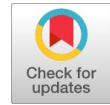


A Technical Recitation on Efficiency of Islamic and Traditional Banking System in Kingdom of Bahrain



Atul Bansal, Aysha Faraj Mohamed Abualroos

Abstract: Banking industry plays a vital role in the for economic development of a country. This research aims at identifying which banking regime proves to be more efficient and its significance using Financial Ratio Analysis (FRA), composed of cost efficiency, revenue efficiency and profit efficiency ratios along with the One-way ANOVA test. The traditional banking system governs the financial sector by dealing with the majority of financial transactions of a country and the existence of Islamic and conventional banks has contributed for the development of the economy. The present study focuses on the comparative analysis of financial performance of Islamic and traditional banks in terms of cost and income in Bahrain. The study uses financial tools like profitability, liquidity and solvency, commitment to economy and community, efficiency and productivity of both streams of banks. The findings indicate that the traditional banking system is superior in terms of cost, revenue and profit efficiencies, furthermore, the results of the multiple regression analysis on the banks' return on assets and return on equity imply that the efficiency of Islamic banks have more influence on their profitability compared to their traditional counterparts. Inflation had minimal effect on the efficiency of both banking system.

Keywords: Islamic banks; Traditional banks; Performance analysis; Ratio analysis; trendanalysis.

I. INTRODUCTION

There is a huge difference in the operational methods in between a Islamic and traditional banks. The rules and regulations of an Islamic Bank is developed based on the Shariah law but in a traditional bank all the relevant rules and regulations are developed based on this guidelines provided by the Central bank of the country such as minimum interest rate, approval of a loan and redemption strategy of the loans (Iqbal & Quibtia, 2017). As the government of Bahrain is paying focus on the expansion of the national economy therefore, both the Islamic banks and traditional banks have to cooperate with each other for contributing in the expansion strategy of the national economy. For the government the banks are the most important mean to supply money in the economy.

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Therefore, the transactions between two banks is also very important to increase the growth rate of the economic development. The following research study will pay focus on the mechanism of transactions used in both banking system in Bahrain.

Significance

As the ideology associated with development of rules and regulations is different in commercial and Islamic bank therefore, there is a lot of issues faced by the customers to transfer or transact money between the commercial and Islamic bank. Therefore, it is very important to make some efficient and effective solutions associated with such issues. The government is also very serious to resolve such issue as it is an important obstacle in the economic development (Iqbal & Quibtia, 2017). This research study will try to collect information through analysing different research sources such as books, journals and previous research to make some effective solutions to resolve such transaction issue.

Statement of Problem

Although, the individuals of Oman are using both types of banking system and both of the bank are used for different purpose and their specialization are different from each other. However, the challenges appear as people do not have much awareness about the difference between the both types of banking system. Subsequently, this study is aimed to address this problem and to crate understanding among the people about the difference in both types of banking.

It is very important for the government of Bahrain to resolve the issue associated with the in the mechanism of transaction between the Islamic bank and traditional bank. Otherwise its will create relevant obstacles in the economic development.

Objectives

The important research objectives associated with this research study are as follows:

- i) To collect information about the different between the Islamic bank and traditional bank
- ii) To collect information about the mechanism of transactions used by both banking systems.
- iii) To assess information about the issues faced by the customers for difference in mechanism of transaction between the banking system of Islamic and commercial.
- iv) To evaluate the support provided by the Islamic bank and traditional bank provided by the each other to resolve the issue
- v) To measure the steps taken by the government to resolve the issues associated with the mechanism of transactions.



Research Questions

The answers of the following research questions will help to get detail information to achieve the research objectives:

- i) What are the differences between the commercial and Islamic bank?
- ii) What is the difference between the mechanism of transactions of the Islamic and traditional bank?
- iii) What are issues faced by the consumers due the mechanism of transactions between the traditional and Islamic bank?
- iv) How both the Islamic and traditional banks support each other to resolve the issues associated with the mechanism of transactions?
- v) How the government provides support each the commercial and Islamic banks in the development of an efficient mechanism of transactions?

