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Performance of Islamic Banking in Emerging Developing Country: A Study on Islamic Banking Practices of Bangladesh

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Abstract

Islamic banking system has experienced robust growth and expansion in Bangladesh against the backdrop of strong public demand and support from the government along with its gradually increasing popularity across the world. The main objective of this study is to analyze current performance of Islamic banking system in Bangladesh banking industry. The other objectives are to compare performance between Islamic banking industry and conventional banking industry in Bangladesh, and to identify the prospects and challenges of Islamic banking in Bangladesh. However, to conduct the analysis quantitative data analysis method has been used. Along with the 10(Ten) specific conventional (two of them are state owned: Sonali Bank & Agrani Bank) and full- fledged Islamic banks has been chosen to analyze the Islamic banking services provided by those banks. The study shows that the position of Islamic banking has been following an upward trend over the last few years and the financial performance is also better compare to the conventional banking system in Bangladesh. Proper and adequate steps taken by the government and the Islamic banks can lead this banking sector to better pathway to established itself as a strong alternative of conventional banking system.

Keywords: Islamic Banking, Conventional Banks, Financial Performance, Deposit, Investment

Introduction

In recent decades, Islamic banking has been able to established its usefulness, capabilities and acceptability in the competitive global financial sphere. As well as, Islamic banking has showed its special efforts and abilities to survive in recent global economic recession and strains (Hanif, 2014). These competencies of Islamic Banking approach have attracted attention of financial analysts and thinkers all over the world.

With more than twenty-five percent market share of the country and exceptional growth in terms of global Islamic perspective, Bangladesh has the potentials to be an important center of Islamic banking on the globe map by proper leadership and appropriate branding. The Islamic banks in Bangladesh have made significant contributions to poverty reduction, inclusive growth and economic development of the country. Now, Islamic banks in Bangladesh are successfully competing in every aspect with the conventional banking systems.

Moreover, its better and stable financial position encouraging more people to choose Islamic banking system and creating pressure on the conventional banks to introduce Islamic banking facilities for the growing customer need. However, there are still some challenges for Islamic banks to provide their best services. This paper aims to describe the current financial position and potential prospects and challenges of Islamic banking in the banking industry of Bangladesh.

1.1 Statement of the Problem

In the modern conventional banking system where there is no place of empathy, Islamic banking provides a financial system which promote mutual profit and loss sharing principle to established a balanced society. Moreover, a part of population has been requesting for an interest and premium free banking system for a significant long time. Islamic banking system has brought them under a proper and profitable banking system. But the elimination of “Riba” or interest also discourage some people toward this banking system as it primarily gives a view of less profitable financial system. But over the years Islamic banks have been able to prove this view wrong with developing financial performance and increasing number of customers. But the awareness and knowledge among the common people about the development, benefits and principles of Islamic banking is still not significant. Proper research and study can provide significant evidence that Islamic banking is indeed a profitable, beneficial and empathetic financial system which can create a balanced society.

1.2 Research Questions

As a researcher before working on this topic I had several questions in my mind, which needed to be answered in this paper. These questions are:

1. What is the financial status of Islamic banking in Bangladesh?
2. What are the contributions of Islamic banking in Bangladesh’s economy?
3. Is the performance of Islamic banking better than conventional banking in Bangladesh?

1.3 Objectives of the Study

The main objective of this study is to analyse current financial position of Islamic banking system in Bangladesh banking industry. The other specific objectives of this study are:

1. To compare performance between Islamic banking industry and conventional banking industry in Bangladesh.
2. To identify the prospects and challenges of Islamic banking in Bangladesh.

1.4 Scope of the Study

This research analyses the current financial position of Islamic banking in the banking industry of Bangladesh. Several aspects that have impact on the overall banking environment such as the infrastructure, legal framework, financial system and economic growth are included in the current study of Islamic banking. Apart from these there are also other issues that also have direct or indirect impact on the prosperity of Islamic banking system in Bangladesh. Therefore, the study was focused on secondary knowledge that contributes to opportunities for further analysis on this topic due to time, budget and access constraints. Nonetheless, the study has been carried out to examine the current financial position of Islamic banking. Therefore, further investigations could be done to analyze the Islamic banking system in Bangladesh more precisely.

2. Literature Review

Sharia compliant Finance, popularly known as Islamic Finance or Islamic Banking is that type of banking activity which acts in accordance with the Islamic law known as Sharia. Its practical application mainly focuses on the development of Islamic economics (Ross, 2018). Islamic banks provide products that are compliant with Sharia law which fulfilled the economic needs of the people. It believes that no person should be profited from another person’s loss. Hence the concept of Riba (interest) was prohibited. Islamic banks take the risks of profit sharing and bears the entire burden of financial risks. Islamic banks acquire the direct credit risk normally borne by equity investors rather than holders of debt. Consequently, Islamic banks have an increased incentive to be incredibly selective in their loan processes and started to monitor their projects strictly (Ebrahim, S.M. et al. 2015).

2.1 Origin of Islamic Finance & Banking

Elimination of "Riba" or interest in all forms is an important feature of the Islamic financial system. The most important principles that characterize Islamic Banking are the prohibition of the payment of interest (Riba), sale of risky assets (Gharar) and gambling or speculation (Maysir) (Velayutham, 2014). Islamic economic principles offer a balance between extreme capitalism and communism. It offers the individual the freedom to produce and create wealth, while surrounding the individual with a controlled environment. Islamic finance is a financial service that is compliant with the main tenets of Islamic law which comes from the Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad (Gait & Worthington, 2007).

While the western financial system majorly works from a capitalistic point of view, Islamic financial system focuses on making an equitable distribution of economic resources among all the parties (Iqbal, 1997). Depositors (rabb al- mal) and a bank (mudarib) conduct the first Mudarabah, while a bank (rabb al-mal) and a borrower (mudarib) conduct the second Mudarabah. Parties of the first Mudarabah share the bank's profit while those of the second Mudarabah share the borrower's profit. This mechanism enables a bank to finance in a more efficient way by pooling money from multiple depositors (Uzair, 1978). Mahmud Ahmad (1945) stated, "The Shirakat banks would lend money to industry and commerce on the basis of Shirakat, that is, they would share the profit with their debtors rather than burden industry and commerce with a fixed rate of interest" (Ahmad, M. 1947: 170). To ensure compliance to the Shari'ah, Islamic banks use the services of religious boards comprised of Shari'ah scholars.

Islamic banking and finance activities are mainly clustered around three parts of the world that include the Middle East, South Asia and Southeast Asia. The Middle East is the main origin of Islamic finance and banking, as it is overwhelmingly populated by Muslims community. The first Islamic bank was established in Egypt in 1964, but the first to be explicitly based on Sharia principles was created by the Organization of Islamic countries (OIC) in 1974. The commercial practice of Islamic finance was launched in the Gulf countries in the 1970s. The Dubai Islamic Bank, the first commercial Islamic bank in the world, started operations in 1975. Bank Islam Malaysia, established in 1983 as the first commercial Islamic bank in Southeast Asia. In South Asia, Islamic Banking has been recently revived in Pakistan under the dual banking system. Bangladesh has been following Islamic banking policies more thoroughly and carefully.

