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The Hundred Differences between Islamic and Conventional Banking Systems

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Abstract
Islamic Banking is a catchphrase now to many of the policy makers in the globe. Neither receipt nor payment of interest in this system questions its survival. Astoundingly, it has proved itself as a more effective system than currently practiced interest based banking system. However, the recent global economic crisis has impacted financial performance of many banks all over the world. It has forced around 123 banks in the U.S. to file for bankruptcy in just a year, including American giant bank Lehman Brothers that was never been expected to fail. Fascinatingly, even in such turmoil Islamic banks are found to be relatively less affected by the crisis than their conventional peers (S E Hidayat et al, 2012). Consequently, a lot of interest is shown by the economists across the world in assessing its feasibility in adapting in main stream economy. In this context, an attempt is made in this paper to understand the differences between Islamic and conventional banking systems in practices and their impact on economic variables such as inflation, full employment, exports, business cycles etc.

Key Words: Islamic Banking, Conventional Banking, Differences, Impact

Introduction

Islamic Banking though has origin from the era of Prophet Mohammad (Peace Be Up on Him), evolved as a formal banking system since 1970s. In its journey of over 40 years, it has spread to over 90 countries worldwide about 40% of which are non-Muslim countries. Islamic Financial Services Industry Stability Report (2015) has reported that Islamic Finance Industry's assets are evidenced double-digit compound annual growth rate (CAGR) of 17% between 2009 and 2013 and are estimated to be worth USD1.87 trillion as at 1st Half 2014, having grown from USD1.79 trillion as at end-2013. Apart from Arab countries, modern, secular and industrialized countries like Britain, Singapore, Japan and Hong Kong have become hub for Islamic Banking and Finance. (H. Abdul Rakeeb, 2010) HSBC, Citi Bank etc. have started separate branches that offer Islamic financial products. (CA Ashutosh Verma, 2008)

Proponents of Islamic Banking argue that it is superior to conventional banking system in achieving socio economic objectives of the society. MS Swaminathan, the father of Green Revolution in India, speaking at Karuna Ratna award presentation function, "*The exorbitant lending rates charged by money lenders in Vidarbha had created a vicious cycle of debt and suicide in the region. "Even yesterday we heard news about 30 farmers who committed suicide in Vidarbha. Islamic banking, which propagates zero interest lending, could hold the key to solving this crisis."*(H. Abdul Rakeeb, 2010) Saleh Al Tayar, Secretary General, FACC commented; *'If global banking practices were based on Islamic practices then we wouldn't be seeing the kind of crisis we are living through now. The $ 4.9 billion hit taken by Societe Generale SA from what it calls unauthorized trading by Jerome Kerviel couldn't have happened in an Islamic institution'*. (M M T Usmani, 2009)

Islamic Banking – Concept and Principles

Islamic Banking can be described as a system of banking that adheres to the principles of Sharia i.e. The Islamic Law. (Mohammad Badi et al,

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2008) In other words, *it can be viewed as a financial system which identifies itself with the spirit of Sharia (The Islamic Law), as laid down by the Holy Qur'an and Sunnah (the practices of Prophet Mohammed (Peace Be Upon Him)), as regards its objectives, principles, practices and operations.* (Dr. Shahid Hasan Siddiqui, 2008) Islamic Banking is based on the following principles regarding its operations.

