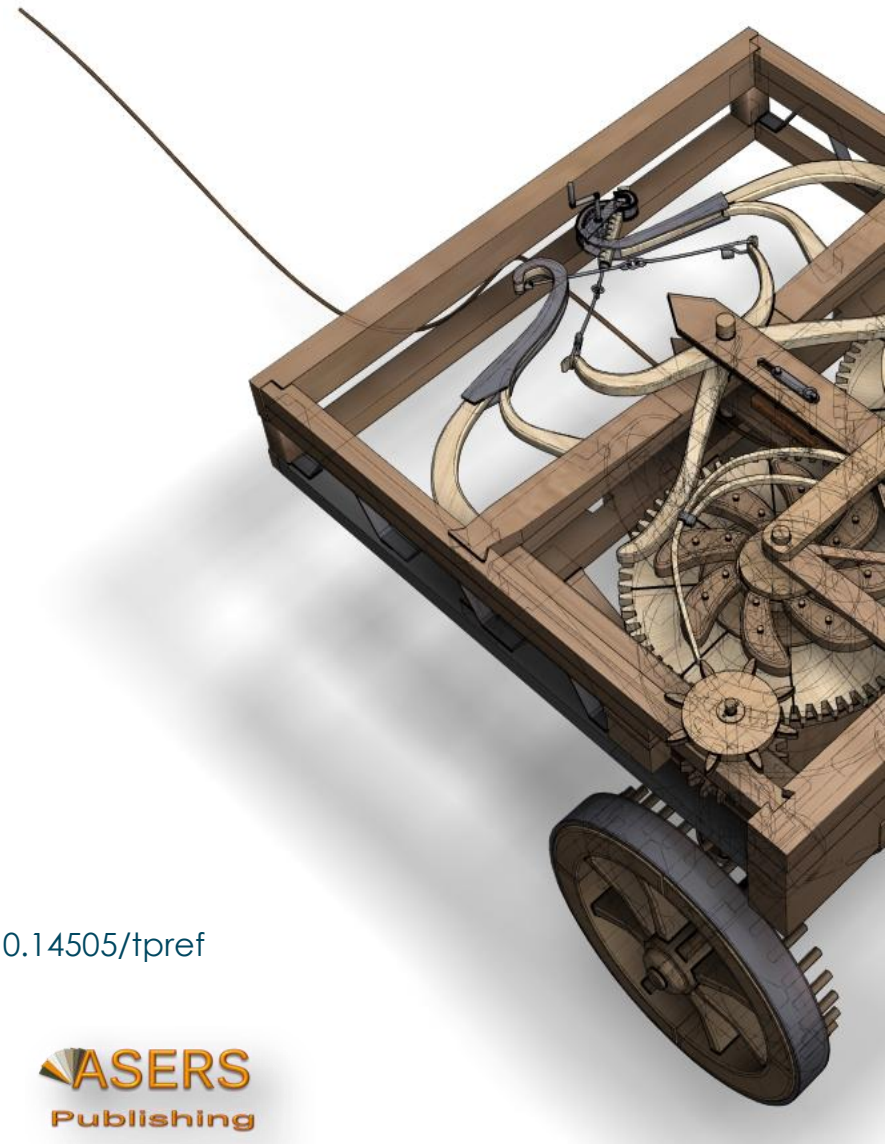
Theoretical and Practical Research in Economic Fields



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Call for Papers
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Theoretical and Practical Research in Economic Fields

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Investigation of Islamic Financing Institutions in Middle Eastern Banking

Gaurav KUMAR
Department of Business Management
KLEF Business School, Koneru Lakshmaiah Education Foundation KL University, India
ORCID: 0000-0002-1800-3213
klgaurav4@gmail.com

A.V.N. MURTY
KLEF Business School, Koneru Lakshmaiah Education Foundation KL University, India
ORCID: 0000-0002-5232-2226
dravnmurty@kluniversity.in

M.V.K. SRINIVASA RAO
Faculty of Commerce and Management
Gokul Global University, India
ORCID: 0000-0002-3946-5935
director-iqac@gokuluniversity.ac.in, sgips999@gmail.com

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Abstract: Islamic finance institution is becoming increasingly important for MENA countries to finance their growth economically. Businesses respect people's social and religious beliefs while meeting their economic necessities. Even little is known about the factors influencing Islamic banking's expansion. It offers a preliminary study of the relative significance of the major elements contributing to the expansion of Islamic banking in the area. By examining these banks' historical performance, we may use the financial crisis as an opportunity to analyze how Islamic banks contribute to the financial sector's resilience and inclusivity. The paper begins *(Nizam, Kamarudin, Ali, & Hussain, 2024)* with a brief background Islamic banking's development in the Sultanate of Oman, including how it connects to regional and foreign assets, liabilities, finance, and funding structures on the global Islamic financial markets, before examining Oman's current environment, examining the trends in the traditional financial sector and the rationale for adopting an Islamic financial system, as well as the long-term strategies the Sultanate of Oman has taken. Include how it might the layout achieve the objective, create jobs for local people

Keywords: islamic banking; operations; funding; management.

JEL Classification: G21; C01; G28; P43; Z12.