Islami Bank Bangladesh Limited (IBBL) was the first Islamic bank established in 1983 in Bangladesh. On 4th April 1981, Ministry of Finance issued a letter to Bangladesh Bank, directing all state-owned banks of the country, on the experimental basis, to open separate Islamic banking counter in all of their branches in towns and villages and to keep separate ledgers for them. On 16 October, 1982, at the 4th Bankers' meeting of the Bangladesh Bank, chaired by the then-governor Nurul Islam, decision was taken to introduce Islamic banking in all branches of six state-owned commercial and two specialized banks at metropolitan and district headquarters level as soon as possible (Mannan, 2014).

At present in Bangladesh there are 8 full- fledged Islamic banks, 19 Islamic banking branches of 9 conventional commercial banks and 198 Islamic banking windows of 14 conventional commercial banks are also providing Islamic financial services in Bangladesh. However, there are still some challenges faced by Islamic banks in Bangladesh. There is no separate law for implementing Islamic banking and finance in Bangladesh. Bangladesh Bank supervise the Islamic banks under the Bank Act, 1991. Besides, the operations of Islamic banks based on the principle of profit and loss sharing (PLS) actually do not come fully under the jurisdiction of the existing civil laws. As a result, civil courts are not sufficiently equipped to handle disputes created in the operations of Islamic Banking in Bangladesh (Nabi & Islam, 2015).

Moreover, in recent times there has been a lot of concern about terrorist activities. There were allegations that Islamic banks are financing these terrorist activities and this propaganda has been emerged as a major challenge for Islamic banking in this country, along with other countries. There must be a law stating the banks to stay away from such financing schemes and the consequences of patronizing terrorist activities (Shawon, 2017). Other key challenges includes, difficulties to devise a successful interest-free mechanism to place their funds on a short-term basis, lack of ensuring adequate and comprehensive legal infrastructure, lack of Capital Market and Interest-free Financial Instruments, lack of Unified Shariah rulings, absence of Islamic Inter-Bank Money Market, lack of skilled human resource, lack of Co-operation among the Islamic Banks, lack of Familiarity by International Financial and Non-financial Sector with Islamic Products and procedures,

Absence of Infrastructure for International Islamic Trade Financing, lack of Specialized Islamic Banks and Non-Bank financial Institution and lack of Coordinated Research Work on Islamic Economics, Banking and finance (Islam, S. et al., 2020).

2.2 Methods of Islamic Banking

➤ Mudarabah (Profit Sharing)

This is a form of business contract where one party brings capital and the other provide personal effort. The proportionate share of profit is determined by mutual agreement. But in terms of loss, if any, is borne only by the owner of the capital, in which case entrepreneur gets nothing for his labor (Bhatti & Khan, 2008).

➤ Musharakah (Partnership)

Musharakah means a joint enterprise, conducting a business in which all partner shares the profit according to specific ratio, but loss is shared according to the ratio of the contribution. It allows each party to involve in a business to share in the profit and risks. Instead of charging interest as a creditor, the financier will receive a return in form of a proportion of the actual profit earn, where the ratio is predetermined. The Islamic bank depends on the Musharakah model to acknowledge deposits and expand them to entrepreneurs and borrowers to attempt joint business activities. The Islamic bank combines its own equity or finance with deposits to offer Musharakah investments (Hussain, 1999).

➤ Murabah (Cost Plus Financing)

A contract of sale between the bank and its client for the sale of goods at a price plus an agreed profit margin for the bank. Bank buys customer's desired product for the customer, which cost the customer the price of the product plus a pre- agreed fee (Time Value of Money is not considered). The customer can pay the bank according to pre-defined installments or settlement terms. However, the product remains with the bank as collateral until the whole sum has been paid by the customer (Mahdi & Rahaman, 2020).

➤ Ijarah (lease Financing)

Ijarah is an agreement between two parties that permits the lessee to use an asset or a property owned by another party (the lessor) for an agreed price over a fixed period of time. The asset or property should be valuable, identifiable and quantifiable, anything which cannot be used without consuming cannot be leased out (e.g., Money). In this system the lessor holds the responsibility of the leased asset and thereby bears all costs and risks associated with its operations (Mahdi & Rahaman, 2020).

➤ Bai Salam (Advance payment)

Bai Salam is a forward contract where the price of an asset is paid upfront at the time of the contract for an asset or commodity to be delivered later. The object of the sale are mostly fungible things and cannot be Gold and Silver because they are regarded as monetary values. It is mostly applied in the agricultural sector where bank advances money to receive share in the crop and sell it to the market (Mahdi & Rahaman, 2020).

➤ Bai Muajjal (Credit Sale)

The sale of good on deferred payment basis. In this agreement, the bank makes a profit on offering a product or services and the client can pay the price at installments over a period of time frame ("Islamic Banking," n.d.). The price of the product and net revenue commonly settle upon must be mentioned in the agreement. The value which was settled can be equal, lower or higher than the spot price.

➤ Qardul Hassan (Benevolent Loan)

It is a contract which provide loan without any kind of "Riba" or interest. In this contract the lender is known as creditor and the borrower is known as debtor and the loaned money remains the responsibility of the borrower. The lender cannot demand the loaned money before the end of the contract period (Mahdi & Rahaman, 2020).

➤ Musawamah

According to Ijara Community Development Corp., Musawamah involves a transaction where the selling price of a good or service is a process of negotiation between the seller and the buyer, where buyer is unaware of the actual cost. The seller is not obligated to inform the buyer of the price that they paid to make or obtain the particular product or service for sale. This form of transaction can only be used from the seller himself cannot determine the exact cost of the item and the sale must take place only when the item is traded.

➤ **Sukuk (Islamic Bonds)**

Sukuk is a financial product whose terms and conditions comply with Shariah. A Sukuk technically represent an underlying funding arrangement structure according to Shariah. It entitles the holder to a proportionate share of returns generated by such arrangement at a defined future date. There is no scope of any kind of interest (Mahdi & Rahaman, 2020).

➤ **Wadiah (Safekeeping)**

Wadiah is an agreement to the deposit of funds or asset by a person in an Islamic Bank. Most of the time bank charge a fee for the custody of the depositor's fund. Bank is bound to return the whole amount or a portion of the amount according to the demand made by the client (Mahdi & Rahaman, 2020).

3. Methodology

3.1 Research Approach and Population

This study is descriptive in nature and the researcher has used quantitative data analysis method to save time and cost. At present there are 8 full-fledged (Non- Conventional) Islamic banks, 9 conventional banks who has Islamic banking branches and Islamic banking windows of 8 conventional banks in Bangladesh. All of these are the population of this study.

3.2 Sampling

Here, in this study all 8 full fledge Islamic banks (Non- Conventional Banks), Islamic Banking branches of 9 conventional Banks (combined) and Islamic Banking Window by 8 conventional banks (combined), have been chosen as sample for the research to show the financial activities of Islamic banking industry in Bangladesh. Along with these 10(Ten) specific conventional banks have been chosen to analysis Islamic banking services and 05 (Five) full- fledged Islamic Banks have been chosen to analyze the financial performance of Islamic Banks.

