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Major Research Report

On

²⁰
**Comparative Study of
Islamic Banking with Conventional Banking
System**

Submitted By:

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¹¹

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DECLARATION

I Bashir Ahmad Rahin son of Mohammad Amin Rahin Roll No. 2K18/MBA/122 student of Master of Business Administration at Delhi School of Management of Delhi Technological University, here I declare that the Project Report titled as

Comparative Study of Islamic Banking with Conventional Banking System

Submitted by me in partial fulfillment of the requirement for the award of the degree of Master of Business Administration. It is my own work, and has not been submitted or published earlier. I also solemnly declare that it shall not, in future, be submitted by me for obtaining any other academic credit from this or any other university or institution.

Bashir Ahmad Rahin
MBA (2018-2020)



2 ACKNOWLEDGEMENT

All praises and thanks to Almighty Allah, the source of knowledge and wisdom to mankind, who conferred me with power of mind and capability to take this material contribution to already existing knowledge. All respect and love to him who is an everlasting model of guidance for humanity as a whole.

I would like to express the deepest appreciation to our **Professor. Dr. “Rajan Yadav”** Head of Delhi School of Management, Delhi Technological University, who encouraged me in writing my Major² Project [Comparative Study of Islamic Banking with Conventional Banking System] with the attitude and the substance of a genius, he continually and convincingly conveyed a spirit of adventure accordingly.

In addition, I pay my gratitude⁵ and sincere regards to **Assistant Prof. Dr. “Abhinav Chaudhary”**, faculty coordinator for giving me⁵ the cream of his knowledge. I am thankful to him and other staff member for providing me a constant source of advice, motivation and inspiration for completing my Major Project Report.

⁵ I take the opportunity to express my gratitude and thanks to our computer lab staff and library staff for providing me opportunity to utilize resources for the completion of the of the Project. I am also thankful to my family and colleagues for constantly motivating me to complete the project and providing me and environment which enhanced my knowledge.

Bashir Ahmad Rahin

Executive Summary

Islamic banking is considered as alternative to conventional banking. It focuses on profit/loss and risk sharing, than interest based deposit/lending followed in conventional banking. The main regulation governing utilization of funds in the Islamic context Prohibition of transactions on a 'Riba' (interest) basis. Shari'a prohibited usury absolutely, regardless of its percentage, whether it was high or low and the usury gain is forbidden.

Conventional Banking cherishes a long history while Islamic banking gained importance in last few decades. It is well known that Islam strictly prohibits interest both the giving and charging of interest. In the early history of Islam, the prohibition against interest was strictly observed, but with the decline of values, financial practices based on interest began to influence Muslim society. The period of colonial rule, the interest system became established as the norm in Muslim countries. After freedom from colonization and the resurgence of Islam, the demand in Muslim countries to follow their economic system based on Islam increased. One of the significant developments in the Muslim world during the last two-decade is the emergence of Islamic banking. Even though attempts have been made to organize normal banking activities in more Islamic context during the sixties, the concept of Islamic banking is even older. The strong disapproval of interest in Islam led many Muslim thinkers to find ways that banking activities can be done without interest.

The study review and compare performance of conventional banks and Islamic banks operating in Afghanistan. The study investigates the presence, if any, main differences between Islamic bank products and services and Conventional banks, the research find out that venture avenue of Islamic banking in some industry id not allowed with compare to conventional banks. Suppose investment or lending in pork industry, wine production and speculation types of assets, are not allowed in Islamic banking system. Also in our research we found the most people do not have proper knowledge of Islamic banking, those who have also not well practiced. Similarity in growth of chosen performance indicators of Conventional Banks and Islamic Banks in Afghanistan. The study selected four Islamic banks and eleven conventional banks. Inferences based on analysis revealed better performance of Islamic banking during the study period. Our analysis revealed that Islamic banks are more equity financed than conventional banks.

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CHAPTER ONE



INTRODUCTION



Chapter No #1

Introduction

1.1 Background of the Study

Today, financial mechanisms and banking serve an essential function in most countries' economic activities, particularly with respect to those economic development associated activities. Indeed, there is a direct relationship between a financial sector's level of growth, and sustainable development in particular.

And we may claim that the banks have become a blood stream of our industry and economy. Besides the banks, the traders are encouraged to develop a particular economy of the country and this is the duty of the government to plan the financial system using financial instruments. All the financial resources and enterprises we are engaged in, however, are accomplished thru the banks. Moreover, traditional banking systems not only have benefits but also drawbacks and we are experiencing the majority of economic and financial crises that have arisen because of modern banking systems. So the Central Banks and government have sought to boost the economy by introducing financial tools during each recession. Islamic banks are now performing an extremely important role in their respective economies, and in their local economic systems they are also seeking to raise market shares and funds. As we know, several banking challenges have arisen in so many countries over decades, and most of them have suffered banking failures as a result. There are many reasons for the financial crises. Islamic banking is one of the world's most evolving financial market sectors and is growing at a very rapid pace. This study examines stylistic similarities and distinctions between Islamic banking and conventional banking systems mechanisms and procedures. It also seeks to investigate how the Islamic banking sector could avoid banking collapse. Unlike conventional banks, Islamic Banks' operations are not based on interest. Which are regulated mainly by Shari'ah laws banning interest transactions? Islamic banks mainly shift to creating equity via transactions involving profit-loss-sharing (PLS). Allah has allowed trade and banned usury Sura-Al-Baqarah-275 Interest which is the basis of traditional banking is banned by Islam in an incompetent period. Islamic banking has surfaced throughout the world. Islamic banks work on Islamic concepts of profit-sharing and loss-sharing and exclusively avoid interest which is the source of all corruption and liable for unemployment and

inflation on a massive scale. Therefore one of the utmost major differences is interest around Islamic Banking sector and Conventional Banking system.

1.1.1 A Conventional Banking System: Bank is dealer in debt -his own and other people.

We can define a bank as an institution whose debits are widely accepted in settlement of other people debt to each other –Sayers. A commercial bank is dealer in capital or more properly a dealer in money. Which is intermediate party between the borrower and the lender? That borrows from one party and lends to another and the difference between the terms at which borrows and those at which he lends form the source of his profit.

1.1.2 An Islamic Banking System: Islamic Bank is a financial institution whose statutes rules and procedures expressly state. Its commitment to the principles of Islamic Shari ah and to the banning of the receipt and payment of interest on any of its operations. In the April of 1978 this definition was approved in the conference of foreign ministers of Muslim countries held at Dakar the capital of Senegal. Islamic banking is essentially a normative concept and could be defined as conduct of banking in consonance with the ethics of the value system of Islam.

The Muslim world's independence from imperial powers nearly completed in the latter half of the twentieth century and the influential revival of Islamic ideology took its course in Islamic nations. Where the majority began to look through Islamic lenses to the current social systems, and introduced legislation and reforms. The Muslim thinkers and theorists were questioning the existing social and economic structures of the world and revealing their vulnerabilities. Capitalism has been analyzed and criticized in depth in the majority of the world's leading societies for its nature and general acceptability. Of the four production factors (as defined in Capitalism) the reward of three is set, and all risk is paid by the businessman alone. Capital is a productive force in capitalism, and thus requires the fixed reward in the form of profit, risk-free compensation. Because the bank is money dealer and compensation is interest as per the capitalist system for using money. So the primary source of income and funds cost to conventional banks is charging interest by lending and adopting interest deposits, respectively. Interest is the key driver of traditional bank activities while other useful services include assurances, exchanges of funds, wealth security, facilitation of worldwide trade, etc. They also pay for remuneration and form a significant portion of banks' profits. As Conventional

Banks are developed by charging interest under capitalism principles, and transact business. Which is (forbidden) inappropriate in Islamic law, so Muslims have left no option but to develop their own financial firms under Islamic concepts? The landmark in Islamic Financial Institutions (IFIs)'s growth and popularity was the Muslim Countries Foreign Ministers Conference in (1973). Where the Islamic Development Bank (IDB) decision was made. In the last two decades Islamic finance has shown tremendous growth.