Introduction

Oman is a country in the Sultanate of Oman actively creating a legislative and governing framework ineluctable to Islamic "windows" for conventional banks with operating licenses within the nation. The Islamic finance sector has experienced significant growth since its commercialization in the 1970s. For many Muslim-majority countries that gained independence from colonial rule, developing a financial industry aligned with their faith and value systems provided a sense of identity. Various Islamic banks and tellers are currently being constructed and prepared for the public offerings (IPO). Imminent, Introducing the publish Client Alert a series of articles to introduce the fundamental ideas of Islamic banking and will continue to cover other Islamic finance topics of importance to companies in Oman. An overview of the basic assumptions and organizational principles that govern Islamic banking globally has been noted. Different products are available from each Islamic bank or teller that is targeted to that institution and its clients. The specifics of these issues change as the banks and windows build. Each Islamic bank or window has its own Shariah board, which guides the design and implementation of products and the conduct of banking operations. While relevant policies and regulations are underway, it has been projected that in Oman bank that follows Islamic principles and window will let you be free establish to assemblage of its

parts as Shariah council, to some minimum expected restrictions. For example, such restrictions comprise requirements on the number of academics in Shariah institutions (three or more are currently being debated), restrictions on the number of institutions in which one academic can sit (two or fewer) may be included. Both Omani Shariah scholars and internationally recognized scholars should be included in the committee. At present, it does not seem necessary for scholars to be from any Madahib (school of Islamic jurisprudence). Individual banks and windows are free to configure Sharia his body as you see fit. I also understand that there is no government-level central Shariah institution (such as the Central Bank of Oman's Shariah institution). They afford (a) Transactions involved in asset conversion, (b) payment system (c) Brokerage services, and (d) The risk conversion process. Matching supply and demand for financial assets and liabilities is necessary for wealth transformation (deposits, stocks, credit, loans, insurance, etc.). Changes in product and asset size, maturity, and location are considered transformational actions. Cheque remittance activities, electronic funds transfers, clearing operations, and clearing activities are the major components of payment management. Brokerage is the process of bringing together buyers and sellers of musical instruments. Driving demand and supply for intangibles and contingent with the scope of liability including goal to provide assurances of collateral free, expert analyst of financial knowledge, and safeguarding from the risk transformation. In hypothetical point of view, it has been observed that there are three widely used Islamic banking models known at the time (a) the two-tier Mudaraba model, (b) the two-window model, and (c) the Wakala model. It is crucial to mentally understand that the Islamic banking model contains accounts that can be deposited in two different ways before examining the other two models. For Islamic banks and tellers, these accounts provide as a source of funding. A depositor's funds are moved from their bank account to either a demand deposit account or an investment account. Savings deposits and time deposits are the two primary categories of sight deposits. Savings accounts allow depositors to make any number of deposits and withdrawals, while some institutions have a minimum balance requirement. In addition to these structures, there are other ways to save money through accounts that is qardhass an (interest free loan), wadi'ayadhamanah (guaranteed custody) and, less commonly, mudaraba. The Middle East has long been regarded as the birthplace of Islamic finance, where the principles of Sharia law govern financial transactions and institutions. Islamic finance, characterized by its prohibition of interest (Riba), speculative activities (Gharar), and unethical investments, has evolved significantly over the past few decades, transforming from a niche sector to a vital force in the global financial system. Islamic financial institutions (IFIs) in the Middle East not only serve the local economies but also play a pivotal role in shaping international Islamic financial markets. As these institutions grow in both size and influence, their importance in the broader banking sector becomes increasingly evident. The Middle East, with its rich cultural and religious heritage, has witnessed the establishment of some of the world’s largest and most prominent Islamic banks. Countries such as Saudi Arabia, the United Arab Emirates, Qatar, and Kuwait lead the region in Islamic finance, implementing innovative financial products and services designed to comply with Islamic principles while addressing the needs of modern economies. The growth of Islamic finance in the region is further fueled by governmental support, favourable regulatory frameworks, and a rising demand for Sharia-compliant financial services, both domestically and internationally. This shift towards Islamic banking is not only an economic trend but also a reflection of the region's desire to integrate traditional values with contemporary financial practices. Islamic financial institutions play a crucial role in fostering financial inclusion, supporting infrastructure development, and promoting ethical investments in areas such as real estate, healthcare, and energy. Additionally, they offer an alternative to the conventional financial systems, often attracting both Muslim and non-Muslim investors seeking ethical, stable, and risk-sharing investment opportunities. However, the landscape of Islamic banking in the Middle East is not without its challenges. Issues such as regulatory harmonization, liquidity management, and the adaptation of Islamic finance to global financial standards require ongoing attention and innovation. Understanding the operational models of Islamic financial institutions, the regulatory environments they navigate, and the socio-economic impact they create is essential to appreciating their significance in the regional banking sector. This investigation seeks to provide a comprehensive analysis of Islamic financing institutions within the Middle Eastern banking sector. By examining their structure, governance, regulatory frameworks, and contributions to economic development, this study aims to uncover the evolving dynamics of Islamic finance in the region. The research also explores how Islamic finance can respond to both regional and global financial challenges, offering valuable insights into its role in the future of Middle Eastern and global banking.

