

## The Causality between TDRs Returns Of Islamic Banks and Conventional Banks in Pakistan Pre & Post-Crisis

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### ABSTRACT

*The main objective of this study is to determine the connection between Islamic banking and conventional banking term-deposit receipt returns on the rate in the Pakistan economy. Granger Casualty test was used to identify the relationship between Islamic and conventional banking deposit returns. Moreover, VAR estimation was used to examine the interdependencies between Islamic banking and conventional banking deposit rate return. The IRFs were generated from VAR estimation to examine the one-time standard deviation shock impact of conventional on Islamic banks and the second one is Islamic on conventional banks respectively. The finding shows that there is no significant relationship between Islamic and traditional banks in pre-crisis and post-crisis 2008. The results found that Islamic banks offered interest rates the same as conventional banks. In addition, conventional banking is not different from Islamic banking. This study will help investors to understand TDR and the benefits of short and long-term investment. This will be helpful for bankers to make the right decisions. This is the latest and first research to determine Islamic versus conventional banking in the Pakistani economy. This study provides the growing literature on Islamic finance by filling a gap to know about pre and post-returns on term deposit TDRs at Pakistan conventional and Islamic banks.*

**Keywords:** Granger Causality, Islamic Banking, Conventional Banking, Systematic Risk

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### INTRODUCTION

Global crises in finance occurred in 2008, which was the main challenge worldwide. It was a worse experience of risks. However, problems rapidly increasing in the financial market triggered crises in global finance easily. Crises of finance occurred by asset management collapse and it was the worst experience regarding managing market fundamentals in the financial system led by practitioners and academicians. They

revised the models of unconventional financing and study well respectively. However, due to the effect of shocks in price or the effect of contagion in 2008, momentum gained by Islamic banks frequently. (Hassan and Dridi, 2010; Beck et al., 2013; Yuksel, 2017). The worst experience of crises generated more questions related to the conventional bank's stability. Researchers judge investment, loans, or deposit instability by commercial banking (Minsky, 1986). Islamic and conventional banks are considered profitable banks. Conventional banks fulfill our financial needs and give us a platform to invest and get the return on investment. Islamic banks operate under the concept of Islamic Shariah Law. The differences between both banking systems is the forbidden of interest rates by Islamic banks. Moreover, transactions in Islamic banking must be Gharar free and backed by a real asset. Islamic banking does not allow investing in any company, which provides harmful products (E.g. pork products and alcohol). Previous studies suggested use Islamic banking than conventional banking because the model of Islamic banking can increase the fund's quality.

Previous studies provided empirical evidence and were more focused on the different structures of different banks, hence the findings indicated that Islamic banks can cover quickly as a contrast to the conventional banks. Moreover, the product provided by Sharia is more attractive compared to conventional. (Kasim and Majid, 2010; Kasim and Abdulle, 2012; Beck et al., 2013; Yuksel, 2017). Similarly, Islamic banks can operate in any financial system same as commercial banks. There are many models common in Islamic banking & conventional banking systems, both play an intermediary role. Therefore, operational management should follow similar procedures (Dusuki, W.A. 2008; Ghayad, A. 2008).

Islamic finance banking developed in 1963. It becomes more popular and stronger now. Therefore, peoples take an interest more in Islamic banking and assets compliant that based on Shariah have reached 939 US billion dollars. The availability of Islamic funds was 600 and it functions in over 60 countries (Zaman, M.R., and Movassaghi, H. 2001). Recently Popularity of Islamic banking has increased. Islamic bank's total assets have crossed 2tn US dollars in the year (2015) and about additional than seven hundred and seventy-five Islamic banks and registered financial institutes around the whole world, in which five hundred and fifty-five are fully-fledged and two hundred and twenty are controlling by Islamic opening. In investment, the risk sharing structure of asset-based offer by Islamic finance but not an interest rate. It indicates that Islamic banks avoid systematic risk in financial transactions. Moreover, Islamic banks do not dispose of harmful financial products. (Zeitun, R. 2012; Yuksel, 2017).

The study identifies the association between these two banking by understanding the link of causality between these two banks. This study is one of the first, which presents a different examination of the effect of the crisis in finance on Islamic and conventional banks of Pakistan. This study provides the growing literature on Islamic finance by filling a gap to know about pre and post-returns on term deposits (TDRs) at Pakistan Islamic banks of conventional. TDRs are the main variable of financial activities because it helps to reduce uncertainty and systematic risk. Therefore Islamic banks' deposits more affected by their returns rate historically than the interest rate if Islamic banks are less suffers from systematic risk. Similarly, Conventional banks don't offer TDRs (Kaleem, A. and Isa, M.M. 2003, Kassim, S.H. and Isa, M.M. 2010; Serkan Yuksel, 2017). To identify the association

between regular and Islamic banks this study uses the first granger Causality test and second, VAR estimation. The first test was used to identification of the association between Regular bank TDRs and Islamic TDRs. The result indicated that there is a bidirectional relationship between 6 Month TDRs of Islamic and conventional. In other remaining 3 Months, 1 Year, 2 Year there is no direction between them. Our results support the previous study Yuksel, (2017) found that Islamic banks do not granger causes on conventional banks, and hypotheses are not accepted for all periods. We applied the Granger causality statistic technique for Pre-crisis and Post-crisis periods. The result indicated that there is a bidirectional relationship between 1 Year TDRs of Islamic and conventional. Other remaining 3 Months, 6 Months, and 2 Years there is no direction between them. Serkan Yuksel, (2017) Granger causality result of before 2008 crisis indicates that there is no association between Islamic banks and regular banks.