- Prohibition of receipt and payment of interest (H. Abdul Rakeeb, 2010)
- Emphasis is on profit and loss sharing (H. Abdul Rakeeb, 2010)
- Prohibition of *Qimar* (gambling), *Iktinaz* (hoarding), *Ihtikar* (monopoly), *Israf* (extravagance), *Fasad* (corruption), *Mujazafah* (speculation), *Ghish* (deception), *Tadlees* (fraud), *Kathib* (lying) etc. (Dr. Abdelkader Chachi, 2013)
- Prohibition of contracts involving *Gharar* (excessive risk). (Dr. Abdelkader Chachi, 2013)
- Prohibition of financing socially detrimental projects that deals with *Khamr* (intoxicants), *Khinzir* (Pork), and all unethical dealings such as prostitution, stealing etc(Dr. Abdelkader Chachi, 2013)
- Prohibition on selling what is not owned or possessed. (Dr. Abdelkader Chachi, 2013)
- Prohibition on selling fruits before they are ripe(Dr. Abdelkader Chachi, 2013)
- Prohibition on selling debts (Dr. Abdelkader Chachi, 2013)
- Asset Backing Principle: It is required that financial transactions should be unpinned by an identifiable and tangible underlying asset. (H. Abdul Rakeeb, 2010) It means financial transactions must be accompanied by an underlying productive economic activity that generates legitimate wealth. (Dr. Zeti Akhtar Aziz, 2010)
- Disclosure Principle: All the parties are treated as partners in the business. Hence they must be adequately informed on all the financial dealings i.e. there will be full disclosure of information on all the aspects of the business to all the concerned parties. (H. Abdul Rakeeb, 2010)

Differences Between Islamic And Conventional Banking Systems

Islamic banking is not strange to business world as it is perceived by certain quarters. It is a banking system very much like conventional banking within certain restrictions imposed by Islamic law. At the same time, Islamic banking is not a mere copy of conventional banks. It has its own way of doing business and all operations are duly certified by Sharia experts Islamic Fiqh Academy (IFA). Portfolios of IFIs are dominated by Sharia compliant modes of financing. There exists a plethora of differences in the practices of Islamic and conventional banking systems and thus have different impacts on the economy. The major differences between these banking systems are tabulated below under the following heads.

A. Differences in the Assumptions (S. No. 1 – 21)
B. Differences in the Operations (S. No. 22 – 74)
    B.1. Acceptance of Deposits (S. No. 22 – 35)
    B.2. Financing (S. No. 36 – 64)
    B.3. Investments (S. No. 65 – 74)
C. Differences in the Impacts of the Banking Systems on Economy (S. No. 75 – 10

Table – 1: Differences between Conventional and Islamic Banking System

S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
A. Differences in the Assumptions (1 – 21)			
1.	Origin (Dr. Md Alwosabi, 2013)	Man made laws (with trial and error method)	Almighty made laws (who is the creator of the man and hence his laws are more wise than manmade laws)
2.	Laws followed (M A Majid et al, 2008)	Government Laws prevailing in the country	Government Laws prevailing in the country + Sharia (The

S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
			law of Islamic Religion)
3.	Can they finance all the businesses or not?	Yes, provided they are legal in the country.	No, they must be legal as well as Sharia compliant.
4.	Objective is to fulfill (Iqbal Khan, 2009)	economic needs of the society	Socio - economic needs of the society
5.	Wealth creation approach (Dr. Md Alwosabi, 2013)	Economic methods of wealth creation but ignores social, ethical and moral methods of wealth creation.	Social, ethical and moral methods of wealth creation are first priority. Economic attractiveness of business is the next priority.
6.	Profit Maximization Type (M Abu Bakar, 2010)	It aims at unrestricted profit maximization.	It aims at profit maximization subject to Shariah restrictions
7.	Approach in financing social value destroying businesses like gambling, alcohol, casinos etc.	Financed as the criterion for financing the project is the profitability.	Not financed (though profitable) as they are social value destroyers and harmful to mankind
8.	Handling of ZAKAT (A tax that a Muslim rich has to pay to the poor) (M A Majid et al, 2008)	Do not collect and pay any religious tax	One of the functions of the Islamic Banks is to collect and distribute Zakat. Further, they pay their own Zakat.
9.	Accounting Standards followed (Dr. Md Alwosabi, 2013)	British, American and International Accounting Standards	Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) formed in 1988
10.	Assumption about the nature of money (Mabid Ali et al, 2013)	Money is a store of value + medium of exchange + product. Therefore, trading of money take is allowed.	Money is both a store of value and a medium of exchange but not product. Hence, trading in money is prohibited.
11.	Time value of money concept (M.A. Siddique, 2015).	Adopted.	Ignored. But time value of commodity is considered.
12.	Type of assets involved in business transactions	Financial Assets	Real Assets
13.	Receipt and Payment of interest (H. Abdur Rakeeb,2010)	Heart and soul of this system	Prohibition on receipt and payment of interest in any form
14.	Banking operations revolve around (S Malhotra, 2010)	Lending money and getting it back with compound interest	Investing i.e. participation in business activities
15.	Profit and Loss Sharing modes of finance are (Dr. Abdelkader, 2013)	Not allowed	Allowed
16.	Contracts between Depositors – Banks (Dr. Abdelkader, 2013)	Debt contracts	Equity as well as Debt contracts (without interest)
17.	Operations focus on (J Ahmed et al, 2011)	Elimination of Risk	Bearing Risk
18.	Risk associated to	Deposits are risk free as the	Deposits are exposed to risk