3.3 Development of Research Instruments

In this study, before analyzing financial data, services and products of Islamic banks in Bangladesh have been analyzed, for doing this, 10 specific conventional and non- conventional Islamic banks have been chosen. Based on that analysis, some basic products and services of Islamic banking have been identified. In next step, based on the basic products and services, financial data analysis has been conducted. To conduct the analysis different types of analytics tools, percentages, graphs, charts and tables have been used. To identify the financial performance of Islamic banks in Bangladesh, ratio analysis has been used based on 05 full- fledged (non-conventional) Islamic banks. Based on the ratio analysis researcher herself also developed a ranking of full- fledged Islamic Banks which range from 1 to 5.

3.4 Data Collection Procedure

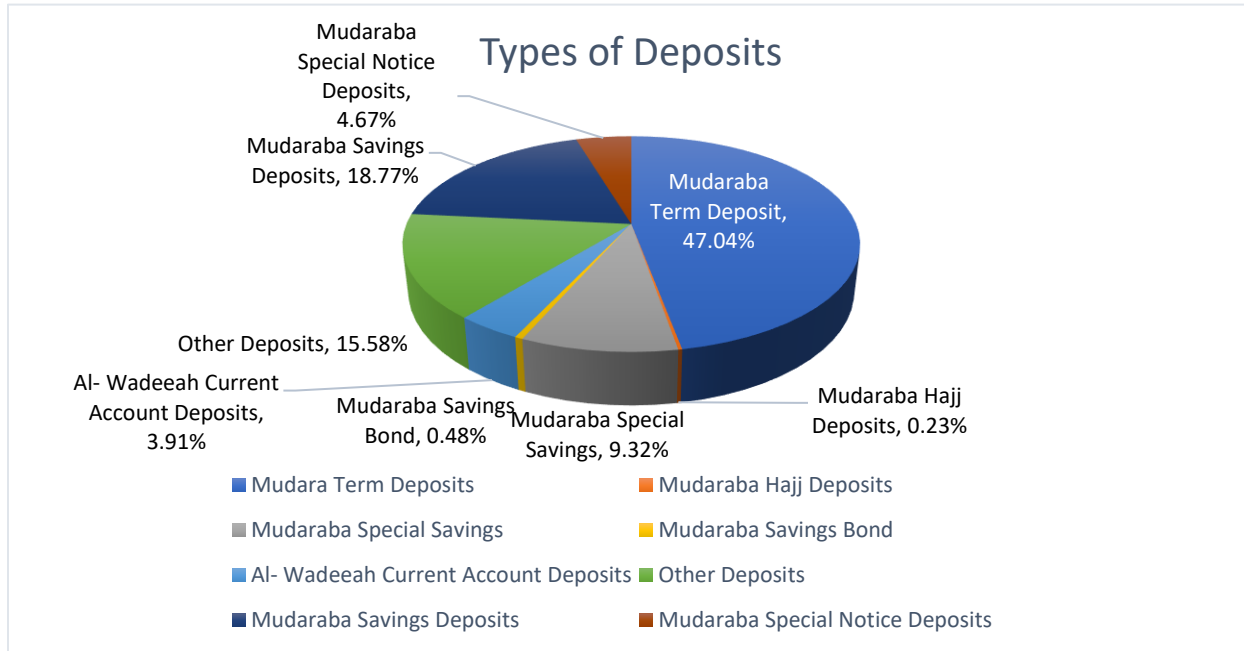
All the data that have been used in this research are secondary data, collected from different articles, journals, websites and e-books. Financial data of Islamic banking service provider banks and other Islamic banking related data of Bangladesh Bank has been used from the year 2016 to 2020, available online.

4. Data Analysis

4.1 Types of Deposits Made by Non- Conventional and Conventional Islamic Banks

Among different types of deposits of the Islamic banking industry, Mudarabah Term Deposits secured the highest position (47.04%) followed by Mudarabah Savings Deposits (MSD) (18.77%), Other Deposits (15.58%), Mudarabah Special Savings (pension/profit) Deposits (9.32%), Mudarabah Special Notice Deposits (4.67%), Al-Wadiah Current Account Deposits (3.91%), Mudarabah Savings Bond (0.48%) and Mudarabah Hajj Deposits (0.23%) etc. during October- December 2020.

Chart 4.1: Types of Islamic Deposits Made by Non- Conventional and Conventional Islamic Banks

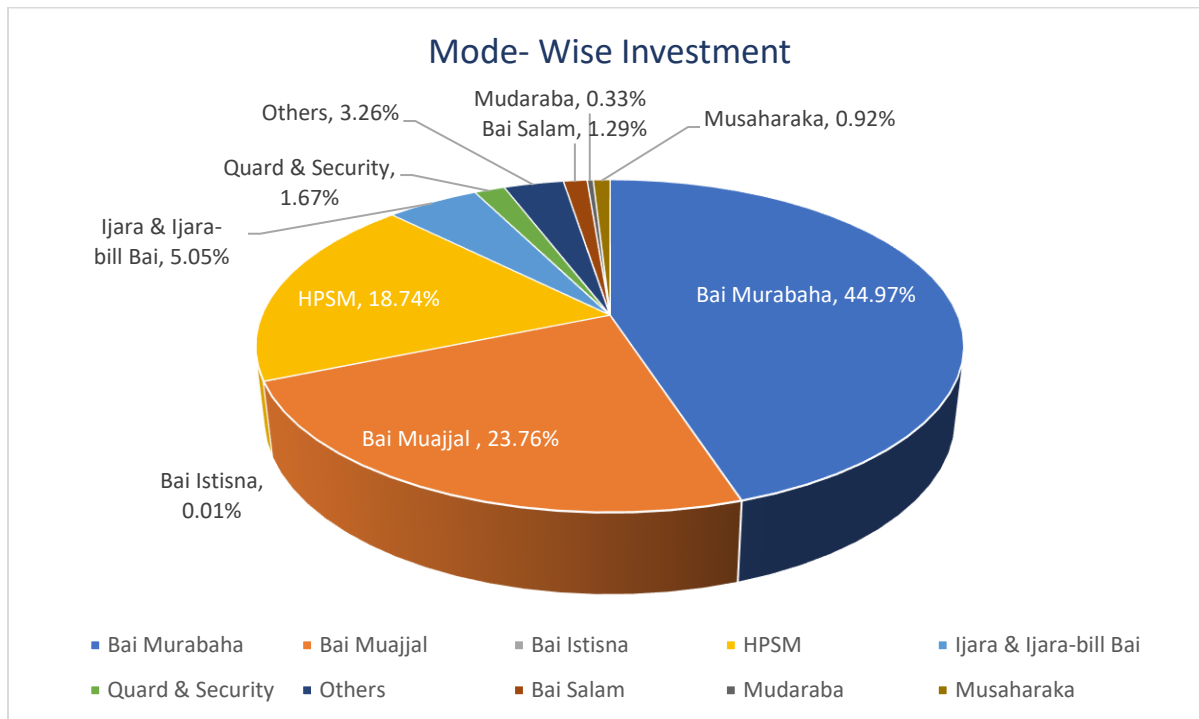


Source: Research Department, Bangladesh Bank (2020)

4.2 Mode Wise Investment of Non- Conventional and Conventional Islamic Banks

The analysis of mode-wise investment revealed that the highest investment was made through Bai- Murabaha mode (44.97%) at the end December 2020, followed by Bai-Muajjal (23.76%), HPSM (18.74%), Ijara & Ijara-bil Bai (5.05%), Others (3.26%), Quard with Security (1.67%), Musharakah (0.92%), Bai-Salam (1.29%), Mudarabah (0.33%), and Bai-Istisna (0.01%).

