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Conventional Banking vs Islamic Banking; A Financial Overview

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ABSTRACT

This paper examines Islamic financial items and deciphers them with regards to monetary intermediation hypothesis. Recounted proof shows that many the regular items can be redrafted as Sharia-agreeable items, so the distinctions are tiny. Looking at conventional and Islamic banks and controlling for other bank and nation attributes, we track down not many critical contrasts in business direction, productivity, resource quality, or steadiness. While Islamic banks appear to be more practical than ordinary conventional banks in a wide cross-country test, this tracking down turns around in an example of nations with both Islamic and regular banks. Notwithstanding, customary banks that work in nations with a higher piece of the pie of Islamic banks are more financially savvy yet less steady. There is likewise reliable proof of higher capitalization of Islamic banks and this capital pad in addition to higher liquidity holds make sense of the moderately better presentation of Islamic banks during the new emergency. Islamic banks contrast in huge ways from traditional banks like Islamic banks keep up with higher resource quality contrasted with ordinary banking. The comparison of some financial ratios and efficiency of both kinds of banks is also done to check which kind of banking is better in which segment.

INTRODUCTION

Traditional banks are being chipped at from all sides by new-age fintech rivals, who are methodically eroding the protective walls built up by incumbents over the last century. These upstart digital banking innovation challengers are posing a threat to the banking and wider financial industries in a variety of sectors, including payments, cash, lending, money transfer, investment management, and lending. When it comes to banking, there exists two different world within banking. One is Conventional banking system that works like any other banking system and the other one is Islamic banking that operates from the ideology of Islam religion different from conventional banking not focusing on money creation.

Islamic banking refers to a banking system that follows the Shariat. Money has no intrinsic value in Islam; hence it can't be sold for a profit and can only be used according to Shariat. The Islamic Law, also known as Shariat, forbids paying a fee for renting money (known as riba) for a certain period of time. It also forbids any investment in businesses that are considered haraam or contrary to Islamic beliefs. These concepts are widely thought to have been drawn from the Quran and have been in use since then. Islamic finance is a method of managing money that adheres to Islamic moral precepts. It includes topics such as saving, investing, and borrowing to purchase a home.

(BOE, 2022)

Conventional banking is more advanced banking system based on full-fledged intermediary model that lends borrowers to suppliers and then loans to companies or individuals. They provide marginal interest rates between loan rates and loans. They provide banking services such as credit cards and guarantees. They derive some of their profits from chap budgets that are received through demand deposits. Conventional banks are prohibited from trading, and their asserts are heavily restricted to a small portion of their net worth. For conventional bank financing activities, they are mainly based on interest. Conventional banks essentially pay their customers if they pay more to the bank. It focuses on money creation.

When it comes to choosing a bank, we have a lot of options, which can be very perplexing. This research paper will go over the factors to consider when selecting a bank, the services that banks provide, and the security precautions that you may take to secure your money and what are the differences between Islamic and Conventional banking systems.

History of Islamic banking and Conventional banking

ISLAMIC BANKING: The first successful example of an Islamic Bank was perhaps a financial institution called Tabung Haji in Malaysia which originally came into being due to high demand of interest-free money for pilgrimage (Hajj) since this was not possible by way of conventional banking system. Thus, in 1963 Tabung Haji came into being with a total of 1,281 depositors which increased to 8,67,220 depositors and with deposits over one billion Malaysian dollars. This paved the way for creation of more Islamic banks especially in Egypt where small scale Islamic Banks existed in the 1960s, catering primarily to the rural areas. The success of these banks led to the formation of the Naseer Social Bank in Cairo in the year 1972. In the same decade an International Islamic Bank for Trade and Development was proposed, which led to the creation of Islamic Development Bank with a view to promote economic development of the Muslim community in accordance with the *Shariat* laws.

CONVENTIONAL BANKING: the history of conventional banking is divided in four eras;

60's Pre-Nationalization: many privately owned banks dominated the market. These banks were sponsored by large business houses that used these banks for their own funding needs. Their scope of operation was restricted to major urban cities.

70's Nationalization: all conventional banks were nationalized in 1974. 15 privately owned banks were nationalized that politically motivated heavy lending aggravated the risk and earning scenario of commercial banks.

80's post Nationalization: foreign banks consolidated their position in market at the expense of inefficient nationalized banks. Profit and loss sharing schemes were introduced. Leasing and investment banks entered the market.