1.2 Problem Statement

The main objective of understanding and participating through Islamic principles applicable to Islamic banking stresses the implications of Sharia evaluation of the context under which Islamic banking takes place, emphasizes realistic banking principles rather than Islamic banking jurisprudence., Illustrate the limitations of the balance sheet that illustrate Islamic banks work within.

1.3 Purpose of the Study

The present-day world is experiencing a number of economic ills including poverty of a large proportion of mankind. Social and economic injustice. Gross inequalities of income and wealth high rates of unemployment. Economic instability, inflation and erosion of the real value of monetary assets. All these maladies in spite of being in conflict with the value system of Islam are as prevalent in the Muslim world as elsewhere. No doubt they have a number of root causes. However, the failure to provide a stable and just money and banking framework has been one of the major contributing factors. No economic system can sustain its health and vigor or contribute positively to the achievement of its socio-economic goals without the support of some equitable money and banking system.

1.4 Significance of the Study

The study suggested concentrated on accepting Islamic Banking. It is the study's dependent variable and introduces the people's attitudes forward into Islamic banking in Afghanistan and across the Islamic country. Leaders of Islamic countries have said that Islamic banking's level of acceptance, represents the perceptions and attitude of individuals and communities as whole towards Islamic banking, Not conventional banking. Once Islamic banking evolves in the world, all people get the bank's income, due to the interest is not paid by Islamic banks.

1.5 Scheme of the Report

There will be five chapters in that report. The first chapter will be the report introduction that will contain the research background, purpose and meaning.

The second chapter will be literature about the historical availability of researchers who have already carried out their work.

The third chapter is the analysis methodology which will include sample population, sampling techniques. Research source of data, collection and study, and limitation.

The fourth chapter is all about analyzing and finding the research that will provide more information on Islamic banking system, product and service category, and questionnaire as well as questioner analysis.

Fifth chapter or the last chapter is recommendations as well as conclusion. References for the research will be the last and final part of this research which will contains all referred sites, books and researcher's names and time of research conducted.

CHAPTER TWO

LITERATURE REVIEW

Chapter No # 2

Literature Review

2. Literature Review

Studies on religious issue as banking selection criteria showed different findings as it perceived to be the most important criteria especially among Muslims, while not to non-Muslims. Some studies showed religious issues as not to be the most important factor of banking selection. For example, Metawa and Al-Mosawwi (1998) found religion as the main factor for banking selection among respondents in Bahrain. It is supported by a study conducted by Bley and Kuehn (2004) among Muslims in UAE that the preference for Islamic banking was primarily driven by religious beliefs, not financial knowledge. That is, the stronger the religious commitment, the greater preference for Islamic banking services.

Accordingly, Khan et al. (2008) also examined the criteria of banking selection among customers in Bangladesh found religion as the main factor attracted respondents to patronize Islamic banks. However, Naser et al., (1999) found that religious issue to be the second important factor of banking selection in Jordan. Similarly, when comparing Islamic and conventional bank customers in Jordan, Erol and El-Bdour (1989) found that profitability was the key motivation for the customers to deal with the banks. Religious motivation according to them was not a primary criterion.

Recent research served as a measure for determining the attitudes of consumers regarding Islamic banking. For example, Hassan (2007) studied customers' perception towards Islamic banking in Afghanistan. His study examined several important dimensions including knowledge, socio-religious context, Shari'ah compliances, and willingness to deal with Islamic banks, and quality and attractiveness of offerings. This study found a positive perception of all dimensions investigated with customers indicating overall high satisfaction towards products and services of Islamic banks as compared to conventional banks.

Rashid, Hassan and Ahmad (2010) conducted a study on perception of customers towards domestic Islamic banks in Bangladesh. They examined six critical elements, namely corporate efficiency, compliance with Islamic rules, convenience, core banking, confidence, and cost benefit. This study found that customers are highly satisfied with

corporate efficiency and compliance with Islamic rules as substantial factors for them to choose their intended service. In the case of Malaysia, Dusuki and Abdullah (2006) studied several critical reasons why Malaysian customers patronize Islamic banks and measured the elements of reputation, service delivery, product price, and social responsibility of Islamic banks. The study found that a combination of Islamic and financial reputation and service quality are the main patronage factors. Specifically, among corporate customers, Ahmad and Harun (2002) conducted a study to examine their perception towards Islamic banking in Malaysia. They examined factors such as the usage of banking facilities, respondents' understanding of Islamic banking concept and practices, and personal opinions towards Islamic banking. They found that cost of the products and services is the most important factor perceived by corporate customers in selecting their banks.

Similarly, Rustam et al. (2011) discussed three main parameters to determine the perception of corporate customers towards Islamic banking in Afghanistan. They examined factors such as the usage of conventional and Islamic banking facilities, respondents' understanding of Islamic banking system and personal opinion on various aspects of Islamic banking products like economic and religious view. They found that the Islamic banking industry has good potential within the Afghanistan corporate sector. Instead of the Islamic banks' customers, few studies conducted to determine perception of bankers and students towards Islamic banking. For example, a research conducted by Zainol and Shaari (2008) on bankers' perception towards Islamic banking in both Islamic and conventional banks. In their study, they have included several critical factors, namely Islamic products and services, the training and experience, and the potential of Islamic banking in Malaysia. The result revealed that bankers in Islamic banks have more positive perceptions towards Islamic banking as compared to bankers in conventional banks.

Bley and Kuehn (2004) focused on students' knowledge and perception towards conventional and Islamic finance in United Arab Emirates (UAE). This study investigated the elements of financial knowledge, religion and language on self-reported attitudes and preferences for financial services and found that students' knowledge on conventional banking terms and concepts was higher than Islamic banking terminology. However, students with higher academic achievement showed a better response towards understanding Islamic banking concepts and practices.

Razak and Mohammed (2008) conducted a study on the acceptance of Muslim and non-Muslim customers on Islamic banking in Malaysia towards the features and operation of a specific product of Islamic banking, which is BaiBithamanAjil (BBA). This study found a high level of dissatisfaction among customers as evidenced by their low intention to use BBA, which the researchers then suggested, is replaced with Musyarakah Mutanakisah Partnership (MMP). In case of retail banking, Thambiah et al. (2011) studied customers' perception and preference on Islamic Retail Banking (IRB). They examined the difference in terms of awareness, perception, and preferences on IRB between the urban and rural banking customers of Malaysia. The study found that there is a significant difference in terms of awareness and on perceived complexity, uncertainty, and observable. There also seem to be some variations for returns, loan repayment period, service charges, and overdraft facilities.

Comparing Muslims to non-Muslims, Loo (2010) conducted a study in Malaysia to gauge the different attitudes and perception towards Islamic banking. He examined the elements of knowledge, understanding of Islamic banking concepts, conflict with religious beliefs, together with the other elements of attractiveness of Islamic banking, disadvantages of Islamic banking, promotional influence, prospects of Islamic banking, and willingness to do business with Islamic banking. This study found that Muslims are supportive of Islamic banking while non-Muslims perceived Islamic banking as relevant mainly to Muslims.

A study conducted on the perception of non-Muslims towards Islamic banking by Mohammad and Tahir (2010) in Kuala Terengganu, examined the perception of users and non-users of Islamic banking from two elements, namely understanding of Islamic banking concept and practices, and bank selection criteria. They found low confidence among non-Muslims on the ability of Islamic banks to effectively compete with conventional banks, while non-users indicated a low willingness to deal with Islamic banks. This study also found that high return on investment is the most important criteria for banking selection among non-Muslims.

In Kuala Lumpur, a recent study conducted by Abdullah, Sidek and Adnan (2012) on perception of non-Muslim customers towards Islamic banks in Malaysia revealed that Islamic banking services are making headway among non-Muslims in Kuala Lumpur,

by observing the knowledge and understanding of Islamic banking among respondents, bank selection criteria, general perception of customers, among others.”

2.1 Selection Criteria (For Islamic Banks From Customers’ Perspective) Different researchers have set different criteria for the measurement of customers’ perception as reviewed in the literatures, whereby various studies have shown that several criteria normally influence customer perception towards their choices of banking. Thus, from a comprehensive literature review this study identified six common criteria for Islamic banks selection. These elements are the understanding of Islamic banking concepts, Shari’ah compliance, religious contradiction, quality and effectiveness of offerings, willingness to deal with Islamic banks, and prospect and potentials of Islamic banking.

