

## QUALITATIVE STUDY ON LIQUIDITY MANAGEMENT PROCESS FOR ISLAMIC BANKS OF PAKISTAN

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ARTICLE INFO	ABSTRACT
<p><i>Article History:</i> Received: 10 Apr 2019 Revised: 21 Nov 2019 Accepted: 20 Jan 2020 Available Online: 31 Mar 2020</p> <hr/> <p><i>Keywords:</i> Islamic Banks, Liquidity, Risk Analysis, Qualitative study, Pakistan.</p> <hr/> <p><i>JEL Classification:</i> G21, G23, G33.</p>	<p><i>Purpose:</i> This is a qualitative research that gives an insight into liquidity management process of Islamic banks and exploring banker's perspective in Pakistan. Interviews were used as a research instrument through which bankers were gotten some information about products, services and liquidity services proffered by banks, practices of liquidity management, structural support in liquidity management, SBP job in liquidity management and advertising system to draw in depositors.</p> <p><i>Design/Methodology/Approach:</i> There were 15 interviews conducted with the bankers from Islamic Banks, analyzed through thematic analysis, indicating that Islamic banks have growing potential in the market. Considering deposits as significant perspective in liquidity management of banking sector different advertising related viewpoints were watched</p> <p><i>Findings:</i> It was perceived that Islamic banks are experiencing laudable growth and customer attraction. Reason being the notion that the Islamic banks are shariah compliant, presence of muftis in its shariah board, fluctuating profit rates and the manner in which it is gone before. While other critic that calculations are based on KIBOR and elements of interest still exists even in Islamic banks. Implications/Originality/Value: Furthermore, conventional marketing procedures were also practiced by Islamic banks such as advanced media or print, door-door marketing, reference use, depending on word-of-mouth and product and service improvement, difference in opinion is due to unsatisfactory guidance by Islamic Banks to their customers.</p>

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### 1. INTRODUCTION

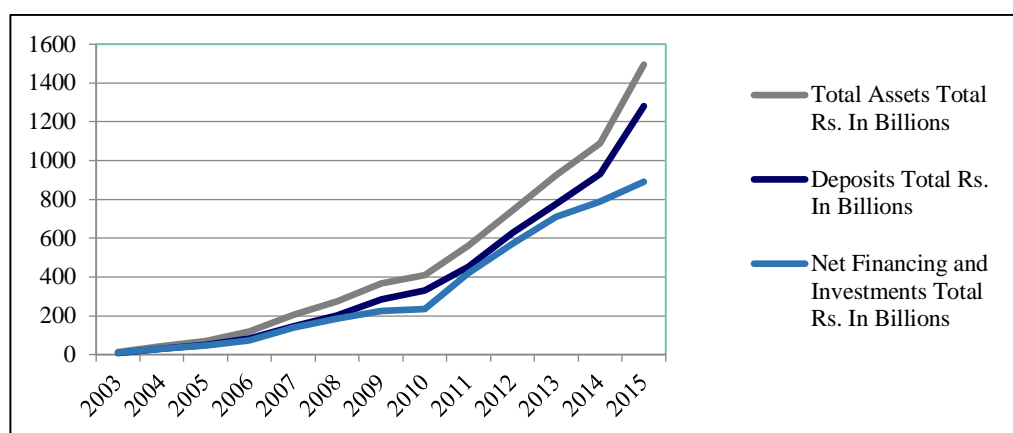
Mindful of SBP policy, Saeed (2011) argued that Pakistan has a sophisticated and independent Islamic Bank branches facilitating potential investments and fund managements of clients. SBP's report (2011–12) states that there are 574 sophisticated and 300 independent Islamic bank branches across Pakistan. From 2003-2015 Islamic banking industry (IBI) experienced growth propulsion. Asset raised from 1% to 11.3%, deposits raised from 1% to 12.8% and investment and financing of IBI raised from 1% to 10.2% during 2003 to 2015.

Years	Total Assets		Deposits		Net Financing & Investments	
	Total Rs. In Billions	Share of IBI %	Total Rs. In Billions	Share of IBI %	Total Rs. In Billions	Share of IBI %
2003	13	1	8	1	10	1
2004	44	2	30	1	30	1
2005	71	2	50	2	48	2
2006	119	3	84	3	73	2
2007	206	4	147	4	138	4
2008	276	5	202	5	186	4
2009	366	6	283	6	226	5
2010	411	6.1	330	6.4	236	4.6
2011	560	7.3	452	7.6	420	7.0
2012	742	8.1	628	9.3	571	7.8

Years	Total Assets		Deposits		Net Financing & Investments	
	Total Rs. In Billions	Share of IBI %	Total Rs. In Billions	Share of IBI %	Total Rs. In Billions	Share of IBI %
2013	926	9.5	775	10.1	711	9.1
2014	1089	9.8	932	10.6	789	9.6
2015	1495	11.3	1281	12.8	891	10.2

Islamic banking bulletin 2003-2015

Robust liquidity risk management needs to be accompanied due to rapid industrial growth (Ismal, 2010).



The Islamic banking and finance front failed to achieve its desired results in early 1980's because of slow development pace. Islam is vital in socio-political and economic environment and this concept was overlooked when Islamic banking and finance system was introduced, which resulted in losing its core competence as Islamic bank cannot work independently of Islam. This research is gone for dissecting the procedure of liquidity management and liquidity risks for Islamic banks. Risks can be overseen through assets and liabilities on the balance sheet. The primary target of research is to examine liquidity management process of Islamic banks from Islamic bankers for designing a liquidity management process.

