AN ANALYSIS OF THE ISLAMIC AND CONVENTIONAL BANKING PROFITABILITY IN PALESTINE

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Abstrak: Analisis Profitabilitas Bank Islam dan Bank Konvensional di Palestina. Riset ini mengkaji kinerja profitabilitas bank Islam dibandingkan dengan bank konvensional selama periode 2005-2010. Dua alternatif pengukuran untuk menilai kinerja profitabilitas bank yaitu *Return on Equity* (ROE) dan *Return on Assets* (ROA) digunakan untuk melihat apakah ada perbedaan tingkat laba antara bank Islam, lokal dan bank konvensional asing. Studi ini menyimpulkan bahwa bank Islam memberikan laba yang setingkat dengan bank lokal, namun tingkat laba yang lebih rendah dibandingkan bank asing. Akhirnya, studi ini juga mengindikasikan bahwa tidak ada perbedaan statistik yang sigifikan pada tingkat pengembalian rata-rata antara bank Islam, lokal dan asing. Studi ini merekomedasikan kebutuhan akan regulasi Islami untuk memberikan kontribusi yang lebih baik di Palestina.

Abstract: An Analysis Of The Islamic And Conventional Banking Profitability In Palestine. *The research paper examines the performance of profitability of Islamic banks against conventional banks for the period of 2005 to 2010. Two alternative measures of banking profitability such as Return on Equity (ROE) and Return on Assets (ROA) are used to examine whether there is any differences of profit rate between Islamic, local and foreign conventional banks. The study concludes that Islamic banks generally provide the similar profit rate compared to local banks, however Islamic banks provide lower profit rate compared to foreign banks. Finally the findings also suggest that there is no statistical significant difference in mean return between the Islamic banks, local and foreign banks in Palestine. The study recommends the critical needs for Islamic regulation in order to improve the role of Islamic banking industry in Palestine.*

Keywords: *Islamic* banking, PMA, Conventional banking.

In the last two decades, banking sector emerges significantly in Palestine and playing an important role in the economic development through enhanced investments in infrastructure projects (Meqdad and Hiless, 2005). The emergence of Islamic banks in financial system increases the importance of banking industry in the environment in which it operates. This is the case that had been happenning in the early of 1990 when Beit Elmal Al Philistini Company was established as the first Islamic financial institution. It complies with the Principles of Islamic Shari'a in which interest rate is prohibited from financial operations (Jaber, 2003). Banking industry is governed by Palestinian monetary authority (PMA) that established in 1994, which controlled overall financial activities of banks operating in Palestinian territory, where it has always sought to develop the bank sector and enhances its roles in the regulations and instructions (PMA, 2010).

According to banking data that obtained from financial stability report of PMA in 2009, Islamic banks constitute about 11 percent of banking system, while conventional banks share the rest (89 percent). The numbers of Islamic banks that are operating in Palestine territories (West Bank and Gaza strip) are 2 banks with 25 branches and 3 offices. Namely, Arab Islamic bank (AIB) which was established since 1995 with capital

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$21 million, Palestinian Islamic bank (ISBK) that was established in 1997, conventional banks consisting 16 banks with 187 branches and 30 offices, and it was established in the aim of economic and social needs (PMA, 2010).

Islamic banking industry is created in the aim of covering the economic and social needs in the domain of banking services, in addition to undertaking investment and finance activities organized on Islamic basis, side by side with conventional one (Meqdad and Hiless, 2005). Islamic banks are doing the same methods followed by conventional banks except those required to pay predetermined interest rates. Instead, the natural activities of Islamic banks are look like different, through the way of traded fund, because these banks uses three systems as follow Mosharaka, Morabaha and Modaraba, since profit sharing is adopted as a way of return for all participants instead of interest rate that is prohibited by Islamic Banks. Where as the remaining banking services are done similar to conventional banks as long as it does not contradict with the Islamic sharia' (Jaber, 2003).