90's deregulation: private sector was allowed to enter banking business. Prudential regulations were introduced. The ceiling was replaced by CDR, later got abolished. Foreign and private sector banks started emphasizing on retail banking.

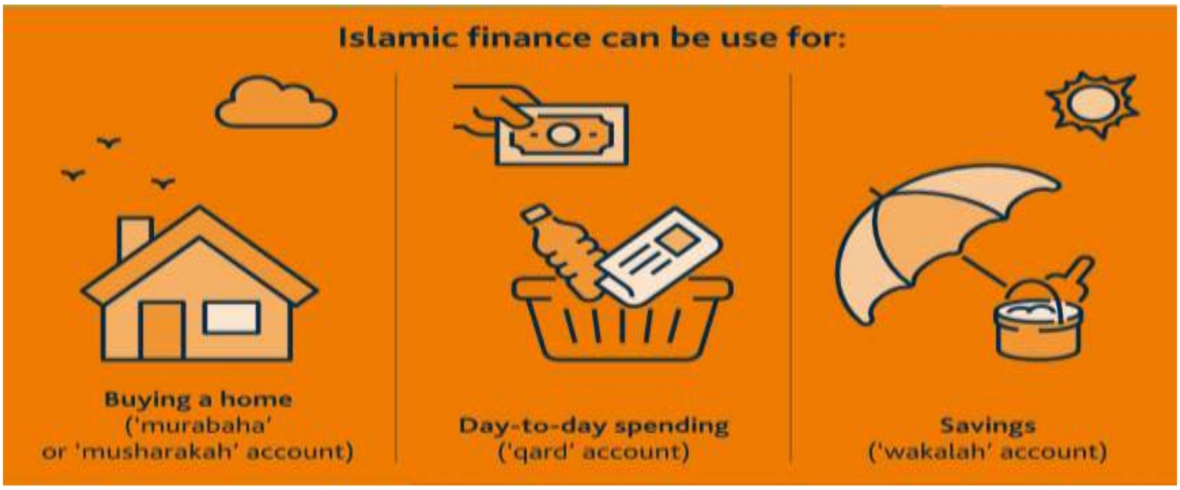
Comparative study between Islamic and Conventional banking

Conventional Banking	Islamic Banking
Money is a product besides medium of exchange and store of value	Real Asset is a product Money is just a medium of exchange
Time value is the basis for charging interest on capital	Profit on exchange of goods & services is the basis for earning profit
The expanded money in the money market without backing the real assets, result deficit financing	Balance budget is the outcome of no expansion of money
Interest is charged even in case, the organization suffers losses. Thus no concept of sharing loss	Loss is shared when the organization suffers loss

While disbursing cash finance, running finance or working capital finance, no agreement for exchange of goods & services is made	The execution of agreement for the exchange of good & services is must, while disbursing funds under Salam & Istisna contracts
Due to non-existence of goods & services behind the money while disbursing funds, the expansion of money takes place, which creates inflation	Due to existence of goods & services no expansion of money takes place and thus no inflation is created
Due to inflation the entrepreneur increases prices of his goods & services, due to incorporating inflationary effect into cost of product	Due to control over inflation, no extra price is charged by the entrepreneur
Bridge financing and long term loans lending is not made on the basis of existence of capital goods	Musharakah & Diminishing Musharakah agreements are made after making sure the existence of capital goods before disbursing funds for a capital project
Real growth of wealth does not take place, as the money remains in few hands	Real growth in the wealth of the people of the society takes place, due to multiplier effect and real wealth goes into the ownership of lot of hands
Due to failure of the projects the loan is written off as it becomes non-performing loan	Due to failure of the project, the management of the organization can be taken over to hand over to a better management
Debts financing gets the advantage of leverage for an enterprise, due to interest expense as deductible items form taxable profit	Sharing profits in case of Mudarabah and sharing in the organization of business venture in case of Musharakah, provides extra tax to federal Government. This leads to minimize the tax burden over salaried persons.
In leasing ownership has been transferred and start and the risk and reward bear by the client.	In Islamic banking leasing, ownership remains with bank and risk and reward bear by the bank as owner of asset.
In conventional banking, fixed rate of interest being given to depositors.	In Islamic banking, profit are distributed out of profit earning by bank for the month as per decided weightages.