Rationale

The main issue associated with the research topic is the mechanism of transactions used by both the commercial and Islamic banks. This is an important issue associated with the economy of BAHRIAN as the ideology associated with the development of operational method in the both banking is different. Therefore, both the banks faced issues in the transactions mode for transferring fund to each other. The difference between the banking systems is an important issue associated with the research study.

II. LITRATURE REVIEW

The chapter associated with literature review will try to conduct a research on the relevant literatures associated with the both baking system to collects detail information about their operational ideology. This literature review also help in collecting information about the mechanism of transactions used by both the both systems of banks. The review of important literatures will also help to collect information about the background of the research topic. The reviews of the relevant literatures are as follows:

Article 1: Evaluation of the traditional banking system

Traditional banks main services to the consumers are delivered in the form of retail banking services. The banks try to provide support in the savings of the people through selling different deposit products such as Fixed deposit, recurring deposits and current deposits. On the other hand, the traditional banks also sale different kinds of investment products such as mutual fund, investment portfolio management, systematic investment planning etc so that the people can get higher return in the long run. The traditional banks also provide different kinds of loan to the people and business organizations for supporting them in their financial crisis (Waemustafa&Sukri, 2016). Due to the development of the information technology the traditional banks also provides the support of Auto teller machine (ATM) so that the consumers can collect the money from anywhere to meet their requirements. This service also helps to decrease wastage of money as people collect cash while the requirements arise. This kind of traditional bank basically ay higher interest rate on the deposits of the people but they also charge higher interest rate on the bank borrowings by the consumers as it is an important source of revenue for the traditional banks. The central bank of the country determines all the important rules and regulations associated with the operational activity of the traditional banks. The central bank of BAHRIAN also provides enough

information about the interest on the deposits and borrowing of the consumers. The Regulatory body and authority also determine the Cash reserve ratio for providing financial security to the traditional banks.

Article 2: Evaluation of the Islamic banking system

The operational and banking system of Islamic bank is completely based on the principles on the teachings of Islam called Shariah. The most important basic principles based on which the operational system of an Islamic bank is develop are as follows:

- i) The bank will share the profits and loss with the consumers and other stakeholders of the society.
- ii) In Islamic sharia it is not allowed to take and give any kind of interest as it is completely prohibited in Islam.

Therefore, the Islamic banks also provides support to the consumers so that they can use the borrowings economically.

The other fundamental principles associated with the Islamic banks are as follows:

- i) The Shariah law is the main system of belief for an Islamic banking system. Therefore. The people associated with the Islamic religion are the most important consumers of the traditional bank.

ii) The support of each other is the main ingredient in the financial relationship between the bank and consumers. In the Islamic banking system, the consumers the relationship with the consumers is not developed based on the principles associated with the debtors and creditors. It is an important reason behind the missing of interest culture among the Islamic banks.

iii) Based on the principles associated with the relationship of the consumers the Islamic banks also include the principles associated with the Musharakah and Mudharabah. The Islamic banks also developed the system of the risk and reward based on the principles associated with the socio-economic condition.

Article 3: Analysis of the differences between the Islamic and traditional bank

Following are some of the factors that helps to understand the difference between the both types of banking systems;

- i) Function and operation: The function and operation is a considerable factor associated with both banking systems and their similarities and contrasts. The modes associated with the functions and operations in an Islamic Bank are developed associated with the principles of Islamic Shariah. Likewise, functions and operational mode in an Islamic bank is developed by the manmade principles.
- ii) The Islamic banks always try to share the risk and reward as a loan provider and as the depositor for the consumers. But the traditional banks put all the burden of risk on the consumers for determining the interest rate on the borrowings.
- iii) The Islamic banks are developing the strategy associated with the maximization of profit through considering the restrictions associated with the Shariah law. But the traditional banks develop the strategies associated with the maximization of profit based on the derivatives trading.

iv) The modern Islamic banking organization also tries to develop the service-oriented functions through introducing the Zakat pay-out system in the banks. The provision of Zakat is not considered by the traditional banks of BAHRIAN.

v) The Islamic banking system is paying focus on the development of partnership with the business loan borrowers. It is a fundamental function of an Islamic bank. For this reason, the organization always try to understand the requirements associated with the venture so that relevancy of the business can be understood. For this procedure the Islamic banks also used the 'know your customer' procedure. Moreover, the traditional banks are responsible only for the approval of loans, recovery of the loan and interest rate associated with the loan. The traditional banks consider the money as a commodity. It also uses the Know your customer procedure for ensuring the borrowings.

