

Perception towards risk management of financial products: Islamic vs. Conventional Banks in Bangladesh

IDLC Finance PLC.

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Submitted in Partial Fulfillment of the Requirements for the Degree
Bachelor of Business Administration



15/09/2024

Internship/Project Report Approval Form

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Internship Organization: **IDLC Finance PLC.**

Internship /Project Report Topic: **Perception towards risk management of financial products: Islamic vs. Conventional Banks in Bangladesh**

Term (Tick one):

☐ Spring 2024

☐ Summer 2024

☐ Fall 2024

SUPERVISOR APPROVAL

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Letter of Transmittal

September 15, 2024

Kazi Md Tarique. PhD

Assistant Professor

University of Liberal Arts Bangladesh

Subject: Submission of Internship Report on “Perception towards risk management of financial products: Islamic vs. Conventional Banks in Bangladesh”

Dear Sir,

With due respect, I am formally writing to submit my internship report on the topic “Perception towards risk management of financial products: Islamic vs. Conventional Banks in Bangladesh”. This report has been prepared for the fulfillment of my internship according to the prerequisites of my undergraduate program Bachelor of Business Administration (BBA) at the University of Liberal Arts Bangladesh (ULAB). I have gained valuable insight throughout my internship journey and this study helped me to employ a wide variety of academic and financial knowledge in the actual world. I have given my full effort to gather the required data and information to write this report.

For preparing this report I have followed your guidelines and suggestions. Moreover, I would want to convey my appreciation to you for dedicating your important time and providing excellent advice. I hope this report will please you. I am looking forward to your valuable feedback.

Sincerely,

Shampa Koly

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ULAB School of Business (USB)

University of Liberal Arts Bangladesh (ULAB)

Acknowledgment

Initially, I would like to convey my deep gratitude to Allah SWT for granting me the fortitude to successfully conclude my internship at IDLC Finance PLC and complete this report. I am grateful to my family since I could never have finished the journey without their help. Special thanks to one of my closest family members Naeem Hasan for supporting me throughout the internship.

I would like to extend my gratitude to my academic supervisor Kazi Md Tarique. PhD for guiding me; without his support, it would be not easy to complete the report.

I truly appreciate the help and advice of my supervisors Ahmed Abdullah Al Tamjid and the whole team of the Islamic Finance Department at IDLC Finance PLC.

I also want to thank all of the ULAB faculties who guided and supported me throughout my four years of academic journey.

Finally, I want to thank my friends for their support and belief in me.

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PART A

Chapter One: Internship Preparation

1.1 My motivation to do the Internship

I had always intended to do my internship at a Finance and Investment Company since I was interested in learning about the real-world applications of the financial market and its products. I am fortunate to have had the opportunity to work as an intern in the Islamic Finance Department of IDLC Finance PLC. It was an advantage for me to work here because I had read about Islamic finance before joining the company. For this, I could easily relate to the academic knowledge and the practical process. This internship gave me practical experience and served as motivation in addition to pushing me to study more about financial products and services. Moreover, the diverse team of Islamic Finance provides me with the opportunity to improve my problem-solving skills. In addition, this internship facilitates me networking with several professionals.

1.2 My process of applying and managing an internship at IDLC

I will never forget the search process of applying for an internship. Before starting this process, I spoke with numerous seniors before beginning this process, and they all advised creating a professional resume before submitting an application to any company. Having a professional CV is a crucial first step in the process. During my 11th semester after midterm, I started to apply to different companies, and I used LinkedIn to search for opportunities. I applied to many companies, for instance, EBL Assets Management, Bkash, Banglalink, and Partex. I submitted my CV to the ULAB career office, and they dropped it to the IDLC. I got the call for interviews from all of these companies and went through multiple stages, for example, tests, personality tests, focus group discussions, one-to-one viva, etc. At first, I got an email from Bkash for the second round of focus group discussion, and on the same date, I got a call from Banglalink for the final interview. After giving the interview to both of these two companies, I got another email from EBL, but I couldn't attain this. After a while, I got a call from IDLC for the interview, and I was quite surprised because I didn't drop my CV here, so I was confused for a second. I remember that it was my last final exam and I got a call from the HR team of IDLC about my selection. As I mentioned earlier, I always wanted to work as an intern in an investment company, so I chose IDLC to pursue my internship.

1.3 My Internship Interview Experience

Attending every interview taught me a lot since I had the opportunity to conduct interviews at different companies. Me along with some of my other friends went to IDLC at Gulshan-1, 1st floor of Bay Glaria to attend the interview. At first, we were all waiting in a room, and many students of other universities were also present there. I talked with them and tried to build a formal connection. One by one, we got the interview call. After three people, it was my turn to go to another room for the interview. On the interview board, there were three people and they behaved very politely. At first, they asked me to introduce myself, and I said it very well. After that, they asked about my major and why I took it. I explained that I like to do math, and I have a plan to work in the financial sector to broaden my knowledge as well as in Islamic finance. Then they asked me if I would like to work in the HR or marketing department. I politely answered it and convinced them why I wanted to work in the finance department, and they were pleased with my answer. My interview went well so far, and I answered all the questions with assurance. They were impressed with the co-curricular activities I participated in at ULAB.

1.4 Relevant information about the organization

IDLC Finance Limited was established in 1985 as the first leasing company in the nation, in collaboration with global organizations and with the principal assistance of the International Finance Corporation (IFC) of the World Bank Group. The Korean Development Leasing Corporation (KDLC), the foremost leasing corporation in South Korea, provided technical assistance. IDLC, now the leading diversified financial institution in Bangladesh, has international development organizations such as Aga Khan Fund for Economic Development (AKFED) and German Investment and Development Company (DEG), as well as the IFC, as its external owners. The company's shares are jointly owned by many foreign sponsors, such as Kookmin Bank of the Republic of Korea, KDLC, and other organizations. Collectively, these sponsors possess 47.3% of the company's shares.