Working of Islamic and Conventional Banks

ISLAMIC BANKING: A Shari'ah-consistent current record doesn't pay interest. All things being equal, as a trade-off for having prepared admittance to your cash, the deposit you give the bank is utilized as a premium free advance. This credit is known as a 'qard'. On the off chance that you open a bank account, the bank will put away the cash you store. Yet, they will not put it in whatever the Shari'ah says is destructive. The bank will pay you a player in any benefit they acquire. Contingent upon what is put resources into and how the benefit is turned out, this may be known as a 'wakalah' (where the bank goes about as your representative) or a 'murabahah' (where a bank purchases and exchanges wares to procure a benefit). With regards to purchasing a home, there are a few options in contrast to a conventional home loan. In one sort of understanding, the bank can straightforwardly purchase the property you need. Then they offer it to you at a benefit and let you take care of it in portions. This is additionally called a 'murabaha' contract (since they are purchasing the property and offering it to you at a benefit). Or then again you can purchase the property together with a bank, in what the future held (organization) contract. Then over the long run you steadily pay the bank for its portion of the property. In the two cases, the bank charges you extra to take care of their expenses and to mirror the reality you're living in a property they halfway own.



(BOE, 2022)

LITERATURE REVIEW

(Hanif, 2014) said that Islamic banking isn't always as overseas to enterprise global as it's far perceived through positive quarters. It is an enterprise very similar to traditional banking inside positive regulations imposed through Islamic regulation. All enterprise desires are being fulfilled through IFIs in green approaches via Murabaha, Ijarah, Bai Muajjal, Bai Salam, Istisna`a, Musharaka and Mudaraba.

(Sadoghi, 2018) said that the primary goal of an Islamic bank is to promote and foster Islamic ideals. This implies that Islamic finance operates within the confines of the law. Following specific guidelines, Islamic rules framework. First, Islamic banks are unable to deliver funding for a banned conduct according to Islamic law regardless of its economic and financial viability. Banking has a pure financial intermediation model, whereby banks mainly borrow from savers and then lend to enterprises or individuals. They make their profit from the margin between the borrowing and lending rates of interest. Islamic banks, in the other hand, earn their money by profit and loss sharing, trading, leasing, charging fees for services rendered, and using other Islamic contracts of exchange.

(Abdul Rafay, 2000) said that Islamic finance is neither based on religion nor intended for a certain group of people. Islamic finance has been resurgent since the mid-twentieth century, owing to Muslims' effort to reclaim freedom from colonial oppressors, and it has now expanded with passion and vigour to every corner of the globe. Because of a growing awareness of the flaws that exist in conventional banking and a growing interest in Islamic finance, Islamic finance continues to be important not only inside Islamic communities, but also globally. Islamic banking exists within the fundamental tenets of a capitalist economy, employing the current system to achieve its primary goal of providing an asset-backed and interest-free financial system.

(Beck T, 2013) The role of the banking sector as a financial intermediary that is part of a financial institution cannot be easily ignored as it leads to stable economic growth and development. Traditional and Islamic banks are looking to increase productivity considering their contributions to economic growth and sustainability. The Islamic banking system plays a similar role, but it is a little different from the traditional banking system. Islamic banks are considered an alternative option in providing banking goods and services in accordance with Islamic (Shariah) principles.

(Asma Salman, 2018) compared traditional Islamic banks in the Gulf Cooperation Council area. The result shows that Islamic banks are more profitable than traditional banks. Islamic banks are more creditworthy and are less exposed to the cyclical nature of the rate of return on capital. However, this does not provide a correct outlook for future strategies, as the main reason for the high rate of return is that Muslims depositing money in banks do not want to profit from their savings.

(Ariss, 2010) said that the profitability of Islamic banks and traditional banks around the world was compared by an examiner Ariss, who sampled banks from 13 countries around the world. The paper concludes that Islamic banks have high credit (portfolio) risk because their asset base consists primarily of loans and prepaid payments, but there is no significant difference in the profitability of the two types of banks. That is, Islamic banks are no longer profitable than traditional banks. The reason for this may be that Islamic banks are still in the evolutionary stage and have not yet reached their full potential. The study concludes that Islamic banks are more resilient to financial crises around the world because they invest in real assets rather than financial assets because of the law that they cannot sell what they do not own.

According to the findings by (Dennis Olson, 2008), the accounting statistics is beneficial now no longer handiest withinside the advanced economies however additionally withinside the growing ones. The ratios for each style of banks found out nearly the same outcomes and that is apparent because each kind of banks perform withinside the identical monetary environment. Secondly the banking guidelines are identical for each. But the operational traits of each kind of banking systems are different. So, the outcomes imply that the Islamic banks are greater worthwhile than the traditional banks, however they're much less efficient.