Article 4: Evaluation of the Important parties associated with banking transactions

It is very important to understand the participation of the different parties associated with the transaction in a bank. This information will help to understand the mechanism of transaction between the different selected types of banks. The descriptions about all the parties are as follows:

Creditor: The party creditor associated with a transaction is receiving the funds in the transaction process (Walliman, 2017). Therefore, amount will always be credited in the account of creditors. Which the banks provide loan to the consumer than the consumer is the creditor. On the other hand while the consumer deposits cash on the bank than the bank will be a creditor.

Debtor: The debtors in a banking transaction provide funds in the transaction process. Therefore, the account of debtor will be debited in the account of the transaction process. While the banks provide loan to the consumers than the bank will be a debtor on the other hand while the consumer deposits cash in the bank account than the consumer will be debtor in the transaction.

Initial party: The initial party refers to the person and institution who initiate the transactions (Fletcher, 2017). The consumers apply for a loan in a bank than it will be the initial party of banking transaction. On the other hand while bank approach to the consumers to invest in a financial portfolio than the initial party will be the bank.

Accounting relationship: The accounting relationship refers to the procedure in which a bank opens an accounting in the other banking institution. This kind of relationship is developed by the banks for decreasing the complexities of the consumers in transferring funds between in the two different accounts of the different banks.

Article 5: Analysis of mechanism of transactions between Islamic and traditional bank

The important tools associated with the mechanism of transaction associated with the commercial and Islamic banks are as follows:

i) **Clearing house/clearing and settlement mechanism (CSM):** All the banks in the economy of BAHRIAN are regulated by the Central bank of BAHRIAN which centralised institution. Both banking types have to get the approval from the centralised regulatory body to create a direct and indirect relationship with the other banks in the industry. This centralised institution is also known as Clearing house in this mechanism of transaction. They also

have to take the membership from the clearing house. The mechanism associated with the Clearing and settlement mechanism is responsible to provide support in the transition between the Islamic and commercial. The process associated with the calculation of net obligation owes by the bank is known as clearing. The procedure associated with the transfer fund will be not included in this stage. But the clearing house will credited debited the respective amount of fund to the respective account of those banks. The entire procedure will be known as settlement.

ii) **Nostro and Vostro account:** The Nostro and Vostro banking accounts are developed for referring the relationship between the two banks based on their characteristics of the relationship (Kumar, 2019). While a local bank of BAHRIAN holds the accounting relationship with a foreign bank than the relationship will be known as Nostro account for the local bank and Vostro account for the foreign bank. The features and function of the Nostro and Vostro account is same but the account should be viewed by two banks differently.

iii) **Correspondent and correspondent bank:** This institution is developed by the Central bank of BAHRIAN. The main function of this institution is playing the role of a intermediary in transferring funds between the two banks. This institution does not have any kind of direct relationship with the two banks.

iv) **RTGS:** The full form of the RTGS is Real time gross settlement. The function of this mechanism of transaction can be recognizing from its name. This mechanism transfers the fund one bank to another at a real time through eliminating the waiting period for fund transferred from the clearing house to another bank. This mechanism also eliminates the role of clearing house in transferring fund between two banks. This transaction procedure is known as one to one basis (Iqbal & Quibtia, 2017). For this reason, the settlement procedure will be known as Gross settlement. Most of the banks use this mechanism for the high value payment.

v) **NEFT:** The full for of NEFT is National electronic funds transfer. This kind of transaction mechanism is used by corporate institutions and individuals for the low value transaction. In this mechanism the transaction takes two to three hours to be completed after the instruction is made.