The firm benefits from its distinctive institutional ownership structure, which mostly consists of financial institutions. This structure facilitates continuous development by fostering the exchange of expertise and a professional attitude at the highest level of policymaking. IDLC offers a diverse array of financial services and solutions to cater to the unique and diverse requirements of both institutional and individual clients. The products offered include Lease Finance, Term Finance, Real Estate Finance, Short-term Finance, Corporate Finance, Merchant

Banking, Term Deposit Schemes, Debentures, and Corporate Advisory Services. IDLC Finance Limited aims to become the foremost and most innovative provider of financial solutions in the country. In order to achieve this vision and goal, it is essential to give priority to the welfare of all our stakeholders, particularly the shareholders, customers, and workers. The business idea entails doing one's obligations with complete accountability for one's actions and results, while carefully following to the highest ethical standards.

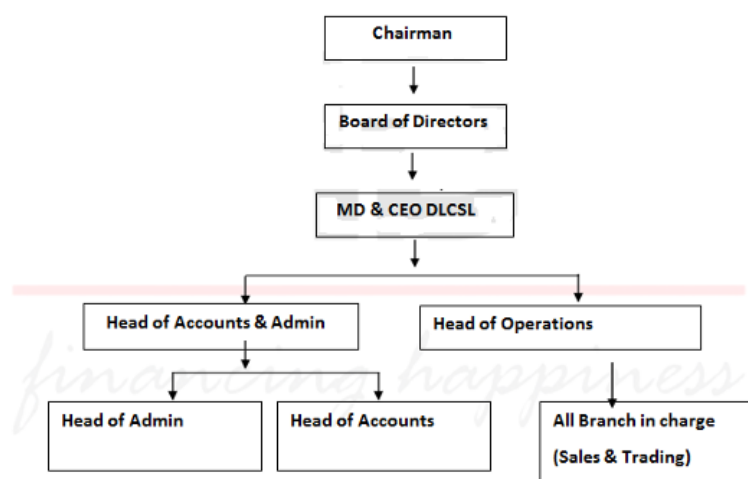
Vision: We will be the best financial brand in our country.

Mission: We will focus on quality growth, superior customer experience, and sustainable business practices.

Core Values:

- Integrity
- Customer Focus
- Trust and Respect
- Equal Opportunity
- Eco-friendly
- Passion
- Simplicity

Organogram of IDLC Securities Limited:



Chapter Two: About The Internship

2.1 My Position/ Job Description

I began my internship at IDLC in the Islamic Finance Department. During my three-month internship, I have acquired a substantial amount of experience. My office is in a 7th-floor building, and I sit on the 4th floor, which is IDLC Finance PLC. It is located in Gulshan-1. IDLC operates with several departments, including the finance, talent acquisition, recruiting, learning and development, marketing, and legal teams. The workplace is fully decorated, yet, due to its nature as an investing firm, the overall decorating might appear monotonous with several workstations and computers. Within the office, there is a designated area just for tea and coffee, accessible to all employees at any time.

2.2 Work Culture

I have seen that the work atmosphere is generally satisfactory, as the majority of employees have amazing qualities and maintain a nice approach towards the interns. Women are generally respected and given priority in all aspects. All employees are required to adhere to a formal dress code, regardless of gender. We are required to attend the office for five days every week. The office commences at 10.00 a.m. in the morning and ends at 6:00 p.m. In the offices, all individuals, even the supporting staff, address each other as "vaiya" or "apu". Across the board, the work environment is highly pleasant, and employees are not permitted to exert authority or command over their colleagues; they may only make requests for assistance. Therefore, all individuals inquire with a courteous approach. IDLC uses Skype to enhance communication, therefore necessitating that each employee possesses their individual Skype account. In addition, they utilize a central drive as a repository for sharing essential files with others.

2.3 Job Duties and Responsibilities

As an intern in the Islamic Finance department, I was assigned the following duties:

1. My responsibilities include reviewing and proofreading documents. For instance, when my supervisor provides me with several copies of financial product brochure files, I thoroughly examine the material and make any edits. Once I identify any errors, I submit the revised papers back to my supervisor for final approval.

2. I participated in a project called "website content launching". I diligently collaborated in the creation of the material and meticulously reviewed several papers in accordance with the instructions provided by the supervisor. As an illustration, I created a Frequently Asked Questions (FAQ) section for the website.
3. The majority of the information should be in 'Bangla' as I am proficient in typing and have translated several documents.
4. Making product's presentation slides.

2.4 New skills I learned

Throughout my internship journey, I have learned:

1. Strategies for achieving a balance between professional and personal lives. Furthermore, I acquired knowledge about the workplace culture and developed skills in interacting with individuals in a professional setting.
2. I learned the details of Islamic Finance products and how they work in the market practically.
3. The coordination of interpersonal connections among colleagues, superiors, and subordinates.
4. I have made substantial progress in my proficiency with Excel and increased my typing speed via consistent practice.

2.5 Resonating my educational learning with my internship roles and responsibilities

The knowledge and expertise I acquired over my four-year study have proven valuable in my internship experience. Furthermore, by pursuing a major in finance and complementing it with a minor in sustainable development, I established a connection between my academic studies and my professional duties. For example, I have done BUS 303 'Banking and Insurance', BUS 421 'Financial Market and Institution', and BUS 301 'Human Resource Management' all of these courses helped to relate the real financial world with academic knowledge. Due to my knowledge of sustainable development, I can consider the consequences of financial decisions not just in terms of profitability, but also about their influence on the community and environment. In general, my studies furnished me with a strong basis to establish connections between the theoretical knowledge I acquired in the classroom and the actual tasks I engaged in at IDLC.

Chapter Three: Self Reflection

3.1 Things I liked and disliked about my internship

On my first day in the office, the entire Islamic Finance team greeted me cordially and my supervisor kindly invited me to have lunch. They provided me with a separate desk to sit at, and within one day, I received a computer for my job. They handled everything in a professional manner. The canteen staff were consistently helpful and kind whenever I went for lunch. They greeted me warmly and even gave me coffee during working hours. Within my team, there are three other colleagues with whom I often speak and collaborate. I found them to be pleasant individuals. After our internship, we participated in a picture shoot, which was enjoyable.

While the overall environment was satisfactory, there are several aspects that, in my opinion, require improvement. Unfortunately, we did not get any orientation or training program on the first day, which prevented us from having the opportunity to meet our other interns.

3.2 What could I have done better or how could the organisation have utilised me better

If I had been included in other teams within the finance department, such as the credit analysis team and the SME team, I would have been able to gain a comprehensive understanding of conventional finance. I believe I have the necessary expertise to do mathematical analysis or research into a particular topic. Due to the high workload, I believe they might have provided me with more comprehensive training, considering their extensive expertise in several areas of finance. However, they limited my responsibilities solely to the Islamic Finance team.