(Metwally, 1997) conducted a study to determine the differences in characteristics between Islamic banks and traditional banks and performed a ratio analysis on data collected from a sample of 15 Islamic banks and 15 traditional banks. The results suggest that Islamic banks are more liquid because they have a higher cash-to-deposit ratio than traditional banks. Statistics show that there is no difference in profitability and efficiency between Islamic banks and traditional banks.

(M. Abdul-Majid, 2009) said that the output distance function method was used to analyse the input and output data generated by this input from the bank between 1996 and 2002 by Abdul Majid. The inputs were equity, deposits and operating expenses, and the outputs were loans and other income investments. A sample of banks from 10 countries was selected. The results show that Islamic banks have an output that is 12.7% lower than the given input. The authors speculate that this lack of efficiency is not due to poor management, but the Islamic banks having to operate according to Shariah's principles.

(Iqbal, 2001) compared Islamic banking performance with traditional banking control groups and analysed data from 1990-1998 using trend and ratio analysis techniques. Samples of 12 Islamic banks and 12 traditional banks were extracted from the same country (mainly the Middle East). It turns out that the growth rate of Islamic banks is shrinking as the industry matures in later years. However, this is noteworthy because the growth rate is still 10% per year, and the statistical base year for measuring the growth rate increases over time and the growth rate declines. If the ratio data of both types of banks are compared and the ratio value is consistent with the Islamic bank's international benchmark, the Islamic bank's profitability is high.

(Anoop Mohanty, 2014) said that Islamic merchants were essential middlemen for commerce and business activity. Not only are there Islamic merchants, but Islamic banking has had principles, strategies, and instruments for a long time, but it was only in the 1980s that it became a fully complete system. All prior mentions of mercantile activity were made in the context of an "interest-free" regime. By 2050, the Muslim population is estimated to be over 2.6 billion, accounting for approximately 26% of the projected global population of 10 billion. As a result, every fourth person in the twenty-first century will be Muslim, wanting to explore the potential of an economic system based on Islamic Shariah regulations, which prohibit interest (Riba). The current study focuses on the introduction of Islamic banking in India, as it is in other non-Muslim countries around the world.

According to the study conducted by (Kharisya Ayu effendi, 2017), in both Islamic and conventional banks, the FEXP variable (financial expansion) indicates the presence of a considerable influence on the bank's liquidity risk. This is in accordance with the findings of Shaikh, who found that FEXP had a considerable negative impact on liquidity risk. In both Islamic and traditional banks, credit risk has a positive and considerable influence on liquidity risk.

(K, 2016) said that Islamic banks are here to stay, and there are indications that they will develop and expand in the future. Even if one does not agree with the Islamic prohibition on interest-bearing institutions, Islamic banking may contain some novel concepts that could bring variety to the existing financial network. Islamic banking's rapid expansion in poor nations has been accompanied by claims that it is more resilient to financial crises than traditional banking. During financial panics, Islamic bank branches grant more loans and that their lending decisions are less responsive to changes in deposits.

(Nor Hayati Ahmad, 1998) conveyed that the major goal of this research by Ahmed and Haron was to see if certain traditional bank profitability ideas could be applied to Islamic banks. While several independent factors, such as capital adequacy ratio, liquidity, interest rates, and money supply, had comparable effects on Islamic banks, there were variances that might be used to show that Islamic banks are different from conventional banks. Surprisingly, evidence was discovered to support the risk-aversion theory, but it was difficult to verify the presence of the efficient-structure theory and the expenditure preference theory in Islamic banks.

(Thorsten Beck, 2013)found that there are minimal significant variations in business orientation between conventional and Islamic banks. However, there is evidence that Islamic banks are less cost-effective, but that they have a greater intermediation ratio, better asset quality, and are better funded. Differences between conventional and Islamic banks shows significant cross-country variance. In addition, Islamic banks are better funded, have superior asset quality, and are less prone to disintermediate during crises. The stronger capitalization and asset quality of listed Islamic banks contributed to their improved stock performance throughout the current financial crisis.

