

The Factors Affecting on Excess Liquidity of the Islamic Banks: Case Study on the Islamic Banks in the Jordan

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Abstract

The problem of the study that there is excess liquidity of the Islamic bank, the study found that there is significant statistical impact of factors affecting (the instructions of the Central Bank and the Non-Islamic banks' ability to deal with interest and Lack of the financial markets Islamic and the lack of an Islamic financial market) on the excess liquidity of the Islamic banks, and the study has recommended: the central bank should amend the instructions to allow Islamic banks to borrow with interest-free, and the Islamic banks need to sprayed new banking services in order to be exploited the excess liquidity.

Keywords: Islamic Banks, Central Bank, Financial Market, Excess Liquidity.

1. Introduction

Dubai Islamic Bank is the first Islamic bank it founded in 1957 then the Islamic banking industry spread reaching about 300 banks in 50 countries with capital over one and a half trillion. Islamic banks are experiencing many challenges including an excess in liquidity, the occurrence of surplus means the inability to employ its funds properly, causing the Islamic banks to maintain a high level of liquidity, its inability to borrow as other traditional bank borrowing different sources for example: from a lender of last resort (the Central Bank, 2014) to finance the liquidity deficit if it happens because the nature of their work, not dealing with interest for this the Islamic banks retain a high level of Liquidity of more than 1.4 billion dinars reflected on the profits of the investment account holders and shareholders' profits.

From studying the most important indicators of profitability we observed that the average return on assets of Islamic banks in 2014 is 0.78% compared to 1.53% for commercial banks, and also the average return on equity of Islamic banks is 8.21% compared with 10.97% of Jordanian commercial bank, and this has an impact on the yield paid by the bank to its customers, which customers pay to search for institutions offering them better returns.

This is also reflected in the total deposits held by Islamic banks which formed in 2014 accounted for only 17.59% of the total bank deposits in Jordan (Association of Banks in 2014).

liquidity in the general concept is the ability to pay the short-term liabilities when due, the bank's successful, who can trade off between two opposites are the liquidity and profitability, the bank should invest as much as possible of the money to generate income, and this is contrary to the goal of liquidity, the existence of a lack of liquidity may lead to the bank's exit from the market or could lead to the achievement of losses due liquidate some assets to cover the withdrawals.

The problem of this study there is the presence of unused liquidity at Islamic banks thereby affecting the profitability thus the study attempts to identify the causes that lead to excess liquidity at banks and the search for the most important solutions to that problem.

2. Study Objectives:

The objectives of the study to answer the following questions:

1. What is the reality of liquidity at Islamic banks in Jordan?
2. What are the reasons for the existence of excess liquidity at Islamic banks compared with conventional banks?
3. Is there an effect of the lack of innovative banking services in the Islamic banks to increase liquidity surplus?
4. What are the most important solutions to the problem of excess liquidity at Islamic Banks?

3. Study Framework and Hypotheses

To study the Factors affecting on the excess liquidity at Islamic banks, the model was constructed as follows:

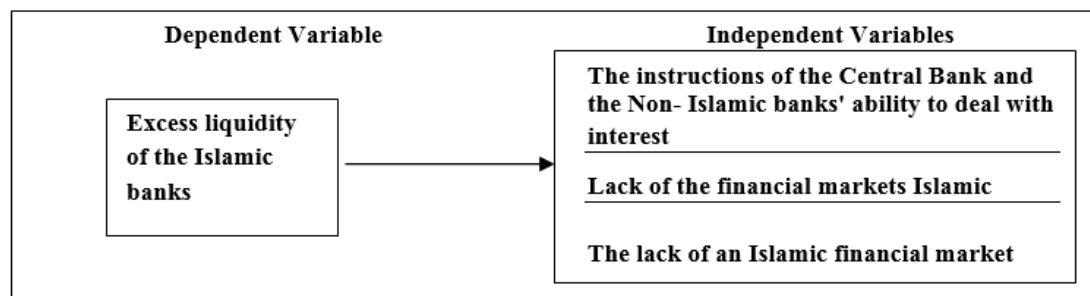


Figure 1. Framework of Study Developed by Author

For studying affecting Factors affecting on the excess liquidity at Islamic banks was built the following hypotheses:

H01 - There is no significant statistical impact of factors affecting (the instructions of the Central Bank and the Non-Islamic banks' ability to deal with interest and Lack of the financial markets Islamic and the lack of an Islamic financial market) on the excess liquidity of the Islamic banks at $p \leq 0.05$

it consists to the followings sub-hypothesis

H01-1 - There is no significant statistical impact of the instructions of the Central Bank and the Non- Islamic banks' ability to deal with interest on the excess liquidity of the Islamic banks at $p \leq 0.05$

