank, because it ensures the sustainability of bank transaction activities, to meet the financing needs submitted by customers, for business operations such as paying employee salaries. The ability of a company or bank in carrying out its activities is one of the attractions to attract customers to make transactions at the Islamic bank. The liquidity risk faced by Islamic banks has its own difficulty level. Furthermore, namely operational risk, this risk occurs due to an unexpected lack of an information system or internal control. return risk, investment risk, in a company certainly has an investment manager who is in charge of managing, managing finances so that there is no mistake in investing the existing finances. One of the factors that caused the company to not develop was wrong in managing finances. Furthermore, non-financial risks, this risk can occur in a company or banking, especially here Islamic banks. Some cases of risk that occur in Islamic banks are risks that occur due to government regulations, related to policies that occur so that they have an impact on policies that have been issued by Islamic banks. Second, there is a reputation risk, this risk arises from the performance generated by the bank itself, both good and bad performance will have an impact on the progress of the bank itself. Third, there is a strategic risk, namely the risk that occurs due to wrong decision making in changes to the business environment. Incorrect decisions regarding technological changes, macroeconomic conditions and policy policies that occur in the environment.

Advantages of Islamic Investment

Many views that the Islamic banking system is more profitable compared to conventional bank systems. Now public awareness is high about the importance of saving early to prepare for the future. Now the Islamic investment has started to be glimpsed by non-Muslims as well. Some of the advantages of Islamic investment according to Islamic views include being free of usury, minimal risk, Islamic management, ruleful and promoting social activities.

Riba is something that is forbidden in Islamic teachings. In the view of Islam, there is no concept of value for money. Money is not a commodity that can increase itself over time without being used for productive efforts. This condition causes the Islamic financial system to have no interest (riba) or additional money. For this reason, sharing is a concept used by Islamic banks. The Islamic financial system is based on the Qur'an as the teachings of Muslims. So in the view of Muslims investment that is free of riba is an advantage.

Each type of investment must have risks. Risk of loss is something that is very undesirable for all investors. They must be able to analyze the risks that might be encountered in the future. The choice of a financial system that is safe from the risk of loss must be chosen by investors. The Islamic investment system is one that can be favored by them. The investment uses calculations based on family elements. With this concept, investors can communicate with banks to be able to choose investment concepts that have little risk. This concept will also be liked by non-Muslim investors.

Basically, Islamic banks and conventional banks have something in common, which is seen from their intermediation function as a financial institution. Those who collect funds from the public in the form of savings manage funds or savings and distribute in the form of credit to customers or people who need funds. What distinguishes between Islamic banks apart from the profit sharing principle is seen from the existing organizational structure of the bank. In a syraih bank there is a sharia supervisory board while in a conventional bank there is no sharia supervisory board. The sharia supervisory board functions to oversee the activities carried out by sharia banks, the determinants of products or services produced by sharia banks must pass the selection from the sharia supervisory board. What determines the products or services issued by a sharia bank is the sharia supervisory board

Islamic banks have several advantages when compared to conventional banks. These advantages make Islamic Bank have a special market share with its own customer segment. Among the customer segments using Sharia Bank services, there are micro business actors. Until now, micro business actors still have a large enough number and are getting bigger from year to year, and this is an opportunity for Sharia Banks to develop their business in a Sharia manner with an additional portion of customers from micro business actors.

In today's economic growth, the Islamic economic system has been able to withstand the global economic crisis. Apart from having positive characteristics, an economic system based on sharia has positive characteristics that highlight aspects of fairness and honesty in transactions, it also offers ethical investment, prioritizes the values of togetherness and brotherhood in production, and avoids speculative activities in financial transactions. Therefore, we must continue to improve its benefits so that it can be enjoyed, not only by Muslims, but also by all citizens of the nation without exception.

Sharia banking also has a fairly high quality of financing, especially in the small and medium business sector. This condition is certainly very pleasing to all of us. This condition also gives a sign that Islamic banking in our homeland can grow even better in the future. Public awareness, especially Muslims, to play an active role in sharia-based economic and financial transactions is increasingly showing good development. Economic actors and Islamic banking must respond to this development by providing better services to the public. We must continue to improve efficiency and service quality so that the national Islamic banking system can have global competitiveness.

Some of the financing provided to customers from syraiah banks:

Murabaha Financing

Financing from Sharia Banks provided to the ummat for the purpose of purchasing goods for working capital, investment or consumptive needs, provided the customer has a business/job with a definite/permanent source of return. Financing is provided on the basis/principle of sale and purchase, where the Sharia Bank will buy goods needed by the customer and sell them to the customer at a selling price according to the agreement between the two parties and the period of time and the payment/repayment mechanism according to the customer's ability/finances.

Multi-Service Financing (Ijarah)

Financing from Sharia Banks provided to people for the purpose of leasing goods for working capital, investment or consumptive needs that must be ordered in advance provided the customer has a business/job with a definite/permanent source of return. Financing is provided on the basis/principle of leasing, where the Sharia Bank will buy the goods needed by the customer according to the criteria set by the customer and rent it to the customer at a rental price according to the agreement between the two parties and the period of time and the payment/repayment mechanism adjusted to the customer's ability/finances.

Mudharabah Financing

Financing from Sharia Banks provided to people for the purpose of leasing goods for working capital, investment or consumptive needs that must be ordered in advance provided the customer has a business/job with a definite permanent source of return. Financing is provided on the basis/principle of leasing, where the Sharia Bank will buy the goods needed by the customer according to the criteria set by the customer and rent it to the customer at a rental price according to the agreement between the two parties and the period of time and the payment/repayment mechanism adjusted to the customer's ability/finances.