“2.2 Understanding of Islamic Banking Concepts: In predominantly non-Muslim countries, a study conducted by Gerard and Cunningham (1997) in Singapore found there is no difference of understanding on Islamic banking concepts between Muslims and non-Muslims. They revealed that out of 190 respondents, a very low percentage of respondents understood basic Islamic banking terms. Only 6 percent of respondents knew about riba, while only 2 percent knew what Shari’ah is. Similarly, a study conducted by Rammal and Zurbruegg (2007) among Muslims in Australia found only 55.7 percent of respondents were aware of the existence of Islamic banking. On the contrary, respondents from a country with predominantly Muslims showed a good understanding on Islamic banking influence Islamic banks selection. Metawa and Al-Mossawi (1998) conducted a study in Bahrain and found that 70% of respondents were aware about the existence of Islamic banking scheme. Kuehn and Bley (2004) studied the perception and knowledge of students towards Islamic banking in UAE. They tested hypotheses on lack of basic Islamic product knowledge, aspect of religion, and cultural differences to determine students’ perception towards the Islamic financial system.

Language barriers prevented students from learning the Islamic financial system, but students with good academic achievement showed a good understanding of Islamic banking concepts. In Afghanistan and Bangladesh, studies showed that people possessed a good understanding of Islamic banking concepts. Hassan (2007) conducted a research on understanding of Afghanistan towards Islamic banking and found 90% of respondents understood Islamic banking terms such as ‘riba’. Similarly, Khan et al.

(2008) found 92% of respondents in Bangladesh were aware with the existence of Mudarabah (profit sharing) saving account and 82% aware with the existence of Wadiah current account. In Malaysia, Mahamad and Tahir (2010) conducted a study on the perception of non-Muslim towards Islamic banking in Kuala Terengganu and found that 54 percent of non-Muslim customers possess a moderate understanding of Islamic banking by which they were able to define correctly the meaning of Islamic banking.

In an urban city of Malaysia, Kuala Lumpur, a study by Abdullah et al. (2012) revealed that non-Muslims at young age and with higher academic qualification possessed better knowledge and understanding of Islamic banking concepts. Two studies conducted in Kuala Lumpur to examine people's understanding on Islamic banking without distinguishing between Muslims and non-Muslims. Hamid and Nordin (2001) conducted a study among bank customers in Kuala Lumpur and found that customers possessed very limited knowledge of Islamic banking. Even though 48 percent of the respondents claimed that there were familiar with the Islamic banking financial products, but only 15 percent were able to correctly describe the products once they were asked. Surprisingly, 60 percent of the respondents could not differentiate between Islamic banking products and conventional banking products. Similarly, a study conducted by Marimuthu et al. (2010) on the factors that determine acceptance of Islamic banking in Klang Valley found that among all of the 240 respondents, 57.6 percent indicated that they have limited knowledge on Islamic banking. Only 6.2 percent of respondents possessed good knowledge on the products and facilities offered by Islamic banks and 7.6 percent seemed to have some knowledge about the differences of Islamic banking products.

2.3 Shari'ah Compliance: Some studies have suggested that customers choose Islamic banks mainly on religious grounds. Thus, customers in Islamic banks seriously consider whether the bank complies with Shari'ah rules in all stages of banking activities (Haron et al., 1994; Metawa & Al-Mossawi, 1998; Ahmad & Haron, 2002; Khan, Hassan & Shahid, 2007). The variables deemed important under religious (Islamic) construct which include compliance to Shari'ah rules, offerings of Shari'ah compliant services, and offering interest free loans, among others. Khan et al. (2007) conducted a study on banking behavior of Islamic bank customers in Bangladesh found that religious principles was the key bank selection criterion of the Islamic bank customers. They found that among all variables measured, only the element of religious

principles showed an above-average preference among the customers. Similarly, Rashid and Hassan (2008) found compliance to Shari'ah law is one of influential factor for banking selection among customers in Bangladesh. This study thus supports the previous study by Metawa and Al-Mossawi (1998).

According to Rashid and Hassan (2008) religious principles remain at the heart of people's preference for Islamic banks, which indicates that the banks should remain highly dedicated to Islamic principles. However, in the case of Malaysia with the existence of multi religious society, the issue of Shari'ah compliance perceived to be important for Muslim customers, but not to non-Muslims, and it is closely relate to their understanding of Islamic banking itself.

Razak and Mohammed (2008) conducted a research to examine the customers' acceptance on Islamic Home Financing (BBA) found high level of dissatisfaction among Muslim customers is due to inability of BBA to fulfill broad objectives of justice, equality and societal well-being. Non-Muslim customers however seem to have greater beliefs in BBA and its ability to fulfill socially desirable objectives.

This study however focused on specific product of Islamic banking which was BaiBithaman Ajil, rather than to bring out the general issue of Shari'ah compliance of Islamic banking in general

Accordingly, Khan et al. (2008) also examined the criteria of banking selection among

2.4 Religious Contradiction: Studies on religious issue as banking selection criteria showed different findings as it perceived to be the most important criteria especially among Muslims, while not to non-Muslims. Some studies showed religious issues as not to be the most important factor of banking selection. For example, Metawa and Al-Mosawwi (1998) found religion as the main factor for banking selection among respondents in Bahrain. "It is supported by a study conducted by Bley and Kuehn (2004) among Muslims in UAE that the preference for Islamic banking was primarily driven by religious beliefs, not financial knowledge. That is, the stronger the religious commitment, the greater preference for Islamic banking services."

customers in Bangladesh found religion as the main factor attracted respondents to patronize Islamic banks. However, Naser et al., (1999) found that religious issue to be the second important factor of banking selection in Jordan. Similarly, when comparing

Islamic and conventional bank customers in Jordan, Erol and El-Bdour (1989) found that profitability was the key motivation for the customers to deal with the banks. Religious motivation according to them was not a primary criterion. Many other researchers conducted their research on Islamic banking and the researcher used their ideas in this research report which are as following;

CHAPTER THREE

RESEARCH METHODOLOGY

Chapter No # 3

Research Methodology

3.1 Methodology

4

This study examines the relationship between service quality and customer satisfaction and further how it affects the bank performance. The study aims to analyze the influence of selected variables in Afghanistan banking sector by a comparison of Islamic and Conventional banks. It intends to test several hypotheses devised in the light of existing literature in Afghanistan perspective. This study investigates the dimensions of service quality, determinants of customer satisfaction and bank performance. A study was undertaken (by consulting with bankers, academicians, professionals and customers of both streams) before conducting the actual survey. The pretest was carried out to test the model in the local settings as it was tested for the first time in Afghanistan. The researcher and author of this research used qualitative and quantities method of data collection can say that the nature of this research is both qualitative and quantities method.

As it's a master Level thesis, limited resources and time was kept in consideration every moment in the mind.

8

3.2 Quantitative Research Methods:

Quantitative research methods are used for collecting and analyzing numerical data. These data are also called secondary data which is usually collected from official centers and institutes. In order to show the comparison of Islamic banking and conventional banking system in Afghanistan, Quantitative research method will be utilized. For this reason secondary data will be collected from different sources which are mentioned in detail in chapter 2, literature review.

After gathering these data, the researcher conducted and descriptively analyzed some necessary calculations upon them.

In this Research the total number of 150 questionnaires were circulated between participants of 15 divisions of particular banks (4 branches of Islamic Banks and 11 branches of Conventional Banks). The sampling technique was applied for this research were Stratified random sampling method.

3.3 Qualitative Research Methods:

There are some important and useful data which do not appear in the statistics because they are non-numerical data. So, the qualitative research methods aim to collect data. The use of this method has grown increasingly during recent decades.

In this research the semi-structured interview has been selected to investigate the main research questions. Eight interviewees were selected from among officials of the Islamic and conventional Banks of the Islamic Republic of Afghanistan. After conducting the interviews their results are analyzed manually.