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S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
	deposits	return is assured and predetermined	to earn the return. In this process, if the loss is the result, it has to be shared.
19.	Who bears the risk?	Total risk is born by the bank	Risk is shared with the depositors
20.	Nature of Risk sharing	Asymmetric distribution of risk with bank carrying total risk but the depositor is risk free.	Symmetric distribution of risk among the all
21.	Return sharing	No returns sharing as total risk is borne by the bank. Only a fixed amount of interest is paid to the lender.	Profits and Losses of the banks are shared with the depositors.
B. Differences in the Operations (22 – 64)			
B.1. Acceptance of Deposits (22 – 35)			
22.	Way of mobilizing the deposits (Sarika Malhotra, 2010)	Borrowing	Coordination with partners
23.	When collecting the deposits from the public, the bank acts as a (Dr. MIA Usmani, 2003)	Borrower of money for interest	Agent on behalf of the depositors to disburse the money to the users
24.	Deposits are treated as (J Ahmed et al, 2011)	Liability of the bank i.e. debt	Quasi – equity but not debt due to profit and loss sharing type of agreement between the bank and depositors.
25.	Whether all the banks are able to mobilize savings or not? (Muhammad Hanif, 2011)	Yes. Because bank deposits are guaranteed, all the banks are able to get deposits	No. Only those banks will be able to collect deposits who can establish trust in the eyes of masses
26.	Whether Guarantee given by the bank on behalf of its customer is charged or not? (Dr. MIA Usmani, 2003)	Yes. Letter of Guarantee and Shipping Guarantee are charged.	No.
27.	Assurance of Principal i.e. deposits with the bank (A Fizulayev, 2011)	All the deposits i.e. Fixed Deposits, Savings and Current Accounts are guaranteed.	Only deposit accounts which are based on *al-wadiah* principle are guaranteed.
28.	Assurance of Predetermined return i.e. interest (Alimshan Faizulayev, 2011)	The investor is assured of a predetermined rate of interest.	No such provision is available.
29.	Reward to depositors	Interest	Profit and loss sharing as per agreement
30.	Nature of Return (reward) to depositors	Fixed, predetermined and positive.	Variable, post determined and may or may not be positive.
31.	Basis for payment of interest	Time value of money or capital	profit or loss is the basis for rewarding.

S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
32.	Reward (interest / profit) is shared with the depositors or not? (Muhammad Hanif, 2011)	Bank enjoys total reward as it has born total risk. However, interest is paid to the depositors as per the agreement.	Reward (Profit) is shared by the bank with its depositors as per the agreed ratio.
33.	Whether Fixed Deposits, Savings accounts and current accounts are allowed or not? (Dr. MIA Usmani, 2003)	Allowed	Fixed deposits and Savings accounts are prohibited as they offer interest. But current accounts are allowed.
34.	Whether the depositors know about what the bank does with their money or not? (J Ahmed et al, 2011)	Depositors are unaware of the bank's investment and liquidity management activities.	Islamic bank entitles its investment account holders to be informed of what the bank does with their money and, for some particular contracts, to have a say in where their money would be invested.
35.	Importance given in developing project appraisal techniques (A Faizulayev, 2011)	Low. Since income from the advances is fixed.	More. Since it has to share the profit and loss.
B.2. Financing (36 – 64)			
36.	When disbursing the collected deposits, the bank acts as a (Dr. MIA Usmani, 2003)	Lender of money for interest	Partner with the users of the money
37.	Financing mode to the customers is (M A Majid et al, 2008)	Interest oriented, and a fixed or variable interest rate is charged for usage of money	Based on risk and reward sharing
38.	Criteria for financing the projects	Economic criterion (ability to repay) (Sarika Malhotra, 2010) More importance is given to credit-worthiness of the clients than viability of the projects (Alimshan Faizulayev, 2011)	Economic as well as Social welfare (not detrimental to the society) More importance is given to viability of the projects than credit-worthiness of the clients
39.	Contracts between Banks – Users of Funds	Debt contracts	Equity as well as Debt (without interest) contracts
40.	Customer and Bank Relationship (Dr. Md Alwosabi, 2013)	Debtor and Creditor	Type of relationships are; Partner, Lesser - Lessee, Seller – Buyer, Creditor – Debtor, Principal – Agent.
41.	Type of loans offered to borrowers (Muhammad Hanif, 2011)	Three types of loans. Long-term loans Short- term Loans	Only one type of loan is offered i.e. Qard-e-Hasna (Benevolent Loan).

