

Comparitive Analysis of Islamic and Conventional Banking Systems in Terms of Profitability: A Study on Emerging Market Economies

Authors : Alimshan Faizulayev, Eralp Bektas, Abdul Ghafar Ismail, Bezhan Rustamov

Abstract : This paper performs empirical analysis on determinants of profitability in Islamic and Conventional Banks. The main focus of this study is to evaluate and measure of financial performance of Islamic banking firms operating in Egypt, Iran, Malaysia, Pakistan, Turkey, UAE in contrast to Conventional ones in those countries. To evaluate empirically performance of the banks, various financial ratios are employed. We measure performance in terms of liquidity, profitability, solvency, and efficiency. In this work, t-test, F-test, and OLS analysis are used to make hypothesis tests. Our findings reveal that there are similarities and differences in profitability determinants of Islamic and Conventional banking firms. The cost to revenue ratio has inverse relationship with profitability indicators in both banking systems. However, there are differences in financial performances between Conventional Banks and Islamic banks which are found in overall picture of all banks in terms of net income margin.

Keywords : Islamic banking, conventional banking, GDP growth, emerging market economies

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