## **Literature Review**

### **Theoretical Background**

The worldwide economic crises of the year 2008 have unfavorably crushed the international financial systems worldwide. These crises affected most of the countries of the world. There are various reasons for the worse effect on the Islamic banks and conventional banks' performance that are mentioned as follows. In 1981, Ho, T. S., & Saunders, A. Introduced the theory "The Determinants of bank Interest margin: Theory and Empirical Evidence", an established model for banks margins or a model to manage risk for financial and banking crises. The name of the model is "Diamond-Dybvig model", established in 1983 by Diamond, D.W., & Dybvig, P.H. The model confirmed that profit spread and margin always occurred. Furthermore, it is confirmed that spread depended on four elements. The four elements of decision-making are risk, the estimation of deals assumed by the banks, the Bank's market structure, and differences in profit rates. The model implicit asset and liability depend on doubt reaction. The model explained due to the doubt reaction enhances maximizing the framework, spreading the structure of the model from deposit to loans and term deposit receipts with their expires can be lead to further insights into the determination of margin particularly as "Portfolio" outcomes become outward. Ho, T. S., & Saunders, A. (1981) theory of factor of interest and margin is the most recommended theory to know the relationship between interest base conventional banks Term deposit receipts and Islamic banks.

### **Empirical Review**

Yusoff, M. B. (2013) investigates the impact of the conventional bank's Term deposit receipt and Islamic bank's profit rate on the Malaysian economy. They found the trend of the relationship between Islamic banks and conventional banks, while an opposite relation found in Six-month Term deposits receipt for month Term deposit receipts or one-month fixed deposits receipts. The results show that there is no relation for Three-month Term deposit receipts and weak relation for the Nine-month term deposit and Twelve-month term deposit receipts parallel to the relation with month fixed deposit receipts. Yuksel, S., & Erturk, M. (2013) determine the relationship between the Islamic banks & conventional banks from 2005-2013. Pre-crisis and post-crisis focused on in this study. All types of deposits from Islamic banks & conventional banks except for the 12 months term deposit receipts where opposite causality is found. The results show insignificant or no association

between Islamic & conventional banks. However, except for six months to twelve months bank term deposit receipts, the association among conventional & Islamic banks is noticed for all categories of Term deposit receipts and other deposits. After the crisis, many depositors of Islamic banking did not get religious inspiration and their decisions on financial transactions then took back their deposits from accounts.

Uchino, T. (2014) examines the relation between pass-through market rate of interest and rates of interest for deposits and examines if the banks in Japan's deposit market are geographically segmented or not. An exclusive feature of this study is the use of monthly deposit interest rates posted by 106 regional banks from 1999 to 2010. The results show a significant negative association between pass-through and regional market concentration. The results found the existence of geographical market segmentation. The results reveal that a simple banking activity model with competition estimates the long-run pass-through of each regional bank. Hakan Ergec, E., & Gülümser Kaytanci, B. (2014) investigate the relationship between deposits rate in Turkish Islamic & conventional banks. The data is collected for one month, three, six, and 12 months rate of return. Two statistical techniques applied in this study are the "granger Causality test" and "VAR estimation". The results show an association between the conventional banking system & Islamic banking systems. Anuar, K., Mohamad, S., & Shah, M. (2014) investigate the Islamic term deposit receipt rates as compared with conventional term deposit receipt rates. In the case of risk sharing, Islamic banks' profit rates are less risky but conventional banks are riskier. The data is collected as monthly fixed rates of returns in term deposits of conventional and Islamic banks of Malaysia. The monthly data was collected from the period of January 1994 to December 2012. The results found that Islamic banks' profit rates have a significant relationship with interest rates of conventional banks. It also indicates that Islamic banks' profit rates affected by the activities of conventional banks' interest rates respectively. The finding reveals that there is a gap in theory and practice in Islamic banking, infrastructure lack passivity, and lack of inflexible implementation of regulatory necessities.