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S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
		Overdrafts	
42.	Interest is charged on the loans or not?	Yes. It is charged on all the loans.	No. Bank seeks share in the profit earned but not interest on loans.
43.	Knowledge about the business proposal	Ambiguity about the type of business the debtor is going to do	Full disclosure of information
44.	Participation of banks in business activities	Doesn't exist. But it is available through venture capital firms and investment banks, which may also participate in management.	There exists genuine end–investor participation
45.	Monitoring of the business activities of banks and customers	No monitoring by the parties involved	Monitoring at each level and on all activities
46.	Penalty on default (M A Majid et al, 2008)	Traditional banks normally charge additional money (compound interest) in case of late payment	Can't charge penalties for their enrichment. They may however allow imposition of default or late-payment penalties to discourage late payments or defaults, which includes administrative costs on bank for processing and collecting the amount owed.
47.	Treatment of penalty in case of default	Income to the bank	It is prohibited to earn income by this way hence it cannot be treated as income of bank. However, such amount is donated towards charity.
48.	Loan rescheduling	done at higher interest rate	Prohibited.
49.	If the project fails (Mabid Ali Al-Jarh et al, 2013)	The loan is written off as it becomes non performing loan.	The management of the organization can be taken over to hand over to a better management.
B.2.1. Long Term Loans			
50.	What is given in the loan, cash or asset?	Cash is provided but not asset.	Asset is provided but not cash.
B.2.2. Leasing			
51.	Who poses title of the asset? Who bears risk?	Banks posses the title but risk is beard by customer.	Banks posses the title, thus bear all ownership risks.
52.	If asset is lost or destroyed (Muhammad Hanif, 2011)	Though the title is with the bank, as the customer is using it, he has to pay remaining installments.	Though the customer is using it, as the title is with the bank, bank will not claim further installments.
53.	During the period of major repairs, rent can be demanded or not? (Muhammad Hanif, 2011)	Yes	No

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S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
54.	In case of default of rent, additional rent or penalty can be demanded or not? (Muhammad Hanif, 2011)	Rent is demanded with interest	Not demanded in most of the cases except a penalty (if stipulated in original contract of lease)
B.2.3. Short Term Loans			
55.	What is given for meeting inventory requirements? Cash or asset? (Md Hanif, 2011)	Cash is given and interest is charged.	Asset is purchased by the bank and then transferred to firm for a profit to meet its requirements.
56.	While financing the projects, agreement to exchange goods or services is made or not? (Mabid Ali Al-Jarh et al, 2013)	While disbursing cash finance, running finance or working capital finance, no agreement for exchange of goods & services is made.	The execution of agreements for the exchange of goods & services is must, while disbursing funds under *Murabaha*, *Salam* & *Istisna* contracts.
57.	Refinancing facility is available or not? (Muhammad Hanif, 2011)	Yes	No
58.	For meeting day to day expenses	Cash is given and interest is charged	*Participation Term Certificates* are issued where by profit of a certain period (e.g. quarter, six month, one year) is shared by banks on pro - rata basis.
B.2.4. Overdraft			
59.	Overdraft facility is available or not? (Muhammad Hanif, 2011)	Yes. It is offered through credit cards. A customer can shop any product at shops	No. Cash cannot be over drawn. However, if a customer want to buy the product but there is no credit balance in his account, then bank buys the product and sells him for an agreed profit
60.	Fee for using the facility	Interest	Profit on the product bought
61.	If defaults i.e. not able to pay installment (Muhammad Hanif, 2011)	Can avail the opportunity of rescheduling by entering into a new agreement to pay interest for extended period	Can claim only the original receivable amount agreed in initial contract
62.	Strategies to deal with defaulters	Rescheduling by entering into a new agreement to pay interest for extended period.	Blacklist the defaulter for any further financing All installments will be due at once Penalty shall be imposed (but the same shall go in charity)
B.2.5. Personal Consumption Loans			
63.	Whether personal loans are issued or not?	Issued at certain interest rate	Not issued. However, if someone needs anything for his personal use, Murabaha scheme is used whereby