Article 6: Analysis of the issues in the transaction of funds between Islamic and traditional bank

As the government of BAHRIAN liberalize the economy for the foreign direct investment therefore, the several international and multinational banks are entering in the economy of BAHRIAN. Therefore, the multinational traditional banks are facing different kinds of issues in the transaction with the Islamic bank of BAHRIAN (Aliyu *et al.* 2017). The main issues faced by those banks are as follows:

i) Lack of information about the transaction process associated with the Islamic bank is an important issue faced by the multinational traditional banks of BAHRIAN (Ahmad *et al.* 2017).

ii) Lack of clarity associated with the rules and regulations of the transactions with the Islamic banks is also a important issues faced by the consumers.

- iii) Difference between the financial products and deposit pater also create issues in the transaction process (Iqbal & Molyneux, 2016).
- iv) Complex framework associated with the Islamic banks also develops different kinds of issues in the transaction process.
- v) The Islamic banks also developed the monetary policy based on the Shariah compliant which also develop different in the mechanism of transaction between the commercial and Islamic banks.
- vi) Due to the consideration of the Shariah law the Islamic banks are also unable to provide proper safety and security associated with the transactions with the traditional bank.
- vi) The regulators are also unable to oblige both types of banks to use asimilar type to mechanism of transactions to decrease the complexities.

Article 7: Analysis of the measures of Government

The government of BAHRIAN tries to empower the central bank enough so that it can make pressure on the both systems to use a same mechanism of transaction to decrease the issues in the transaction process between Islamic bank and traditional bank. On the other hand, The Government of BAHRIAN is also paying focus on the development of a similar type of framework associated with the transaction process to resolve the issues.

The analysis of all the above articles will help to get detail information about the reason behind the difference between the mechanisms of transaction between both types of banking.

III. METHODOLOGY

Philosophy of Research

The research philosophy can be used for interpreting the relevant theories, model and framework associated with the research topic (Walliman, 2017). This study will use the positivism approach for interpreting all the relevant theories associated with the difference between the mechanisms of transactions between both systems. This philosophy will help to discover all the relevant facts associated with the research topic.

Design of research

The design of research used for representing information about the research topic according to the understanding capability of the research users (Fletcher, 2017). This research study has used the descriptive research design.

Approach of Research

This study will use both the deductive and inductive research approach for representing the collected information from both the primary and secondary sources of information.

Data collection method

The study will conduct the primary as well as the secondary method for the collection of information (McCusker&Gunaydin, 2015). In the primary method the research study will collect information through taking interview of the bank managers. The secondary data will be collected from books, journal and previous research paper. To collect the primary data, a questionnaire containing close ended questions is developed which is used to collect data from 70 respondents who are the bank consumers.

Data analysis

The qualitative analysis will be used by the research study to analyse the information collected from the interview of the

managers. On the other hand, the thematic analysis will be used for analysing the information collected from secondary sources.

IV. RESULT & DISCUSSION

Demographic Data results

Gender	Frequency	%	Valid %	Cumulative %
Valid Male	47	63.5	67.1	67.1
Female	23	31.1	32.9	100
Total	70	94.6	100	

Table 1. Gender?

In the above table according to the frequency test of the gender it is conclude that major respondents are male which are 47 in number and 63.5 in % whereas there are only 23 females which are 31.3 in %.

Table 2. Age?

	Frequency	%	Valid %	Cumulative %
Valid 21-30 Yrs	38	51.4	54.3	54.3
31-40 Yrs	18	24.3	25.7	80.0
41-50 Yrs	11	14.9	15.7	95.7
Above 50 Yrs	3	4.1	4.3	100.0
Total	70	94.6	100	

From the aforementioned table, it is found that the majority of the respondents are in the age of 21-30yrs, which are 51.4 in % and 38 in numbers whereas, 18 of the respondents are in the age of 31-40yrs. Adding more, 11 of the respondents are in the age of 41-50yrs whereas 4.1% of the respondents are above 50yrs.

Table 3. Religion?

