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Probing Risk of Default in the Market-Leading Islamic Banking Industry: During the Covid-19 Pandemic

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Abstract

This study aims to highlight the bankruptcy-related challenges and the reasons behind bank failures for the global Islamic banking industry, and to understand the expected impact of Covid-19 on the financial health of the Islamic banking industry. Moreover, the study shows that going bankrupt is a

costly process that affects all stakeholders. Evidence shows that in the case of Islamic banking, a Shariah-based bankruptcy prediction model for apprehending the true bankruptcy prediction is over-sighted. It may further sour the existing uncertain situation for the Islamic banking industry with the additional unfavorable impact of Covid-19. As the subjected pandemic has badly affected the flow of the financial system worldwide, Islamic banking is not isolated. Therefore, efficient bankruptcy prediction models equipped with the latest micro and macro-economic factors are compulsory for the sustainability of the Islamic banking industry.

Keywords

Covid-19 **Islamic banking** **Bankruptcy prediction** **Banks failure**

Financial performance

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4. Islamic Financial Services Industry Stability Report 2020, p. 15.

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