Mudharabah Financing

Funding from Sharia Banks is provided to people who have short-term projects/businesses that have the potential to be supported by sufficiently mature business experience and expertise in that field but do not have the capital to run the project/business. This financing is in the nature of the placement of capital by the Bank to the ummat as a business partner on the basis/system for the results of the profit/income from the business/project financed by the Sharia Bank, with a portion of the profit sharing according to the agreement of both parties and the Bank has the right to conduct inspection/supervision of the running of the business/project.

Musharaka Financing

Bank financing provided to the ummah who has a potential short/long term project/business is supported by sufficiently mature business experience & expertise in this field but requires additional capital / funds to run the project/business, both for working capital and investment needs. The financing is in the form of equity participation by the Sharia Bank to the ummah as a business partner where each party contributes funds on a profit sharing basis/system for the profit/income from the jointly funded business/project, with a share of the results according to the agreement of both parties. parties and Sharia Banks have the right to conduct inspection/supervision of the running of the business/project and even participate in running the business/project.

Ijarah M vomiting (IMBT) funding

Financing from Sharia Banks provided to the ummah for the purpose of owning goods for investment or consumptive needs on the condition that the customer has a business/job with a definite/permanent source of return. Financing is provided on the basis/principle of a lease that ends with the ownership of the goods by sale and purchase, where the Sharia Bank will buy the goods needed by the customer and rent it to the customer at a rental price according to the agreement of both parties and within a certain period of time the leased goods will be sold to the customer according to preliminary agreement.

Another advantage of Islamic investment is that all management processes are carried out based on Islamic rule. For Muslims, this is an advantage. They will feel safer and more comfortable when choosing Islamic investments, without fear of contradicting Islamic rules. Profit sharing is one of the concepts in the management of Islamic banks. Investors' money is actually used for activities that are productive, so the profits obtained are halal.

Based on the Islamic view, Islamic investment is a halal investment concept. The advantages of this investment are for Muslims in addition to getting benefits in the world but can be accounted for in the hereafter. For devout Muslims, all activities carried out in the world must be in line with Islamic rules, including one of them is in investment activities. The concept of Islamic investment is very suitable to be applied to Muslims as a form of obedience to the teachings of Islam.

Islamic investment is used as a means to carry out social activities. Benefits and benefits are not only felt by customers, but also for others. Funds collected by banks from the community are used to support productive businesses in the community. For this reason, the Islamic financial system can be a driving force for the quality of the economy, by reducing unemployment.

Risk of Islamic Investment

In addition to having advantages, of course,Islamic investment is inseparable from the risk. Investment risk both Islamic and conventional concepts cannot be avoided. The risk of investment failure is something that is not liked by investors. They will choose one good investment, from various alternative choices. The main objective is to avoid the risk of investment. There are a number of Islamic investment risks that investors might find, including the risk of losing capital, risk of uncertainty in return, and difficulty in selling investment products.

Uncertainty in economic conditions makes investment income uncertain, sometimes fortunately sometimes loss. If profitable, the invested assets will increase. If you lose, the invested assets will decrease. Capital is the net difference from assets fewer liabilities. Therefore, if the assets are reduced, it will automatically reduce capital. In Islamic investments that use the concept that funds are used for business, this risk is very likely to occur. However, if the bank can manage all of these Islamic systems properly, and by using the precautionary principle, it is expected that these risks can be minimized.

The next risk is the risk of uncertainty of return. This risk still concerns the previous risk. But this risk is more focused, namely on profits. Of course, the benefits obtained do not always reach the expected number. Sometimes targets with achievements are far apart and not as expected. If profits do not match expectations, investors will feel disappointment. Return is the main objective of investment. Islamic investment does not provide a guarantee of the profits expected by investors. So the uncertainty of return is one of the risks in the Islamic investment concept.

Based on the results of the study, the difficulty of selling investment products is the last risk in the Islamic concept. One thing that is feared by investors is when investment products that are purchased are difficult to resell. Therefore, many people prefer gold as an investment product, compared to other Islamic investment products. This condition is caused by easy gold to be resold. Unlike gold, other products such as property will sometimes be difficult to sell. Usually, property can be easily sold if it is located in a strategic place.

Findings

Currently, Islamic investment products have been in great demand by various groups, including non-Muslims. The concept of profit sharing is considered more profitable than interest. Investors will receive more profits if the performance of the fund manager increases. These findings conclude that Islamic economic rules can be accepted by various groups of people in the world.

Conclusion

Various types of Islamic investment products are offered to the public by financial institutions. The product is carried out by applying the concept of Islamic economics. what distinguishes the advantages of Islamic and conventional investments is profit sharing and not interest. In the view of Islam, interest is haram. This condition is caused by the Islamic concept there is no term value for money. The money will not develop on its own, without being used in productive efforts. Such an investment, which is desired in Islam.

For Muslims, the advantages of Islamic investment, in general, are business activities that are in accordance with Islamic rules. These advantages include free riba, minimal risk, Islamic management, halal and promoting social activities. With these advantages, Muslim investors will feel comfortable and safe, without fear of getting out of their religious corridors. However, the investment is the same as investment in general which has risks. The risks that may be faced by investors are the risk of losing capital, the risk of uncertainty of return, and the difficulty of selling investment products.

The weakness of this paper is not based on field data and is only limited to the conclusions from the results of the literature review. For this reason, the next researcher is expected to conduct research on the data in the field, so that the results of the research can be measured.

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