3.4. Population of the study:

The total population for this research is all employees and customers of ISLAMIC BANKING (IB) and CONVENTIONAL BANKING (CB). The employees besides customers of IB and CB are composed of different ethnic and geographical groups in different seniority.

For the completion of this research report, researcher has selected a sample size of two groups in Conventional Banking and Islamic Banking system system which facilitates researcher to collect the primary besides secondary data.

3.5. Sample and Sampling Technique:

The sample includes 15 banks in Afghanistan, out of them, 4 Islamic besides 11 Conventional Banks. The sample size does not insurance the full range of Islamic and Conventional Banks over all Afghanistan; instead it's a reasonable picture of two banking systems in Islamic and Conventional Banks. Where Islamic Banking has a non-negligible presence. Banks cover in our sample.

2006-14, in the subsequent territories: Kabul, Herat, Mazar and Nengarhar. We have up to 45 observations for Islamic Banks and 55 for Conventional Banks.

3.6. Source of Data

There are many ways of data gathering according to (Yin, 2002) which includes experiments, development of models and case studies etc. In this research study, two types of data were used to gather the data, Primary data and Secondary data. Secondary data which is used are books, articles and electronic sources. Secondary data is used to gather information on the mentioned researched topic, using different authors and scholars giving the view on literature.

On the other hand, primary data which is considered as case studies for this research, it will be in form of interviews based on the questionnaire through Google Form with the help of theoretical framework (see appendix) from the three main Banks in Afghanistan, who offer Islamic Interest free, banking system. Interviews had been taken through internet on Skype, because some of interviews are based in another city or provinces and COVID 19 lockdown and Quarantine problems and obstacle for conducting interviews .So it's convenient for both interviewee and interviewer. Moreover, to communicate on Skype it is very cheap for the researcher to do a detail interview and gives flexibility to both parties.

For interviews appointments were arranged from the staffs of Four Islamic Banks besides eleven Conventional Banking in Afghanistan to take interview on schedule as time is constraint. Interviews were obtained, that they can be summarized by the authors to include in the findings and will not be published to any other party, to keep ethical consideration as mentioned.

Questions for the interview were open ended questions, which will make interviewee to answer without any pressure on him.

Banks which were interviewed were based in Kabul, Herat, Mazar, and Nangarhar,

3.6.1. Primary Source:

This study is based on primary data that was collected from the existing customers and employees of selected banks in Afghanistan. This study selected 15 bank branches (4 of IB and 11 of CB) to collect data from the respondents by stratified random sampling from 6 major cities of Afghanistan that represents all parts of the country.

A structured questionnaire was developed to record the responses of customers and employees of Islamic and conventional banks operating in Afghanistan. Conducting a comprehensive literature review and consulting with bank managers, professionals and customers enabled the researcher to modify and refine the research instrument in Afghanistan environment. From each group of bank (Islamic bank or Conventional bank), customers were selected randomly to collect data by self-administrated questionnaires.

The study also adopted “personal contact” approach i.e. respondents were approached personally. The researcher explained the questionnaire and the objective of survey by telling its purpose, the meaning of the items and what is expected from the respondents. The data were collected by using self-administrative questionnaires from the customers and employees of Islamic and Conventional banks in Afghanistan through Google form. It is highly recommended that questionnaire is a reliable tool to measure the impact of customer service management on perceived business performance in banks and finance companies (Wei and Nasir, 2006).

3.6.2. Secondary Source:

Secondary data is collected and mentioned in detail in chapter 2, literature review.

3.7 Data Collection Tool and Design

The Researcher represent several demographic characteristics of the office personnel, Banks employee and Customers by using of Survey questionnaire contains of 14 question through four king of scales in order to distinguish and know how they differ from each other and know their interest in research, by asking them simple, straight forward questions and using of Nominal, ordinal, interval, and ratio scales. And also the primary data has been collected through the primary source and are listed which are listed below:

- Survey Questionnaire through Google form.
- Interview with the employees and clients of the IB system and CB system through Skype, WhatsApp and other Video call software.
- Group discussion through Google meet and Zoom

3.8 Data Analysis

Our Research data has been received from different branches of both banking system and employee under our research study were partitioned earlier and analyzing. The researcher filtered surveys having less than 89% response and the under is summary of questions and its replies from participant.

150 Google form of questioner which contains 14 questions have been distributed through Mail and WhatsApp. The collected data has analyzed by using of MS-Excel.

3.9 Limitations of Study

This study may have limitations as follows:

- (i) One of the data sources in this research is secondary data taken from Afghanistan's Central and other Afghanistan's banks, and so on. In this regard we may face two kinds of problem (inadequacy and inconsistency of data).
- (ii) Another source of data is the semi-structured interview which may face problems due to time constraints and the difficulty of finding suitable interviewees and making appointments with them.
- (iii) The other main obstacle was COVID 19, that collecting of data become difficult.

CHAPTER FOUR

ANALYSIS AND FINDING

Chapter No # 4

Analysis and Finding

4. Analysis and Finding

This chapter comprises of fourteen parts showing outcomes. Part 1 reflects the characteristics of demographic e.g. Age and gender level of education and employment. This chapter explains the analysis of data, preceded by a summary of the results of the study. The observations relate to the questions of research that have driven the study. Data were evaluated to classify, explain and explore the contrast of Islamic banking in Afghanistan and the traditional banking system.

134 Participants completed data from auto-administered surveys, a response rate of 89 per cent. This is also reinforced by the fact that the secretarial, administrative and managerial roles of some of the participants in this research are involved.

A total of 134 Google form questionnaires were received, however 150 Google form's questionnaires were distributed, which all of them were usable to analysis the data research. For this study and met the required inclusion criteria as discussed in the previous chapter.

The data received from the various branches of the under-study banks and employees were screened and analyzed. The researcher filtered surveys with less than 89% response and question summary and answer.

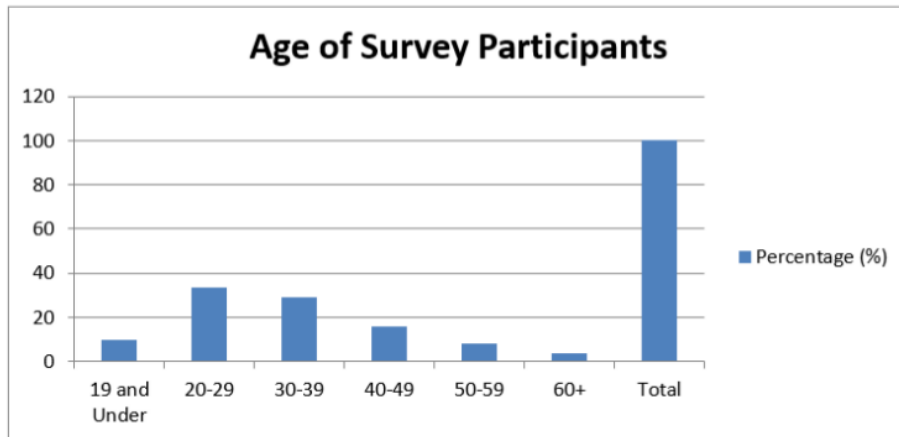
This accounted for 89 per cent of the population expected. In this chapter the demographic data consisted of age, sex, education, religion, all questions will be discussed one by one.

4.1 Table 1

“This table shows the population distribution of participants: the motive of this question is to check the population distribution of all participants involved in the process of research.”