## 2. LIQUIDITY MANAGEMENT ISSUES IN ISLAMIC BANKS:

The reason for this examination is to give point by point understanding into liquidity management process and bank managers perspective. It is analyzed through semi structured interviews of Islamic bank managers. Managers had some information about liquidity management practices, products and services offered by banks, SBP job in liquidity management, structural support in liquidity management and advertising system for pulling in depositors.

### 2.1 Liquidity Management Practices

Initially the bankers were asked about liquidity concept. They related it with deposits, balancing cash inflows and outflows, attracting customers and financial crunch. Cash inflow and outflow balance and deposits remained the major focus (Akkizidis & Khandelwal, 2008). As one banker explained:

*Liquidity is routine based. The routinely cash flow received in is the form of current and savings account. Similarly, term deposits are also there. When customers ask, we are obligated to return it back. So, we keep cash inflows and outflows.*

It demonstrates that liquidity is portrayed as inflows in deposit form in current and saving account or as outflows in the form of term-deposits (Fiedler, 2000). More the inflow of cash better the bank's liquidity condition as clarified hereunder.

*Liquidity is the cash investors' deposits. We maintain, book that to state bank or we invest somewhere. This is a work of policy making if a customer demands money prior to the predetermined tenure.*

Not all of the deposits should be used in making profits or fulfilling state bank requirements. The bank has to maintain appropriate levels of cash to meet customers cash demand because more cash kept means low profitability

of bank's while less cash retained, in terms of cash-out may lead towards liquidity crunch and public's trust deficit. This is shown in the accompanying words.

*On the off chance that financial crunch occurs, or monetary strain comes, freeze is made; individuals surge to their banks to request their cash.*

Day-to-day cash demand of their customers can only be fulfilled if either banks maintain cash reserves at hand or bring more deposits. From banker's perspective 'liquidity is the thing that investors bring to us.' It was eminent that pulling in more clients and being progressively mainstream in the business is viewed as useful for the bank's liquidity. Following point was made:

*In Europe, Islamic banking is advancing ... and is ending up increasingly prominent ... just couple of banks are doing only conventional banking. Summit Bank, Samba Bank, Askari Bank, almost all banks are conducting some sort of Islamic banking. Which implies that our kin is taking note of it and the Islamic banks liquidity position is showing signs of improvement.*

Along these lines, liquidity is keeping up a harmony between cash outflows and inflows of banks. such that, cash request of the clients is met effortlessly, bank's benefits are not bargained and bringing deposits and drawing in new clients is mulled over as imperative.

## **2.2 Regulators and liquidity management**

The bankers had some information about cash reserves they will undoubtedly keep with SBP. It was told that capital requirement allows bank to start operation while hold prerequisites are set to demoralize the risky behavior of banks (Akhtar & Ahmed, 2011). One banker portrayed it as:

*The SBP requirements are to be maintained. State bank needs to guarantee that banks increment their capital, in this unique situation they give a diagram that you need to open various branches.*

Noncompliance of reserve requirements results in stern action from SBP as expressed by one of the managers.

*You are examined and there are shock checks. State bank checks whether there is misusing of things. The remittances or foreign currency you get are discussed with them on a month to month premise, since they need to keep up your books, so's the means by which working is finished.*

The state bank likewise demands penalties on non-compliance with the necessities as shown by a banker.

*Leverage is there for the time being, bursting the balloon will result in certain penalties.*

This shows SBP stringent control on banks, where the banks are not permitted to endorse credits beyond a limits to guarantee liquidity certifications of the banks. SBP have expanded reserve and capital requirement after some period. A banker expressed that:

*Conventional banks capital requirement expanded from 10 billion to 12 billion, while requirement of Islamic bank is 5 to 6 bn ... State bank likewise guided Islamic banks to advance their banking.*

Hence, the sign is that SBP is advancing Islamic banking because of low capital requirement and branches. Another banker related to this by stating

*To get a license base point of reserves is 6 billion in Islamic banks and there is no restriction on least branches up till now.*

According to a banker, currently SBP is issuing Islamic banking licenses only. All of this indicates that in Pakistan, Islamic banks branch and capital requirements are permissive and minimum. Regulators have a critical influence on Pakistan's banking sector's liquidity management and this is applicable to both conventional and Islamic banks.

This piece of the examination gives a knowledge into Pakistan's Islamic banks liquidity management procedure. Formal and casual instruments were examined. It was pointed that there are predetermined reserve proportions which banks have, which they need to agree to, and that there are automatic teller machine (ATM) necessities of respective branch. Additionally, it was likewise shown that branches can't keep additional money; money is dispatched to the head office every day. Branches estimate their money necessities on an experience basis and overabundance money isn't held with the branch. This method is entirely pursued as one banker clarified.

*On the off chance that we get any installment late in light of the fact that there is a settled time for shipment as in the event that it comes by 4:00, they take shipment of money at 4:00 and after 4:00 if any cash is deposited by client, we take it. We endeavor to send that also however on the off chance that the vehicle isn't accessible we keep it and we need to safeguard that independently. It then is dispatched following day.*

Along these lines, every bank endeavors to streamline cash on a formally, where regularly surplus cash is dispatched to the head office. At that point there are sure casual approaches to oversee liquidity of the bank. For instance, real clients are urged to imply ahead of time for cash required, cash payments are debilitated, and check-based payments are supported, a superior association with the client is produced so as to predict their cash requirements ahead of time and promoting staff is urged to acquire more deposits (Affinito, 2012). Such casual ways are cited by Islamic bankers in the accompanying examples.