H01-2 - There is no significant statistical impact of Lack of the financial markets Islamic on the excess liquidity of the Islamic banks at $p \leq 0.05$

H01-3 - There is no significant statistical impact of the lack of an Islamic financial market on the excess liquidity of the Islamic banks at $p \leq 0.05$

4. The Theoretical Framework

The number of banks in Jordan is a twenty-six bank, broken down as follows: 13 Jordanian commercial banks, and 9 foreign commercial banks, and three Jordanian Islamic banks are the Islamic international Arab bank, Jordanian Dubai Islamic bank, Jordanian Islamic bank and foreign Islamic bank is AL-Rajhi bank (Central bank of Jordan, 2015).

First Islamic bank that dealing in Islamic services to 1940 in Malaysia and then in Pakistan in 1950, but according to the Arab world began in 1963 in the town of Mit Ghamr in Egypt and then in 1971 appeared Nasser Social Bank, and The Dubai Islamic Bank, one of the first Islamic banks Modern, but in Jordan the Jordanian Islamic Bank is considered the first Islamic bank, was established in 1978, followed by the Islamic international Arab Bank in 1998.

And there are services offered by banks to customers, including deposit accounts, a kind of current and savings accounts and term deposits, the banks invest the money in many formats such as Murabaha, and participation and speculative and Ijara to achieve profits(Alwadi & Samhan, 2008).

Jordanian Central Bank Act was passed in 1959, and in 1962 the Council of Ministers asked the Council of monetary to prepare for the establishment of the Central Bank, and in 1963 was the central bank's founding and was appointed governor and his board of directors, but the central bank started in 1964, where he has been resolved Monetary Council (Ramadan & Goda, 2013).

According to the Central Bank instructions the Islamic banks should have legal depend on the total deposits in local currency or foreign are (7%), as well as liquidity ratio legal so that it is retaining the bank's assets liquid kept to a minimum of 100% of the total liabilities weighted, that not less liquid assets in local currency of 70% of liabilities weighted local currency (Central Bank of Jordan, 2015) .As for the growth in the deposits at banks in Jordan, table 1 Shows that.

Table 1. The growth in the deposits at banks in Jordan

Banking deposits(m)	Year
11564.100	2004
13119.300	2005
14591.900	2006
15988.100	2007
18102.600	2008
20298.400	2009
22504.800	2010
24377.900	2011
24969.700	2012
29159.92	2013
31942.122	2014

The Islamic deposits are 17.59% from total deposits of the banks in Jordan. (Central Bank of Jordan, 2014).

Previous Study

There are many studies that addressed: The Factors affecting the excess liquidity at Islamic banks, and the most important of these studies are:

Study (Altaeb, 2011): entitled “risk of liquidity in Islamic banks”. The problem of the study is the presence of liquidity risk among Islamic banks and its impact on profits of the banks, the study aimed to identify the types of risks and liquidity means and measures that reduce these risks.

The researcher used the descriptive and analytical study and analysis of the risk of liquidity, it has concluded that retention of Islamic banks with a surplus of liquidity due to their inability to borrow from the central bank, and the study recommended that there is need to investing in the Islamic Sukuk, and make adjustments to be able to Islamic banks access to financing from the central bank in line with the instructions of Islamic Sharia.

Study (Said & Aboaezz, 2014) entitled: capital adequacy of Islamic banks - in fact, and the safety of the application.

The study aimed to identify the problem of the capital adequacy, that is one of the interested topics to Islamic banks, and the Financial Services Council of the Islamic make some amendments to the Basel 2 and Basel 3, and the goal of research is to identify the extent of banks' commitment to Islamic with international financial solvency standards, the study concluded that the Islamic banks have capital adequacy higher than those specified in the Basel ratios.

Study (ayad, 2006): entitled "the relationship between Central Bank of Jordan and the Islamic banks" . The research aims to study the relationship between the Central Bank of Jordan and Islamic banks, and study the methods of control by the central bank on the banks, and the study concluded that there is a problem with the Islamic banks because of retaining liquidity redundant due to lack of ability to borrow from the central bank without interest, the study recommended that development of alternative new standards and instructions of the central bank regarding borrowing the Islamic banks.

Study (Al sartawi, 2002) entitled: relationship of central banks with the Islamic banking.