	Frequency	%	Valid %	Cumulative %
Valid Islam	58	78.4	82.9	82.9
Christianity	5	6.8	7.1	90
Buddhist	1	1.4	1.4	91.4
Hindu	5	6.8	7.1	98.6
Others	1	1.4	1.4	100
Total	70	94.6	100	



From the above table, it is concluded that majority of the respondents are Muslims which are 58 out of 70 in numbers whereas the Christians are 5 in

number, Buddhist is 1 in number, Hindus are 5 in number and others are only 1.

Table 4. Qualification?

	Frequency	%	Valid %	Cumulative %
Under graduate	40	54.1	57.1	57.1
Graduate	13	17.6	18.6	75.7
Post Graduate	13	17.6	18.6	94.3
Others	4	5.4	5.7	100.0
Total	70	94.6	100.0	

The above table shows that the majority of the respondents are under graduate which are 40 in numbers and whose %age is 54.1% whereas 13 respondents are graduate and 13 of them are postgraduate whose %age is 17.6%.

Table 5. What is your Profession?

	Frequency	%	Valid %	Cumulative %
Valid Student	37	50.0	53.6	53.6
Employee	21	28.4	30.4	84.1
Unemployed	4	5.4	5.8	89.9
Business Person	6	8.1	8.7	98.6
Others	1	1.4	1.4	100.0
Total	69	93.2	100.0	

The above table shows that the majority of the respondents are student who are 37 in numbers whereas the number of employees is 21. Adding more, 4 respondents are unemployed and 6 respondents are business person.

Table 6. What is your banking preference?

	Frequency	%	Valid %	Cumulative %
Valid Islamic Banking	54	73.0	84.4	84.4
Traditional banking	10	13.5	15.6	100.0
Total	64	86.5	100.0	

From the above table it is concluded that 54 of the respondents prefer to the Islamic banking whereas 10 of them prefer to the traditional banking.

Research Questions Results and discussion

Table 7. Religion as major motive to use Islamic banks

	Frequency	%	Valid %	Cumulative %
Valid SD	31	41.9	44.3	44.3
D	32	43.2	45.7	90
N	5	6.8	7.1	97.1
A	1	1.4	1.4	98.6
SA	1	1.4	1.4	100
Total	70	94.6	100	

From the aforementioned table it is founded that 12 respondents are SD on the thinking of religion motivate the people to deposit their money at Islamic bank whereas 5 of them are D and majority of the responds are SA on this statement which are 30 in numbers.

Table 8. Customers awareness about Sharia based products and plans?

	Frequency	%	Valid %	Cumulative %
Valid SD	12	16.2	17.1	17.1
D	5	6.8	7.1	24.3
N	14	18.9	20	44.3
A	30	40.5	42.9	87.1
SA	9	12.2	12.9	100
Total	70	94.6	100	

From the above table it is concluded that 31 of the respondents are SD on the sharia-based products whereas, only one respondent is A on this question. Adding more, 32 of the respondents are D and 1 of them is A whereas 1 is N

Table 9. Nor using Riba based banking is better?

	Frequency	%	Valid %	Cumulative %
Valid SD	7	9.5	10.0	10.0
D	5	6.8	7.1	17.1
N	11	14.9	15.7	32.9
A	21	28.4	30.0	62.9
SA	26	35.1	37.1	100.0
Total	70	94.6	100.0	

The above table shows that majority of the respondents, which are 26 in number SA that Islamic bank is better than the western bank whereas 7 of them are SD.

Table 10. Islamic banking does Not invest in industries (Alcohol, Pork and Gambling)?

	Frequency	%	Valid %	Cumulative %
Valid SD	3	4.1	4.3	4.3
D	3	4.1	4.3	8.6
N	10	13.5	14.3	22.9
A	25	33.8	35.7	58.6
SA	29	39.2	41.4	100.0
Total	70	94.6	100.0	

From the aforementioned table it found that the majority of the respondents which are 29 in numbers are SA that the Islamic bank did not invest in the alcohol industries whereas 3 of them are SD.