*Generally huge clients educate us a couple of days sooner how much cash they need to withdraw. Thus, we at that point can deal with this ahead of time so they don't confront any issue when they come to take the cash.*

In this way, real clients give the bank notification ahead of time on the off chance that they require hard cash and the bank can, mastermind the cash. Correspondingly, better customer service and close intimacy is kept up with clients (Munir and Lodhi, 2015), so bankers may have the capacity to more readily evaluate their cash requirements ahead of time. It was demonstrated that:

*Our association with the clients is of such a nature, to the point that we know when they need, we have ideas ahead of time. So, incase they have to withdraw an installment we have it and we need to keep up the branch deposit level by then.*

A banker went ahead in this specific circumstance and repeated that:

*Give him service, you have to know every little thing about him, what his specialist or attorney thinks about him. On the off chance that the client shares things that he doesn't impart to his wife other than that, he should confide in you.*

The key of enhancing consumer base was providing better service (Munir and Lodhi, 2015) and having liquidity as a banker expressed.

*We offer services bringing about increment in our cash base. So, we center around services or on our, associates, companions, relatives or verbal. Through them we increment our liquidity base.*

To enhance liquidity position, Islamic banks endeavor to adjust the inflows and outflows. Cash is kept up based on experience or requirements, for example a banker proposed a necessity for ATMs of Rs two million and cash necessity with bank depend on past encounter or practice. It was demonstrated that:

*For every day clients we have a thought based on past encounter on who might withdraw what sum, which implies that we know the day by day prerequisite. So, we can deal with that.*

In Islamic banks of Pakistan, a cozy relationship is kept up with clients and liquidity is overseen in a casual way (Affinito, 2012). Additionally, certain policy safeguards are there to oversee liquidity. These measures are identified with clients who have put their cash in time deposits or individuals with a foreign currency account. Execution of the penalty on premature withdrawals of time deposits is one of these measures. In Islam, penalty is viewed as illegal, so penalty amount isn't taken as banks income (Obaidullah, 2005); instead it is treated as philanthropy. Administrators in such manner expressed that:

*Individuals with fixed deposits are accused of penalty on premature encashment. On the off chance that you have set up for 6% rate for a year, and on next month client requests cash for an immediate payment, at that point we relieve it; on the off chance that he was offered 6% rate, which moves down to 2%. So, clients feel that misfortune is brought about and possibly that much benefit couldn't be determined from that point, so abandon it (withdrawal).*

It was illustrated that a penalty is essential under SBP bearings and for early withdrawals, the customer is actually 'breaking the contract' resulting in consequences. The measure of penalty is donated to a charity. One banker stated,

*Some people who leave early, need to pay a penalty, yet in Islamic banks where such penalty emerges under the headings of SBP, it is given to philanthropy.*

There are additionally liquidity issues relating to foreign currency accounts. As indicated by tenets of SBP, foreign currency can't be kept or stored in a bank in an overabundance amount. The foreign currency accounts are to be accommodated with the state count on a month to month premise. As a banker remarked,

*There is a certain limit for foreign currency. For foreign currency it is based on accessibility. We don't give required money promptly ... the client needs to educate us two days before withdrawal if the sum is huge. What's more, extensive amount means it could be 10,000 dollars.*

Along these lines, liquidity management on time deposits and foreign currency accounts is progressively stringent. The client first demands cash, the cash is arranged and paid to the client (Gentili, 2013). These things are

overseen based on strategies which are now pervasive in the market. It was likewise worried by the managers that withdrawals from time deposit accounts are arbitrary, clients don't withdraw the sum if there should be an occurrence of crisis. One of the Islamic bankers proposed that,

*The agreement isn't broken except if he has some urgent need. Client pauses; regardless of whether he has need of cash, some time is overseen then he holds up until the maturity to encash it.*

Thus, Islamic banks working in Pakistan has no undirected cash requirements. Liquidity problems can be tackled through certain means. Like other branches or banks can help in arranging cash when in need, bankers seek more deposits from the open market when liquidity is lower. Such steps are also taken internationally (Duygan-Bump, 2013). A banker in this regard stated that,

In this manner, there are no indiscriminate money prerequisites for the Islamic banks working in Pakistan. There is crisis which intends to handle liquidity problems. Like when in need money, could be organized from different branches and banks, Lower liquidity additionally constrain the bankers to look for more open market deposits. These measures are likewise taken internationally (Duygan-Bump, 2013). One banker in such manner expressed that,

*For instance, you are a client with the limit of 10 billion. 4 billion have already been spent, a major request arises and you need to utilize that 6 billion also. We are on 50 billion and on the off chance that you utilize that we would be on 56 billion, so we would surge towards our customers for deposits regardless of whether it is somewhat costly. So, we see our liquidity issue this way.*

Banks have both short-term and long-run viewpoint from liquidity management perspective. They have formal and casual systems to manage liquidity-related issues. There are additionally crisis instruments which could be used in exceptional circumstances like taking cash from the market or from the investors. A few bankers expressed that banks could settle on share or bond issues, while in need, as demonstrated in the accompanying articulation of an Islamic banker.