Serkan Yuksel (2017) examines the return of Islamic banks on term deposit receipts and conventional banks' interest rates on term deposits receipts rate is the latest & recent topic regarding Islamic banks. They found a correlation between conventional banking and Islamic banking. The banking of conventional is set to be risk-sharing. The main purpose of this study is to check the impact of the long-term and short relation between Conventional banks' term- deposit receipts rates (TDRs) and Islamic banks' term deposit receipt returns TDRs in Turkey. The test is used as a co-integration of Maki tests with multiple breaks and domain of frequency causality tests. According to the results, term deposit receipt returns (TDRs) of Islamic banks are significantly co-integrated with Conventional bank's term deposit receipt, in the end; they found causality between Conventional & Islamic banks. Hamza, H. (2016) investigate the compliance of investment in all term deposit receipt returns concerning profit and loss sharing outstanding principle, this compliance is analyzed through the effect of bank's risk, They use the statistical technique of pooled regression model. The data was collected from sixty Islamic banks over the period 2004 to 2012. The assessment shows that the management of investment deposits and loans are PLS assets characterized by moral behavior and risk. The assessment exposes that ratios related to capital and rate of interest have a positive influence on all deposit returns. Larger Islamic banks provide lower returns on deposit as compared to small Islamic banks as they offer the high return of all deposit.”

Serkan Yuksel (2017) examines Islamic & conventional banks in respect of TDRs returns. The main variables are conventional & Islamic and sub-variables are 1, 3,6,12 month Term deposit receipts. To test the impact on pre & post-crisis. 3 statistical techniques were applied in this study which is; granger causality test, ADF & in the end VAR estimation. The results show insignificant association exists between conventional banking and Islamic banking. The results reveal that Islamic banks do not need to change their sharing percentage of loss and profit based on fixed profit rate. The results also reveal that conventional banks should have to control their profit rate and have no need to change sharing percentage of loss and profit. Meslier-Crouzille (2016) examines the elements of Term deposit receipts rates in interest, which are based on conventional & Islamic banks. The data was collected from twenty countries over the period 2000 to 2014. The results show significant differences among both banks in the behavior of pricing rates. Conventional banking has stronger market power than Islamic banking. In Islamic countries, the results indicate that conventional banks set higher deposit rates but their market power is low. Whereas, conventional banks are subjective by the effectiveness of Islamic banks. The system in Islamic banks is only influenced by their peer in mainly Muslim countries. The finding suggests important implications regarding maintaining competitive advantages and stability in both banking systems.

### Data and Methodology

For this study to determine the association between Islamic Bank TDRs returns to Conventional Bank TDRs returns, the data was collected from 2004 to June 2017. All the information have collected from the concerned authority / Web site of “State Bank of Pakistan (SBP)”, the set of data frequency is half-yearly and it covered from 3-month to 2 Years term deposit receipts returns rate of Islamic Banks & Conventional Banks. For pre crises following data is used to observe the association that exists among Islamic banks and conventional banks' TDRs returns; when TDR's period is less than and equal to three months, above three months and six months, above six months and one year, and above one year and two years. For Post-crisis following data is used to observe the association exists between Islamic bank's and conventional banks' TDRs returns; when TDR's period is less than and equal to three months, above three months and six months, above six months and one year, and one year and two years ( Yuksel, 2017).

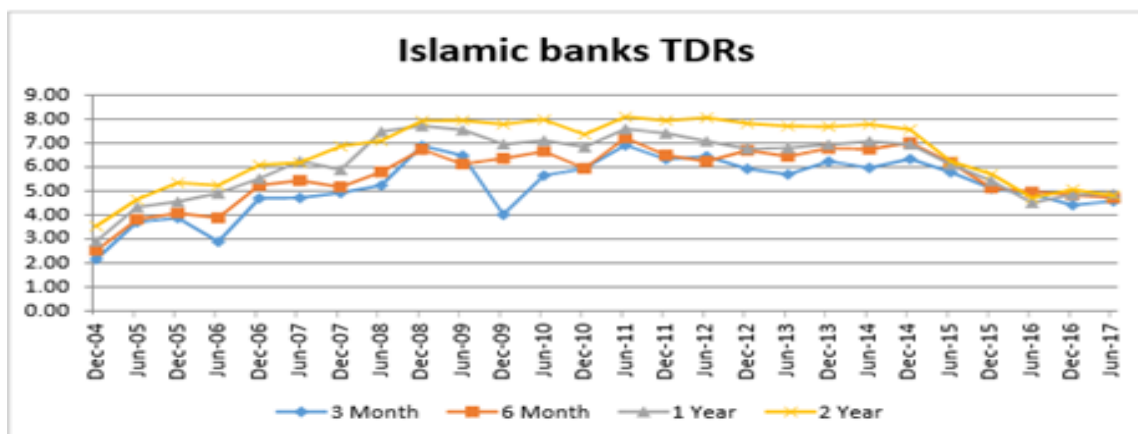
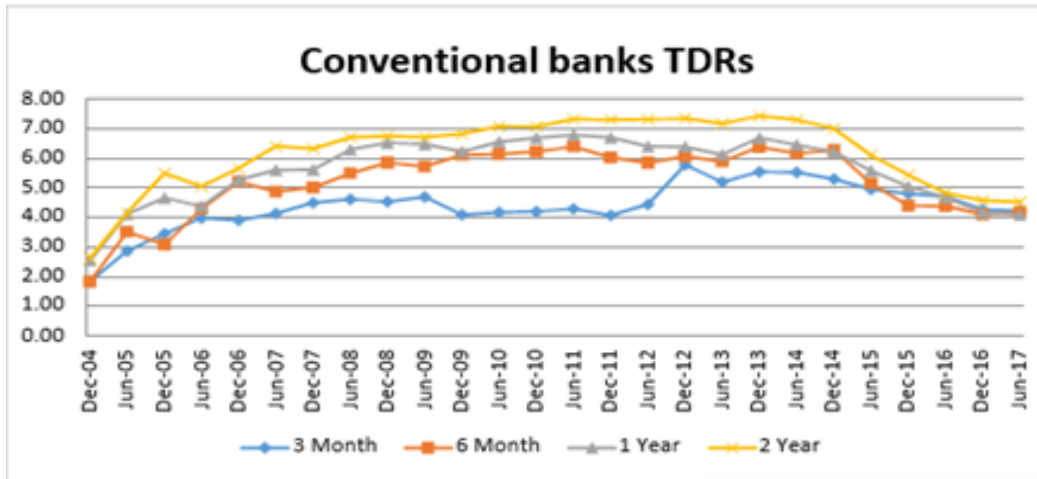