Chart 4.2: Mode Wise Investment of Non- Conventional and Conventional Islamic Banks

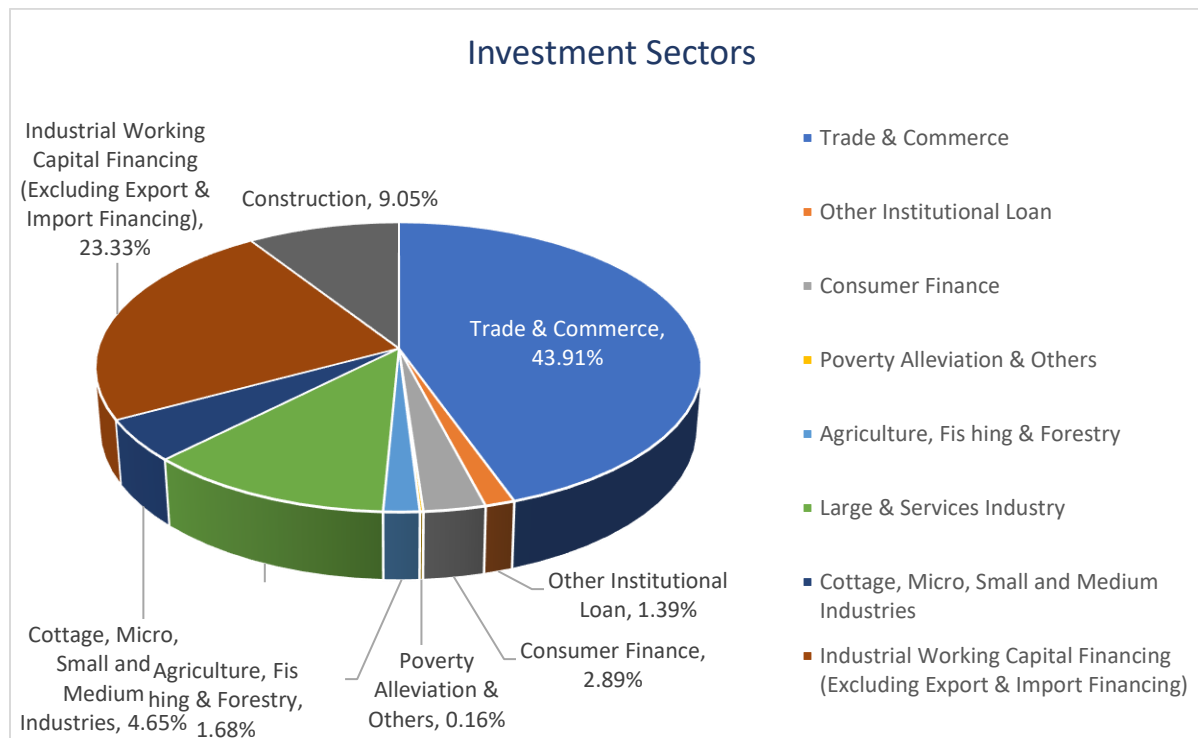


Source: Research Department, Bangladesh Bank (2020)

4.3 Sector Wise Investment Made by Non- Conventional and Conventional Islamic Banks

Analyzing the sector-wise investment, in the Trade and Commerce sector (43.91%) was found to be the highest among all sectors at the end of December 2020 (Chart-5). The next position was occupied by Industrial Working Capital Financing which stood at 23.33% followed by Large & Services Industry (11.55%), Construction (9.05%), CMSM (Cottage, Micro, Small and Medium Industries) (4.65%), Consumer Finance (2.89%), Agriculture, Fishing and Forestry (1.68%), Transport (1.39%), Other Institutional Loan (1.39%), and Poverty Alleviation & Others (0.16%).

Chart: 4.3 Sector Wise Investment Made by Non- Conventional and Conventional Islamic Banks



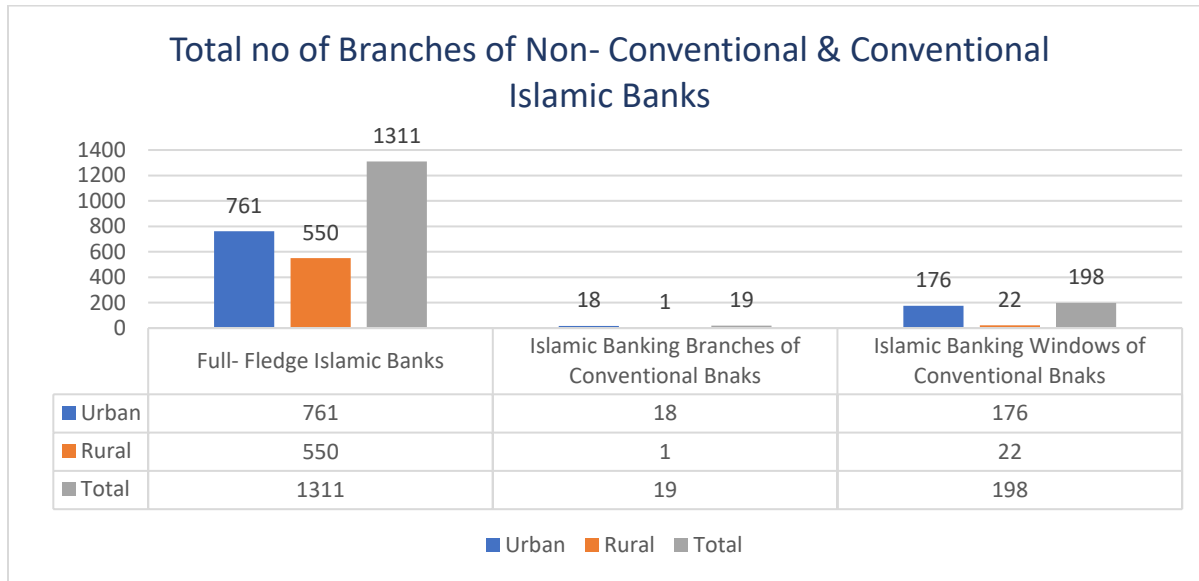
Source: Research Department, Bangladesh Bank (2020)

4.4 Branches of the Islamic Banks and services

The growth of the Islamic Banking industry has been strengthened by various positive initiatives taken by the stakeholders as well as its growing demand in the market. Bangladesh Islamic banking sector has also experienced robust growth due to policy supports by the government and strong public demand. Recent issuance of sukuk rules by Bangladesh Securities and Exchange Commission (BSEC) would promote Islamic capital markets badly needed for financing infrastructure and industrial projects towards achieving higher inclusive GDP growth and other sustainable development goals (SDGs) (Bangladesh Bank, 2020).