*In the event that banks are confronting liquidity issues, they go for IPOs or issue bonds.*

This occurs in uncommon circumstances, the greater part of the banks is substantial in size or have solid depositors, so it may be more uncertain that these banks will have some genuine liquidity issue (Qureshi and Sheik, 2012). An Islamic banker likewise shown this by saying,

*Generally, in Islamic banking an account, strong gatherings included, not having capital prerequisite issues. For the most part you see Askari, Dubai Islamic bank, Faysal bank, UBL, Alfalah and ABL require cash. They have resources in trillions. Along these lines, there are no liquidity issues.*

In conclusion, bankers additionally demonstrated certain issues that make it difficult for them to deal with their liquidity; these issues were identified with exceptional rivalry in the market (Hafeez and Muhammad, 2012) and another variety of duties exacted by the Government. They expressed that,

*The biggest problem in market is Tax related, it was not demanded previously, individuals have begun withdrawing their money and began investing into properties and lockers, 5000 and 10,000 bonds and notes disappeared from the market. Property has expanded on the grounds that individuals imagine that they ought to put resources into property as they are getting nothing and making good on government taxes... Those having 10 accounts currently has 5 and before long will be 2 accounts. What I find later on there will be five to six major banks in Pakistan, the remaining would be converged with them. Since rivalry is getting extreme, client is making requests since he realizes that if this bank would not agree another bank would.*

So, one might say that not just a viable formal liquidity risk management framework is set up in Islamic banks of Pakistan, yet additionally there are casual systems that guarantee that banks don't confront liquidity-related issues. Indeed, even SBP has a stringent risk management technique in such manner and the client inclination to move to Islamic banks, includes liquidity in the Islamic banks of Pakistan.

### **2.3 Bank structure**

Bankers were explicitly asked with respect to whether formal risk management division is in place. The respondents showed that the division existed, however the focal point of the office was more using some loan risk evaluations. A banker expressed that

*Each bank has a risk department to alleviate risks identified with deposits and financing. Branch readies the case, we will do your 'know your customer', we will see your wellspring of salary in the wake of seeing your profit. So initially we will do your pre-checking and on the off chance that you are qualified, it goes to the risk department.*



Moving forward, it was likewise uncovered that Shariah board additionally coordinates banks in regard to investment or financing as per Islamic standards, as one banker featured: *Shariah board forbids investment or finance in un-Islamic thing. Credit examination of numerous cases are not endorsed on the premise that they are un-Islamic.*

Despite the fact that interruption of Shariah board does not directly affect the bank's liquidity management, it by implication limits Islamic banks from putting resources into specific securities and organizations. Gambling and speculation are considered anti-Islamic (Salamon, 2015); therefore, banks can't put resources into risky ventures, the loss of which could cause issues on its cash flows. Islamic banks can't put resources into debt-based choices and can't charge interest, which makes cash flows increasingly certain; Islamic banks contribute for the most part on a profit-and-loss premise which is generally uncertain (Basov and Bhatti, 2014). Pakistan's hierarchical structure of Islamic banks is likewise strong of risk management where not just a formal department exists for the management of risk yet a Shariah board keeps the bank from putting resources into high-risk choices (Wardhany and Arshad, 2012).

## 2.4 Marketing

Marketing, an imperative part of the Pakistan's banking money industry. Successful marketing results in aggregation of deposits which are a noteworthy part of any bank's liquidity management procedure. So different parts of marketing were looked for from the bankers and their reactions are talked about in this area. The examination of the qualitative information demonstrated that Islamic banks basically use the Islamic picture of their bank as a separating factor, because of which a client is pulled in towards these banks (Awan and Bukarik, 2011). Aside from that, conventional market tools are likewise utilized. These parts of marketing of Islamic banks are featured in the upcoming discussion.

*Above all else, the reaction of the bankers featured ways that banks are shifting to Islamic banking. One banker clarified that,*

*Each bank has opened an Islamic division since clients are moving towards Islamic banks. Basically, when you are showing signs of improvement you will pick that. See it is mentioned in the Quran that interest is prohibited.*

Conventional banks are additionally shifting towards Islamic banking in order to exploit the chance of Islamic banking demand. As being an Islamic nation, Supreme Court of Pakistan's Shariah bench has passed decision to change over banking system based on Islamic principles as quickly as time permits (Ali, 2015). One of the banker in such manner iterated that,

*In the ongoing past, Islamic banking idea has developed. The time will come, inside a couple of more years, banking would change over into Islamic. Reaction is great. Individuals who have tasted interest, are not shunning it. What's more, individuals who need mindfulness, whenever told, are quickly constrained to settle on it (Islamic banking). Presently SBP is just issuing Islamic licenses. You will witness that all banks are opening Islamic divisions. Bank Al-Habib, HBL, MCB, National bank all have done it. They are shifting towards Islamic banking. In Pakistan, the biggest Islamic bank is Meezan trailed by us.*

The development of Islamic banking in this setting is praiseworthy, over 10 years, seeing development over its conventional partners (Najaf and Ashraf, 2016). As indicated by one banker,

*Islamic banking was on 2% then 6% and now over the most recent couple of years it has caught banking sector market share relatively 30%. Individuals are going and depositing their sums. Customer base is enhancing; individuals are getting educated.*

The greatest competitive advantage of the Islamic banks over conventional banks is that they work under Islamic custom and fit in with Islamic standards. Individuals are consequently pulled in towards Islamic banking. This was demonstrated by a banker:

*Fundamentally, clients are as of now persuaded that when we have a superior option, for what reason should we go for that. 'Mufti Saab' who has pronounced 'Fatwa' is dependable. Along these lines, the obligation on clients' head is dispensed with as they have picked the better.*

Along these lines, individuals are increasingly satisfying with Islamic banking because of its consistency with Islamic belief system and standards (Khattak, 2010). One banker clarifies that it is a "minds peace" of Islamic banking which draws in a client. The banker noticed,

*People have peace of mind due to Islamic principles. If there are some imperfection in the products, the rate is not competitive, or we are charging more, even then response is good.*

Bankers likewise attempt to take advantage of this factor and they explain the contrast between Islamic and conventional banks and endeavor to find individuals who would go for the current account, as these accounts are interest-free. Islamic bankers attempt to persuade such clients in the way depicted below,

*You meet such a significant number of individuals who believe that because they have a current account in a conventional bank, they are not paying interest. In reality, this is the target market. We tried how effective our item is on these individuals. When we met them, we persuaded them that because of them, conventional banking is advancing more. Since somebody who deposits a sum in a conventional bank and gets interest, he at least harm, by giving the cash saying that you acquire it and are advancing conventional banking. Along these lines, we were also effective for this target market.*

All things considered, Islam is the fundamental factor that pulls in individuals for Islamic banks (Khattak, 2010). Indeed, even conventional banks have understood this, and they are also trying to extend their business in the Islamic section. Clients naturally are pulled in towards Islamic banks. This system is satisfying individuals and in Pakistan Islamic banks are spreading. A banker finished up on a last note on the system of Islamic banking,

*We do purely Islamic banking, is our market strategy, we endeavor to clarify our items which are planned as per the Islamic standards. Our methodology is, we tell people that when we talk about haram and halal, similar things are accessible.*

The fundamental methodology of Islamic banks is to make the name Islamic or use picture of Islamic bank to pull in individuals. This fascination results in a superior customer base, guaranteeing more deposits in banks and are increasingly fluid. Secondly, Islamic banks also use conventional marketing tools and systems to advance their items and administrations. They have a sales marketing office, as well as use conventional marketing instruments. This was featured by bankers in the accompanying words,

*In Banking there is a sales marketing department, which is exclusively in charge of advancements of the items and administrations, especially those which are unique in relation to other people. It pulls in clients and afterward they have increased business.*

The bankers also perceived the estimation of conventional media marketing and expressed that,

*Featured things are sold. There is a sales and marketing department and then there is electronic media and other tools which they use for marketing.*

Islamic banks, due to competition are forced to use these conventional market instruments like digital, print and other mediums. A methodology well known in the Islamic banking sector is to utilize coordinate marketing, where a client is reached specifically and is convinced to avail the Islamic banks services (Kamarulzaman and Madun, 2013). One of the bankers met expressed that,

*You have to go to door-door to make individuals mindful and afterward the craving to be religious, when we contact that, individuals unquestionably get pulled in towards us.*

Bankers also featured the direct marketing need in the time of rivalry and expressed that,

*Each player has its own share. Investment banks mutual funds are also there. Along these lines, one client is being contacted by 50 individuals.*

One banker compared client and "pampered kid" who expects door to door services. One banker clarified the requirement for individual relations or reference in the accompanying words,

*As marketing staff. We are on the risk side. The better and more grounded the referral, the more useful it is. This is the reason each bank has employed many marketing individuals for progress. Indeed, even banks like HBL and National banks are doing it. As funds are relation-based, now client acts like a spoiled child and expect door-to-door services. The staff ensures that clients don't confront any bother. In the event that I have a superior association with you. You don't have anything to do with bank. The more fulfilled you are with the bank, else you'll move.*

The significance of references and individual links couldn't be undermined as references guarantee achievement of deposit creation (Awan and Bukhari, 2011). The trust is essential (Amin et al., 2013). Islamic banks are new, clients for the most part have a larger amount of trust in conventional banks because of age and monetary quality. It was called attention to that Islamic banks could enhance the services and draw more clients,

*Client does not see whether it is conventional, Islamic or of government bank, it will remain. In this manner, customer goes to them. We don't have that dimension of branch network nor the products and we can't quote those rates. Customers need services in those banks, we offer them and by this we increment our cash base.*

More customers are lured in, through better service (Hafeez and Muhammad, 2012) and keep up a superior liquidity position. In the banking segment product development is also attempted to be critical, as one banker iterated that,

*In strategy, services come first followed by products. We are building appealing products. Products are entirely the equivalent, there is a tad variety.*

In conclusion, better the products and services, better the reputation of the bank; as current customers give positive feedback about the bank to the rest and in this manner the customer foundation of the bank increments. A respondent featured that,

*The essential thing is word of mouth. Generally, you visit a client and furnish him with data. The client is instructed, he researches, at that point things are talked about with you, at that point he explain other individuals. As compared with marketing or promotion, word of mouth is more powerful, it is smarter to select verbal.*

In this way, it could be contended that Islamic banks utilize multifaceted marketing (Kamarulzaman and Madun, 2013), the principle center is around the Islamic picture of the banks for customers fascination. Furthermore, other conventional marketing systems, similar to formal marketing division and staff, guide door-to-door marketing, personal relations, media marketing, referrals, product development and verbal exchange are utilized to expand deposit base of the Islamic banks (Kamarulzaman and Madun, 2013). The fundamental competitive edge of Islamic banks is their Islamic picture (Osasman et al., 2015). Yet, there are issues as to the Islamic picture of the banks. A few people imagine that Islamic banking is only a hidden type of conventional banking. The accompanying segment gives investigation of these two perspectives.