Table Showing Age of Survey Participants

Age	Frequency	Percentage (%)
19 and Under	13	9.70
20-29	45	33.58
30-39	39	29.10
40-49	21	15.67
50-59	11	8.21
60+	5	3.73
Total	134	100



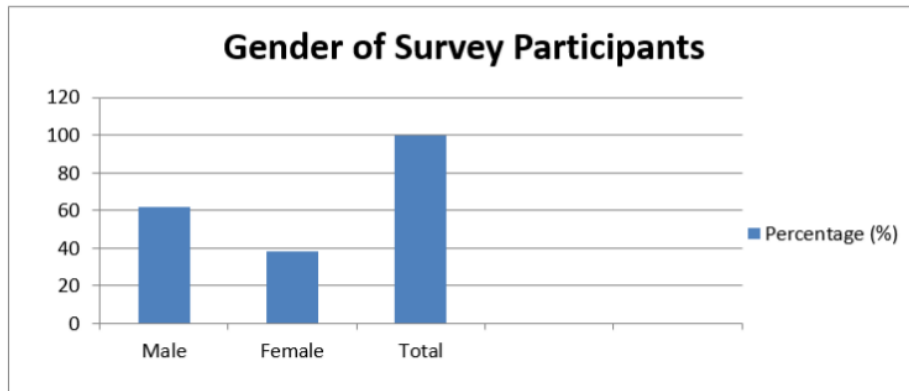
Hence, we suggest that, age range of 20-29, an age range with the highest attendance rate of 33.58 percent was the age range of participants who actually participated in this study, followed by people within in the age range of 30-39, reflecting 29.10 percent of the overall.

4.2 Table 2

In this part of questioner this question is clearly intended to assess the gender or sex of participants who engaged in the procedure of our research.

Table Showing Gender of Survey Participants

Gender	Frequency	Percentage (%)
Male	83	62.92
Female	51	37.08
Total	134	100



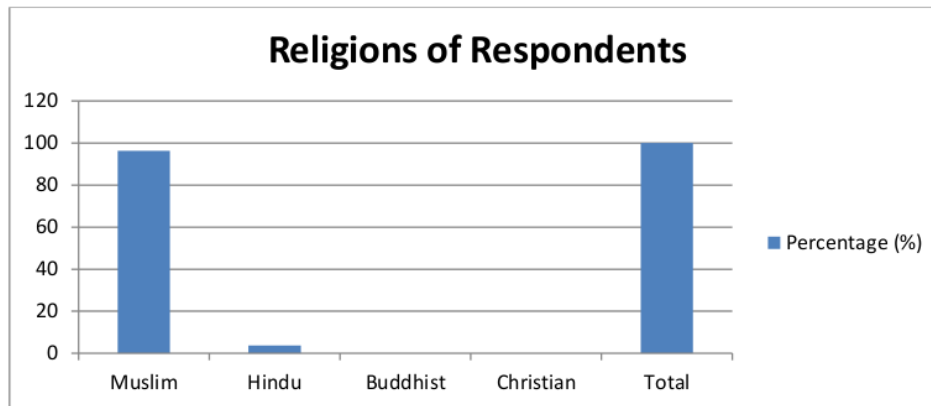
Through 62.92 percent and 37.08 percent respectively of females and males, researchers suggest that less females were actively interested in the study relative to their male equivalent.

4.3 Table 3

This table is showing Religions of participants.

Table Showing Religions of Respondents

Religion	Frequency	Percentage (%)
Muslim	129	96.3
Hindu	5	3.7
Buddhist	-	-
Christian	-	-
Total	134	100



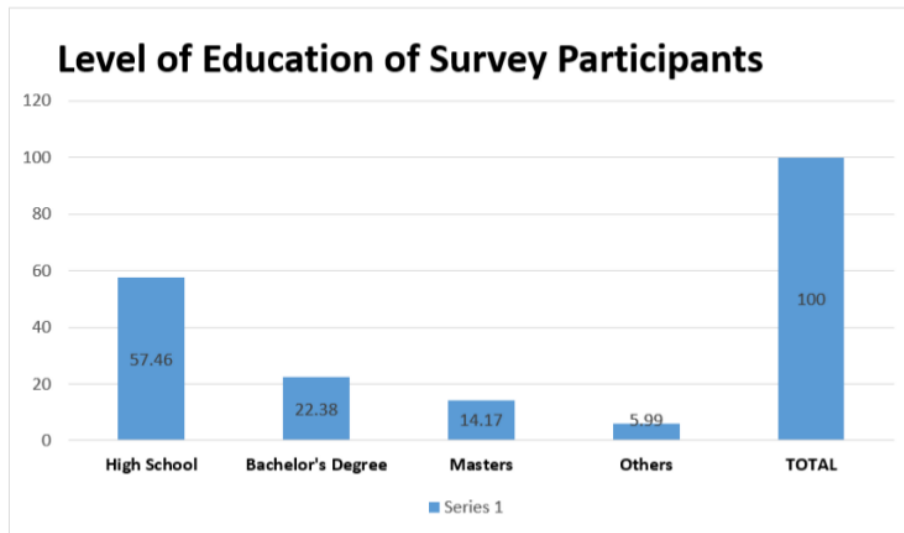
The outcome of this study shows that Muslims (85) are the more than average respondents who really participated in the study, with 96.3 percent of the total participation rate. Five people are Hindu, representing 3.7 per cent.

4.4 Table 4

This type of questions was intended to assess the education level of participants who truly participated in our study.

Table Showing Level of Education of Survey Participants

Educational Level	Frequency	Percentage (%)
High School	77	57.46
Diploma/Certificate	30	22.38
Bachelor's Degree	19	14.17
Masters	8	5.99
Other (s)	-	-
Total	134	100

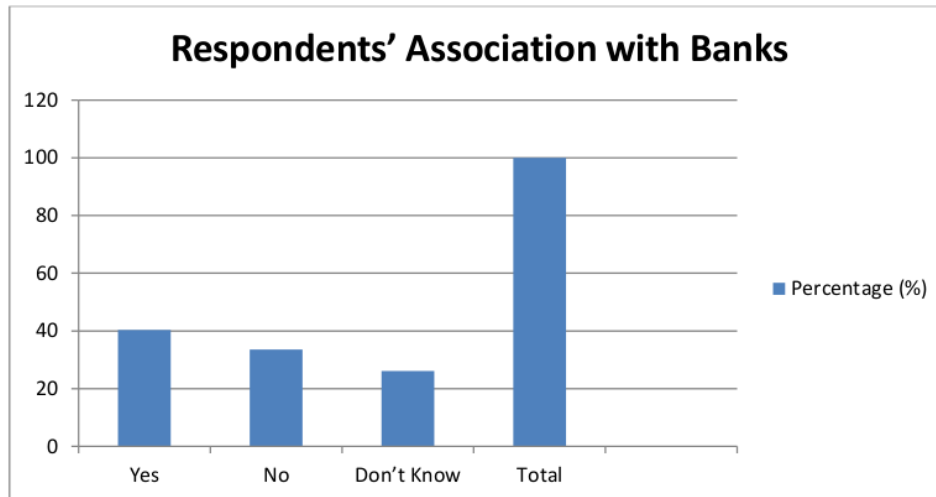


Although the outcome indicates that all participants who actually participated in the study are qualified people, most of them (41.53 percent) are persons with a bachelor's degree or in the procedure of acquiring a bachelor's. 11.94% of survey respondents are high school graduates, 21.64% obtain national graduation certificates, and the remaining 23.89% are either professionals or students.

4.5 Table 5 The aim of this question is to decide if the Participants have some affiliation with banks or not and if their do, what are the motive(s) for this relationships.

Table Showing Reasons for Respondents' Association with Banks

Reason	Frequency	Percentage (%)
Investment	30	22.39
Salaries/Saving Account	98	73.13
Borrowing	1	0.75
Phone/Internet Banking	1	0.75
Others (Security)	4	2.99
Total	134	100



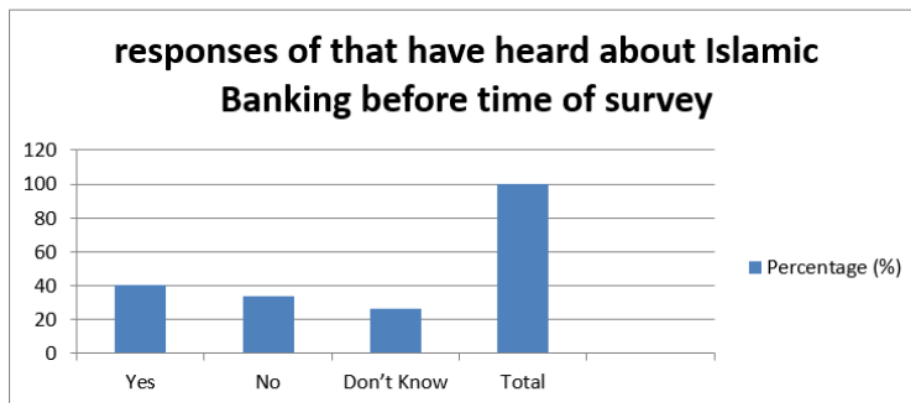
Results from this research indicate that all participants have at least one form of interaction with banks, explanations ranging from investment to the use of telephone or net banking to allow them to access account position, make transfer payments and settle bills fairly easily. It is a proof of how essential banks or financial third parties are in our world today (Fakhrul-Ahsan, 1998). The research shows in particular that 73.13 percent of people who participated in this study either engage with banks for saving motives or are wage earners who are expected to have payroll balances from which their incomes / wages are paid. 2.99% of participants selected "Others" and claimed that the protection of their money as well as other personal possessions is the main reason why they associate with banks.