At the end of December 2020, Bangladesh’s 8 full-fledged Islamic banks have been operating with 1311 branches out of total 10752 branches of the whole banking sector. In addition, 19 Islamic banking branches of 9 conventional commercial banks and 198 Islamic banking windows of 14 conventional commercial banks are also providing Islamic financial services in Bangladesh. It may be mentioned here that One Bank and UCB Bank have also started offering Islamic Shariah compliant financial services through dedicated windows (Bangladesh Bank, 2020).

Chart 4.4: Total no of Branches of Non- Conventional & Conventional Islamic Banks



Source: Research Department, Bangladesh Bank (2020)

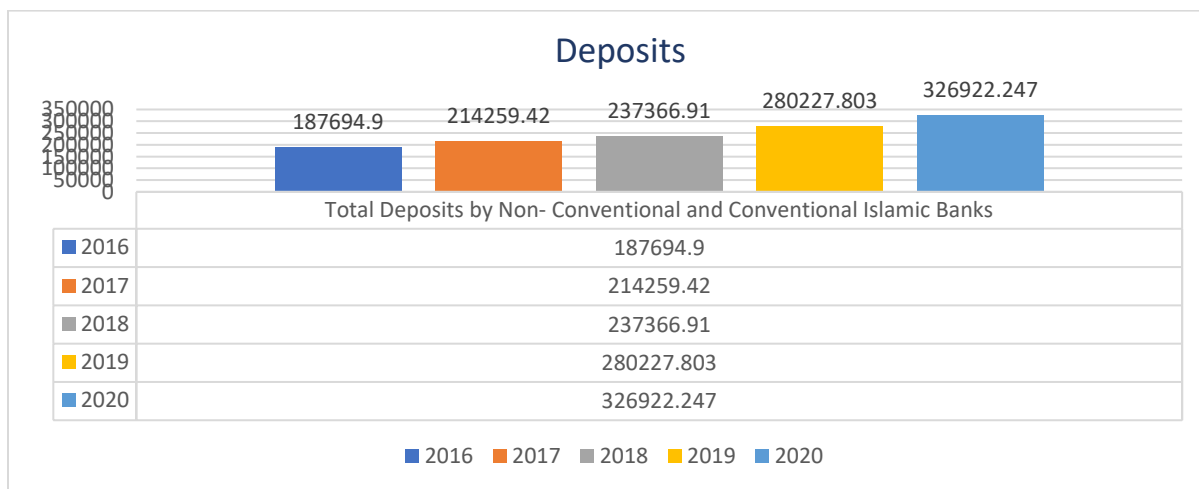
4.5 Financial Position of Non- Conventional and Conventional Islamic Banks

In this part of the study, researcher has analyzed the financial position of non- Conventional (full- fledged Islamic Bank) and Conventional Islamic Banks by using the data of 8(eight) full-fledged Islamic banks, 9 conventional bank’s Islamic banking branches (combined) and 14 conventional bank’s Islamic banking windows (combined), by analyzing their Deposits, Investment, Remittance, Excess Liquidity and Investment- Deposit Ratio.

4.5.1 Mobilization of Deposits by Non- Conventional and Conventional Islamic Banks

Total Deposits in Islamic banking industry reached BDT 280227.803 crore at the end of December 2019, which increased by BDT 18116.876 crore or 6.91% compared to end September, 2019 and by BDT 237366.912 crore or 18.06% compared to the of same month of last year. Total deposits of the eight full-fledged Islamic banks accounted for 94.12% of deposits of the Islamic banking industry. Deposits of 8 full-fledged Islamic banks stood at BDT 263756.436 crore at the end of December 2019. In 2016 total Islamic deposit was tk.187694.9 crore, in 2017 it was tk.214259 crore, in 2018 it was 237366.91, in 2019 it was tk.280227.8 crore and in 2020 it was tk.326922.247 crore.

Chart 4.5: Total Deposits by Non- Conventional and conventional Islamic Banks

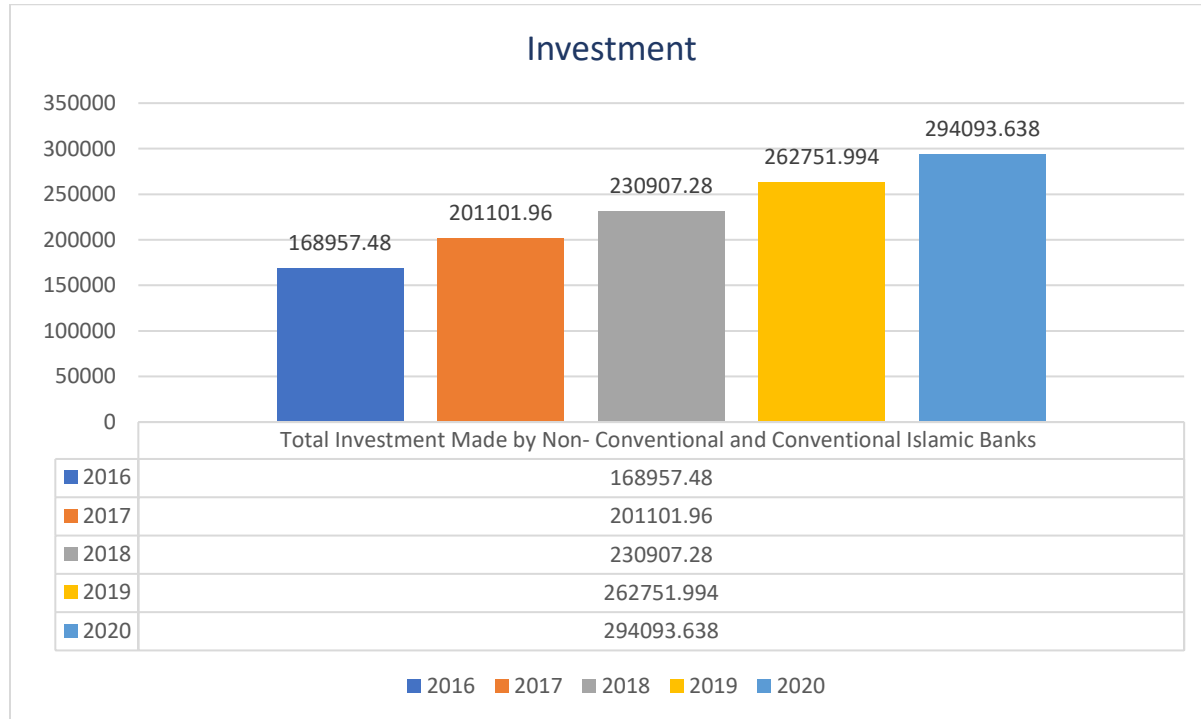


Source: Research Department, Bangladesh Bank (2020)

4.5.2 Mobilization of Investment by Non- Conventional and Conventional Islamic Banks

Total investment (loans & advances in conventional banking system) in Islamic banking sector stood at BDT 294093.63 crore at the end of December 2020, which went up by BDT 10083.085 crore or 3.55% and by BDT 31341.643 crore or 8.09% compared to that of the end of September 2020 and of the end of same period of preceding year respectively. The share of total investment of Islamic banks accounted for 25.69% among all bank's loans & advances. In 2016 total investment made by Islamic banks, windows and branches was tk168957.48 crore, in 2017 it was tk. 201101.96 crore, in 2018 it was tk. 230907.28 crore, in 2019 it was tk.262751.994 crore and in 2020 it was tk.294093.638 crore. Total Investment made by the Non- conventional Islamic Banks and Conventional Islamic Banks also following an upward trend since 2016.