DATA AND RESEARCH METHODOLOGY

Since our research is secondary research, we have taken secondary data from existing research papers available online through google scholers, research gate etc. We have also contacted certain bank officials in order to know the insights of how significant is the presence of Islamic banking in India and where exactly it stands in the Indian market. Since our research is secondary research therefore we haven't took any sampling method in our research work. Our research paper will be explanatory research type as it explains us the comparative study between the two banking systems, Descriptive so as to describe the characteristics of a population too answer a wide what, when, and how questions pertaining to choice of choosing in Islamic and Conventional bank and Qualitative research as it is related to the qualitative aspect of both the banking system i.e. how they work, how are they indifferent, what is society's perception etc.

ANALYSIS AND INTERPRETATION

Analysis

To analyse the profitability and the results of Islamic and conventional banks, it is better to compare them in the region where Islamic banks have been established and have gained some popularity. Therefore, we have compared the ratios and other elements of both the banks in Saudi Arabia.

(i). ROA (return on assets)

The following table shows the ROA of twelve Saudi Arabian banks. Al Rajhi Bank, Samba Financial Group, and Saudi British Bank all have satisfactory return on assets, according to the data. It reflects Saudi Arabia's banking industry's strong operational performance. AlJazira (1.37), Saudi Investment Bank (1.42), Alawwal Bank (1.50), Bank Albilad (1.59), and Arab National Bank (1.76) have lower earning potential than the Saudi banking industry average (1.85). Riydh Bank (1.85), Banque Saudi Fransi (1.87), Saudi British Bank (2.32), Samba Financial Group (2.26), Al Rajhi Bank (2.47), and National Commercial Bank (2.14) all outperform the Saudi banking industry's average performance. The ROA ratio of Islamic banks is 50% (2 out of 4) lower than the total banking sector's average. Only 25% (2 out of 8) of conventional banks have a worse ROA ratio than the banking industry. Al Rajhi Bank, Samba Financial Group, and Saudi British Bank use their resources optimally and generate superior returns, according to the average ranking of annual ROA ratios.

Years	Bank AlJazira	Al Rajhi Bank	Bank Albilad	Alinma Bank	National Commercial Bank	Riydh Bank	Saudi Investment Bank	Alawwal Bank	Banque Saudi Fransi	Saudi British Bank	Arab National Bank	Samba Financial Group
	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio
2014	0.86	2.22	1.91	1.56	1.99	1.84	1.53	1.88	1.86	2.27	1.75	2.3
2015	2.03	2.26	1.54	1.66	2.02	1.5	1.42	1.87	2.2	2.31	1.74	2.22
2016	1.31	2.39	1.5	1.43	2.11	1.86	1.12	1.01	1.73	2.09	1.68	2.16
2017	1.26	2.66	1.49	1.75	2.21	2.01	1.5	1.34	1.83	2.11	1.76	2.21
2018	1.37	2.82	1.51	2.07	2.35	2.05	1.52	1.38	1.74	2.82	1.86	2.4
Average performance	1.37	2.47	1.59	1.7	2.14	1.85	1.42	1.5	1.87	2.32	1.76	2.26
Ranks	12	1	9	8	4	6	11	10	5	2	7	3
Average	1.78 (Islamic banks)				1.89 (Conventional banks)							
Average	1.68 (All banks)											

(ii). ROE (return on equity)

The following table shows the ROE of twelve Saudi Arabian banks. The table reveals that Al Rajhi Bank's, National Commercial Bank's, and Saudi British Bank's return on equity (ROE) is satisfactory, indicating good returns for shareholders. Alinma Bank's (8.90), Bank AlJazira's (11.21), Riyadh Bank's (11.01), and Saudi Investment Bank's (10.33) owners' returns are below the Saudi banking industry's average ROE. Alawwal Bank (12.00), Banque Saudi Fransi (12.28), and Samba Financial Group (12.39) all have returns on equity that are close to the Saudi banking industry's average. Al Rajhi Bank (16.96), National Commercial Bank (16.76), Saudi British Bank (14.26), and Bank Albilad (12.92) all outperform the Saudi banking industry's average (12.66). Islamic banks have a lower ROE ratio than the overall sector average of 50% (2 out of 4), while conventional banks have a lower ROE ratio of roughly 62 percent (5 out of 8) than the overall sector average. Al Rajhi Bank, National Commercial Bank, and Saudi British Bank deliver greater yearly returns to their shareholders, according to the average ranking of annual ROEs.