Chart: 3.1 Islamic banks TDRs rate wise half Yearly Position (2004 to 2017)

Chart 3.1 shows that Islamic banking affected by the crisis during the period in December 2009, its profit gradually decrease due to the Kibor Rate of SBP. Yuksel, (2017) investigate the relation between Islamic & conventional banks in respect of TDRs returns, main variables were conventional & Islamic banks, and sub-variables were 1,3,6,12 month Term deposit receipts, the results show that the movement in Islamic bank's TDRs is lower than conventional banks.



**Conventional banks TDRs rate wise half Yearly Position (2004 to 2017)**

Chart 3.2 shows Conventional bank's trend of rate in 3-month TDRs. The results show that traditional banks are more highly affected by the crisis than Islamic banks due to the Kibor Rate of SBP. Three statistical techniques are used for this study, Unit root, Granger causality test, and VAR estimations. ADF, the unit root statistics technique is used to identify stationary or non-stationary data. Non-stationary and stationary criteria are contingent that the p-value of variables at different levels. If the p-value is less than 0.05 then the data is stationary and if the P-value is more than 0.05 then the data is non-stationary. We apply Granger Causality to find out the linkage between conventional and Islamic banking. In 1969, Granger represents a test to determine linkages between different systems such as banking and their Responses to each other. Moreover, banking in Islam is different from conventional banking; results can be predicted as there is no causality between Islamic to conventional banking. However, their profit sharing must not be linked together because conventional banks offered interest rates, which do not offer, by Islamic banking. The model of granger causality is following:

$$TDR_{Islamic_t} = \hat{\alpha} + \hat{\beta}TDR_{Conventional_t} + \hat{\mu}_t \quad (1)$$

$$TDR_{Conventional_t} = \hat{\alpha} + \hat{\beta}TDR_{Islamic_t} + \hat{\mu}_t \quad (2)$$

Where,  $TDR_{Islamic_t}$  And  $TDR_{Conventional_t}$  denotes the TDRs for conventional and Islamic banks and to check causality between these two banks monthly periods of 1-, 3-, 6- and 12-months the test is applied as Granger Causality. After that, the (VAR) model was used to determine the interdependencies amid variables. It has capabilities to easily estimate and

good forecasting in the VAR system is a simple test for Granger non-causality response. VAR model generated impulse response of function to find out the interaction between both banking sectors' TDRs in detail. VAR specifications are defined for 3M, 6M, 1Y, and 2Y periods of maturity as follows.

$$Y_t = \alpha + \beta_1 \times Y_{t-1} + \beta_2 \times Y_{t-2} + \epsilon_t \quad (3)$$

Where  $Y_t = [\text{TDR Conventional } t \text{ TDR Islamic } t]$   $t = 3 \text{ Month, } 6 \text{ months, } 1 \text{ Year, } 2 \text{ Years'}$  maturity periods.  $\alpha$  is constant and it is an error term.

## RESULTS

First, we performed, the Augmented Dickey-Fuller (ADF) unit root statistics technique to identify whether the data is stationary or non-stationary. Initially, the test was applied on the level and then on the first difference of the variables. Results of the unit root summarized in Table I. and III, IV.