Chart: 4.6: Total Investment Made by Non- Conventional and Conventional Islamic Banks



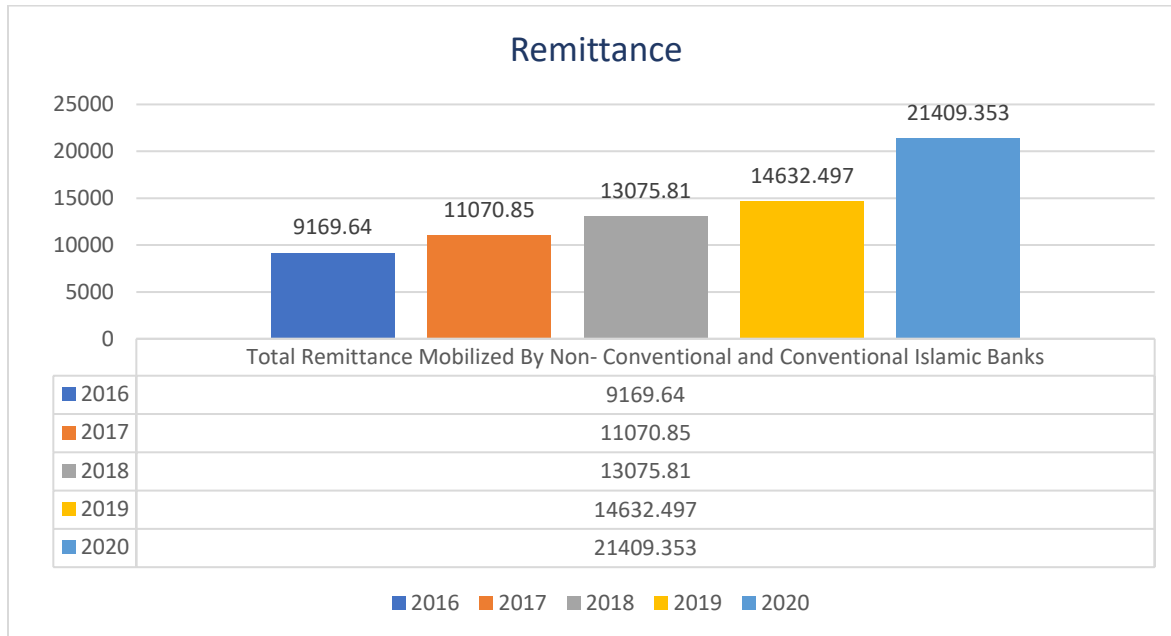
Source: Research Department, Bangladesh Bank (2020)

4.5.3 Mobilization of Remittance by Non- Conventional and Conventional Islamic Banks

Islamic banking industry of the country is playing a vital role in collecting foreign remittances and disbursing the same among beneficiaries across the country. Total remittances mobilized by the Islamic banking sector stood at BDT 21409.353 crore during October-December 2020, which was higher by BDT 3454.084 crore or 19.24% and higher by BDT 6776.857 crore or 46.31% that that during July September 2020 and October-December 2019 respectively.

In 2016, total mobilization of remittance by Islamic banking was tk. 9169.64 crore, in 2017 it was tk. 11070.85 crore, in 2018 it was tk. 13075.81 crore, in 2019 it was tk.14632.497 crore and in 2020 it was tk. 21409.353 crore. Among the Islamic banks, Islami Bank Bangladesh Ltd. occupied the top position (74.96%) in respect of remittance collection during October-December 2020. Chart shows that mobilization of Remittance by Islamic Banks is also following an upward trend.

Chart 4.7: Total Remittance Mobilized by Non- Conventional and Conventional Islamic Banks

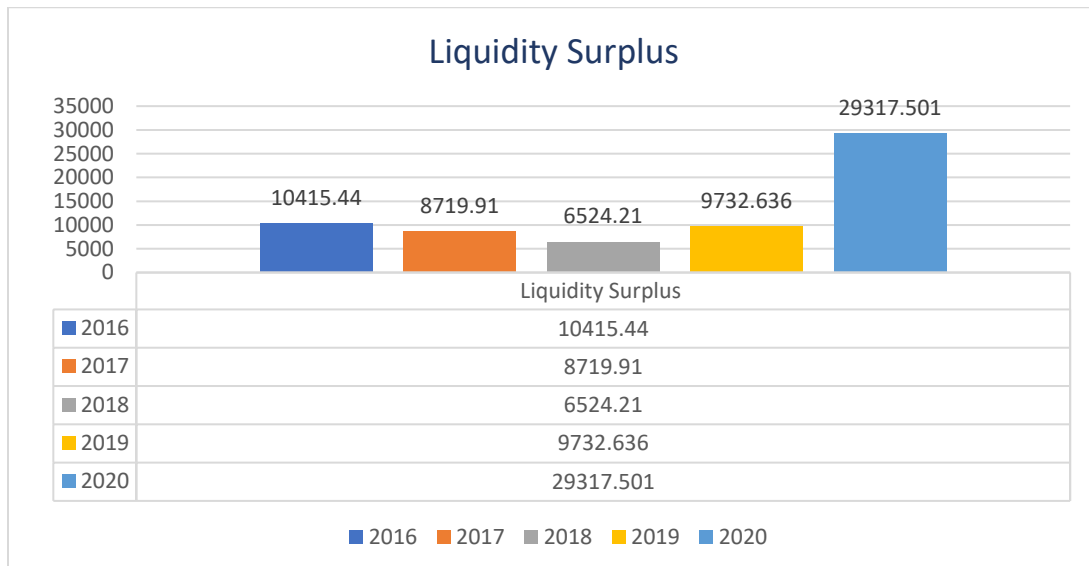


Source: Research Department, Bangladesh Bank (2020)

4.5.4 Liquidity Situation of Non- Conventional and Conventional Islamic Banks

Excess liquidity of Islamic banking sector stood at BDT 29317.501 crore at the end of December 2020, which was higher by BDT 11063.500 crore (60.61%) and higher BDT 19584.865 crore (201.23%) than that of the end of September 2020 and the end of same month of the last year respectively. In 2016 total liquidity surplus by Islamic banking was tk.10415.44 crore, in 2017 it was tk.8719.91 crore, in 2018 it was tk. 6524.21 crore, in 2019 it was tk.9732.636 crore and in 2020 it was tk.29317.501 crore.

