

Duration model for maturity gap risk management in Islamic banks

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Journal of Modelling in Management (2020) 15 (3): 1167–1186.

<https://doi.org/10.1108/JM2-08-2019-0184> Article history 

Purpose

The purpose of this paper is to propose models of duration for maturity gap risk management in Islamic banks.

Design/methodology/approach

A thorough review of literature on duration modeling, duration measurement in Islamic banks and *Shariah* compliance has been conducted to set parameters to develop *Shariah*-compliant maturity gap risk management mechanism.

Findings

Models based on durations of earning assets and return bearing liabilities using various rates of return earned and paid, benchmark rates and industry standards commonly used by Islamic and conventional banks.

Practical implications

Increased *Shariah* compliance has threefold impact. Firstly, it will increase trust of customers. Secondly, it will help improve profitability by reducing non-*Shariah* compliance penalties from the regulators. And finally, it will enhance market capitalization and returns stability to investors because of enhanced customer base, increased level of trust and increased profitability.

Originality/value

This research proposes *Shariah*-compliant maturity gap risk management models based on the concept of duration according to recommendations of Bank for International Settlements. As there is no such maturity gap risk management mechanism that meets the requirements of *Shariah* using benchmarks that are common between Islamic and conventional banks; therefore, this research presents risk management solutions that can be applied simultaneously in the entire

Keywords: [Islamic banks](#), [Earning assets](#), [Return bearing liabilities](#), [Duration model](#), [Maturity gap risk management](#), [C32](#), [C33](#), [C34](#), [G21](#), [G28](#), [P43](#)

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