Years	Bank AlJazira	Al Rajhi Bank	Bank Albilad	Alinma Bank	National Commercial Bank	Riydh Bank	Saudi Investment Bank	Alawwal Bank	Banque Saudi Fransi	Saudi British Bank	Arab National Bank	Samba Financial Group
	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio	Ratio
2014	9.3	16.32	14.67	7.05	19.14	11.1	12.12	16.95	13.29	16.36	13.96	12.9
2015	17.36	15.29	12.24	8.01	16.78	9.15	11.04	16.82	14.69	15.37	13.54	12.95
2016	10.76	15.64	11.09	7.83	15.86	10.72	7.77	8.28	11.82	12.45	12.28	11.72
2017	9.71	16.36	12.41	9.77	15.55	11.27	9.88	9.82	11.16	11.86	12.42	11.26
2018	8.9	21.21	14.18	11.82	16.48	12.82	10.85	8.16	10.45	15.24	12.51	13.1
Average performance	11.21	16.96	12.92	8.9	16.76	11.01	10.33	12	12.28	14.26	12.94	12.39
Ranks	9	1	5	12	2	10	11	8	7	3	4	6
Average	12.49 (Islamic banks)				12.74 (Conventional banks)							
Average	12.66 (All banks)											

(iii). Efficiency analysis

Data Envelopment Analysis is used to obtain the efficiency scores of Saudi Arabia's twelve banks. Deposits and capital are the inputs, and revenue is the result. Only Al Rajhi (25 percent of total Islamic banks) has a higher efficiency score than the overall industry average, while four of the eight conventional banks, namely National Commercial Bank, Saudi Investment Bank, Arab National Bank, and Samba Financial Group (50 percent of total conventional banks), have a higher efficiency score than the overall industry average. Furthermore, just two out of four banks had a 100 percent efficiency score in the study's previous year (that is, 2018), while six out of eight banks received a 100 percent efficiency score.

Years	Bank AlJazira	Al Rajhi Bank	Bank Albilad	Alinma Bank	National Commercial Bank	Riydh Bank	Saudi Investment Bank	Alawwal Bank	Banque Saudi Fransi	Saudi British Bank	Arab National Bank	Samba Financial Group
2014	44.50%	76.20%	100%	76.20%	88.30%	86.10%	100%	100%	87.10%	100%	94.40%	100%
2015	100%	79.40%	79.40%	80.30%	92.70%	71.90%	90.40%	96%	100%	82.40%	93%	93.70%
2016	67.70%	85.10%	81.30%	66.70%	95.10%	91.90%	72.80%	52.60%	87%	75.90%	89.40%	89.60%
2017	66.60%	95.30%	80.40%	80.90%	100%	100%	93.90%	72%	87.50%	77.50%	94.70%	92%
2018	73.20%	100%	85.70%	100%	100%	100%	100%	73.90%	81.90%	100%	100%	100%
5 year average	70.40%	87.20%	85.36%	80.82%	95.22%	89.98%	91.42%	78.90%	88.70%	87.16%	94.30%	95.06%
Ranks	12	7	9	10	1	5	4	11	6	8	3	2
Average	80.95% (Islamic banks)				90.09% (Conventional banks)							
Average	87.04% (All banks)											

(iv). Bank ranking

When the banks are analyzed in terms of broad categories of Islamic and conventional banks (as shown in the table below), conventional banks have a higher composite score (5.79) than Islamic banks (7.92). According to ROA and ROE study, Al Rajhi Bank, Saudi British Bank, and National Commercial Bank exhibit great performance, whereas Bank AlJazira, Saudi Investment Bank, and Alinma Bank exhibit poor performance. According to ROA and ROE analyses, there is a difference in bank performance. Because the difference between profit before tax and total assets is included in ROA, and the difference between profit after tax and shareholder funds is included in ROE, there is a discrepancy. Excessive taxes, interest expenses, and external liabilities in banks' balance sheets are the cause of the proportionate difference between ROA and ROE. According to a ratio analysis of Saudi Arabia banks, Al Rajhi, Saudi British Bank, and National Commercial Bank have the best results, while Saudi Investment Bank, Alinma Bank, and Alawwal Bank have the worst results. The performance scores of AlRajhi Bank among Islamic banks and Saudi Investment Bank and Saudi British Bank among conventional banks are vastly different. Al Rajhi Bank is top in terms of ROA and ROE, but seventh in terms of DEA. In terms of ROA and ROE, Saudi Investment Bank is ranked eleventh,but fourth in terms of DEA.