Islamic Bench Model 1: Two Tiered Mudaraba

The core model of Islamic banking is two-tier Mudarava model and investment deposits. Mudarava contracts are used on two very different sides of a financial institution’s balance sheetto consolidate assets and debts;

therefore, a deep understanding of them is essential as background. The investor or funder (depositor) and the bank are the parties to the first stage of his Mudaraba contract. The arrangement made by Mudaraba calls for banks and depositors to split profits made on the investments made with these monies. The Mudarava Secondary Agreement is tied to the two-stage mudarava model, where the raising of funds (first mudarava) and using of funds (second mudarava) are both based on share of profits and losses is agreed upon. A mudarava agreement is a partnership according to which (i) It may involve one or more individuals ("Rabbul-mal") provide capital and (ii) another working people ("mudarib") provides engage in services. Configure and define contract types. Yield like investment of money offered by rabbistimes. The Mudarib has entrusted these funds as just for the ascendancy and care of the depositor, rabbul-mal, thus the Islamic financial institutions requisite to do the best of its ability comply with the terms of the Mudarabha contract.

Models of Islamic Bench2: Two Windows

The two-window model uses both site and investment deposits. This model divides the liability side of a bank's balance sheet into (a) a demand deposit window and (b) a non-current account window. Demand deposits have no income as they are returned at face value when required. For the custodial services we offer in connection with your Demand Deposits, we can be paid a fee. In contrast to the Mudaraba model, reserve applied to demand deposits is hundred percent for regulatory reasons. Amanah Custodial Deposits do not give to use funds for further gains on a partial reserve basis. Such amounts are cumulative and subject to possible losses. Deposits held in investment accounts do not require a reserve requirement, since they do not have must affirmed.

Islamic Banking Model 3: Wakala (Agency)

The Islamic Financial Institutions Audit Authority ("AAIOFI") ("Standard 23"), § 2/1, defines Wakala as "an action that can be delegated". Banks participate in the Wakala model or agency model is a fixed fee and acts as an agent or wekel for the investor's payers and depositors. A typical Wakala-based deposit and investment model bank generally have wide discretion in investing their deposited funds (so long as the investment is Shariah compliant) and will notify depositors of profits and losses. Banks often keep profits above a certain yield as incentive fees. The depositor is liable for all transactional risks since they are the transaction's principle (muwakkeel). In general, deposit insurance is not permitted. There are a wide range of investment opportunities such as Mudaraba, Ijara (leasing), Istisna` (construction or mortgage lending), Murabaha (expenses and sales), Salam the agency models where the institution acts as a Waker. Investor's investment deposits on behalf of depositors. Bank generally have wide discretion in investing deposited funds (as long as the investment is Sharia law compliant) and will notify the bank. As an incentive, banks frequently keep profits that are higher than a specific rate of return. Except for risks related to fraud, harm, default, or agent carelessness, all transaction-related hazards fall under the purview of the depositor as principal (muwak keel).

Demand Deposits: Card Hassan and Wadia

The principal of the loan is guaranteed, and the bank is required to return it. There are no dividends or returns associated with deposits. However, banks are allowed, at their discretion, to offer depositors the return of deposits as a gift (hibih). A Wadia-based deposit structure is also used for savings and checking accounts. A storage bail is known as a Wadia (or ida-bale). The property being deposited must be owned, deliverable, and in a form of physicalpossession.

Necessitate Repository: Map Hassan and Wadia

The formation of saving by Qard-Hassan and checking accounts is AAIOFI Shari`a Standard no- 19, Loan, Qard, Default-19. According to the standard, a card is a transfer of ownership of fungible property to a recipient who is obligated to give it back. The Card-Hassan structure's purposes are to secure depositors' custody of their funds to give permission to use those funds for banking and entrepreneurship purposes. The deposit sum of money will be considering bona fide loan. Without the depositor's permission, banks are allowed to use money that has been left in their custody. The loan amount is guaranteed and the bank is committed to reimburse it. Deposits do not have any dividends or returns attached to them. However, the bank is free to provide the depositor a gift (hibih) in exchange for the return of their money. A Wadia-based deposit structure is used to savings and checking accounts. Escrowed property must be owned, transferable, and in the form of physical possession.

1. Review of Literature

In Oman, Islamic Bank was established in 2012. The final GCC nation to adopt Islamic banking is Oman. This is due to a lack of knowledge about the actual state and functioning of Islamic banks. This is due to a lack of knowledge regarding the management environment and operations of Islamic banks. The survey revealed