## 2.5 Islamic image of Islamic banks

There has been steaming discussion on the idea of Islamic banks. There are individuals who feel that Islamic banks are Islamic while others oppose this idea. This piece of investigation gives the reactions of the bankers in such manner.

*Fluctuating nature of profits, procedure and the job of Muftis are the reasons for those in favor of Islamic banks. Distinction is, in conventional banks, amount received is fixed in deposit account, yet Islamic bank depends on profit and loss, amount varies.*

Thus, the amount of profit depends on profits earned on different investments by a bank (Hassan et al., 2013). Interest then again is fixed in conventional banks, which is prohibited in Islam. Other difference is in Islamic banks transaction are performed differently. For example, one banker clarified that the cash deposited in a conventional bank cannot be used by the bank and acts as a Amanat, while Islamic banks cash could be used further for any business. The other separation is clarified as,

*Banking is indistinguishable (Islamic or conventional). An ordinary individual can't segregate, he would state you take money and they accept money too; you finance vehicle and they also do that so what is the distinction. Change is in essential documentation. We would not hand money over to you for anything, you need to buy a cell phone, we would not give you money for a cell phone, we would buy a cell phone and pitch it to you (Murabaha that is).*

Another banker clarified that they utilize diverse words and techniques:

*We use word 'tijarat', we use the word lease instead of financing, we use word partnership or we use the word rental and our products are characterized that way.*

These appear to be the playing with words, yet bankers clarified that there is a colossal distinction as one banker begat the distinction by expressing,

*Give me a chance to describe it undoubtedly to you, that 'Nikkah' and 'Zinnah' are two distinct words. Thing is the equivalent, yet you simply continue with the legitimate way. Much the same as that one sees a similar system where boards demonstrating Islamic banking, there are money counters, yet there is change in the wording.*

Along these lines, the significant conclusion in such manner contends that because of profit variations and there are changed words and methodology which make the system Islamic. Finally, it was also seen that banks had Muftis, guaranteeing that all investments, techniques and products and services are Halal (Wardhany and Arshad, 2012). The authenticity of Muftis was explained by a banker, who elaborated,

*I was shocked to know 'Muftis' are specialized from specific institutions. Like on the off chance that you need to do MBA there is 'LSE' or 'LUMS'. In like manner, formuftis specializations, are extraordinary institutes and in order to announce a 'Fatwa' you have to contemplate for 30 to 35 years. The greater part of the general population say that*



*Islamic and conventional banks are same. In any case, when he has 35 years of information on Islam, we can't state on restricted learning that Islamic and conventional banking are the equivalent.*

In this way, Experienced Muftis guides the investment strategy and product development of banks, which is backed up through 'Fatwa'. The fatwa soothes Muslims of their questions and if there stay any anti-Islamic substance during the product development, the fault is shifted to Mufti instead of the purchaser of the product.

Furthermore, there were a few questions regarding the instrument of Islamic banking. For instance, one supervisor stated,

*Occasionally we receive additional rates affirmed from our supervisor, yet it relies upon the sum.*

On the off chance that the profit isn't fixed and to be resolved in real profit incurrence, how consumer with more cash could be permitted to have additional profit rate? This idea raises question on the components of Islamic banking system. Further, Islamic banks were offering rates as per the market standard and their rate depends on Karachi Interbank Offered Rate (KIBOR). Another banker iterated in such manner that,

*It's just plain obvious, there is a rate KIBOR, bank offers some proportion over this rate to its customers. While we give 5% above KIBOR, so in total it ends up being 11%, and it is market standard.*

Few bankers themselves have doubts on Islamic banking status, one of them contended that,

*There is no banking without interest. It isn't right to state that interest is in conventional banking as it were. The thing that matters is that there it is fixed and here it isn't fixed. Here it varies. Islamic banking is working on this reason.*

Islamic bankers are not clear on Islamic banks status. In this way, there were also signs that bankers were not ready to control individuals in a suitable way. A few clients also have questions regarding Islamic banks status, one of the bankers expressed this as,

*Some imagine that something is great, and others believe that things are the equivalent.*

Managers also demonstrated that occasionally they can't persuade and guide individuals in a suitable way,

*We certainly are not ready to manage individuals, so we demonstrate Fatwa to individuals, what responsible individuals have said. You need to pursue and leave your discernment as it at that point turns out badly.*

The origination and comprehension of Islamic banking could be enhanced via training staff in managing clients (Dusuki, and Abdullah, 2007), which could lead towards improved customer reaction and, eventually, the Islamic banks liquidity.

Overall, the employees of the banks in the meetings demonstrate that Islamic banks development potential in the market is much more (Ali, 2015; Najaf and Ashraf, 2016). Liquidity of banks is identified with adjusting cash inflows and cash outflows. So as to deal with the liquidity, more focus is on increasing banks deposits. Further, SBP have built up certain capital and liquidity reserve requirements to guarantee that there is no liquidity crunch or default in the financial sector (Ali, Akhtar and Ahmed, 2011). SBP supports Islamic banking in the nation. There are both formal and casual systems to oversee Islamic banks liquidity. The money prerequisite is resolved via past experience and training. The client is urged to imply for substantial withdrawals and a cozy relation is kept up with them (Awan and Bukarik, 2011; Munir and Lodhi, 2015), so bankers are aware of any cash demands from such customers. Early encashment of time deposits results in penalties, which goes to philanthropy (Obaidullah, 2005). There is a sign that a bank puts resources into assets of differing maturities, that too encourages the bank to stay adaptable. Cash from different branches and banks can be arranged by banks on account of need, and, when money is short, banks requests customers for deposits or attempt to forcefully pick the money from the market (Munir and Lodhi, 2015).