3.3 Things I would like to continue in my new position

I am interested in pursuing a senior executive role in the SME department at IDLC for my future opportunity. As previously said, several aspects require change. Interns can get their training session or orientation on the first day. Additionally, there will be a dedicated coordinator responsible for overseeing the interns. They will have the ability to organize online training sessions to enhance the value of the internship program. Additionally, they can include interns in departmental weekly meetings to provide them with the opportunity to learn how to manage corporate meetings.

Chapter Four: Personal Development Plan

4.1 My next course of action and career plan

I intend to obtain a master's degree abroad in order to further develop my academic understanding. I will begin the preparation promptly, but prior to that, I will submit applications to several financial firms in order to acquire practical experience. Although I received a fellowship to work in Teach for Bangladesh during my internship, I decided not to continue because it was a contractual opportunity. Therefore, I am really interested in pursuing a career in academia, as I have a passion for educating others. During my undergraduate studies, I consistently made an effort to educate my classmates whenever they had difficulties, which brought me immense satisfaction. Upon completing my master's degree, I will diligently strive to pursue a career in academics.

4.2 Technical and interpersonal skills I want to develop at present to secure a career

As previously said, I have a preference for working in academia; thus, I intend to pursue further study abroad. This will enable me to achieve my aspiration of becoming a university faculty member. Furthermore, in order to enhance my abilities, I intend to acquire various technological expertise that will provide me with a competitive edge in the future. Specifically, I will prioritize learning analytical tools and programming languages such as advanced Excel, Python, Power BI, Stata, and others. In addition, I will enhance my interpersonal abilities by focusing on improving my proficiency in effective communication, presentation skills, and understanding of market trends. Therefore, I will enhance my writing proficiency in order to pursue a career in content writing.

PART B

Abstract

The purpose of the study is to investigate perceptions of people toward the approach of risk management between conventional and Islamic banking and to identify the possible barriers faced by Islamic banks. Data were collected through interviews from different segments (15 respondents) such as Islamic and conventional bankers, Islamic and conventional banking customers, and professionals. Overall, both conventional and Islamic banking customers are not aware of the approach banks use for their risk management. Furthermore, Islamic Banks have limited products due to the prohibition of Riba, compared to conventional one. For this, in the risk management approach, they need to go through a complex process to maintain the Shariah law. Moreover, the main possible barrier faced by Islamic banks to avail the customer's perception is the lack of awareness regarding Islamic banks and the limited product diversification. The limitation of the study is that the data is collected only from the Dhaka region, this might not represent all the conventional and Islamic banks as well as the customer segments. Therefore, further study needs to include the other region as well as the university students who have access to bank accounts.

Chapter One: Introduction

Perception towards risk management of financial products: Islamic vs. Conventional Banks in Bangladesh

Background of the Study

Risks, together with the perception and management of risks, are at the core of the financial sector for both conventional and Islamic banking. Risk management will significantly impact a financial bank's stability in terms of credit allocation, investment strategy, and overall performance. Basic differences between the risk management system of Islamic banking and the conventional system also arise from the underlying principles of Islamic and conventional banking. Whereas conventional banks operate under a system that allows interest (Riba) and mechanisms of shifting risk, Islamic banks function according to Sharia law, which forbids interest and greatly favors Examples of risk-sharing contracts include Mudarabah, which involves profit sharing, and Musharakah, which involves a joint venture (Al Rahahleh et al., 2019).

One of the important components of risk management in conventional banks is interest-bearing instruments, derivatives, and other financial products developed to hedge against risks. Conventional banking systems are centered on risk transfer, where financial products' risks are frequently transferred to customers and investors. This is further facilitated by the use of advanced financial products such as futures, options, and credit default swaps, which enable the bank to safeguard itself against forthcoming losses by shifting the risks to other financial organisations (Basher et al., 2017). However, occasional implementation of this strategy appears to introduce systemic dangers, as exemplified by the 2008 financial crisis, when interconnected financial institutions experienced extensive instability as a result of reckless conduct combined with inadequate regulation.

In contrast, Islamic banks differ from conventional banks in that they adhere to the risk-sharing concept, which involves both the bank and the client sharing the risks and profits of financial transactions. The structure of Islamic banking products is designed so that they do not speculate, or deal with anything that has an element of Gharar and uncertainty, and instead

shift the emphasis to real economic transactions with tangible assets in place. Popularly used contracts in Islamic finance are Ijara and Murabaha, ensuring that the risks are properly shared between the bank and the client to ensure a more balanced distribution of financial results (Archer & Karim, 2009).

A difference between them then seems to appear when comparing their reactions to global financial crises, a difference between them appears. Many studies have been made, which state that Islamic banks have proven to be more resilient during downturns because of their built-in risk-sharing mechanisms and higher exposure to asset-based modes of financing. For example, during COVID-19, Islamic banks in the MENA region showed more stability with lower exposure to risk as opposed to conventional banks, which faced higher liquidity and credit risks (Cao & Chou, 2022). The main reasons are conservative lending patterns and, most importantly, avoiding the use of speculative financial instruments, which have become part of the norm of conventional banking (Elnahass et al., 2021). Nevertheless, Islamic banks must address additional distinctive factors, namely in the area of risk management and guaranteeing adherence to Shariah principles. The inclusion of religious precepts in financial instruments, especially derivatives, which are commonly used in conventional banking, can greatly restrict the potential for risk hedging. Furthermore, creating Shariah-compliant products is a difficult procedure that frequently leads to increased transaction costs and legal liabilities. Research has indicated that these difficulties are compounded by a deficiency in knowledge and skills related to Islamic finance, as well as an insufficient system of regulations and these factors contribute to heightened operational risks for Islamic banks (Belkhir et al., 2019).