**Table I Unit root test Conventional banks and Islamic banks**

	<i>t</i> -Statistic For Level	<i>t</i> -Statistic For First Difference Level	Conventional banks and Islamic banks
<b>ADF Test For Islamic Banks</b>			
3 months	(-2.64)	(-5.55)***	
6 Month	(-1.94)	(-6.34)***	
1 Year	(-2.20)	(-5.48)***	
2 Year	(-1.46)	(-6.22)***	
<b>ADF Test For Conventional Banks</b>			
3 months	(-2.74)	(-5.34)***	<b>Table I Unit root test for both Islamic and Conventional banks</b>
6 Month	(-2.37)	(-7.17)***	
1 Year	(-2.28)	(-5.80)***	
2 Year	(-2.40)	(-4.85)***	
Note: Significance levels: *10%;**5%;***1%			

The results indicate that all TDRs at the level are non-stationary and all TDRs are stationary at first difference. The results imply that the series of TDRs may show a valid long-term association as examine the association between Islamic & conventional banks in respect of TDRs returns, main variable in this paper is conventional & Islamic and sub-variables are 1,3,6,12 month Term deposit receipts (e.g: Yuksel, 2017). At first difference, results show that data are stationary; the results support previous studies' results (e.g Ergec, E., & Kaytanci, B., 2014; Yusoff, M. B., 2013; Yuksel, 2017). ADF unit root technique shows in Tables II and III. The statistics technique of ADF was based on the regression, which has lags stated by the “Akaike Information Criterion” (AIC) where the data represents the outcomes of the stationary analysis. Initially, these tests are applied on the level and then on the first difference of the variables. Results indicate that all TDRs are stationary. Table II and III both confirm, where we divided our collective data into the

periods of pre-crisis & post-crisis. The results at first difference unit root confirm that the data of TDRs is stationary for both banking sectors Islamic and conventional banks.

**Table II & III Unit root test Pre and Post-crisis Conventional banks to Islamic banks**

	<i>t</i> -Statistic For Level	<i>t</i> -Statistic For First Difference Level	
<b>ADF Test For Islamic Banks</b>			<b>Conventional banks and Islamic banks</b>
3 months	(-2.87)	(-3.68)*	
6 Month	(-4.32)*	(-5.34)**	
1 Year	(-3.25)	(-2.49)	
2 Year	(-5.50)**	(-9.09)***	
<b>ADF Test For Conventional Banks</b>			<b>Table II Unit root test for both Islamic and Conventional banks Pre-2008 Crisis</b>
3 months	(-2.84)	(-2.39)	
6 Month	(-3.21)	(-3.14)	
1 Year	(-10.33)***	(-23.26)***	
2 Year	(-3.04)	(-11.74)***	
<b>ADF Test For Islamic Banks Post-2008 Crisis</b>			<b>Table III Unit root test for both Islamic and Conventional banks Post-2008 Crisis</b>
3 months	(-2.48)	(-9.55)***	
6 Month	(-1.87)	(-5.21)***	
1 Year	(-1.48)	(-3.54)*	
2 Year	(-1.31)	(-4.36)**	
<b>ADF Test For Conventional Banks Post-2008 Crisis</b>			
3 months	(-1.33)	(-4.60)**	
6 Month	(-1.80)	(-3.52)**	
1 Year	(-0.9)	(-4.14)**	
2 Year	(-1.80)	(-2.05)	

Note: Significance levels: \*10%;\*\*5%;\*\*\*1%

### Granger Causality analysis

By using the Granger Causality test for this research to find the casual linkages between dependent and independent variables. The results of Convention and Islamic TDRs have summarized in Table IV. The result indicated that there is a bidirectional relationship between 6 Month TDRs of Islamic as well as conventional. For 3 Months, 1 Year, and 2 Years, the results show that there is no causal linkage between them.



**Table IV Test of Granger Causality, Conventional banks and Islamic banks**

Conventional TDRs do not cause Islamic TDRs			Islamic TDRs do not cause Conventional TDRs		Table IV Granger Causality for both Islamic and conventional banks on difference TDRs
Maturity	<i>F</i> Statistic	<i>P</i> Value	<i>F</i> Statistic	<i>P</i> Value	
3 Months	0.5647	0.5778	0.4330	0.6548	
6 Month	2.6612	0.0957	22.1047	0.0000	
1 Year	0.7013	0.5083	1.8706	0.1813	
2 Year	2.1091	0.1489	1.1507	0.3375	

Yuksel, (2017) examines the relation between Islamic & conventional banks in respect of TDRs returns, main variable in this paper is conventional & Islamic and sub-variables are monthly Term deposit receipts. The results of Granger causality show that “Islamic banks don’t granger cause on conventional banks for all of the maturity periods. Before and after crises (2008) results have summarized in Table V & VI. The results show that there is a bidirectional relationship between 1 Year TDRs of Islamic as well as conventional. For 3 Months, 6 Months, and 2 Years, the results show that there is no causal linkage between them. Yuksel, (2017) Granger causality result of pre-crisis 2008 indicates that there is no association between Islamic banks & conventional banks. The outcome of post crises summarized in Table VI. The outcome exhibit that there is a bidirectional relationship between 6-month & 2 Years TDRs of Islamic and conventional banks. For 3 Months and 1 Year, the results show that there are no casual linkages between them. The results support previous studies finding as per the Granger causality result of post-crisis 2008 shows an insignificant association between Islamic banks & conventional banks (e.g. Yuksel, 2017)