4.6 Table 6

This question has been asked to decide whether or not the people knew of Islamic Banking prior to the actual time of research.

Response of who heard about Islamic Banking before time of survey

Responses	Frequency	Percentage (%)
Yes	104	77.61
No	26	19.40
Don't Know	4	2.99
Total	134	100



The outcome indicates that before the time of this study, 19.40 percent of participants had not any information of Islamic Banking. 2.99 percent of them encircled "I don't

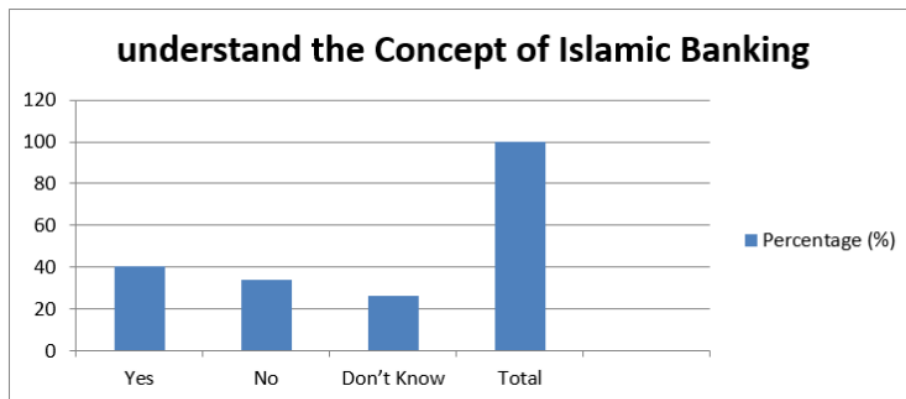
1 know," meaning they can't say or recall exactly whether they learned about Islamic Banking before the time of this study. 77.61 percent, however, claim that they had learned about Islamic Banking until the time of this study.

4.7 Table 7

Table indicating awareness of the Islamic Banking concept between respondents.

Reasons for Respondents' understand the Concept of Islamic Banking

Responses	Frequency	Percentage (%)
Yes	60	44.78
No	68	50.75
Don't Know	6	4.48
Total	134	100



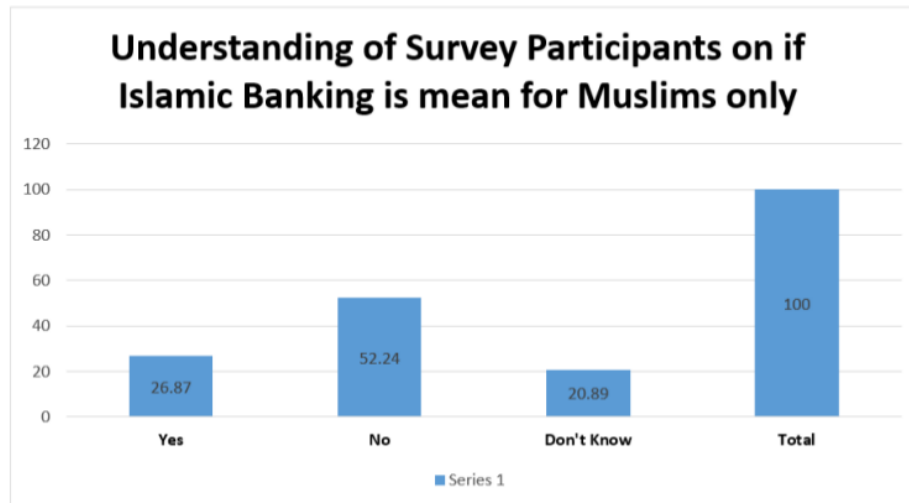
Despite the overwhelming 77.61 percent of those surveyed in the earlier question who once said they learned about Islamic Banking before the time of study, answers to the query as to whether or not these participants really know or understand Islamic Banking's definition indicate that only 44.78 percent of those surveyed understood Islamic Banking's definition. 50.75 percent of the respondents said No, they did not understand the Islamic Banking concept while 4.48 were not entirely positive or didn't know if they really understood the Islamic Banking term.

4.8 Table 8

This query tried to establish the understanding of Islamic banking by the participants, if it is intended for Islamic banking or not.

Understanding of survey participants on if IB is meant for Muslims only

Responses	Frequency	Percentage (%)
Yes	36	26.87
No	70	52.24
Don't Know	28	20.89
Total	134	100



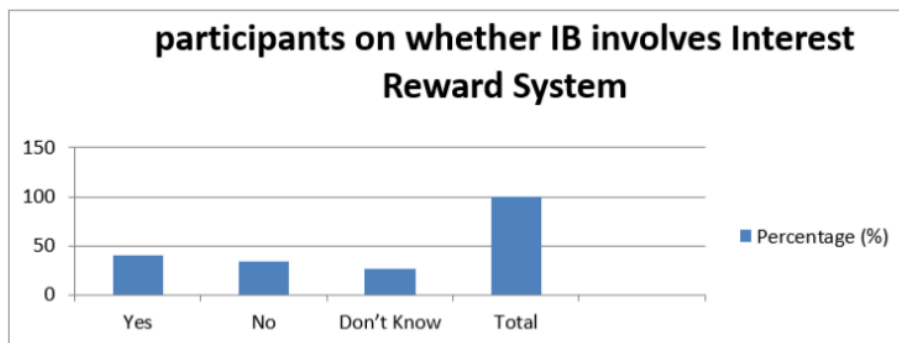
¹ Islamic Banking is for all and sundry. This is consistent with virtually all literatures reviewed by the researchers including Dogarawa (2011); Joseph (2011); Bello (2007); Sanusi, (2011). Even so, the findings of this study show that 52.24 per cent of participants actually understand that Islamic banking, Islamic banking products and services can genuinely be used by any person regardless of religious views or views. 26.87 percent answered yes to the question that Islamic banking is only for Muslims, while 20.89 percent did not know whether Islamic banking is for Muslims alone.

4.9. Table 9

This table is displaying responses of observers on whether IB includes Interest Reward System.

Responses of participants on whether IB involves Interest Reward System.

Responses	Frequency	Percentage (%)
Yes	35	26.12
No	54	40.31
Don't Know	45	33.58
Total	134	100



Islamic Banking, also known as interest-free Banking does not involve receipt and/or payment of interest. This is backed up by positions of several scholars including Imam and Kpodar, (2010); Hussein, (2010); Visser and McIntosh (1998) as well as scriptures from the Holy Bible which includes Nehemiah 5:7, Psalms 15:5, Leviticus 25, Exodus 22:24-25, Deuteronomy 23:19-21 and Holy Quran 2:275-278, 2: 279, 3:131, 30:39. In other words, Islamic Banking system does not involve an interest reward system as Islamic sharia law prohibits “interest” in absolute terms.