More specifically, in Bangladesh, the concept of Shariah compliant banking—especially the risk-sharing feature of the system—is still a nebulous idea to many people. Even if the country's Islamic finance sector has developed, the general public has yet to appreciate how an Islamic bank manages its risks in comparison with a conventional bank, let alone some professional bankers and regulators who do not understand the procedures. According to studies, the lack of knowledge and understanding of the basic principles of Islamic finance—lack of interest and the presence of profit and loss-sharing mechanisms—still remains a significant barrier to its widespread adoption. A vast majority of customers still consider Islamic banking to be like any other form of conventional banking, where contracts such as Mudarabah and Musharakah embed unique risk-sharing features. This gap in awareness

necessitates increased literacy initiatives in finance and better communication from Islamic financial institutions to make the public aware of their distinct risk management practices and the ethical basis of their operations (Haque et al., 2019). This study aims to explore how people perceive the differences between these two banks in terms of risk-sharing and management techniques. Also, to identify a solution to fill the gap regarding the knowledge of Islamic finance and the barriers they face to maintaining the Shariah law.

Research Objective

1. To investigate the perceptions of people toward the approach of risk management in conventional and Islamic banks.
2. To identify the possible barriers faced by Islamic banks.

Research Questions

1. To what extent stakeholders are (Customers, Bankers, Professionals) aware of the risk management approach of conventional and Islamic banks in Bangladesh?
2. What are the possible barriers faced by Islamic banks to avail the customer's preferences compare to conventional banks?
3. How does the prohibition of the Riba (interest) approach affect the risk management strategies of the Islamic banks?

Chapter Two: Literature Review

Key words: Islamic Bank, Conventional Bank, Perception regarding risk management

Islamic Bank

Since the 1980s, Bangladesh has seen significant growth in Islamic banking. Currently, there are 10 fully-fledged Islamic banks that adhere to shariah principles. Several conventional banks, such as Standard Chartered and HSBC, also provide Islamic banking services. Noman et al. (2018) argue that Bangladesh's favorable view of Islamic banking is based on religious incentives and the conviction in its ethical risk management methodology. Notwithstanding their expansion, Islamic banks in Bangladesh have difficulties, particularly in terms of operational risk. Iqbal and Molyneux (2005) emphasize that Islamic banks have challenges in diversifying their portfolios because of the restricted availability of Shariah-compliant goods, despite the Bangladesh Bank's support of Islamic banking through favorable legislation. Their specialization makes them vulnerable to economic downturns in industries like real estate and construction, where they concentrate a significant portion of their funding.

Shariah law, which strictly prohibits the imposition of interest (riba), involvement in excessive uncertainty (gharar), and participation in speculative activities (maysir), distinguishes Islamic banking from conventional banking. This influences their risk management practices as they strive to balance profits with ethical objectives. Scholarly investigations suggest that Islamic banks use unique financial structures. In their study, Khan and Ahmed (2001) observe that Islamic banks, which are unable to use interest-based financial products, prioritize equity-based methods such as Musharakah and Mudarabah. This approach results in risk sharing rather than risk shifting. Chong and Liu (2009) attribute Islamic finance's resilience to market fluctuations to its avoidance of speculative operations. Rosman, Abd Wahab, and Zainol (2014) say that Islamic banks are naturally protected from credit and market risks because they fund projects that are linked to real assets, unlike conventional banks that trade speculative derivatives. In their study, Ahmed and Khan (2017) highlight the significance of openness and shared risk in Islamic contracts as factors that promote trust and mitigate moral hazard.

Conventional Bank

As of 2023, the conventional banking sector in Bangladesh has a total of 61 scheduled banks. Within the overall banking sector, there are 43 privately held commercial banks (PCBs), and 9 foreign commercial banks (FCBs), and the remaining institutions are either state-owned or specialized. Prominent institutions such as BRAC Bank, Dutch Bangla Bank, and Prime Bank dominate the sector. Nevertheless, these banks face challenges such as rising credit risk and non-performing loans (NPLs). Uddin and Akhter (2017) ascribe the rise in non-performing loans (NPLs) to inadequate regulatory supervision and ineffective risk management strategies.

The risk management approach of conventional banking is characterized by its focus on interest-based lending and the use of various financial products, including derivatives, futures, and bonds. These banks commonly employ risk-shifting procedures, which include passing risk from the bank to the borrower, especially in loan transactions. Principal tactics encompass credit risk evaluation, interest rate control, and market risk mitigation via diversification and hedging. The authors Saunders and Cornett (2018) emphasize that credit risk is a fundamental issue for conventional banks. Contrary to Islamic banks, which utilize asset-backed financing to mitigate credit risk, conventional banks rely on instruments such as credit default swaps (CDS) and other derivative assets. Nevertheless, depending on these sophisticated financial instruments brings about systemic risk, which became evident during the 2008 international financial crisis. Leverage and speculative derivatives, according to Brunnermeier (2009), primarily caused the crisis and revealed deficiencies in the risk management procedures of conventional banks. Allen and Gale (2007) contend that conventional banks are susceptible to liquidity issues since they rely on short-term financing for long-term investments. This discrepancy may result in solvency problems during periods of financial strain, as seen in 2008. Diamond and Rajan (2001) propose that commercial banks mitigate these risks by implementing enhanced capital adequacy criteria and advanced methodologies.

Perception regarding risk management

In Bangladesh's particular circumstances, Rahman et al. (2021) identified notable disparities in consumer perspectives on risk management techniques across the two banking institutions. The perception of Islamic banks is frequently characterized by conservatism and risk aversion. Contrarily, people perceive conventional banks as more aggressive in their pursuit of profit, often leading to heightened susceptibility to financial risks. The divergence in perspective has contributed to the increasing necessity for Islamic banking services, particularly among

middle-income and religiously devout customers in Bangladesh. Noman et al. (2018) posit that Islamic banking is appealing to a significant number of consumers due to its adherence to religious values and its provision of enhanced transparency in financial transactions. This clientele values the shared risk model, in which both the bank and the customer mutually bear the financial gains and losses, therefore cultivating a more robust partnership and mitigating the potential for abuse. Hassan and Lewis (2007) contend that the moral and ethical principles of Islamic finance, particularly the restrictions on interest (riba) and speculative transactions (maysir), contribute to the image of Islamic banking as offering higher levels of financial stability. People generally perceive Islamic banks as providing higher ethical standards and stability, particularly during financial crises, due to their strict adherence to Shariah law and their avoidance of interest and speculative investments.