Name	ROA	ROE	DEA	Average rank
Bank AlJazira	12	9	12	11
Al Rajhi Bank	1	1	7	3
Bank Albilad	9	5	9	7.67
Alinma Bank	8	12	10	10
Overall average for Islamic banks				7.92
National Commercial Bank	4	2	1	2.33
Riyadh Bank	6	10	5	7
Saudi Investment Bank	11	11	4	8.67
Alawwal Bank	10	8	11	9.67
Banque Saudi Fransi	5	7	6	6
Saudi British Bank	2	3	8	4.33
Arab National Bank	7	4	3	4.67
Samba Financial Group	3	6	2	3.67
Overall average for conventional banks				5.79

(v). Rank correlation

The difference in ranks between ratios and DEA reveals two unique cases. First, Saudi Investment Bank, which is ranked fourth in the DEA, uses its deposits properly to receive advances and create income on those advances delivered to its beneficiaries. However, the bank's total assets are not being efficiently utilised, as it ranks 11th in terms of ROA and ROE. Meanwhile, Al Rajhi Bank makes good utilisation of its total assets, ranking first in ROA and ROE, but the return on inputs like equity capital and deposits is less than ideal. A bank's ROA performance indicates how well it returns on its total assets. A higher return on equity capital signifies a higher return on investment. More income from equity capital and deposits equals better DEA performance. Furthermore, using Spearman's rank correlation coefficient, an attempt was made to correlate the ranks of ROA, ROE, and DEA. Because ROA and ROE are accounting measures of comparable nature, the high degree of significant positive correlation (0.692) between them is to be expected. The ranks of ROA and ROE, on the other hand, have no significant link with the ranks of DEA. Furthermore, this validates the use of two performance measurement techniques (ratios and efficiency). This would provide a more complete picture of the bank's performance.

Correlations			Rank ROA	Rank ROE	Rank DEA
Spearman's Rho	Rank ROA	Correlation coefficient	1.0	0.692**	0.462
		Sig. (1-tailed)	0.0	0.006	0.065
		N	12	12	12
	Rank ROE	Correlation coefficient	0.692**	1.0	0.329
		Sig. (1-tailed)	0.006	0.0	0.148
		N	12	12.0	12.0
	Rank DEA	Correlation coefficient	0.462	0.329	1
		Sig. (1-tailed)	0.065	0.148	0.0
		N	12	12	12

Interpretation

According to the findings, mainstream banks perform better than Islamic banks. According to the current analysis, conventional banks outperform Islamic banks in terms of return on assets (ROA). Islamic banks, on the other hand, outperform conventional banks in terms of return on equity. Furthermore, the DEA findings reveal that traditional banks are more efficient than Islamic banks. The findings indicate that AlJazira, Saudi Investment Bank, and Alawwal Bank must raise net income, reduce fund blockage, reduce operational expenses, and invest more funds in successful options in order to increase ROE. Riyadh Bank, Saudi Investment Bank, and AlJazira Bank should aim to boost their net income by cutting costs and managing funds from less expensive sources. In terms of ROE, these banks have done poorly. Islamic banks, such as Bank AlJazira and Alinma Bank, must reduce their interest expenses by managing money from lower-cost sources or issuing shares to boost their financial performance. However, a bank's tax responsibility cannot be reduced, and banks will have to issue shares to manage their monetary requirements in the future. Furthermore, to improve net profit, Al Rajhi Bank must use its deposits or available money to profitably distribute funds as loans and advances.

CONCLUSION

The two types of baking systems, Islamic and traditional, are fundamentally different. As a result, the purpose of this research is to determine which of the two systems is best for banks. The study is unique in that it combines two methods for assessing bank performance: financial ratios and efficiency analysis. Financial ratios such as ROA and ROE have produced contradictory results, although DEA efficiency analysis shows that conventional banks are more efficient than Islamic banks. Finally, according to the report, Islamic banks should issue more shares and invest their funds in productive projects. The report also recommends combining several metrics to evaluate bank performance.

Both Islamic and traditional banking systems share the same purpose, while using different lending and borrowing procedures. The findings reveal that Islamic banks are better at managing their returns on equity, while conventional banks are better at preserving efficiency; as a result, both banking systems can benefit from each other. Islamic banks can learn from conventional banks in terms of asset management because they are more experienced and widespread. Conventional banks can offer Islamic banking products to people who are interested, perhaps expanding their customer base. This may lead to a greater diversification of financial services, which will benefit everyone in the long run.

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