However, the survey shows that 26.12% of people who participated in the study claim that Islamic Banking requires a scheme of interest compensation. While most of the participants were correct that Islamic Banking does not require a system of interest

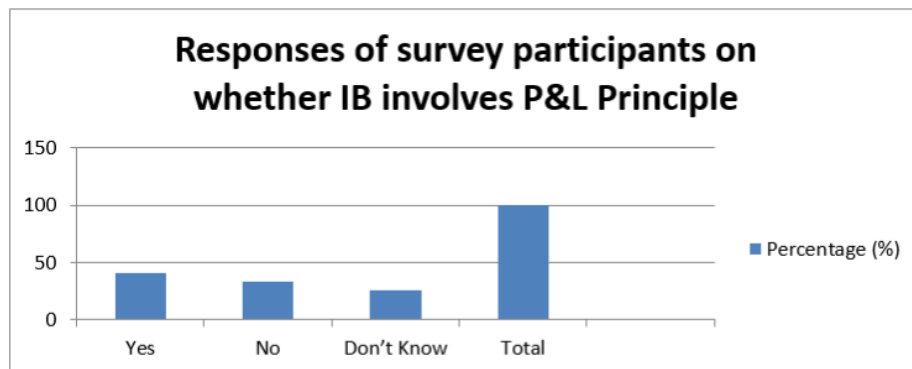
reward, that majority was only 40.31 percent. 33.58% of participants do not know that Islamic Banking requires an interest-rate structure.

Table 10

The aim of this question was to assess the awareness of most of the people who participated in the Islamic Banking study.

Responses of survey participants on whether IB involves P&L Principle

Responses	Frequency	Percentage (%)
Yes	62	46.26
No	36	26.87
Don't Know	36	26.87
Total	134	100



The fact is that, Islamic Banking is not based on interest reward system; instead it is based on profit and loss sharing principle. This claim is supported by Sanusi, (2011); Iqbal, Askari and Mirakhor, (2009) and several other scholars.

The survey results reveal that 46.27% of participants actually know that Islamic Banking involves the principle of profit and loss sharing, while 26.87% said no, which means that Islamic Banking does not require the principle of profit sharing and loss

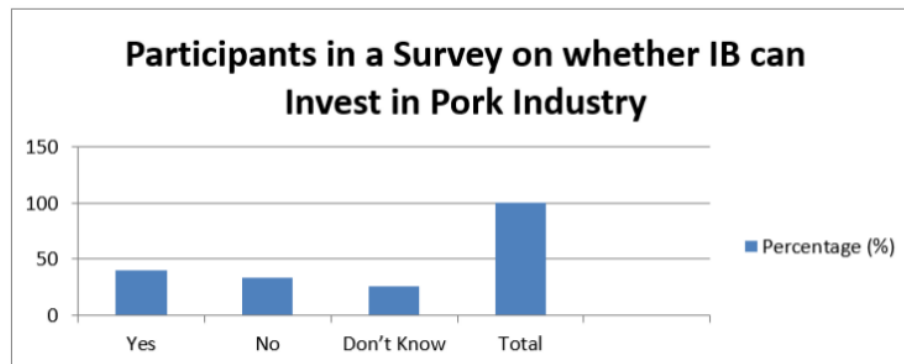
sharing. 26.87 per cent of the total participation rates do not know whether or not Islamic Banking includes any principle of profit and sharing.

4.11. Table 11

This question was also asked in order to check the people's awareness about Islamic Banking and the kinds of investments that Islamic Banks would move into.

Showing Responses of Participants in a Survey on whether IB can invest in Pork Industry.

Responses	Frequency	Percentage (%)
Yes	24	17.91
No	58	43.28
Don't Know	52	38.81
Total	134	100



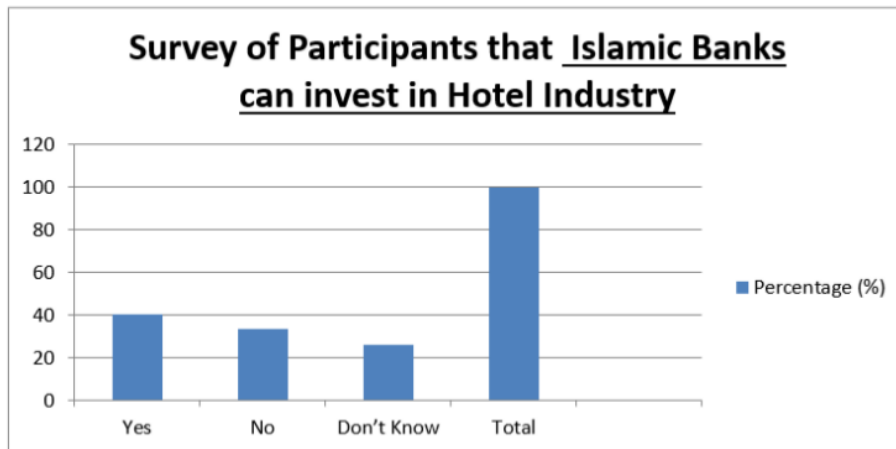
Islam as a religion has a strict restriction on the consumption of pork, mainly on health grounds as convened by Shamsi, (1999). As such, Islamic Banks can not invest in pork industry. Answers to this issue, moreover, show that 43.28 percent believe Islamic banks can not invest in the pork meat industry. 17.91 percent believe that Islamic banks will actually invest in the pork industry while 38.81 percent do not know whether or not Islamic banks will invest in the pork business

4.12. Table 12

Table shows people's responses in a questionnaire ¹ on whether Islamic Banks should invest in Hospitality business Hotel Industry.

Table Showing Survey of Participants

Responses	Frequency	Percentage (%)
Yes	29	21.64
No	42	31.34
Don't Know	63	47.02
Total	134	100



By assessing ¹ this question our survey, 47.02 percent of the answers show that the respondents do not know whether Islamic banks can invest in hotel business or in industry. 31.34 percent said no, Islamic banks could not invest in the hospitality

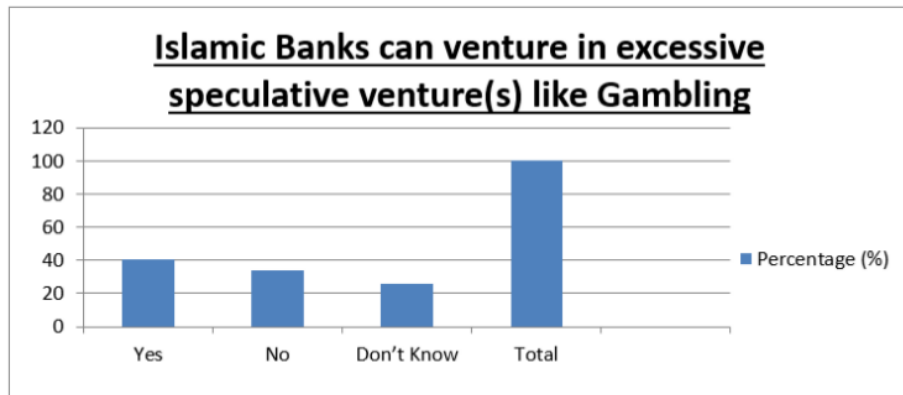
business hotel industry while 21.64 percent said that Islamic banks could invest in the hotel sector.

4.13. Table 13

Table shows survey respondents' responses as to whether Islamic Banks should invest in speculative-type projects.

Table Showing Survey of Participants

Responses	Frequency	Percentage (%)
Yes	21	15.67
No	62	46.27
Don't Know	51	38.06
Total	134	100



Investing in ventures that are speculative in nature is considered haram or non-permissible in Islam of which gambling is an example Hussien, (2010); Imam and Kpodar, (2010).

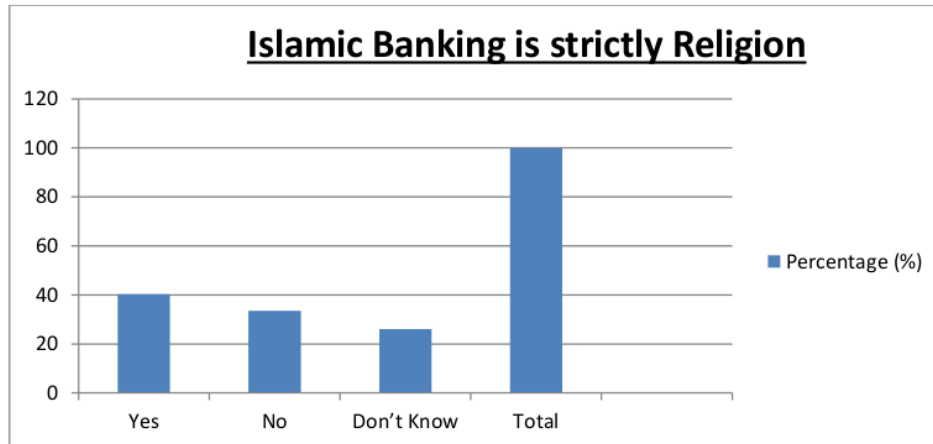
Indeed, results here indicate that 46.27 percent of the people who participated in the survey said no, which means that Islamic Banks cannot invest in overly risky projects in nature. 38.06 percent do not know if Islamic banks can invest in undertakings involving excessive speculation while 15.67 percent believe that Islamic banks can invest in undertakings involving high volatility.