Clients perceive Islamic banks as more reliable investment options, especially in regions with substantial Muslim communities like the Middle East, South Asia, and Southeast Asia, according to research by Zaher and Hassan (2001). In addition, Iqbal et al. (2018) emphasise that Islamic banks' emphasis on risk-sharing and openness promotes increased customer confidence and reduces the sense of exploitation often linked to the interest-based lending practices of conventional banks. Ahmad et al. (2010) conducted a study that revealed clients perceive Islamic banks as less vulnerable to financial crises due to their cautious, asset-backed financing strategies. According to Iqbal and Llewellyn (2002), Islamic bankers consider risk-sharing to be a successful approach in mitigating financial risk. For instance, profit-sharing agreements such as Mudarabah and Musharakah allocate both the risk and reward between the bank and the customer, therefore reducing the perceived level of risk associated with these contracts compared to conventional debt-based financing. Nevertheless, Haniffa and Hudaib (2007) highlight that certain clients perceive Islamic banks as lacking the range and complexity of financial products provided by conventional banks. This impression may lead to concerns about Islamic banks' competitiveness and adaptability, particularly in a more globalized commercial environment.

On the other hand, people perceive conventional banking to offer a broader range of financial solutions and enhanced flexibility. Beck et al. (2013) conducted a study that revealed that investors perceive conventional banks as more capable of effectively handling risks through the use of diverse investment portfolios, advanced hedging strategies, and complex financial instruments like derivatives and credit default swaps. Investors who value financial gains over

religious beliefs frequently choose conventional banks due to their capacity to provide greater returns, despite the heightened dangers involved. Iqbal et al. (2018) propose that the perceived complexity of conventional financial institutions appeals to risk-tolerant clients who favor higher-risk investing techniques. Nevertheless, the 2008 global financial crisis has adversely affected the way risk is seen in conventional banking. According to Brunnermeier (2009), a significant number of consumers now perceive conventional banks as riskier because of their participation in speculative operations and excessive use of borrowed funds, which played a role in the financial instability suffered during the crisis.

Chapter Three: Methodology

Type of Research

This report simply presents the perception of individual people toward the risk management approach of the two financial products conventional and Islamic. This report falls under Descriptive research, this type of research simply presents the existing information, in detail without much alteration. Moreover, this type of research describing and understanding the characteristic and phenomenon of a group.

Research Design

Between primary and secondary research design this is designed to be a primary report. The source of the data is primary and collected through interviews. The data is text-based and non-numerical, this is a qualitative method. Moreover, this research is designed to analyses the in-depth opinion of different groups.

Data Collection

The primary data in this research was collected during August 2024. I collected qualitative information from my respondents to understand their perceptions of the risk management of financial products and to what extent people are aware of the risk management approach of conventional and Islamic banking. I have taken 15 responses from three groups, bankers (both Islamic and Conventional), Customers (both Islamic and conventional), and Professionals who are mainly the faculty of the Finance Department. I have targeted both male and female responses. I have taken face-to-face and online interviews with these groups and mostly they were from the Dhaka region. Throughout my interview, I mostly engaged in note-taking, although occasionally I attempted to record the session with their explicit consent.

Demographic Profile of the Interviewees

Interviewee	Current position	Age
Islamic Banker-1	Assistant general manager	38
Islamic Banker-2	Manager	37
Islamic Banker-3	Assistant officer	34
Conventional Banker-1	Manager	37
Conventional Banker-2	Senior officer cash	35

Conventional Banker-3	Customer service officer	30
Islamic bank's customer-1	Employee	33
Islamic bank's customer-2	Housewife	28
Islamic bank's customer-3	Housewife	35
Conventional bank's customer-1	Housewife	38
Conventional bank's customer-2	Employee	32
Conventional bank's customer-3	Employee	36
Professional-1	Assistant professor	47
Professional-2	Senior Lecturer	35
Professional-3	Senior Lecturer	32

Data Analysis

One of my initial tasks after conducting the interviews was to transcribe the recordings and notes into organized written form. This facilitated my comprehension of their responses and enabled me to identify patterns associated with each potential answer in my interview. Finally, the pattern was utilized to group the responses into a theme, enabling the interpretation of results based on the interviewees' reactions to each topic. I categorized these topics as findings and verified the accuracy of the information.

Chapter Four: Findings and Discussion

Data Analysis

Islamic Bankers (IB)

Q-1 Do you have any Islamic Banking accounts and investments? why do you prefer Islamic Finance?

All of the three respondents are using Islamic bank account. IB1, IB2, IB3 all are preferring Islamic bank because it is in accordance with their own convictions and principles. The principles of risk-sharing and the strict prohibition of interest guarantee the ethical and socially responsible nature of financial transactions. It provides clients with reassurance that my funds are being used in a way that enhances the welfare of society. It fosters a more equitable allocation of resources and advances principles of social justice.

Q-2 In your perspective, what do you think customers are fully aware of Islamic Finance? If not, what's lacking behind this?

All respondents agreed that clients lack a comprehensive understanding of the differences between conventional and Islamic financing, as well as their strategies for risk transfer. All IB1, IB2, and IB3 participants believe that the main obstacles are a lack of adequate education and dissemination of false information. Furthermore, there is a clear absence of effective marketing strategies regarding Islamic banks.

Q-3 In the risk management approach, what do you think is better to manage the risk than Conventional?

IB1 believes that by engaging both the bank and the consumer in the risk, there is a shared incentive for a positive investment outcome. IB2 says that it mitigates moral hazard and promotes more cautious financial conduct. This strategy ensures the alignment of interests between both parties, a typical absence in conventional banking. IB 3 states that Islamic finance's focus on asset-backed financing is a more effective approach to risk management.

Q-4 How would you describe your bank's approach to risk management within the framework of Shariah law?

IB1 emphasizes asset-backed lending and refrains from engaging in speculative ventures. IB2 states that they use risk-sharing contracts such as Mudarabah and Musharakah, which adhere

to Shariah principles and enable efficient risk management. In accordance with Shariah principles, IB3 assures that all of its goods are devoid of any elements of doubt (gharar) and speculation.

Q-5 What unique risks do Islamic banks face, and how are they managed?

All respondents agreed that one of the distinctive hazards we encounter is operational risk, which arises from the intricate nature of Shariah compliance. Furthermore, we are also exposed to market risk resulting from the prohibition on interest. To mitigate this risk, we strategically diversify our investment portfolios and participate in tangible economic activities such as trading and leasing.