Salalah residents' knowledge and comprehension of Islamic banking practices. They were mostly Islamic bank customers. Client's religious obligations, Islamic baking understands. Product is the evaluated variable. Results: The results explain that although the perceived value of Islamic banking is high, the awareness of Islamic banking among Omanis is very low. Tough problems with Oman's banking system were also noted in the research, such as non-Muslims' resistance to embracing Islamic banking, pressure from traditional banking competitors, and a lack of understanding of Islamic banking. They people are mostly Islamic bank customers. Client's Religious Obligations is Islamic Banking's Understanding. Almost all customers accept that any interest in Islam is forbidden, but most Islamic banks believe they are not Shariah compliant. According to this finding, religious devotion and public perception of Islamic banking are the key driving forces behind Islamic banking. Islamic law is founded on Shariah, and Islamic banking is a form of Islamic finance. They offer financial services in accordance with Islamic Shariah guidelines. Islamic banking's primary characteristic is its interest-free nature. The predominantly Muslim community prefers to use Islamic banking services and products. Islamic banking is not particularly advanced now, but it is anticipated that due to its effectiveness, it would soon appeal to a huge number of people. This study analyzes the contribution of Islamic finance to economic growth across 15 countries with significant Islamic banking sectors, highlighting its positive impact and inherent stability (Hanif *et al.* 2024). This introduction makes no inference or claim that any Oman-based licensed Islamic bank or teller will accept or use any specific arrangement or item mentioned in the Client Alert (Nizam, Kamarudin, Ali, & Hussain, 2024). The Institutional Development of Islamic Finance in the Middle East: A Post-Colonial Comparative Perspective." Business History. This research traces the evolution of Islamic finance governance models in Bahrain, Kuwait, and the UAE, emphasizing the shift from decentralized to centralized systems post-independence. (G. Rammal *et al.* 2023). This paper discusses how asset-backed Islamic finance structures can mobilize financial resources to boost investment in the Middle East, aligning with sustainable development goals. A., Salhaoui, S., Argabi, A., & Khater, T. (2024). Another study by Moustapha and Nadir (2023) examined the impact of Islamic financing products on the profitability of Islamic banks, focusing on Al Rayan Bank in Qatar. The research analyzed various Islamic financing products and their contributions to the bank's profitability, providing insights into the operational dynamics of Islamic banks in the Middle East (Moustapha & Nadir, 2023). Rabbani and Khan (2020) explored the use of Islamic fintech in the banking sector, focusing on challenges and regulations in compliance with Sharia. After studying 133 articles, it is believed that fintech can enhance efficiency, transparency, and customer satisfaction in Islamic finance and also global cumulative fintech market is expected to reach 1.5 billion in the next three to five years. Hassan, Sanchez and Yu (2011) examined the challenges faced by Islamic finance and banking in the post-Covid era, focusing on Fintech's role. Islamic financing dominates microfinance, small and medium enterprises, and retail banking. The global financial crisis posts Covid 19 differed from 2008, with measures like lockdowns causing a decline in output, supply chain disruptions, income loss, and credit flow disruptions. Herliansyah, Nugroho, Ardilla and Putra (2020) examined the impact of religion on decision-making and the presence of Islamic banks, which are crucial for the national economy, as they facilitate payment processing and provide dependable savings. Sonko (2020) used descriptive statistics and logistic regression to assess customers' perceptions of Islamic banks in The Gambia. Surveying 150 customers at four standard banks and one Islamic bank, the study assessed their religious observance, understanding of Islam, and familiarity with Islamic banking. Results showed that Islamic banking customers had a better understanding of Islamic banking than traditional banking customers. Akguc and Rahahleh (2018) examined risk management in Islamic banking and finance literature, focusing on the association between risk and Islamic and conventional banks. It highlights that sharia-based products in Islamic banks lack risk mitigation, as both serve as intermediaries between borrowers and lenders, offering investment opportunities. Comparative analysis is necessary to understand the impact of risk types. Khattak *et al.* (2010) stated that The Islamic banking sector comprises two fully fledged Islamic banks and Islamic windows at six traditional domestic banks, resulting in a significant increase in bank lending in the Sultanate. Abdul-Wahab*et al.* (2019) explored Islamic banking practices in Ghana, their adoption, challenges, and perceived importance. It uses a targeted survey with eight respondents and semi-structured interviews to gather data. The research also explores the understanding and perceived importance of Islamic banking in the region. Salman and Nawaz (2018) examined the efficiency of banks in their operations in South East Asia, specifically Malaysia, Indonesia, and Brunei. The authors analyzed 29 Islamic banks to identify any deviations or variations in their performance. The majority of the countries chosen had a predominantly Muslim population, and the study aimed to identify any deviations or variations in the efficiency levels of these banks. Komijani and Taghizadeh- Hesary (2018) gave their comment on the reflection of Islamic bank functioning. It is opinioned that over two decades' Islamic finance industry has grown substantially due to increase in the rapid growth of Muslim population and improvement in their standard of living which is an alternative to the

conventional financing mechanism. It is also observed that the investors in Middle East countries seek to invest in those financial products which are in accordance with their religious beliefs. The funding is substantial because of huge liquidity from oil and oil products. In Islamic countries most of the conscious investors exclude their investment in alcohol and gambling. Nadarajan, Selvanathan and Zamri (2018) explained the factors influencing customers' decisions regarding Islamic banking using questionnaires in Selangor. It reveals that choosing an Islamic bank balances reliability and cost benefits, with convenience being less important, and religion negatively impacting the decision. Khan and Khan (2015) report a rapid growth in Islamic banking in Malaysia and Pakistan, both Muslim nations adhering to Islamic law. The study compares these two countries, highlighting the flourishing of Islamic banking in Malaysia, compared to Pakistan, and the performance of Islamic banks in fulfilling their duties. Miah and Suzuki (2020) stated that the Islamic Economic Bank is committed to promoting economic growth, job creation, wealth accumulation, cultural justice, equitable income distribution, long-term capital gains, investment mobilization, competitive returns, and top-notch customer service. However, their efforts may be hindered by ignorance of Islamic banking policies and practices, which contribute to the overall economic growth. Bahrini (2017) evaluated the E-banking efficiency of Islamic banks in the Middle East and South Africa between 2007 and 2012 using the DEA approach. The results showed stable efficiency during the 2007-08 global financial crisis and a post-crisis period, prompting Islamic bank managers to conduct post-crisis analysis. Obeid and Kaabachi (2016) attempted to explain the main antecedents that will bring acceptance of Islamic banking by traditional users of banking in Tunisia. This was a research questionnaire completed by 239 Tunisians. The findings of this study suggest the determinants that aegis to adopt Islamic banking include religious preferences, customer perceptions of it, its relative accessibility, and its compatibility with market ideals, way of life, and financial sector customs is the findings also reveal that Tunisian customers lack understanding and familiarity with the financial system. Rahman *et al.* (2023) surveyed consumers about Islamic banking, finding that most believe interest is forbidden and it's distinct from conventional banking. 69% of respondents were moderate Muslims. Despite Omani Banks' financial services being enjoyable, consumers believe they only barely comply with Shariah, leading them to desire better performance than current offerings. These studies collectively provide a comprehensive understanding of the development, operational dynamics, and impact of Islamic financing institutions in Middle Eastern banking, highlighting the sector's evolution, profitability factors, and resilience in the face of economic challenges.