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S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
			bank buys the product and sells him for an agreed profit.
B.2.6. Short-term Agricultural Loans			
64.	Nature of the loan (Muhammad Hanif, 2011)	Money on interest is supplied to farmers to buy seeds and fertilizers	Money is given without charging the interest with the agreement to sell the crops to the bank.
B.3. Investments (65 – 73)			
B.3. 1. Investments in Central Banks and Other Banks			
65.	Mandatory reserve with central banks is rewarded or not? (Muhammad Hanif, 2011)	Yes. The banks can earn interest on these reserves.	No. These reserves are not rewarded by central bank.
66.	Interbank deposits are rewarded or not? (Muhammad Hanif, 2011)	Yes. Interest is rewarded.	No. Interest cannot be demanded.
B.3.2. Investment in Shares			
67.	What conditions have to be met to invest in the shares of the companies? (Muhammad Hanif, 2011)	Must yield attractive profits in the future	Must yield attractive profits in the future + business of the firm and its operations are Sharia compliant i.e. Business must be Halal i.e. ethical Financial operations of underlying firm should be interest free.
B.3.3. Investment in Bonds			
68.	Whether they invest in fixed income bearing securities or not?	Yes. They can buy the bonds of companies which offer predetermined interest without risk.	No. Assurance of predetermined return is not allowed in Sharia. However, they can invest is Islamic Bonds (Sukuks) which offer predetermined return but expose to ownership risk. These bonds are based on Ijara (Leasing) Scheme.
69.	Can they invest in short term loans, bonds and money at call and short notices? (Muhammad Hanif, 2011)	Yes and earn interest from these investments.	No. because these are interest based transactions.
B.3.4. Investment in Derivatives			
70.	Investment in derivatives	Allowed	Not allowed
B.3.5. Liquidity Management Practices			
71.	How do they meet liquidity requirements?	By investing in marketable securities	Ijara sukuks, Murabaha sukuks, Musharaka sukuks etc. which are tradable in secondary security market.
72.	Can they create liquidity	Yes	No

S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
	by issuing the bonds against their receivables?		
73.	Speculative activities	Allowed. Most transactions involve an element of uncertainty.	Not allowed. Transactions and activities that involve uncertainty (speculation) regarding the outcome and/or timing of execution or delivery are not allowed.
74.	Borrowing of banks from money markets (Alimshan Faizulayev, 2011)	Relatively easier	It must be based on a Shariah approved underlying transaction
Impact of the Banking System (75– 100)			
75.	Impact on human personality (M Hasan, 2012).	Interest generates vices like miserliness, selfishness and petty-mindedness, thereby creating 'idlers and cruel blood suckers' in the society.	Islamic Banking system honors human beings, removes selfishness in the society e.g. Islamic Banks offers Interest free loans viz. Quard – e – Hasna
76.	Impact of high interest rates on productive economic activity (M. Arif, 2012)	High market interest rate encourages the public to go for fixed deposits rather than undertaking productive economic activities.	In this system, Interest has no impact on the economic activity. However, it encourages public to undertake economic activities; even they don't have funds but have profitable ventures.
77.	Impact on investment environment (M. Arif, 2012)	Higher interest rate creates uncertainty in investment environment which makes long term investments difficult and thus the growth process stalls.	Uncertainty is reduced in investment environment as there is no interest.
78.	Impact on achieving full employment (M. Arif, 2012)	The process of investment in an economy continues as long as MEC is higher than the interest rate or at least at par with it. As soon as MEC falls below the interest rate, the process of investment will be stalled. Thus, the only obstacle in the way of achieving full employment is interest.	As there is no interest, full employment can be achieved.
79.	Impact on Lender (M M T Usmani, 2009).	Causes injustice to lender when borrower gets huge profits from the borrowed funds and throws meager portion as interest to him.	Profit is shared thus justice is ensured to lender
80.	Impact on Borrower	Causes injustice to borrower	Loss is shared and hence