Q-6 How does the prohibition of interest (riba) affect your risk management strategies?

According to IB1, this scenario necessitates us to exhibit more ingenuity and prudence in our risk management practices, thereby guaranteeing the feasibility and ethical integrity of our investments. According to IB2, our reliance on fixed returns is insufficient, so we prioritize the identification of lucrative opportunities and undertake diligent monitoring of them. IB3 states that this not only increases the complexity of our risk management strategy, but also enhances its ethicality.

Q-7 Do you agree that most people only want to take profits, not the risk?

All the respondents clearly acknowledged that it is a prevalent human inclination to pursue financial gain without assuming the corresponding risks.

Q-8 Do you want to open a conventional bank account? Why or why not?

All the respondents do not want to switch to conventional banking system because they believe that the fundamentals of Islamic finance are robust, and we are eager to promote the expansion of this sector.

Conventional Bankers (CB)

Q-1 Do you have any conventional bank accounts and why do you prefer them? Do have any Islamic bank accounts or want to open? Why or why not?

All the respondent has conventional bank account due to their extensive selection of financial solutions, which include loans and credit facilities tailored to my specific requirements. Hence,

they do not have any Islamic bank account because they found conventional banking easier and more diverse products compared to Islamic bank.

Q-2 In your perspective what do you think customers are fully aware of about Conventional finance and their risk management approach?

CB1 states that although most consumers are knowledgeable about conventional banking procedures, they frequently lack a comprehensive understanding of the complexities involved in risk management. CB2 states that customers possess a broad understanding of the fundamental services provided by conventional banks, but they may not have a comprehensive understanding of how risk is effectively controlled. CB3 states that clients possess a fundamental comprehension of conventional banking, but they often lack advanced knowledge on risk management.

Q-3 If they are aware of this, does anyone question this fully risk-transferring approach?

All the respondents agree that while a few well-informed clients do raise doubts about the risk-transfer strategy, the majority do not. Their main concern is on the results, such as obtaining loans or generating investment returns, rather than the risk management strategies used by the bank.

Q-4 In the risk management approach, what do you think is better to manage the risk compared to Islamic banks?

According to CB1, conventional banks possess the strategic benefit of using a diverse range of financial instruments, such as derivatives, which enable them to engage in more adaptable and thorough risk management. CB2 states that the capacity to use various financial instruments, such as hedging and derivatives, provides conventional banks with a competitive advantage in risk management. CB3 states that Conventional banks possess the adaptability to use diverse risk management instruments, including as derivatives and insurance, that are not accessible in Islamic banking.

Q-5 Can Islamic Finance be a good option in the future for hedging the risk properly?

All respondents assert that Islamic finance has huge potential, particularly in areas with a strong demand for Shariah-compliant goods. However, it may not be as versatile in hedging risks due to its restrictions on certain financial instruments and interest-based transactions. While

conventional banking is now more efficient in risk management, Islamic finance has the potential to develop and provide competitive alternatives.

Q-6 Do you agree that most of the people only want to take profits, not the risk? Kindly explain. CB1 states that the majority of individuals are motivated by profit and hence tend to minimize risk wherever feasible. CB2 states that the majority of individuals prioritize maximizing profits and entrust the responsibility of risk management to financial institutions. CB3 states that customers primarily prioritise the potential profits they may get and depend on the bank to manage the associated risks.

Islamic Bank's Customers (IBC)

Q-1 How long are you used to with Islamic banks? Do you know how the bank manages its risk?

IBC1 has been maintaining an Islamic bank account with City Bank for one year and is well-informed about its meticulous risk control practices. IBC2 operated a bank account for a period of five years and lacks complete knowledge of risk management. IBC3 has been using a bank account for three years without being aware of the approaches being used.

Q-2 As they fully share the risk between the bank and the customer, do you think it's a better approach?

IBC1 asserts that it is a superior methodology. IBC2 asserts that this method is ideal since it results in a mutually beneficial outcome: win-win or lose-lose. Hence, there is no difference among the parties. IBC3 asserts that this mechanism is preferable since it eliminates any kind of bias between the involved parties.

Q-3 How satisfied are you with your bank's approach to risk management?

The bank methods result in the satisfaction of IBC1. IBC2 and ICB3 express a relatively low degree of satisfaction. IBC2 suggests that increasing the usage of equity-based financing over debt-based financing would provide more operational flexibility.

Q-4 What concerns do you have about the safety and security of your deposits and investments?

This particular requirement is my primary concern before choosing a bank or initiating an account, according to IBC1. I prioritise the assurance of security, consistent cash flow, accessibility, historical records, bank fees or interest rates, and digitalization through Internet

banking. According to IBC2, my first objective is to provide adequate protection for my deposit. Similarly, if they do a thorough evaluation of the investment project before making a decision, it would alleviate my concerns. IBC3 states that I am unconcerned with the communications regarding my profits.

Q-5 How transparent is your bank in communicating risk-related information to you?

All of the respondent claims that their banks are moderately transparent regarding risk-related information.

Q-6 Do you know about the conventional bank's risk management approach?

IBC2 knows about the conventional bank's risk management approach but IBC1 and IBC3 do not aware about this system.

Q-7 Would you consider switching to a conventional bank for its risk management practices? Why or why not?

All the respondent states that they do not want to switch because they are trying to follow Islamic shariah so may be not switching in conventional banking process.

Conventional Bank's Customers (CBC)

Q-1 How long are you used to with conventional banks? Do you know how the bank manages its risk?

Although CBC1 has had a bank account for 15 years, she lacks knowledge regarding risk management technique. CB2 has maintained a bank account for a decade and he is knowledgeable about risk transfer methods. Although CBC3 has had a bank account for 3 years, he is unaware of all of the methods involved.

Q-2 As they fully transfer the risk to their customers, do you think it's a better approach?

All of the respondent states that, they are concerned about their profits and Interest rate, their bank always try to provide better output regarding profit. So far, they have no objection to this risk transferring methods.

Q-3 How satisfied are you with your bank's approach to risk management?

The respondents generally express satisfaction as they have seen regular returns and have not encountered any significant problems.

Q-4 What concerns do you have about the safety and security of your deposits and investments?

A concern expressed by CBC1 is the level of protection afforded to my money in times of financial crisis. While CBC2 expresses confidence in the bank's safety procedures, it acknowledges concerns about external variables such as inflation and market volatility. CBC3 expresses concern about economic volatility.