1.1. Research Methodology

The study is based on the financial units in the Sultanate of Oman. The financial bodies are divided in to two broad categories – (1) Conventional Banking and (2) Islamic Banking. The period of study is 5 years from 2017 to 2021.The main focus of the research is contribution of the banking system not only in the economic development of the country but also focuses on the operational efficiencies of the banking industry. The total population of banks available in Oman is taken as a sample size and three main variables are taken in to consideration to measure three important aspects of the banking industry (Kashi, Laallam, Nomran, Abumughli, & Al-Binali, 2024). They are: (1) Profitability, (2) Efficiency (Yin, 2021) and (3) Liquidity. The following equation serves as the foundation for the statistical model that forecasts the variations in financial performance (Nizam, Ng, Dewandaru, Nagayev, & Nkoba, 2019) between conventional and Islamic banks with relation to cash deposits. The following variables are selected as independent variables for this study:

1) ROAib = Return on Assets of Islamic banks
2) ROE ib = Return on Equity of Islamic banks
3) RODib = Return on Deposits of Islamic banks
4) OPMib = Operational Profit Margin of Islamic banks
5) OIAib = Operating Income to Assets of Islamic banks
6) ATOib = Asset Turnover of Islamic banks
7) CTAib = Cash To Assets of Islamic banks
8) ROAcb = Return on Assets of Conventional banks
9) ROEcb = Return on Equity of Conventional banks
10) RODcb = Return on Deposits of Conventional banks
11) OPMcb = Operational Profit Margin of Conventional banks
12) OIAcb = Operating Income to Assets of Conventional banks
13) ATOcb = Asset Turnover of Conventional banks
14) CTAcb = Cash To Assets of Conventional banks

Dependent variables

CTDib = Cash to Deposits of Islamic banks
CTDcb = Cash to Deposits of Conventional banks

Problem statement

There have been a number of studies and articles published by researchers indicating Islamic banks (Ibrahim & Rizvi, 2017) seem to be more efficient and profitable than traditional banks in the Sultanate of Oman. So, the present study will focus on an empirical study to find out the conventional philosophy of thinking in the debate and to judge it through variable testing and data analysis about the ground reality.

Hypothesis

Ho = There is a cogent influence on the opiate banks in terms of customer trust.
H1 = There is no cogent influence on outcome of both the banks in terms of customer trust.
Financial Ratios
Liquidity ratios and Profitability, Efficiency of two types of banks is calculated and then compared.
ROA = Net profit after tax plus interest expenses / Average TA
ROE = NI / Average common equity of stockholders'
ROD = NI / Total customer deposits
OPA = Operating income / Total assets
ATO = Asset Turnover = Revenue / TA
CTA = Cash to Assets = Cash / TA
CTD = Cash to Deposits = Cash / Total customer deposits

Population and Sample

The total population of banking industry available in Sultanate of Oman during the study period is taken as the population of the study including both the categories of banks. The data collected is the secondary source and information obtains from published annual reports in the website of Muscat Securities Market (MSM).

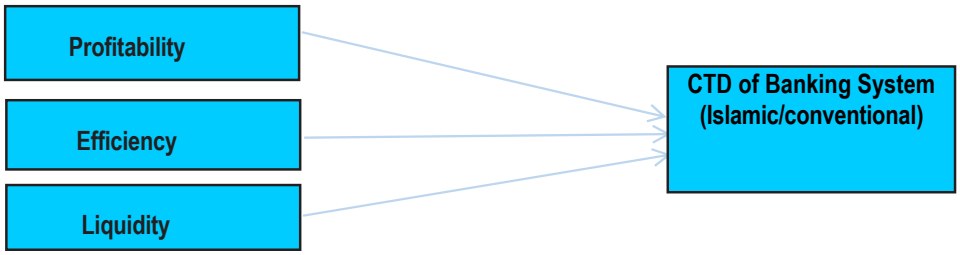
Tools and Technologies

R software is used, and panel data analysis to find out the results.

1.2. Data Analysis

The study to the sample banks includes the characteristics of the respondents as a key component (Fig.1). Panel data analysis was done to confirm typical sample observations of Islamic banks and conventional banks. The outcomes present that all the variables have shown positive performance of growth and if there is any decline it is marginal to its performance.

Figure 1. Financial Ratio of Conventional Banks and Islamic Banks



Source: compiled by the authors.

As the data is panel data, panel regression is adoptable to know which variables significantly contribute on capital term deposit account (CTD). Initially, Random Effects model and Fixed Effects model are used to find the best fit model for the data. Analysis has used PLM package.