**Table V Test of Granger Causality of Pre-crisis Conventional banks and Islamic banks**

Conventional TDRs do not cause Islamic TDRs			Islamic TDRs do not cause Conventional TDRs		Table V Granger Causality tests for both Islamic and conventional banks Pre-2008 crisis
Maturity	<i>F</i> Statistic	<i>P</i> Value	<i>F</i> Statistic	<i>P</i> Value	
3 Months	1.29	0.44	3.97	0.20	
6 Month	3.68	0.21	1.41	0.42	
1 Year	0.97	0.51	17.06	0.06	
2 Year	5.56	0.15	2.10	0.32	

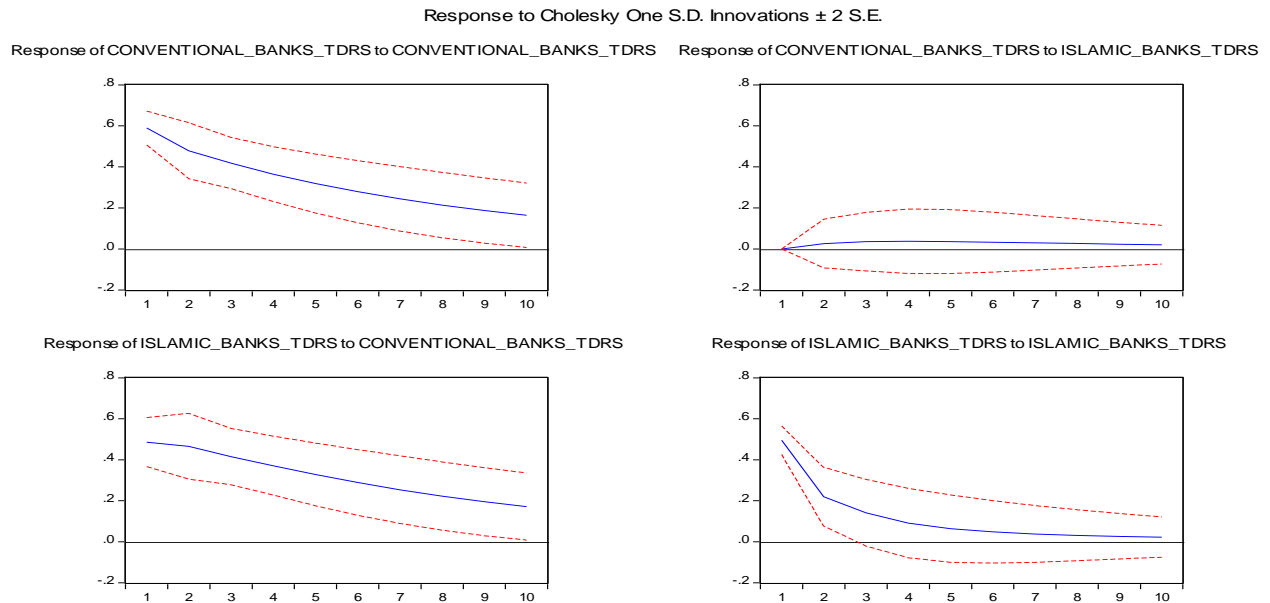
**Table VI Granger Causality test Post-crisis Conventional banks and Islamic banks**

Conventional TDRs do not cause Islamic TDRs			Islamic TDRs do not cause Conventional TDRs		Table VI
Maturity	F Statistics	P Value	F Statistics	P Value	
3 Months	0.50	0.62	0.92	0.43	Granger Causality tests for both Islamic and conventional banks Post-2008 crisis
6 Month	14.36	0.00	2.64	0.12	
1 Year	2.66	0.12	0.51	0.62	
2 Year	5.47	0.02	0.85	0.46	

**VAR Estimation**

The Vector Autoregressive (VAR) regression is one of the most applied tests to find out empirical results. This test has capabilities to easily estimate and good forecast negative or positive responses. The impulse response function is generated from VAR to determine how the variables are associated with each other all the time. We drive the impulse response function from VAR estimation for both pre-crisis and post-crisis 2008 to capture Islamic and Conventional impulse response and to figure out the association between conventional and Islamic banking and changes before crises and after crises. (E.g. Yuksel, 2017)