The research aims to study the relationship between the central bank and banks and Islamic policies pursued by the Central Bank of Jordan with respect to the control of Islamic banks, the study aimed to reach to the way so that the central bank can apply the monetary policy on the Islamic banks without knowledge the nature and specificity of Islamic banks and the study have recommended that there is need to modify some of the rules and regulations relating to the supervision of the Central Bank of the Islamic banks.

Study (Shehadeh, 2002) entitled: the relationship between central banks and the Islamic banks, where the study aimed to find new standards by the central bank to assess the performance of Islamic banks, where the study sees that there is bias to the conventional banks, therefore, proposed amendments to the means of control over the Islamic banks to contributes the Islamic Bank well in the Jordanian economy.

Study (Sabri, 2007) entitled: the liquidity management in Islamic banks, Malaysia model.

The problem of the study in the management of the Islamic banks for the liquidity, the Islamic Banks Islamic cannot control the liquidity as traditional banks, because Islamic banks do not deal interest, the study addresses the Islamic banking experience in the management of liquidity, where the study concluded contrary to some styles of Islamic law so it must be corrected, and the study relied on the analytical method by analyzing the views of scholars on some issues.

5. Methodology of the Study:

For the purposes of testing hypotheses of the study and to answer the questions of study, the study relied descriptive and analytic method, as well as field study, With regard to side the descriptive, the study gave an accurate picture of Factors affecting on excess liquidity of the Islamic banks, and through previous studies, as for the side of the field, the study relied on a questionnaire designed in order to collect the necessary data to test hypotheses.

The population of study (Scope of the study):

The population of study represents the Islamic banks in the Jordan, which offers various banking services to the customers, where the study distributed a questionnaire to obtain information about the study, and the sample of the study is the upper and middle level of employees in the four Islamic banks been distributed the following:

Table 2. Distribution the four Islamic banks

The ratio to total assets of banks	Assets(million)	Rank	Bank
8.77%	3275.60	1	Jordan Islamic bank
3.14%	1174.18	2	Islamic International Arab Bank
1.27%	475.22	3	Jordan Dubai Islamic bank
0.74%	274.97	4	Al Rajahi bank
13.93%	5199.97	Total	

Table 3. Distribution of questionnaire

No. of obtained questionnaire	No. of questionnaire	Name of bank
101	114	Jordan Islamic bank
58	64	Islamic International Arab Bank
25	24	Jordan Dubai Islamic bank
9	8	AlRajahi bank
193	210	Total

Tools of Study:

The study designed a questionnaire to solicit the views of an employee of Islamic banks about the study through Likert scale, the study distributed (210) questionnaire has been recovered (193), and the percentage is 92%.

Sincerity and persistence of the study tool:

A tool of the study (a questionnaire) has been showed on a group of arbitrators (5 experts), to ensure the veracity of content resolution and good drafting, and representation of the subject accurately, the reliability coefficient of the questionnaire according to the coefficient (Cronbach alpha) is (84%) through the statistical analysis of the study's sample.

6. The Results of Hypothesis Testing

Descriptive Statistics:

This section contains the results of the study aimed to know Factors affecting on excess liquidity of the Islamic banks, it also includes a description of the personality variables for members of the study sample, and the study used the program of statistical analysis (SPSS), to extract the averages, arithmetic, and standard deviations of the paragraphs of the questionnaire, The following is a presentation of the demographic variables according to Table No. 4.

Table 4. Distribution of study sample according to demographic variables:

Variable	Frequency	Percentage %
<u>1- gender</u>		
Male	145	75%
Female	48	25%
<u>2- job site</u>		
Manager department	9	4.7%
Assistant manager of the Department	11	5.7%
Manager branch	124	64.2%
Head department	49	25.4%
<u>3-Acadimic Qualifications</u>		
Graduates (PhD or Master)	37	19.2%
Baclores	123	63.8%
Diploma or less	33	17%
<u>4-Years of experience</u>		
5 years or less	8	4.1%
More than 5to10 years	11	5.7%
More than 10to15 years	149	77.2%
More than 15 years	25	13%

Results of Testing the Hypotheses:

Descriptive statistics:

Table 5. The results of answers to the questions of the hypothesis

Number	Paragraph	Arithmetic Averages	Standard Deviations
	The instructions of the Central Bank and the Non-Islamic banks' ability to deal with interest		
1-	The Central Bank applies unified instructions on conventional and Islamic banks concern to the mandatory cash reserve.	3.87	.91
2-	Central Bank applies unified instructions on conventional and Islamic banks concern to legal liquidity.	3.32	1.03
3-	The current instructions of the Central Bank do not allow Islamic banks to borrow with free interest.	3.67	.99
4-	The instructions of the Central Bank regarding the control of Islamic banks need to be amended to conform with nature and specify of Islamic banks.	3.45	1.01
5-	Central Bank should develop methods of control to deal with Islamic banks.	3.33	.95
Total		3.528	

We note from the previous table No. 5, which includes paragraphs that test the first hypothesis that the Arithmetic Averages ranged between 3.32-3.87, and the highest average is paragraph No. 1, which states (The Central Bank applies unified instructions on conventional and Islamic banks concern to the mandatory cash reserve). And in general all averages were higher than Class 3, and that the overall average of the paragraph is 3.528.