Table: 1

Year	Banks	ROA	ROE	ROD	OPA	ATO	CTA	CTD
2017	Ahli Bank	3.36	10.71	1.84	2.87	4.61	0.36	0.49
2018	Ahli Bank	3.50	11.29	1.73	2.89	5.02	0.41	0.53
2019	Ahli Bank	3.82	11.92	1.81	2.9	5.18	0.63	0.88
2020	Ahli Bank	3.36	9.05	1.25	2.74	5.03	0.56	0.76
2021	Ahli Bank	3.24	9.73	1.27	2.86	4.91	0.63	0.83
2017	Alizz Islamic Bank	5.19	15.53	3.43	0.5	4.45	0.93	1.23
2018	Alizz Islamic Bank	5.66	24.32	4.2	5.37	4.93	0.87	1.2
2019	Alizz Islamic Bank	5.48	25.68	3.4	0.54	4.89	0.87	1.28
2020	Alizz Islamic Bank	5.34	24.11	7.87	2.36	4.72	1.1	1.62
2021	Alizz Islamic Bank	5.63	24.34	9.2	2.77	4.83	0.74	1.27
2017	Bank Dhofar	3.04	8.5	1.55	3.1	4.4	0.73	0.98
2018	Bank Dhofar	3.21	7.82	1.72	3.17	4.64	0.74	1.07
2019	Bank Dhofar	2.71	4.37	1.03	3.04	4.88	0.73	1.06
2020	Bank Dhofar	2.64	4.43	1.07	3.03	4.78	0.68	1.02
2021	Bank Dhofar	2.66	3.6	0.84	2.91	4.75	0.69	1.01
2017	Bank Muscat	2.72	10.51	2.38	3.97	3.86	1.67	2.47
2018	Bank Muscat	2.76	9.59	2.12	3.81	4.09	1.33	1.85
2019	Bank Muscat	1.07	9.44	2.6	4.01	4.59	1.41	2.33
2020	Bank Muscat	2.48	8.07	1.95	3.69	4.1	1.33	1.96
2021	Bank Muscat	2.61	9.04	2.16	3.73	4.09	1.3	2.14
2017	Bank Nizwa (islamic)	0.62	2.52	1.27	3.69	6.32	0.87	1.77
2018	Bank Nizwa (islamic)	0.96	5.01	1.93	2.82	6.63	0.66	1.32
2019	Bank Nizwa (islamic)	1.07	6.79	2.09	3.46	6.5	0.5	0.97
2020	Bank Nizwa (islamic)	0.99	7.38	1.98	3.5	6.25	0.49	0.97
2021	Bank Nizwa (islamic)	0.96	6.77	5.87	3.4	6.17	0.55	3.35
2017	NBO	2.81	10.22	1.79	3.77	5.43	1.47	2.09
2018	NBO	3.23	12.02	2.06	3.66	5.55	1.62	2.33
2019	NBO	3.45	11.78	2.03	3.56	5.7	1.22	1.73
2020	NBO	2.6	4.38	0.72	3.22	5.45	1.07	1.54
2021	NBO	2.82	6.88	1.04	3.2	5.37	1.06	1.4
2017	Oman Arab Bank	2.81	9.63	1.52	3.7	5.24	1.87	2.25
2018	Oman Arab Bank	2.87	10.6	1.61	3.92	5.45	1.8	2.15
2019	Oman Arab Bank	3.07	10.99	1.63	3.85	5.58	1.76	2.13
2020	Oman Arab Bank	2.14	3.95	0.51	3.52	5.18	1.38	1.45
2021	Oman Arab Bank	1.72	1.2	0.25	3.61	5.12	0.99	1.16
2017	Sohar Intl. Bank	3.24	8.63	1.54	2.85	5.15	0.63	1.03
2018	Sohar Intl. Bank	3.5	10.29	1.61	3.21	5.71	1.33	1.29

Year	Banks	ROA	ROE	ROD	OPA	ATO	CTA	CTD
2019	**Sohar Intl. Bank**	3.39	10.24	1.64	3.19	5.53	0.82	1.29
2020	**Sohar Intl. Bank**	2.67	6.03	0.9	2.59	4.69	0.82	1.31
2021	**Sohar Intl. Bank**	2.55	7.15	1.18	2.86	4.68	0.89	1.44

PLM (CTD~ROA+ROE+ROD+OPA+ATO+CTA, data=dt, model='within', index=c('Banks','Year'))

Model- 1 PLM

One-way (individual) effect Within Model

Call: plm (formula = CTD ~ ROA + ROE + ROD + OPA + ATO + CTA, data = dt,
model = "within", index = c("Banks", "Year"))

Balanced Panel: n = 8, T = 5, N = 40

Table: 2

Residuals:				
Min.	1st. Qu	Median	3rd Qu	Max.
-0.544389	-0.1127344	0.0046344	0.0988804	1.165599
	Coefficients:	Estimated Std. Error	t-value	Pr(>|t|)
ROA	0.1653154	0.1860105	-0.8887	0.3822904
ROE	0.0027873	0.0332219	0.0839	0.9337793
ROD	0.1893268	0.0529538	3.5753	0.0014001
OPA	-0.0306164	0.0829727	-0.369	0.7151202
ATO	-0.2897063	0.2512715	-1.153	0.2594165
CTA	1.1575	0.3096853	3.7377	0.0009231
Significance codes	0.001	0.01	0.05	0.1

Total Sum of Squares: 6.0905, Residual Sum of Squares: 2.6492, R-Squared: 0.56503

Adj. R-Squared: 0.34755F-statistic: 5.62905 on 6 and 26 DF, p-value: 0.00074612

Model- 2PLM (CTD~ROA+ROE+ROD+OPA+ATO+CTA, Data=dt, model='random', index=c('Banks','Year'))> summary(model2)