Bankers told that Islamic banks don't issue shares or bonds if there should be an occurrence of money require since they have sound investors. Bankers also demonstrated issues related to liquidity like tax implementation and rivalry, which are ruining the banks liquidity (Hafeez and Muhammad, 2012). Banks supposedly have a risk management department and Shariah board also keeps a check on the bank.

As deposits are a noteworthy viewpoint in the banking sector's liquidity management, different marketing parts of the banks were also investigated. It was discovered that Islamic banks are seeing growth and customer fascination (Ali, 2015). The fundamental factor being that Islamic banks fit in with Shariah. Further, conventional marketing methods like PR and references, print or advanced media, door-to-door marketing, depending on verbal exchange and product and service development were utilized. This multifaceted marketing strategy is viewed as one of the real drivers of accomplishment in Pakistan's banking sector (Awan and Bukarik, 2011; Kamarulzaman and Madun, 2013). The Islamic picture energizes customer more and when combined with extensive customer services; this has turned

into a noteworthy Islamic banking competitive advantage (Jamal and Naser, 2003). Disarray still exists regarding if Islamic banking is actually Islamic. As few people believe that it is Islamic because of variations in profits, Muftis in Shariah board and the manner in which it is gone before. Others question, since things depend on KIBOR, there is nearness of interest. These things are aggravated by the Islamic bankers who fail to give convincing direction to their customers. These things could be improved, and Islamic bankers could be trained better to manage customers with issues.

### 3. RESULTS AND DISCUSSION OF ISLAMIC BANKERS' RESPONSES – QUALITATIVE DATA ANALYSIS

For the general conception of liquidity, regulators job, liquidity management practices, marketing viewpoint and the bank's structure, Islamic bankers were interviewed. It was discovered that liquidity was connected to cash outflow and cash inflow management. Some bankers stressed on increasing more deposits (Jamal, &Naser, 2003). This concept fulfilled fundamental comprehension of liquidity. It was also discovered that the regulations of SBP are strict. Islamic banks and conventional banks capital requirements are different and SBP supports the growth of Islamic banks (Khattak, 2010; Ahmad and Saif, 2010). Further, fundamentally, it was discovered that there is a different risk management division and addition of Sharia board guarantees that Islamic banks don't put the cash in risky portfolio (Kanwar, 2005). Along these lines, there are legislative as well as structural checks that keeps an eye on the Islamic bank's liquidity management.

Islamic bankers were requested to give facts about the liquidity practices of executives. Bankers uncovered that for cash reserves a regulatory system is kept up with the SBP. Furthermore, there are some policies like penalties which discourage fixed deposit holders cash withdrawal. Such penalties go to philanthropy (Obaidullah, 2005). Normal cash necessities of the banks are resolved based on past understanding as Islamic banks can't confine cash withdrawals of current account holders. Enormous customers are urged to insinuate any cash prerequisites ahead of time, with the goal that the bank can without much of a stretch deal with the sum. There is a centralized liquidity management system where all the abundance money is exchanged to the respective head office, where reserve necessities with SBP are kept and the rest of the amount is put into various assets. Respondents also clarified that they oversee emergency money prerequisites by bringing more deposits in or by requesting a transient credit from money market or different banks. Along these lines, liquidity utilization of Islamic banks are dealt with (Akhtar and Sadaqat, 2011).

On marketing point of view, it was watched, banks are moving towards Islamic banking (Khattak, 2010). Due to religious reasons, customers are pulled in towards Islamic banking. Additionally, conventionally used marketing strategies are availed to pull in customers, for example products and service development, direct door-to-door marketing, broad communications marketing, verbal and personal references (Jamal &Naser, 2010; Ahmad &Saif, 2010). In conclusion, Islamic bankers were discovered to have small comprehension of Islamic banking ideas. Bankers generally had similar meanings of 'it being Islamic', 'it depends on profits and 'mufti has given Fatwa' and so forth and these things don't fulfill a few customers and they bring up issues, concerns and negativities. This demonstrates numerous Islamic bankers are not ready to fulfill the worries of depositors (Khattak, 2010). Fitting preparing ought to be given to Islamic bankers or some Alam be named in each branch (Dusuki and Abdullah, 2007). To sum up, Islamic banks have a strong liquidity management structure. It depends on policies and regulatory necessities along with their practices. Islamic banks liquidity management component is similar to that of conventional banks. The thing that matters is the presence of Sharia board and customers' religious introduction.

### 4. OVERALL DISCUSSION AND SYNTHESIS

Islamic banking is new. The liquidity management of these banks is viewed as essential. It was discovered that Islamic banks customers/depositors are of two types: those with religious introduction and those with profit introduction. Higher profit is propelled by higher returns (Ismail, 2010), which requires banks to put resources into long-term financings: Musharakah and Mudarabah. Some of the investments are also made in Ijarah-based choices, as it is increasingly adaptable and fluid choices (Sabir, 2008). Further, customer/depositors with religious introductions, banking tasks and investments are surveyed to decide whether bank's activities are steady with Islamic-standards (Khattak, 2010; Awan and Bukhari, 2011). Investments in financing like Musharakah and Mudarabah also draw in customers with religious introduction. These investments also diminish requirement for liquidity holds as it expands trust of Islamic banks customer. The issue here is that individuals with religious introduction will criticize those with higher profit introduction because they require higher return sharing. This is because of perception of religious depositors as they link higher profit proportions with interest. The qualitative investigation affirm that there is a poor understanding and there is an absence of mindfulness as to Islamic banking nature.