Table 6. The results of answers to the questions of the hypothesis

Number	Paragraph	Arithmetic Averages	Standard Deviations
	Lack of the financial markets Islamic		
6-	There is atypical in the banking services offered by Islamic banks.	3.01	1.12
7-	The advanced banking services increase the market share of banks.	3.123	1.1
8-	Banks should develop centers concerned with development and modernization of banking services.	3.28	.96
9-	Islamic banks should develop new services fit with the Islamic Sharia.	3.20	.48
10-	The diversification and innovation in the banking services increase the competitive for Islamic Banks.	3.10	.72
11-	The Banks should expand the use of technology for the development of new banking services, especially electronic services.	3.51	.49
Total		3.20	

We note from the previous table no. (6), which includes paragraphs that test the first hypothesis that the Arithmetic Averages ranged between 3.51-3.01, and the highest average is paragraph No. 11, which states (The Banks should expand the use of technology for the development of new banking services, especially electronic services) . And in general, all averages were higher than Class 3, and that the overall average of the paragraph is 3.20.

Table 7. The results of answers to the questions of the hypothesis

Number	Paragraph	Arithmetic Averages	Standard Deviations
	Lack of the financial markets Islamic		
12-	The presence of Islamic financial markets between banks helps the banks for the investment.	3.23	.67
13-	The presence of Islamic financial markets reduce the liquidity of Islamic banks.	3.32	1.09
14-	The presence of Islamic financial markets lead to investment of Islamic banks in sukuk.	3.33	.37
15-	The presence of Islamic financial markets is increasing the banks' ability to innovation and renewal.	3.38	.23
16-	The presence of Islamic financial markets lead to increase banks' ability to obtain financing.	3.39	.27
Total		3.33	

We note from the previous table no. (7), which includes paragraphs that test the first hypothesis that the Arithmetic Averages ranged between 3.39-3.23, and the highest average is paragraph No. 16, which states (The presence of Islamic financial markets lead to increase banks' ability to obtain financing). And in general, all averages were higher than Class 3, and that the overall average of the paragraph is 3.33.

Table 8. The results of answers to the questions of the hypothesis

Number	Paragraph	Arithmetic Averages	Standard Deviations
	excess liquidity of the Islamic banks		
17-	The Islamic banks maintain liquidity surplus, due to their inability to borrow from the central bank without interest.	3.46	.96
18-	The presence of excess liquidity in the Islamic banks lead to reduced profits.	3.44	.28
19-	The excess liquidity in the Islamic banks decreases with increasing innovative products of the banks.	3.34	.59
20-	The excess liquidity in the Islamic banks decreases with the increase the investment in sukuk.	3.32	.29
21-	The excess liquidity in the Islamic banks decrease in case of the financial markets.	3.29	.38
Total		3.368	

We note from the previous table no. (8), which includes paragraphs that test the first hypothesis that the Arithmetic Averages ranged between 3.46-3.29, and the highest average is paragraph No. 16, which states (The Islamic banks maintain liquidity surplus, due to their inability to borrow from the central bank without interest). And in general, all averages were higher than Class 3, and that the overall average of the paragraph is 3.368.

Test of the first hypotheses

In this section of the study, we present analysis the results of study hypotheses. As mentioned before, for testing Ho1 we also use a sample of an employee of the Islamic banks, the following subsections provide analysis of results of hypotheses testing at the total sample level.

To test the first hypothesis been used Multiple Linear Regression Test and the result as table no (12).

H01 - There is no significant statistical impact of factors affecting (the instructions of the Central Bank and the Non-Islamic banks' ability to deal with interest and Lack of the financial markets Islamic and the lack of an Islamic financial market) on the excess liquidity of the Islamic banks at $p \leq 0.05$.