Table 11 Fixed interest rates are the main attraction of traditional banking?

	Frequency	%	Valid %	Cumulative %
Valid SD	39	52.7	55.7	55.7
D	30	40.5	42.9	98.6
N	1	1.4	1.4	100.0
Total	70	94.6	100.0	

From the above table it is conclude that the majority of the respondents, which are 39 in numbers SD on the fixed interest whereas 30 of them are A on this question.

Table 12. Islamic banks Completely alternative to conventional?

	Frequency	%	Valid %	Cumulative %
Valid SD	7	9.5	10.0	10.0
D	6	8.1	8.6	18.6
N	16	21.6	22.9	41.4
A	28	37.8	40.0	81.4
SA	13	17.6	18.6	100.0
Total	70	94.6	100.0	

The above table shows that the majority of the respondents, whose %age is 37.8% are A on the statement of Islamic banks completely serving as an alternative to the conventional banking system whereas 7 of them are SD.

Table 13. Islamic banks use modern technology

	Frequency	%	Valid %	Cumulative %
Valid SD	5	6.8	7.1	7.1
D	7	9.5	10.0	17.1
N	13	17.6	18.6	35.7
A	32	43.2	45.7	81.4
SA	13	17.6	18.6	100.0
Total	70	94.6	100.0	

The above tables show that the majority of the respondents, which are 32 in number are A that the Islamic banks are using the modern technology whereas the 7 of them are D.

Table 14. Specialized investment management services give advantage to Islamic banking

	Frequency	%	Valid %	Cumulative %
Valid SD	4	5.4	5.7	5.7
D	2	2.7	2.9	8.6
N	12	16.2	17.1	25.7
A	30	40.5	42.9	68.6
SA	22	29.7	31.4	100.0
Total	70	94.6	100.0	

From the above table it is concluded that the majority of the respondents, which are 30 in numbers are A that the Islamic banks are using the specialized services that made people to prefer it to the traditional banks whereas 2 of them are D which are 2.7 in %. Adding more, 22 of them are SA and 4 of them are SD.

Table 15. Loss/Profit rule in partnership is an attraction of Islamic banking?

	Frequency	%	Valid %	Cumulative %
Valid SD	5	6.8	7.1	7.1
D	3	4.1	4.3	11.4
N	18	24.3	25.7	37.1
A	28	37.8	40.0	77.1
SA	16	21.6	22.9	100.0
Total	70	94.6	100.0	

From the above table, it is concluded that the majority of the respondents, which are 28 in numbers and 37.8 in % A that the partnership in case of loss make people to prefer Islamic banking over traditional banking whereas 3 out of 70 are D. Adding more 16 of them are SA whereas 5 of them are SD.

Table 16. To risk free investment is attraction of Traditional banks?

	Frequency	%	Valid %	Cumulative %
Valid SD	18	24.3	25.7	25.7
D	22	29.7	31.4	57.1
N	19	25.7	27.1	84.3
A	7	9.5	10.0	94.3
SA	4	5.4	5.7	100.0
Total	70	94.6	100.0	

From the aforementioned table it is conclude that 22 out of 70 respondents are D on the preference of the traditional banks on the Islamic banking due to risk free investment opportunities whereas 7 of them are A. Adding more 18 of them are SD and 4 of them are SA whereas 19 of them are N.

Reliability Scale test

Table 17. Case Processing Summary

	N	%
Cases Valid	70	94.6
Excluded	4	5.4
Total	74	100.0

Table 18 Reliability Statistics

Cronbach's Alpha	N of Items
.714	10

From the aforementioned table, the research liability method is calculated. The above table shows that the reliability search of the data of 70 peoples is calculated as .714 which concludes that the research is reliable to with the Cronbach's Alpha.



Pearson’s Correlation

With the help of the Pearson’s Correlation analysis the relationship between two variables are measured. In the same way Pearson’s analysis is used to find the relationship between the impact of religion and banking preference.

