

# **Liquidity Risk Management in Islamic and Conventional Banks in Sri Lanka: A comparative Study**

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The banking sector is considered to be an important source of financing for most businesses in any economy. At present a lot of countries around the world currently having dual banking system, as interest free banks are functioning parallel to conventional banks. Today the most familiar region of risk with Islamic and conventional banks is liquidity risk. There for this study was carried out as a comparative study.

According to the problem statement, two research questions are developed to investigate this study. The first one is, “does Islamic bank’s risk management practice differs from the conventional bank’s risk management practice?” and the second is, what are the relationships between the determinants of liquidity risk and liquidity risk management practice?”

And this study includes major two objectives. Comparison of the liquidity risk management of Islamic and conventional banks in Sri Lanka for the period 2008 – 2012 is one of the objectives and identification of the relationship and impact of the Size of Financial Institution (SFI), Networking Capital (NWC), Return on Equity (ROE), Capital Adequacy Ratio (CAR) and Return on Asset (ROA) on the liquidity risk management of both Islamic and conventional banks in Sri Lanka is another objective.

Three banks are selected for this study. One is from Islamic Banks and other two banks are from Conventional banks. Secondary data were used for this study. This secondary data are obtained from the web sites of selected banks and their annual reports of 2008 - 2012. To analyze the data and find out the result, Ratio Analysis, Correlation Analysis and Regression Analysis were used as a method of analysis.

According to the findings of this study, in the case of Sri Lankan Banking Industry, there is different Liquidity Risk Management practice between Islamic and Conventional banks. Some determinants of Liquidity Risk impact on Liquidity Risk Management positively and some impact negatively. Even if there is a positive or negative relationship between dependent and independent variables, according to correlation analysis if some Hypotheses are

accepted that means there is a relationship between dependent and independent variables. If some Hypotheses are rejected that means there is no relationship between dependent and independent variables

According to this study Liquidity Risk Management practice of Islamic Bank is poorer than Liquidity Risk Management practice of Conventional Banks in Sri Lankan. This research will guide for future researches and future researchers.