**Impulse Response Conventional Banks TDRs to Islamic Banks TDRs**



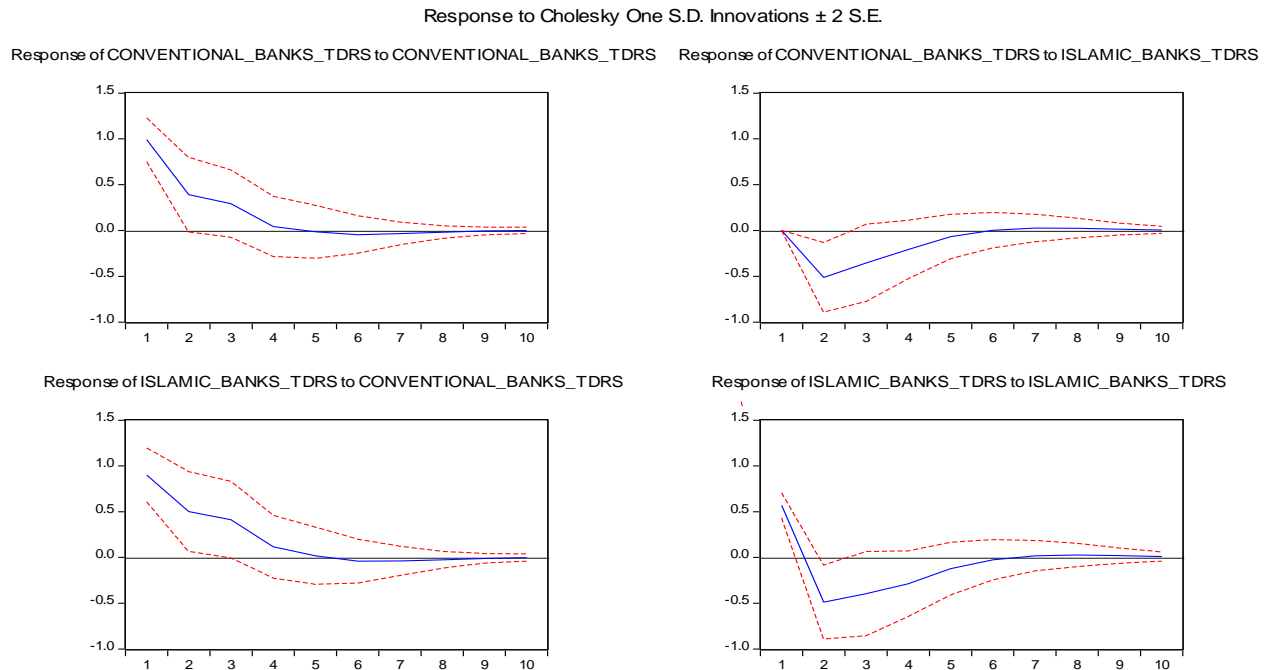
**Figure 4.2.1**

In Figure 4.2.1, plot (b) shows the response of conventional bank’s TDRs to Islamic bank’s TDRs the results show that responses are insignificant over all periods. Plot (c) shows the response of Islamic banks' TDRs to regular banks' TDRs. The finding shows that responses are positive as one-time SD shock increases initially stable until 2<sup>nd</sup> period then

start declining from 3<sup>rd</sup> period to 10<sup>th</sup> periods. The responses from conventional to Islamic banks confirm that there is no significant association between Islamic banks & conventional. (e.g Yuksel, S., & Erturk, M., 2013; Yuksel, 2017).