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S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
	(M M T Usmani, 2009).	as he has to pay interest though he incurs losses.	justice is ensured to borrower
81.	Efforts to ensure growth with equity (Alimshan Faizulayev, 2011)	No importance is given to public interest. Very often, bank's own interest becomes prominent. It makes no effort to ensure growth with equity.	It gives due importance to the public interest. Its ultimate aim is to ensure growth with equity.
82.	Impact on Inclusive Growth (M M T Usmani, 2009)	Inappropriate distribution of profits results in non-inclusive growth and creates monetary monopolies.	Profit and Loss sharing mechanism ensures that lender gets share in profit of borrower. Hence both the parties are benefited.
83.	Impact on Depositors' Growth (M M T Usmani, 2009)	When the depositors (middle and lower class people) who saved money with the banks, need funds to start business, banks deny loans as they cannot offer collateral. Hence depositors are not leveraged with their deposits as so by the rich.	Offer loans to these sections of the society without collateral if they prove to the bank that the project is viable.
84.	Impact on Sovereignty of Nations (W.A.M. Visser et al., 1998)	Poor countries borrow loans on interest from IMF and World Bank (which are run by rich countries) But unable to pay interest due to low GDPs. Hence they have to tolerate the interference of rich nations in their policy framing. Thus, their sovereignty is at stake.	If sovereign debt during the 1970s had been advanced on an equity investment basis, debtor countries would not have been caught on the rack of compounding interest.
85.	Impact on Inflation (Mabid Ali Al-Jarh et al, 2013)	Due to non existence of goods and services behind the money while disbursing funds, expansion of money takes place which creates inflation.	Due to existence of goods & services behind the money while disbursing funds, no expansion of money takes place and thus no inflation is created.
86.	Extent of impact of inflation (Mabid Ali Al-Jarh et al, 2013)	Cost of the product increases to the extent of inflation at each level of production.	Due to control over inflation, no extra price is charged by the entrepreneur.
87.	Ability to curb deficit financing (Mabid Ali Al-Jarh et al, 2013)	The expanded money in the money market without backing the real assets, results in deficit financing.	Due to non expansion of money, balance budget is resulted.
88.	Impact on salaried persons (Mabid Ali Al-Jarh et al, 2013)	Debts financing gets the advantage of leverage for an enterprise, due to interest expense as deductible item	Sharing profits provides extra tax to Federal Government. This leads to minimize the tax burden over