Q-5 How transparent is your bank in communicating risk-related information to you?

CBC1 claims the bank lacks transparency. They provide basic knowledge but don't elaborate until I ask. My bank is straightforward, but I believe they should communicate product risks better, according to CBC2. The bank hasn't been transparent, reports CBC3. I frequently believe I must investigate risks.

Q-6 Do you know about the Islamic bank's risk management approach?

CBC1 and CBC3 are not familiar with the Islamic bank's risk management approach but CBC2 knows little about it, not the details.

Q-7 Would you consider switching to an Islamic bank for its risk management practices? Why or why not?

All the respondent says that, they do not want to switch as they do not know much about Islamic bank. They might consider switching if they understood how their practices could benefit them.

Professionals (Faculty)

Q-1 Do you use any bank accounts? Is it a conventional or Islamic bank?

F1 says that he has used Islamic and conventional bank accounts for a long period. F2 says that he uses a conventional bank account and he found it convenient. F3 says that she uses conventional bank account as it is more familiar to all.

Q-2 From your perspective, why are Islamic banks less attractive to customers than conventional ones?

According to the F1 report, consumers are unaware of Islamic banking. F2 claims that many people are unwilling to switch to Islamic banking since they don't know much about the products and services. F3 reports that many customers choose conventional banks due to their wide range of products and simplicity of use. Islamic finance is poorly understood and misunderstood.

Q-3 Do you think in Islamic finance the risk-sharing approach the more useful to hedge the risk than the risk-transferring approach?

F1 says that he consistently strives to uphold the principles and practices of Islam, and he firmly feels that this strategy is more effective in achieving a harmonious state of risk management. According to F2, risk-sharing has the potential to be more sustainable in the long term, especially for enterprises. However, Islamic banks must expand their range of products in order to effectively compete with conventional lending. F3 says that the risk-sharing strategy in Islamic finance is fundamentally better at promoting equity and economic stability. Nevertheless, the efficacy of the system relies on the correct execution and comprehension by customers, both of which are now deficient.

Q-4 In your opinion, should our university need to teach Islamic finance as a separate course? All of the respondents agree that universities should need to teach Islamic finance as a separate course. F3 says that they already have spare courses on Islamic banking and finance.

Q-5 If the Islamic banking sector can function properly will it create positivity for the economy of Bangladesh?

All the respondents assert that a well-operating Islamic banking industry has the potential to attract additional investments, particularly from those who favor ethical finance. Furthermore, it will establish a comprehensive financial system.

Result and Discussion

The Islamic bankers consistently responded by emphasizing concern for personal values, especially the moral, ethical, and faith-based principles that determine their banking choices. Indeed, they pointed out how risk management in Islamic finance is unique in its undertakings, such as risk sharing, asset-backed financing, and prohibitions on interest, activities that were otherwise a hallmark of conventional banking. All agree that there are generally low levels of customer awareness about Islamic finance and agree on the need for increased education and outreach. Moreover, the prohibition of Riba Islamic Banks has limited products for this in the risk management approach they need to go through a complex process to maintain the Shariah.

All responses from conventional bankers show a general preference for conventional banking based on flexibility, familiarity, and product range. They state that customers need a more

comprehensive understanding of risk management practices. The bankers share the virtues of conventional risk management tools, including derivatives and insurance, whereby they are more exhaustive in the practice of risk management as compared to Islamic banking. They also note that the vast majority of customers want to concentrate on the profits, leaving banks to handle risk management, which again serves to make conventional banking more appealing.

The responses from Islamic banking customers indicate that they are not fully aware of the risk management approaches of Islamic banks, despite agreeing that their banks are transparent. Customers do not have much knowledge of equity-based financing, but they are concerned about Riba and want to deposit or invest their money in it. Hence, they are moderately satisfied with the services and need more improvement in the products the banks offer. Moreover, customers show a commitment to Islamic banking principles with no intention of switching to conventional banking, emphasizing their preference for ethical alignment over conventional risk management benefits.

The responses from conventional banking customers reveal a mix of awareness and uncertainty regarding risk management. Customers with longer banking histories tend to have a better understanding and higher satisfaction with their bank's risk practices, although they do not fully understand of the approaches. Transparency is a recurring issue, with many customers feeling the bank could improve in communicating risk-related information. Overall, while long-term customers express trust and satisfaction regarding the risk-transferring approaches, there is a significant demand for clearer and more comprehensive risk communication. While some have heard of Islamic banking's different approach, none feel informed enough to consider switching.

The professional responses reveal a shared belief in both conventional and Islamic banking systems, with a keen interest in the growing importance of Islamic finance. While some university faculty members used conventional banks exclusively, they understood that risk sharing in Islamic finance is just and stable. Similarly, they identified a major issue: the lack of public awareness and knowledge about Islamic banking. This alone prevents them from appealing to customers. Considering the potential positive impact on Bangladesh's economy, all members unanimously agreed that universities should teach Islamic finance as a distinct course. The responses emphasize a consensus on the value of learning about both financial systems in preparing students for diverse career opportunities.

Overall, both conventional and Islamic banking customers are not aware of the approach's banks use for their risk management. Furthermore, Islamic Banks have limited products due to the prohibition of Riba, compared to conventional one. For this, in the risk management approach, they need to go through a complex process to maintain the Shariah law. Moreover, the main possible barrier faced by Islamic banks to avail the customer's perception is the lack of awareness of Islamic banking and the limited product diversification.

Chapter Five: Conclusion

The research findings highlight the clear disparities between Islamic and conventional banking systems, including in their strategies for risk management, consumer awareness, and ethical concerns. Islamic financial institutions often emphasize the distinctiveness of their risk management strategies, which are firmly rooted in ethical, moral, and faith-based values. At the core of Islamic finance lies the principle of risk sharing, asset-backed lending, and a stringent restriction on interest (Riba), which sets it apart from conventional banking. Nevertheless, a notable obstacle highlighted in the comments is the insufficient degree of client knowledge and comprehension of Islamic financial concepts and products. Although faced with these difficulties, Islamic bankers demonstrate a resolute dedication to their faith-based methodology, showing no tendency to return to conventional banking protocols. In contrast, conventional bankers highlight the adaptability, familiarity, and extensive choice of products offered by conventional banking. They hold the belief that conventional banking provides more extensive risk management instruments, such as derivatives and insurance, which attract a substantial number of clients who put financial gains over a more profound comprehension of risk management. Nevertheless, there is a well-recognized deficiency in the understanding and consciousness of customers about risk management procedures in conventional finance, indicating a possible opportunity for enhancement.