**Impulse Response Pre-Crisis Conventional Banks TDRs to Islamic Banks TDRs**

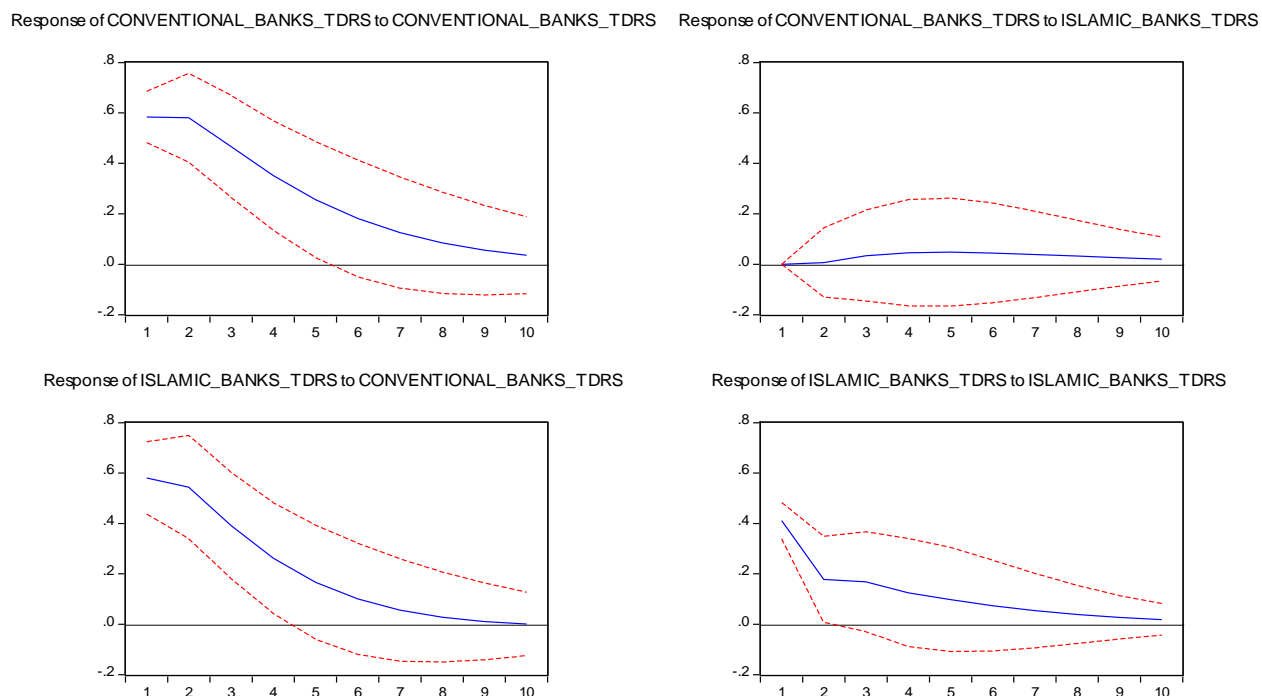
In figure 4.2.2, plot (b) results show the responses of pre-crisis conventional banks TDRs to Islamic banks TDRs. The results show that responses from Conventional bank's TDRs to Islamic banks' TDRs are insignificant over the all period. Plot (c) shows that the responses from Islamic banks TDRs to conventional banks TDRs are positive as one-time SD increases and decline very fast from 2<sup>nd</sup> period and then the response gradually declines at 3 periods and its start insignificant from 4 till 10 periods. Yuksel, (2017) impulse response result for pre-crisis 2008 exhibited an insignificant association between Islamic banks and conventional banks.



**Figure 4.2.2**

**Impulse Response Post-Crisis Conventional Banks TDRs to Islamic Banks TDRs**

Figure 4.2.3; plot (b) shows the responses of conventional banks' TDRs to Islamic banks' TDRs. The results exhibit that responses are insignificant over the period. Plot (c) responses show from Islamic bank's TDRs to conventional banks' TDRs is positive as one-time SD increases initially then gradually decline from 7 periods and after that become insignificant. Yuksel, (2017) found the impulses responses of post-crisis 2008; the finding shows no association between conventional and Islamic banks.



**Figure 4.2.3**

**CONCLUSION**

In this research paper, we are focusing on Islamic & Conventional banking systems as both systems are profitable. Conventional banks meet our financial needs by providing us a platform to invest our funds & get a return on them and borrow with an agreed interest rate. While Islamic banks function under the concept of “Islamic Shariah Law”. Comparatively the main dissimilarity between both banking systems is to avoid the interest rates of Islamic banks. In Islamic banking, transactions are must Gharar free and backed by a real asset, Furthermore Islamic banking does not finance any business whose activities don’t meet with Shariah Principles, such as operating businesses to sell alcoholic beverages, pork products, and tobacco drug products (All harmful products are prohibited as it affects human being health).

In 2008, the world economic crisis crushed the international financial system and badly affected the economy of many countries. In the context of Pakistan, this study highlights the numerous factors that are affecting the efficiency of Islamic & Conventional banks. Previously many researchers study the causality between interest return-based banks and Islamic banks (e.g. Charap, M. J., & Cevik, M. S., 2011; Yuksel, 2017). Moreover, this study is one of the first research to determine the causal association between Islamic banks & Conventional banks, in Term Deposit Receipt rate return of pre-crisis & post-crisis in Pakistan for 3 Months, 6 Months, and 12 Months and 2 Years. Granger causality techniques were used to know the association between conventional and Islamic banking. The results show the bidirectional relationship between 6-month TDRs of Islamic & conventional banks, another period of 3 months, and 12 Months and 2 Years have different casual linkages between Islamic and Conventional Banking. In the context of Pre-crisis 1 year

has a bidirectional relationship but other periods have no direct relationship. Post-crisis 6 months and 2 years have a bidirectional relationship but 3 Months and 1 Year have no direct relationship.

VAR estimation was used to generate the impulses responses and examine the relationship between conventional and Islamic banking. For pre-crisis and post-crisis 2008, results suggest no association or relationship between both banking sectors Islamic and banks of conventional. Thus, results support the hypothesis, as there is no association between both banks. Moreover finding suggest that PLS returns on Islamic banking are not much affected as conventional banking is affected by interest rates. The results reveal that for conventional banking, the structure of Islamic banking could be the source of risk management alternatively. This study helps investors to understand TDR and the benefits of short and long-term investment. This can also be helpful for bankers to make the right decisions. This result is helpful to provide financing structure alternatively for Islamic banking. Moreover, researchers on a daily, weekly, monthly, or quarterly basis to find a strong and more efficient response can conduct further studies. It provides a solution for a better relationship between both banking, Conventional banks and Islamic banks.

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