Chart 4.8: Liquidity situation of all Non- Conventional and Conventional Islamic Banks



Source: Research Department, Bangladesh Bank (2020)

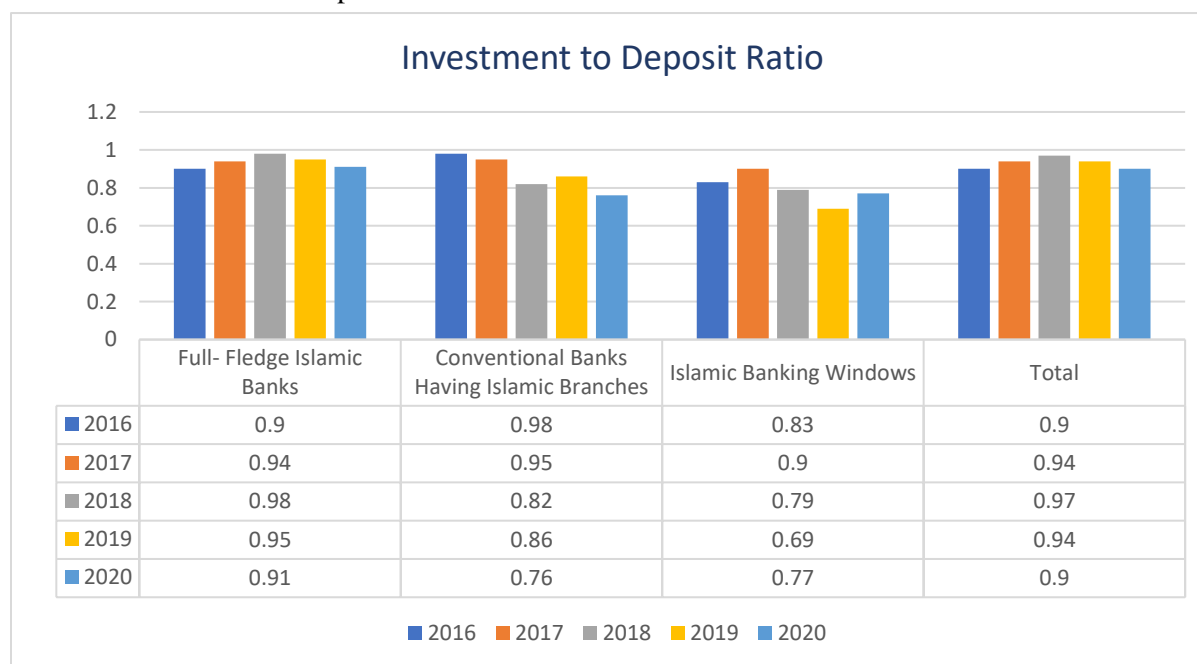
Chart shows that excess liquidity by Islamic banking has highly increased in year 2020 after a fall in 2017 and 2018. In 2019 it slightly increased but in 2020 the increase was more significant. The reason behind it can be economic recession for COVID- 19 situation, as the investment opportunities has been limited.

However, excess liquidity means there is no liquidity problem in the Islamic banking industry. From the Chart we can see, the excess liquidity of Islami Bank Bangladesh Ltd. Has increased significantly in 2020, which impact the total liquidity excess by Islamic banks in 2020.

4.5.5 Investment- Deposit Ratio of Non- Conventional and Conventional Islamic Banks

Investment to deposit ratio shows that which amount of deposit is used to as investment. When the Investment to deposit ratio improves it means that bank is using its deposit properly in different profitable sectors. Whereas a decreasing investment to deposit shows that bank isn't using their deposit resources properly.

Chart 4.9: Investment to Deposit ratio of Non- conventional and Conventional Islamic Banks



Source: Research Department, Bangladesh Bank (2020)

Chart shows that investment to deposit ratio of full- fledged Islamic banks has decreased in last two years though it was highest in 2018. Conventional banks with Islamic branches and Islamic windows facing an unstable trend in their investment to deposit ratio for past five years. As a result of these factors, total investment to deposit ratio by Islamic banking services followed a downward trend in 2019 & 2020.

4.6 Performance Comparison Between Conventional Banks and Islamic Banks

4.6.1 Islamic Banking Activities Compared to all Banks in Bangladesh

According to the report of Bangladesh Bank, Total deposits in Islamic banking sector reached BDT 326922.47 million at the end of December 2020. Total Investment (loans & advances in conventional banking system) of Islamic banking sector stood at BDT 2940936.38 million at the end of December 2020. At the end of December 2020, Investment-Deposit ratio (Credit-Deposit ratio in conventional sense) stood at 0.90. Total remittances mobilized by the Islamic banking sector stood at BDT 214093.53 million during October-December 2020. Total employment in the Islamic banking sector stood at 38784 at the end of December 2020 which was 38125 at the end of September 2020 and 35906 at end December 2019.

Table: 4.1 Islamic Banking Activities Compared to all Banks in Bangladesh

Items	All Banks	Islamic Banks	Share of Islamic Bank Among All Banks (%)
Total Deposits	12904724.00	3269222.47	25.33
Total Loans and Advance	11449073.00	2940936.38	25.69
Remittance	528441.90	214093.53	40.51
Total Excess Liquidity	2047380.20	293175.01	14.32
Total Number of Bank Branches	10752	1528	14.21
Total Agricultural Credit	73936.7	9911.5	13.41

Source: Statistics Department and MPD, Bangladesh Bank. (2020)

4.6.2 Comparison of Financial Performance of Overall Banking Sector and Islamic Banking Sector

The Islamic Banking industry is showing better financial performance in terms of financial indicators as revealed in ROA, ROE, NPM and other ratios.

Table 4.2: Comparison between Financial Performance of Overall Banking Sector and Islamic Banking Sector

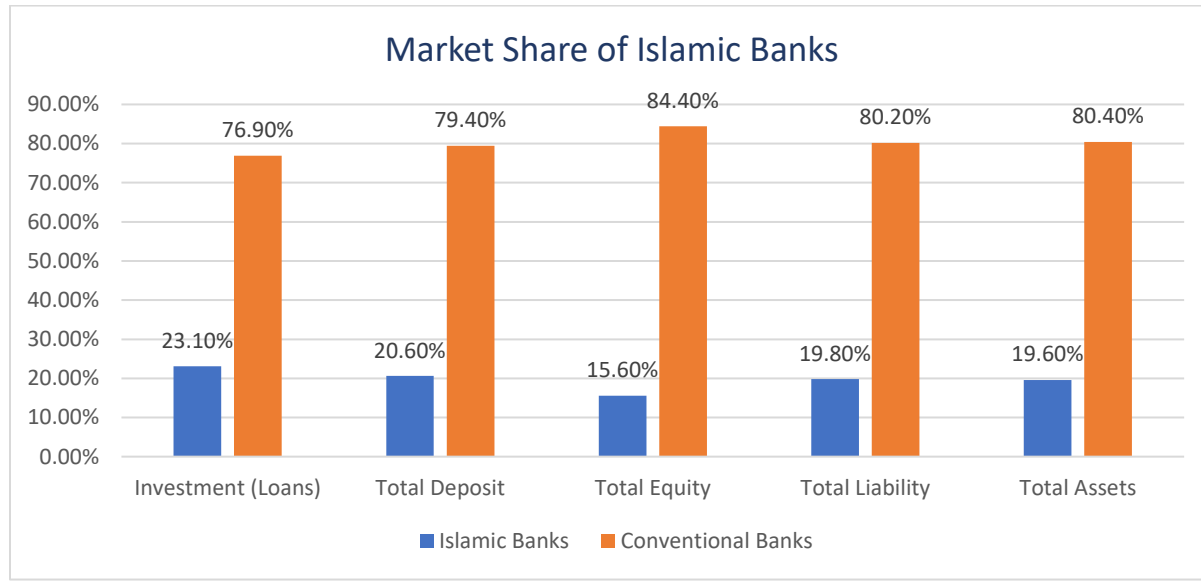
Ratio	Overall Banking Sector	Islamic Banking Sector
ROA	0.5	0.6
ROE	7.4	11.4
Non-Profit (Interest) Income to Total Assets	1.8	0.9
Net Profit (Interest) Income to Total Assets	1.9	2.6
Profit (interest) Income to Total Asset	6.1	7.6
Net Profit Margin	2.1	2.9
Investment- Deposit Ratio	77.3%	94.3%