Onaway (individual) effect Random Effect Model
(Swamy-Arora's transformation)

Call: PLM(formula = CTD ~ ROA + ROE + ROD + OPA + ATO + CTA, data = dt,
model = "random", index = c ("Banks", "Year"))

Balanced Panel: n = 8, T = 5, N = 40

Effects: varstd.dev share

Table: 3

Idio Syncratic	0.10189	0.31921	0.715
Individual	0.04071	0.20177	0.285

Theta: 0.4224

Residuals: In. 1st Qu. Median 3rd Qu. Max.
-0.5443890 -0.11273440.0046344 0.0988804 1.1655986

Table: 4

	Coefficients:	Estimated Std. Error	t-value	Pr(>|t|)
ROA	**-0.2570004**	**0.1159497**	**-2.2165**	**0.02666**
ROE	-0.0032821	0.0262482	-0.125	0.90049
ROD	**0.1932321**	**0.0467996**	4.1289	**3.645e**
OPA	-0.0279169	0.0710261	-0.3931	0.69428
ATO	-0.0625343	0.1240044	-0.5043	0.61406
CTA	**1.113845**	**0.180057**	**6.1861**	**6.168e**
Significance codes	0	0.001	0.01	0.05

Coefficients: Estimate Std. Error z-value Pr (>|z|)
(Intercept) 1.1543015 0.7938526 1.4541 0.14593
Total Sum of Squares: 8.7709
Residual Sum of Squares: 2.91
R-Squared: 0.66823
Adj. R-Squared: 0.6079
Chisq: 66.4657 on 6 DF, **p-value: 2.1647e-12**
PH Test (Model- 1, Model- 2)
Hausman Test
Data: CTD ~ ROA + ROE + ROD + OPA + ATO + CTA
Chi Sq = 1.4883, df = 6, p-value = 0.9603

A model that is inconsistent is an alternative hypothesis considering the above analysis; it is evident that the random effects model better fits the data as R2 and Adjusted R2 are 60.79% and 66.823% respectively. Considering Adjusted R2 being Panel Regression, about 60.79% of variance in Variables that depend on independent variables explain variables that depend on dependent variables. From the random effects model, the variables namely ROA, ROD, CTA are major significant contributors to CTD. The ratios selected for the study justify the model of the study because all the ratios have shown a positive relationship as an independent variable having a good response to the dependent variable *i.e.* cash to deposit ratio. Since the banks in Oman must operate on certain principles of Islamic principles with conditions of rules and regulations banks have strictly followed the instructions given by the Government of the country and central bank of Oman. Independent variables which proved to be very effective namely ROA+ROE+ROD+OPA+ATO+CTA

The dependent Variable selected for the study was CT. Before conducting a panel data technique for the study, fixed and random effect of the model was conducted and in both the tests the results were good and responsive. Fixed effect model has shown that impact of independent variables on dependent variables was excellent because the percentage is above 60% which shows that banking industry in Oman are working efficiently, and it has justified significant at 0.5% level and 1% level of significance. The most significant results have been seen in the case of independent variables, namely ROA, ROD & CTA.

2. Findings of Research

It is evident from the positive response of the contribution of above ratios because return on assets is very positive and contributing to the growth of the economy and it means deposits are used for the development of infrastructure and industries in the country which not only signifies good indication of economic growth of the country but also helps in controlling inflation and enhances sound purchasing power of the people. Return on deposits reflects efficiency in the mobilization of the deposits of the banks but also gives good returns to the depositors which enhance the economic well-being of the bank customers and the people. The third most effective variable clearly indicates that the proportion of investment to the cash and deposits is being done in a sensible manner with the intention of development of different sectors of the country but also confidence of the banks in the process of investment.

Conclusion

Present empirically study of bank performance and difference between Islamic and conventional banking based on their customer deposits. Data from conventional and Islamic banks' annual reports is used as secondary data. There is a large amount of data available on the official banks' websites. The liquidity ratios, profitability and efficiency of the two categories of banks are analyzed in detail. Analysis of the data confirms alternate hypotheses that Islamic and conventional banking are performing at their best. Still, the majority of the performance measures for the combined banking system show a positive trend. In this way, we can see the combined banking industry growing and better performance. The future of banking seems brighter. There are certain financial ratios that can be analyzed in order to determine how banking strategies will fare. It would have been more powerful to analyze Oman's financial ratios using a larger sample and advanced statistical tools. Islamic financial institutions (IFIs) play a crucial role in the economic development of the Middle East by providing financial services that align with Islamic principles, such as risk-sharing and ethical investments. These institutions contribute to the growth of various sectors, including infrastructure, healthcare, real estate, and energy. The unique operational model of IFIs, grounded in Sharia law, differentiates them from conventional banks. Their focus on prohibiting interest (Riba), excessive speculation (Gharar), and unethical investments fosters a financial system that emphasizes fairness, social responsibility, and stability. Governments in the Middle

East have played a pivotal role in fostering the growth of Islamic finance by establishing favorable regulatory frameworks, promoting Sharia-compliant products, and ensuring alignment with international financial standards. Such support has allowed IFIs to grow rapidly and become an integral part of the region's financial ecosystem. The growth of Islamic finance in the Middle East has had a significant global impact. The region's IFIs are now playing a key role in global financial markets, attracting international investors seeking ethical and stable investment opportunities. This has positioned the Middle East as a global hub for Islamic finance. Despite their success, Islamic financial institutions face several challenges, including regulatory harmonization, managing liquidity, and adapting to international financial regulations. However, these challenges also present opportunities for innovation and growth as IFIs continue to evolve and develop new financial products and services that meet the demands of a globalized economy. IFIs have the potential to contribute significantly to financial inclusion in the Middle East by offering banking services to unbanked populations, particularly in regions with a high proportion of Muslim populations who prefer Sharia-compliant financial services.