Although in many other countries especially in Malaysia Islamic banking systems are more diverse and follow the Shariah, on the other hand in Bangladesh Islamic banking industry is not fully diverse in terms of financial products. Moreover, recently one of the leading Islamic banks has been misunderstood by the customers as they could not able to function properly. The ethical foundation and risk-sharing approach of Islamic finance offer a compelling alternative to conventional banking, but increased education and outreach are crucial to bridging the knowledge gap and enhancing customer confidence.

Limitations of this study

For further research, the limitation of the study is that the data is collected only from the Dhaka region, this might not represent all the conventional and Islamic banks as well as the customer segments. Therefore, further study needs to include the other region as well as the university students who have access to bank accounts.

Chapter Six: Recommendation

Recommendation

1. **Raising Public Awareness and Education:** The level of public awareness of Islamic finance, its unique principles in risk management, and the ethical underpinning requires a dire need for increase. Islamic banks should put resources into education through campaigns, workshops, and community outreach programs so that people know the benefits and differences with conventional banking.
2. **Tailored Financial Products:** Islamic banks should offer a more diversified offering of products to cater to a wider range of customers. The pull factor from being ethically aligned is significant, but providing a wider variety of products that compete with conventional banks would increase customer satisfaction and retention.
3. **Increase Transparency of the Products and Communication:** Both Islamic and conventional banks are required to increase their level of communicating risk management practices. This could include a clear explication of the different products that have risks embedded in them, and the way these are managed. In case of Islamic banks, being more transparent in terms of risk sharing based on their models or equity-based financing options will attract customers interested in ethical finance but lacking knowledge.
4. **Incorporating Islamic Finance into Education:** The professionals who participated in the survey recommended that Islamic finance be introduced as an independent course in universities. That can help to raise professionals in banking with an all-round understanding of the two financial systems, preparing them well for multiple career opportunities while at the same time helping the public become better informed.
5. **Engage with Regulatory Bodies:** Both banking systems ought to engage regulatory authorities in the development of conduct guidelines that bring about ethical banking practices and safeguard the interests of customers. It may also be expanded upon to include a standardized framework for communicating risks, ensuring that all banking sectors present clear and accurate information accessible to their customers.

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Appendix

Internship Proposal Form (approved by the supervisor)

Name: Shampa Koly

ID: 202011036

Semester (Spring/Summer/Fall): Summer 2024

Department: School of Business

Supervisor's Name (Faculty): Kazi Md Tarique. PhD

Organization Name: IDLC Finance PLC.

Internship Title: Perception towards risk management of financial products: Islamic vs. Conventional Banks in Bangladesh

Student's signature & date

Supervisor's signature & date

Internship Placement Letter



IDLC/HR/IAL/2024/16

May 28, 2024

Jennifer Hossain
Director- International Affairs
& Career Services Office

Dear Hossain:

INTERNSHIP

We are pleased to inform you that Shampa Koly, bearing ID/Roll: 202011036 is selected for Internship Program in our organization for a period of 3 months starting from 12-May-2024.

Ahmed Abdullah Al Tamjeed, Assistant General Manager of our company is her supervisor.

Thank you.

Yours sincerely,

Numaya Eum Illma
Manager, TA Lead, HR



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Interview Question

For Islamic Bankers:

1. Do you have any Islamic Banking accounts and investments/ why do you prefer Islamic Finance?
2. In your perspective, what do you think customers are fully aware of Islamic Finance? If not, what's lacking behind this?
3. In the risk management approach, what do you think is better to manage the risk compared to the Conventional?
4. How would you describe your bank's approach to risk management within the framework of Shariah law?
5. What unique risks do Islamic banks face, and how are they managed?
6. How does the prohibition of interest (riba) affect your risk management strategies?
7. Do you agree that most people only want to take profits, not the risk?
8. Do you want to open a conventional bank account? Why or why not?

For Conventional Bankers:

1. Do you have any conventional bank accounts and why do you prefer them? Do you have any Islamic bank accounts or want to open one? Why or why not?
2. In your perspective what do you think customers are fully aware of about Conventional finance and their risk management approach?
3. If they are aware of this, does anyone question this fully risk-transferring approach?
4. In the risk management approach, what do you think is better to manage the risk compared to Islamic banks?
5. Can Islamic Finance be a good option in the future for hedging the risk properly?
6. Do you agree that most of the people only want to take profits, not the risk? Kindly explain.

For Islamic Bank's Customers:

1. How long are you used to with Islamic banks? Do you know how the bank manages their risk?
2. If not, (as they fully share the risk between the bank and the customer) do you think it's a better approach?
3. If yes, how satisfied are you with your bank's approach to risk management?
4. What concerns do you have about the safety and security of your deposits and investments?
5. How transparent is your bank in communicating risk-related information to you?
6. Do you know about the conventional bank's risk management approach?
7. Would you consider switching to a conventional bank for its risk management practices? Why or why not?

For Conventional Bank's Customers:

1. How long are you used to with conventional banks? Do you know how the bank manages its risk?
2. If not, (as they fully transfer the risk to their customers) do you think it's a better approach?
3. If yes, how satisfied are you with your bank's approach to risk management?
4. What concerns do you have about the safety and security of your deposits and investments?
5. How transparent is your bank in communicating risk-related information to you?
6. Do you know about the Islamic bank's risk management approach?
7. Would you consider switching to an Islamic bank for its risk management practices? Why or why not?

For Professionals (Faculty):

1. Do you use any bank accounts? Is it a conventional or Islamic bank?
2. From your perspective, why are Islamic banks less attractive to customers than conventional ones? Are people less aware of Islamic finance?

3. Do you think in Islamic finance the risk-sharing approach the more useful to hedge the risk than the risk-transferring approach?
4. In your opinion, should our university need to teach Islamic finance as a separate course?
5. If the Islamic banking sector can function properly, will it create positivity for the economy of Bangladesh?

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