The net profit of Islamic banks increased by 17.3 percent in 2019 compared to 15.0 percent in 2018. During 2019, Islamic banks contributed 23.9 percent of total industry profits. The profit to total assets ratio of Islamic banks reached 7.6 percent, which was higher than that of the industry average (6.1 percent). On the other hand, non-interest income to total assets ratio of Islamic banks was only 0.9 percent as compared with the industry average of 1.8 percent, representing a lower income from off-balance sheet (OBS) transactions, services, and fee-based incomes. The ROA of Islamic banks was 0.6 percent in 2019 (same in 2018) against the overall banking industry's ROA of 0.5 percent. On the other hand, the ROE of the Islamic banking group stood at 11.4 percent in 2019 (10.7 percent in 2018), which was higher than the overall banking industry's ROE of 7.4 percent, indicating higher profitability of Islamic banks. IDR of the Islamic banks was 94.3 percent, which was also higher than that of the overall banking industry.

4.6.3 Market Share of Islamic Banks Compare to Conventional Banks

The aggregate market share of Islamic banks in 2019 (excluding Islamic banking branches/ windows of conventional banks) remained almost the same as in 2018. At end-December 2019, Islamic banks possessed 19.6 percent (19.1 percent in 2018) of total assets, 20.6 percent (19.8 percent in 2018) of total deposits and 19.8 percent (19.4 percent in 2018) of total liabilities of the overall banking system; whereas shares of investments (loans and advances) and equity were 23.1 and 15.6 percent respectively in 2019, almost the same as in 2018. The market share of Islamic banks remained unchanged over the years largely due to their balancing the growth in different segments properly.

Chart 4.10: Market Share of Islamic Banks



5. Discussion

The analysis of the study shows that the Islamic Banking sector in Bangladesh is improving consistently in terms of market share on deposit, investment and remittance. In Islamic banking industry of Bangladesh, deposits are mainly made on one mode which is “Mudarabah”, rather than using other instruments & Investments made by the Islamic banks are mostly in big money projects. However, Research also found out that the Islamic banking services are mostly clustered into urban areas.

Ratio analysis shows that all the major players of Islamic banking sector in Bangladesh is maintaining a sound and standard ratio in terms of profitability ratios, liquidity ratios and efficiency performance ratios. The positive and higher investment to deposit ratio shows that the Islamic banks are investing their deposits in a profitable way. Excess liquidity shows that there is no liquidity problem in Islamic banking industry and the overall excess liquidity in Islamic banking industry in Bangladesh has highly increased in the year 2020. After developing a comparative analysis of Financial Performance of Islamic banks, researcher herself found out that in terms of Profitability and Liquidity ratio Islami Bank Bangladesh Limited holds the 1st position and EXIM Bank limited holds the last position ranging from (1 to 5). But in terms of Efficiency ratio Islami Bank Bangladesh limited holds the last position (5th) and Al- Arafah Islami Bank Limited holds the 1st position.

Around 25% market share of banking industry is owned by Islamic Banks in Bangladesh. Research indicates that the first Islamic bank in Bangladesh which is “Islami Bank Bangladesh Limited”, still owns the majority market share of Islamic Banking sector. Research shows that the comparative financial performance level of Islamic banks is better than all over banking sector in Bangladesh. Research also revealed that, though the market share of Islamic banking industry of Bangladesh in global prospect is not high, but the growing performance has achieved the attention of the global Islamic banking industry. However, some barriers like lack of adequate and comprehensive legal infrastructure, lack of skilled human resources and lack of proper knowledge and information about Islamic banking creating obstacles on the way of growing Islamic banking industry.

6. Conclusion

Islamic banking system can introduce the most efficient banking system if it gets support from the private and public bodies in terms of governance and direction both. At present the Islamic financial sector is one of the main focus of banking industry of Bangladesh. In view of success and popularity of Islamic banks, many conventional banks have commenced Islamic banking services by opening Islamic banking branches or windows. Due to the exponential growth of customer demand, a good number of conventional banks have shown their willingness to convert their conventional banking business to Islamic banking. Islamic Banking industry in Bangladesh has now achieved more than 25 percent market share in the country.

With positive GDP growth and increasing per capita income, Bangladesh can be a vital player in Islamic banking sector with 95% Muslim majority population. The atmosphere has already been prepared by Islamic banks in last 30 years with its more than ten million customers. The unlocking of unexplored immense potentials of the Islamic banking industry depends on the appropriate legal framework, development of customized products suitable for all segments of customer base and committed skilled human resources.

6.1 Implications

To ensure the use of utmost potential of Islamic banking in Bangladesh several policies can be implemented. Which will provide legal and economical backup towards this industry. Investment should be made on different sectors not only to reach more customers but also to compete with conventional banking system. Islamic banks should consider rural area as a vital part of their banking industry, as rural people seem to be more religious and also deprived from banking services. This will help to reach a section of population who will be interested in Islamic banking as well as it will put Islamic banks ahead of conventional banks. Bangladesh bank should analyze the reason behind high excess liquidity in the year 2020 more deeply. Policy makers should create a separate legal infrastructure to facilitate the Islamic banking sector as well as to solve any kind of disputes in this regard. Islamic banks should create highest professional environment throughout the service industry so that not only the Muslims but also the non – Muslim customers will be encouraged towards this banking system. Islamic banks should create a common platform by all Islamic banks as a Research Academy and Training Institute designed with modern tools, books and other accessories to research on new products also to provide proper knowledge to the customers to remove any kind of misconception.

6.2 Limitations and Future Research

This research paper holds some limitations for different reasons. There is lack of information about total revenue gain from the Islamic banking system in Bangladesh, as there is lack of study on the financial impact of Islamic banking in our country. Some data are often considered as confidential to share with general public by the banks. Conventional banks who also provide Islamic banking services, do not emphasize much on the Islamic banking related data on their annual report. How much growth of banking industry has been occurred due to the introduction of Islamic banking system, this couldn't be found out as there no such study has been done.

There are some limitations of this study. Comparison between banking industry of Bangladesh of pre-Islamic banking system and post-Islamic banking system couldn't be showed due to lack of information. A more comprehensive research is required to determine the position of Islamic banking system in the context of whole banking industry.

The study also finds some future research options. Research can be done on sector wise contribution of Islamic banking in Bangladesh. Moreover, it can find out the impact of Islamic banking on Bangladesh economy along with comparison between global Islamic banking system and national Islamic banking system.

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