Table 19 Correlations

		Impact of Religion	Banking Preference
Impact of Religion	Pearson Correlation	1	.238*
	Sig. (2-tailed)		.048
	N	70	70
Banking Preference	Pearson Correlation	.238*	1
	Sig. (2-tailed)	.048	
	N	70	70

The above table shows the relation between the impact of religion and banking preference. The relation between the impacts of religion and banking preference shows a positive result between the variables with the correlation value of .238 with a positive sign.

Table 20 Regression Analysis

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.694	1	.694	5.555	.022 ^b
Residual	7.744	62	.125		
Total	8.438	63			

Table 21 Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.001	.079		12.638	.000
What is your Region	.118	.050	.287	2.357	.022

V. CONCLUSION & RECOMMENDATIONS

Conclusion

From the aforementioned studies, it is concluded that for the government the banks are the most important mean to supply money in the economy. The function and operation are most important factor associated with the difference

between the Islamic and traditional bank. The modes associated with the functions and operations in an Islamic Bank are developed associated with the principles of Islamic Shariah whereas, the traditional banks sale different kinds of investment products such as mutual fund, investment portfolio management, systematic investment planning etc. so that the people can get higher returns in the end. Therefore, the transactions between two banks are also very important to increase the growth rate of the economic development. The individuals are using both of the banks, Islamic banks as well as traditional banks. Although these two-banking systems are widely opposite but the individuals did not know about the mechanism of transaction of commercial and Islamic banks. Therefore, it is concluded that the religion is a considerable of Islamic banking as Muslims are prohibited by Riba and Islamic banking offers riba free banking. Adding more, It is found that Islamic banking as compare to the traditional banking has its own effectiveness and some challenges but people has less awareness about the difference between both baking style. However, still majority of the people in Kingdom of Bahrain prefer Islamic banking style as they believe that according to the Islamic norms and values, Islamic banking gives more protection to their capital as well as it allows people to circulate the money.

There are some other aspects that are found from the research and made us to concluded that Fix interest attracts towards traditional banking. In Islamic banking the ROI is based on profit and loss situation therefore, investors take it as risky and attract towards the traditional banks that offer them fix return on their investment.

It is also concluded that it is based on the perception of the consumers whether they believe in the fact as Islamic banking is an alternative or not because majority of the Muslims in Bahrain who understands the Islamic banking from its depth prefer to use Islamic banking as it free from Riba and they consider it as a complete alternate. At the same time, there are also some Muslims who do not consider Islamic banking as an alternate to traditional banking. It is concluded that in Bahrain integrated technology is being used in Islamic banking that is good sign and it would be effective for them to provide competitive services to the customers in the market.

Specialized investment management services are also regarded as an attractive aspect of Islamic banking and give it an advantage over the traditional banking. In traditional banks every customer is provided a same criterion whereas in the in the Islamic banking specialized investment management services are provided to every customer.

Likewise, in the Islamic banking where a person decided to work with a bank then with his investment, he enters in partnership relation with the bank and the loss and profit ratios is decided on the overall loss/profit of the organizations. In traditional banking the customers receive fix interest rates from the bank as they do not concern about the organizational profit and loss. However, in this regards people feels that there is low risk in traditional banking and high risk in Islamic banking but at the same time, with high risk, the profit is also high in Islamic banking.

Recommendations

From this research, it is found that both types of banking are popular in Kingdom of Bahrain however, majority of the people do not have a better understanding about the actual variance between the two-banking system. Subsequently, to improve the practices within the Islamic banking following are some of the recommendations;

- The concerning thing about the Islamic banking is unawareness about the concept therefore, banking organizations and other concern authorities should start program to develop proper awareness among the people about the purpose and working system of Islamic banking.
- Following this, majority of the people do not have a clear understanding of services and products offer by the Islamic banks, therefore, there is need to provide detail information to the people about the products.
- Islamic banks need to openly talk with the customers to describe them about the difference between the both types banking practices as well as the people should be explained about how loss and benefits linked with the Islamic banking. Majority of the people has a misconception that Islamic banking has more risk but they do not realise that in this banking style bank also share profit in the same way based on the organizational profit.

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