S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
		from taxable profits. This causes huge burden of taxes on salaried persons.	salaried persons.
89.	Impact on GDP (Mabid Ali Al-Jarh et al, 2013)	As salaried persons have to pay more taxes, the saving and disposable income of them is affected badly. This results in decrease in the real GDP.	As the tax burden over salaried persons is reduced, savings and disposable income of the people increase which in turn increases the real GDP.
90.	Impact on Currency (Mabid Ali Al-Jarh et al, 2013)	Due to decrease in the real GDP, the net exports amount becomes negative. This invites further foreign debts and the local-currency becomes weaker.	Due to increase in the real GDP, the net exports amount becomes positive, this reduces foreign debts burden and local-currency becomes stronger.
91.	Impact on Business Cycles	Banks issue loans with a free hand when the trade is brisk but as soon as signs of a slump appear they start recovery of the loans. As a result capital shrinks and the slump starts declining to its lowest level (M. Arif, 2012).	Islamic banking system prevents extravagance thus frees a large portion of economic resources. Thus, the magnitude of business cycle will be reduced and economic stability will be relatively increased. (Bijan Bidabad, n.d)
92.	Role in Economic Crisis (Dr. Zeti Akhtar Aziz, 2010)	As the money grows irrespective of productive activity in the economy, there is a mismatch between financial (liabilities) and productive (assets) flows which result in crisis-prone financial economy.	Close link between financial (liabilities) and productive (assets) flows result in real economy which is less prone to economic crisis.
93.	Ability to curb real estate crisis (Muhammad Hanif, 2011)	When the value of the real estate asset diminishes, the whole burden of loss is to be borne by the customer only. If the customers default installments at such stage, crisis occurs like of 2008.	When market value of property decreases both bank and customer suffers according to their share in property and whole burden is not shifted on customer alone. Hence crisis can be avoided.
94.	Impact on MSME's growth (M M T Usmani, 2009)	MSME earn fewer profits after withstanding in the stiff competition with large scale firms but most of the profits are eaten by banks in the form of interest.	Expertise and contacts of the bank with market intermediaries make MSME to earn more profit and flourish.
95.	Impact on self employment (Muhammad Hanif, 2011)	In this system, big firms create most of the employment. Self employment is created in	Under Mudaraba mode of financing by extending capital facility to skilful persons lacking capital, self

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S. No.	Characteristic Feature	Conventional Banking	Islamic Banking
		small proportion.	employment can be created and they can grow with the expertise of the bank.
96.	Impact on projects of national importance (W.A.M. Visser et al., 1998)	Fall short of capital as they have lesser MEC than Market Interest Rate.	Islam encourages these kinds of projects as they lead to social welfare.
97.	Impact on natural resources (W.A.M. Visser et al., 1998)	Discounting of future affects the rate at which we use up natural resources - the higher the discount rate (derived partly from the interest rate); the faster the resources are likely to be depleted.	In Islam, time value of commodity is acceptable but time value of money is not acceptable. Thus, thus resources are consumed only when the economic activity is undertaken.
98.	Impact on Intergenerational Equity and Right Livelihood (W.A.M. Visser et al., 1998)	As the resources of depleted quickly, an age-old precept of right livelihood is violated which is based on the presumption that traditional land users must hand over the land on to the next generation in at least as good heart as it was inherited from the ancestors.	As there is no discounting of money based on time and resources consumed only when the economic activities are undertaken, intergene-rational equity and right livelihood are achieved. (M.A. Siddique, 2015).
99.	Borrowing of Government from central banks (Alimshan Faizulayev, 2011)	Government very easily obtains loans from Central Bank through money market operations without initiating capital development expen-diture.	Government cannot obtain loans from the Monetary Agency without making sure the delivery of goods to National Investment fund.
0.	Creation of Black Money (Dr. Zeti Akhtar Aziz, 2010)	Parking of assets in off balance sheet items is possible as the outsiders (including banks) do not have any knowledge about the business activities of the borrowers (frims). Thus, creates black money.	It is not possible as each party knows what the bank is doing with the money and what the firm is doing with the asset.

Conclusion

There exists a plethora of differences between currently practiced interest based banking system and interest free Islamic banking system. Conventional banking system considers economic methods of wealth creation but ignores social, ethical and moral methods. Islamic banking system gives first priority to social, ethical and moral methods of wealth creation; economic attractiveness of business is the next priority. Thus, it focuses on achieving socio economic welfare. Differences in the operations of these two extreme poles of banking systems, has distinctive impact on the economy. Islamic banking system grounds on sound ethical and economical principles incites productive economic activity, instrumental in achieving full employment, causes inclusive growth, reduces inflation, creates real economy, finance the projects of national importance though have less MEC, supports intergenerational equity and the concept of right livelihood, which are far achievable in conventional banking system. In light of its superiority over the interest based banking system, it is recommended to the policy makers across the globe to explore the feasibility of adopting it in their main stream economy.

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