

CHAPTER II

LITERATURE REVIEW

A number of reforms and regulations were issued to strengthen banking resilience starting from the individual bank level (microprudential), addressing systemic risk more broadly and procyclical amplification from time to time to prevent a crisis (macroprudential). The implementation in Indonesia includes the implementation of the Basel III framework for capital and liquidity standards, namely the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR), the application of countercyclical capital buffers and systemic bank stipulations and capital surcharge, both those applied by macroprudential and microprudential authorities.

This chapter will discuss extensively some of the literature and previous research that focused on the resilience of the Islamic banking system in Indonesia. For further analysis, the attributes of Islamic banking resilience are measured explicitly by developing and maintaining the resilience of the banking system in general. Finally, an understanding of the financial system and banking performance is needed to help investigate the relationship between stability and resilience.

A. THEORETICAL REVIEW

Financial regulations and policies are the main focus for maintaining financial stability against various shocks. Several regulations and policies were

issued to safeguard individual banks to withstand external and internal shocks. Regarding regulations and policies, there are several main focuses, namely on the capital buffer and liquidity standards of each bank as a measure of banking resilience. In general, the resilience of individual banks begins with a strong argument that banks generate external and internal shocks and can lead to crises.