4.14. Table 14

This question was asked to decide what is it that the people assume is specifically Islamic banking religion. Table Indicating opinions of the respondents in the study as to whether Islamic Banking is purely religion.

Table Showing Survey of Participants

Responses	Frequency	Percentage (%)
Yes	54	40.31
No	45	33.58
Don't Know	35	26.12
Total	134	100



The figure indicates that 40.31 per cent of study participants believe Islamic Banking is purely religion. This group of people's position is in direct contrast to real Islamic Banking recognition. Indeed, their stance is associated with one common myth of the subject matter, namely that Islamic Banking is purely religion.

Islamic Banking according to Sanusi (2011) is a mere alternative to the conventional banking system. The position of Sanusi (2011) is been concurred with by several other scholars including Dogarawa (2011); Joseph (2011) and Honohan, (2001).

In the other side, 32.57 percent of the people who participated in the study think that if that Islamic Banking is not purely religion while 27.13 percent not having information that Islamic Banking is exclusively religion. On this basis, the researcher concluded that most participants just don't have the correct understanding of Islamic banking; as Islamic banking products and services could be used by all and various regardless of faith or belief.

**Chapter No
5**

**Conclusion
&**

CHAPTER FIVE

CONCLUSION & RECOMMENDATION

Recommendation

5.1 Conclusion

There are a number of reasons why this research is exceptional in its existence. It focused on the various aspects of quality of service and customer retention in the banking industry in Afghanistan. It combined banking success with quality of service and customer retention. It contrasted Islamic banks with traditional banks on the basis of selected constructions and variables. For empirical research it approached the clients and staff of selected banks. The study analyzed the quality of operation, customer retention and efficiency of the banks in Afghanistan.

Researcher main findings are as follows:

Thus, researcher conclude that, age group with the highest participate in research, followed by the people with different ages and most of them were interested to have more information and more knowledge about Islamic banking and have full service in whole Afghanistan.

With a large participation rate of both ¹males and females, the researchers summed up that more males actually participated in the research relative to their female counterpart actually participated in the research. It was little bit difficult and can say a limitation for researcher to have close contact and have discussion with female that is why the number of male participants was more than female.

¹This survey indicates that most of the respondents who actually participated in the research study are Muslims since 98 per cent of the Afghan population is Muslim and the survey or research is also carried out in Afghanistan.

Most of the participants who actively participated in the study are trained people, most of whom ware with a bachelor's ¹degree or in the process of obtaining a bachelor's degree, mostly postgraduate students or professionals.

Findings from such a research indicate that all participants have at minimum one form of interaction with banks that allows them to access the balance of their account, enable transfer payments and clear the bill fairly easily. This is an evidence as to how significant banks or financial facilitators are today in our country. The researchers who engaged in this study, in specific, personally work for Banks.

There were a small number of participant of our research study have not heard about Islamic Banking earlier during this survey. Though big and majority have confidence in themselves that ¹they have heard about Islamic Banking system already, before the time of this research was conducted.

According to the research ¹77.61% of respondents who responded that they heard and have information about Islamic Banking system and before the time of the research study conducted.

The majority of participants believed that the Islamic banking is an Islamic concept and it is strictly religion. The research observed that this concept can be used by non-Muslim too in order to maximize the profit and income however it is also recognized ¹as interest-free Banking system that does not involve in both receipt and/or payment of interest. The system is not based on interest reward mechanism.

In Islamic banking it is completely restricted to invest in pork related products or and majority had responds that it could be invested in hotel business and industry. and also the investment in gambling was also asked and that is completely clear in Islamic world that gambling is restricted ((Haram) So, the observation of this research shows that, majority of participants know that.

5.2 Recommendations

This study examines the service quality, customer satisfaction and bank performance by comparing a number of selected Islamic and conventional banks in Afghanistan. IB should enhance awareness regarding its products (services) to compete with CB for long term benefits and should introduce new products/services according to Shari'ah principles to attract greater number of customers. Bankers are required to develop a mechanism to evaluate their services in relation to customer. Satisfaction for corrective action by conducting surveys etc. Bankers should introduce new, diversified and marketable products to meet requirements of different segments of the economy as weak relationship between banks and customers.

“Bankers should improve their services by blending of traditional facilities and modern technology to meet customers’ expectation for better performance in future as service quality has strong positive effect on customer satisfaction. It is suggested that Islamic banks should create awareness among bank customers by attractive advertising tactics to attract greater number of customers. Islamic bank should actively introduce innovative products and services according to principles of Sharia’h. Islamic banks and conventional should improve quality of service to meet customer expectations for long term benefits. They are required to implement an effective mechanism to measure the customer satisfaction for corrective action.”

⁴ Bankers will launch new, diverse, and marketable services to meet the needs of the different economic sectors. The experience of male and female customers in the case of IB is greatly varying. So bankers should build an effective approach to charm female clients by fulfilling their unique needs.

They are expected to implement separate products based on gender, age, and qualifications etc. to meet the demands of the various segments. Because of their tremendous ability, they will take steps to actively engage female customers as they constitute 51 per cent of the total population. Bankers must also strengthen their facilities

by mixing old-style facilities and advanced technology to fulfill customer expectations for higher performance in the long term as the quality of service has a strongly positive effect on overall contentment as is evident from the outcomes.

Conventional banks could also be turned into Islamic financial practices to play a significant role in dealing with profit and loss base for the social security of the society. In Afghanistan IB could be greater than CB. Afghanistan is an Islamic country, and Islamic Banking offers its products / services as per Sharia'h concepts. Though traditional bank offers interest-oriented products / services that Allah Almighty and His Prophet Muhammad (Peace be upon Him) strongly forbid. Bankers should patch up the standard of service and customer retention for better bank results, especially in the context of Islamic banks, in order to gain significant benefits.

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Chapter–6

APPENDIXES

Questionnaire form

As part of MBA Research thesis at Delhi School of Management, Delhi Technological University, I am conducting a survey to get opinion form” Customer and Banking and Conventional Banking so please take a few minutes to complete this survey. Your specific answers will be completely anonymous, but your views in combination with those of others are extremely important and I will appraise if you could complete the following.

Respondent’s Details:

Comparative Study of Islamic Banking with Conventional Banking System

Name: -----

Age: -----

Job: -----

City: -----

Education: -----

Email: -----

15

1. What is your gender?

Male

Female

2. What is your age?

20-29

30-39

40-49

50-59

60+

3. What is your religion?

Muslim

Christian

Hindu

Buddhist

4. What is your education level?

High School

Diploma/Certificate

Bachelors Degree

Postgraduate

Other

5. What are the reasons that you are associated with Bank?

Financial reasons

Experience reasons

6. Did you heard about Islamic bank before?

Yes

No

7. Do you know the concept of Islamic banking?

Yes

No

8. Is the Islamic banking for Muslim use or it is for over all Customers use?

It's just for Muslim

it's for all customers

9. Is the Islamic banking system involves in interest reward system?

Yes

No

10. Do you know that ¹ Islamic banking involves in profit and loss sharing principle?

Yes

No

11. Can Islamic banking invest in Pork Industry?

Yes

No

¹ I do not know

12. Can Islamic Banks invest in Hotel Industry?

Yes

No

I do not know

13. Can ¹ Islamic Banks venture in excessive speculative ventures like Gambling?

Yes

No

I do not know

1. Is Islamic Banking Strictly Religion?

Yes

No

I do not know

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