Table 9. Result of the multiple linear regression test

Dependent Variable	Independent Variables	Regression Coefficient B	Value of T calculated	Sig.
The excess liquidity of the Islamic banks.	The instructions of the Central Bank and the Non-Islamic banks' ability to deal with interest	0.161	3.01	0.001
	Lack of the financial markets Islamic	0.102	1.42	0.002
	the lack of an Islamic financial market	0.081	1.54	0.003
R=0.86		R2= 0.7396	F=50.15	Sig.=0.000

From the table no. (9) there is the impact of independent variables on the dependent variable and this refers to a good relation between Affecting Factors and the excess liquidity of the Islamic banks, the value of Sig. less than 0.005 and The value of Pearson correlation (R) =0.86 , And this refers to the rejection of the null hypothesis and accepts the alternative hypothesis .

To test the sub-hypothesis no. (1) Used simple linear regression test and the result as table no (10).
 H01-1 - There is no significant statistical impact of the instructions of the Central Bank and the Non- Islamic banks' ability to deal with interest on the excess liquidity of the Islamic banks at $p \leq 0.05$

Table 10. Result of the simple linear regression test

Independent Variable	Dependent Variable	Regression Coefficient B	Value of T calculated	Sig.
The excess liquidity of the Islamic banks.	the instructions of the Central Bank and the Non- Islamic banks' ability to deal with interest	0.145	2.70	0.003
R=0.75		R2=0.5625	F=47.1	Sig.=0.003

From the table no. (10) There are impacts of the independent variable on the dependent variable and this refers to the good relation between the instructions of the Central Bank and the Non- Islamic banks' ability to deal with interest and the excess liquidity of the Islamic banks. , the value of Sig. less than 0.05 and the value of Pearson correlation (R) =0.75, and this refers to the rejection of the null hypothesis and accepts the alternative hypothesis.

To test the sub-hypothesis no (2) used simple linear regression test and the result as table no (11).
 H01-2 - There is no significant statistical impact of Lack of the financial markets Islamic on the excess liquidity of the Islamic banks at $p \leq 0.05$.

Table 11. Result of the simple linear regression test

Independent Variable	Dependent Variable	Regression Coefficient B	Value of T calculated	Sig.
The excess liquidity of the Islamic banks.	Lack of the financial markets Islamic	0.134	3.67	0.002
R=0.82		R2=0.6724	F=45.1	Sig.=0.002

From the table no.(11) There is the impact of the independent variable on the dependent variable and this refers to the good relation between Lack of the financial markets Islamic and The excess liquidity of the Islamic banks. , the value of Sig. less than 0.05 and the value of Pearson correlation (R) =0.82, and this refers to the rejection of the null hypothesis and accepts the alternative hypothesis.

Test the sub-hypothesis no (3) used simple linear regression test and the result as table no (12).
 H01-3 - There is no significant statistical impact of the lack of an Islamic financial market on the excess liquidity of the Islamic banks at $p \leq 0.05$

Table 12. Result of the simple linear regression test

Independent Variable	Dependent Variable	Regression Coefficient B	Value of T calculated	Sig.
The excess liquidity of the Islamic banks.	the lack of an Islamic financial market	0.157	1.70	.002
R=0.80		R2=0.64	F=33.1	Sig.=0.002

From the table no. (12) There are the impacts of the independent variable on the dependent variable and this refers to the good relation between the lack of an Islamic financial market and the lack of an Islamic financial market, the value of Sig. less than 0.05 and the value of Pearson correlation (R) =0.80, and this refers to the rejection of the null hypothesis and accepts the alternative hypothesis.

7. Summary and Concluding Remarks

This study attempts to investigate the Factors affecting on excess liquidity of the Islamic banks, and the results (findings):

1- There is the significant statistical impact of factors affecting (the instructions of the Central Bank and the Non- Islamic banks' ability to deal with interest and Lack of the financial markets Islamic and the lack of an Islamic financial market) on the excess liquidity of the Islamic banks.

2-The study rejected of the null hypotheses and accepted the alternative hypotheses for the main hypotheses.

3-The study rejected of the null hypothesis and accepted the alternative hypothesis for the three sub-hypothesis.

4- There is a statistical relationship between factors affecting (the instructions of the Central Bank and the Non- Islamic banks' ability to deal with interest and Lack of the financial markets Islamic and the lack of an Islamic financial market) and the excess liquidity of the Islamic banks.

the study has recommended the following:

1 -The central bank should amend the instructions to allow Islamic banks to borrow with interest-free.

2. The Islamic banks need to sprayed new banking services in order to be exploited excess liquidity.

3- There is a need to think about the establishment of Islamic financial market so as to invest of excess liquidity.

4. The central bank should expand in the issuance of Islamic instruments to obtain financing, thus can for Islamic Banks invest the excess liquidity.

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