Further, there is also clear sign that in Islamic banking, liquidity is reliant on references or image of the Islamic bank. This was demonstrated by each of the three examinations, where current deposit attracts more deposits and after that study investigations also shown that Islamic bankers use references and verbal exchange to build their customer base (Jamal & Naser, 2010). Furthermore, due to competitiveness of market, customers also incline toward competitive rates. It was demonstrated by Islamic bankers that there exists regulatory, and approach related checks to guarantee viable Islamic banks liquidity. Islamic banks midway oversee liquidity and premature liquidation of time deposits results in penalties. There are casual approaches to oversee liquidity also, real customers are asked for to suggest ahead of time of any huge withdrawal. Further, they expressed that the vast majority of the huge exchanges are not cash based. Finally, as far as marketing, Islamic banks act like conventional banks. The Islamic part of marketing is somewhat ignored. Customers are confounded, while bankers are not able to convince them. The investigation also demonstrated that profit introduction depositors are pulled in towards Islamic banks because of high returns and those with religious introduction are befuddled (Khattak, 2010). This shows there are different qualities like high returns or service offered by Islamic banking that draw in customers while Islamic banks are not gaining by its nature. This would also have suggestions for the banks liquidity management as more depositors would convey more money and banks liquidity concerns would be diminished. Finishing up, Islamic banks liquidity management procedures ought to be strong, trustworthy and effective (Alsayed, 2007).

## **5. CONCLUSION**

The results of investigation demonstrate that Islamic banks depend on formal and casual systems so as to deal with their liquidity. Deposit side is for the most part overseen by drawing in more depositors. Depositors are religion orientated and is pulled in towards Islamic banks due to their Islamic picture and are anything but difficult to hold or profit orientated and are pulled in towards higher returns which includes high working cost suggestions. So as to return higher profits, long-term investments dependent on Mudarabah and Musharakah should be conducted. Further, banks also put resources into other alternatives so as to look after liquidity. The bank is ready to put resources into long-term investments if it has higher liquidity. Such depositors simply survey the activities and investments of the banks in terms of Islamic measures. In this manner, these investments bring religious customers in and the requirement for liquidity is also decreased because of trust. Customers with profit introduction, then again, require higher profits and higher return sharing which opposes those with religious introductions as they were found to keep away from higher profit sharing. It was demonstrated by the surveys and the interviews conducted that depositors were jumbled to the idea of Islamic banking. Along these lines, thinking about the findings of the examination, Islamic banks could either draw in depositors with religious or profit introduction. In such manner Islamic banks require amendment so as to serve the two accomplices of depositors. There was also sign that depositors are pulled in through referrals, verbal exchange and personal relations.

Further, as far as liquidity management, there were sure formal and casual approaches to oversee it. In approach terms, there are necessities of the SBP, after that all the money is midway overseen and contributed, at that point there are penalties on premature withdrawal from fixed deposits, and so forth. Further, customers liquidity prerequisites are foreseen ahead of time and money is overseen in like manner. In conclusion, Islamic banks have solid investors and they can undoubtedly be overseen for extra funds, if require be. Generally speaking, Islamic banks are following indistinguishable marketing techniques from are utilized by conventional banks in Pakistan. While Islamic banks don't feature their Islamic picture and there is still disarray in such manner. Depositors appeared to be jumbled on the genuine nature of Islamic banking and Islamic bankers don't appear to be sufficiently convincing to fulfill their questions and concerns. Along these lines, depositors with profit introduction, because of high returns be pulled in towards Islamic banks and depositors with religious introduction are unsure about whether these banks are indeed Islamic. In this way, it appears that Islamic banks are not benefiting from their nature and are following industry standard practices to pull in deposits and deal with the liquidity.

## **6. RECOMMENDATIONS**

Islamic banks ought to fortify their Islamic picture and customer service. Coming up next are explicit suggestions for Islamic bankers:

- Bankers ought to be prepared on Islamic banking to explain any applied concerns looked by customers. This will draw in customers and enhance banks liquidity.
- An Alam with information and comprehension of Islamic banking ought to be accessible in each part of the bank for direction.
- The liquidity practices of the Islamic banks ought to enhance through an incorporated liquidity management structure, formulated and actualized among Islamic banks of Pakistan.

- Islamic banks should focus on working on Islamic banks image. Greater trust would pull in new depositors as well as support the trust and loyalty of existing customers of Islamic banks.
- Banks don't concentrate much on asset side Bankers could put the accessible cash in various assets so as to more readily deal with their liquidity.
- Cash prerequisites are foreseen based on experience. Managers should be well prepared for viable Islamic banks liquidity management.
- Customers should be pushed towards the profitable time deposits or fixed deposits, which also doesn't require expanded liquidity. In this way, drawing in such depositors would be progressively useful for banks.
- Bankers ought to convince customers to utilize plastic cash like checks or credit cards with the goal that customers money prerequisites are diminished and, thusly, banks require less money as liquidity reserve.
- Each local/zonal office should have a separate liquidity office for better utilization of liquidity approach.

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