Future Prospects

The future of Islamic finance in the Middle East looks promising, with the continued growth of both Islamic financial products and institutions. As the global demand for ethical finance and sustainable investments rises, the region's IFIs are well-positioned to expand their influence and contribute to the development of a more inclusive and socially responsible global financial system. Islamic financing institutions in the Middle East provide an alternative to conventional banking systems, offering stability, risk-sharing, and ethical investments. Their contributions to regional economic growth, along with their role in fostering financial inclusion, make them an essential component of the Middle Eastern banking sector and a model for other regions seeking to implement similar financial systems.

Credit Authorship Contribution Statement

Gaurav Kumar: Conceptualization; Software, Data curation, Investigation; Writing - original draft; Visualization.
A.V.N. Murty: Validation, Supervision, Methodology, review and editing.
M.V.K. Srinivasa Rao: Formal analysis

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Declaration of Use of Generative AI and AI-Assisted Technologies

The authors declare that they have not used generative AI and AI-assisted technologies during the preparation of this work.

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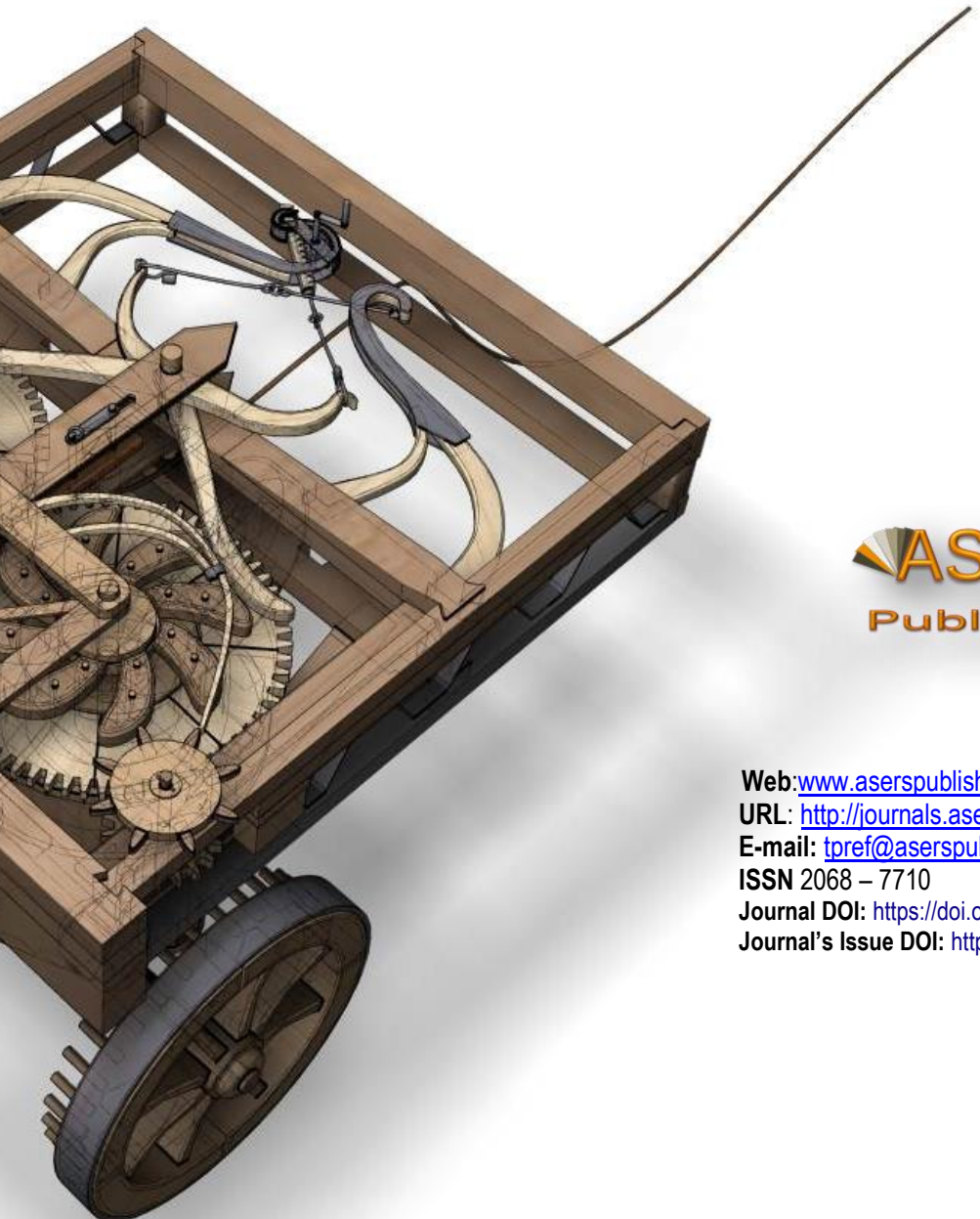

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