According to the Islamic banks annual reports of 2009 and 2010, we can notice special attention to the profitability of these banks. The data analysis indicates that Islamic banks profitability reserves back in that two years, involved by Israeli sanctions which are imposed on the level of financial activities and services of Palestinian banking sector. At end of 2009, Islamic banks total assets declined by 2.2% to amount of $592 million compared to year 2008 of $606 million. Meanwhile its income statement reveals that total revenue declined by 4% to amount of $23.4 million compared to year 2008 of $24.4 million. In the same time customer deposits decreased to 8.5% to amount $188.6 against year 2008 of $206.3 million. On the other hand, Palestinian Islamic banks are based on Morabaha contracts which represent more than 89% of financing and investing transactions, 8% of fund using as Mosharaka contracts, while 3% of Modaraba contracts (PMA, 2010).

This paper firstly contributes to the understanding and knowledge development through looking on the reality of Islamic banks in Palestine and provides clear picture in the Islamic banks perspectives, as well as its roles in economic growth, obstacles and profitability performance. Secondly the study findings suggest that the profitability is one of the important considerations in explaining the customer's or individual's behaviors in protecting deposit their money and significantly for investors and shareholders maximization wealth. Thirdly the aim of this study is to examine the dissimilarity in Islamic banking profitability and conventional one through investigate and analyze the profitability of both Islamic and conventional banks comprised by banking industry in Palestine during the period of 2005 until of 2010.

Paris accord signed by the Palestinian Liberation Organization (PLO) and Israel in 1994, allowed the establishment of PMA to perform the functions of a Palestinian central bank except the issue of national currency. Accordingly, the banking industry witnessed flourishing period, in which the number of licensed banks increased from 7 banks with 33 branches at end of 1994 to 18 banks with 212 branches by the end of 2010. These banks are classified as the following according to (PMA, 2010): (8 Jordanian banks, 1 Egyptian bank, 1 UK bank, and 8 local banks), of which 79% operate in the west bank while 21% operate in the Gaza Strip.

The analysis of both consolidated balance sheet and income statement reported by the whole of the Palestinian banking sector, needs to pay special attention to the major sources and uses of funds, due to high impact of Israeli sanctions imposed from the beginning of 2006 until the mid of 2007 on the level of risk and jeopardized bank performance. After this period the quality of banks credit and assets started to improve. During the last 3 years (2008 – 2010) Palestinian banking sector, achieved growth rate of 15% on average, in which is higher than some of MENA region countries such as Jordanian banking sector and Egyptian banking sectors, in year 2010 banking sector continued to achieved positive results, as net assets banks increased by 9% to reach $ 8587.6 billion compared with 2009. On the other hand, the improved of investment climate in Palestine caused a sharply increase in credits granted by Palestinian banks to reach $2885.9 billion, with significant growth rate of 29.2% compared with year 2009, Furthermore, this increase comes in the light of new electronic banking systems introduced by the PMA to serve the banking sector, especially the credit bureau, the credit scoring system, the automated bounced checks system, and other new systems, in accordance with modern banking technology.

These developments had a positive impact on the performance and profitability of Palestinian bank sector, as a result of the changes of net profit after tax of banks which rose by 35.8% to USD 139.9 million, and the changes of Return on Average Equity (ROAE) which rose to 17.5% compared to 15% in the previous year. Moreover, the index of Return on Average Assets (ROAA) rose to 2.1% compared to 1.8% in the year before, which is the good percentage that reflects the improvement in the efficiency of the banking sector in the use of its assets. On the other hand, banks also records significant improvements in other indicators, especially those related to asset quality, as a result of the drop in the percentage of non-performing loans (NPLs) to total loans to 3.1% compared to 4.1% in 2009 (PCBS, 2010).

The primary objective of formulation Islamic banking industry was to meet both economic and social needs of both Muslims and non- Muslims people in the Palestinian society by providing banking facilities and services based on free interest rate (Abusharbeh, 2011). The main difference between conventional and Islamic banks is represented by the terms of financial instruments used in each. Conventional instruments used in conventional banking system are largely debt based, interest bearing notes, and the permit of risk transfer, while Islamic instruments used in Islamic banking system include Mudarabah (trust financing), Musharakah (equity financing), Ijarah (lease financing), Murabahah (trade financing), Qard al-hassan (welfare loan), and Istisna` (progressive payments) in which all of them allows risk sharing. The relative significance of these products in the Islamic banking system has yet to be studied (Samad, 2004).

Previous studies provide empirical evidence about the dissimilarity of profitability between Islamic and conventional banks. The study of Erusan and Ibrahim (2009) had shown that local and foreign conventional banks generally had highest profit rate than Islamic banks operating in the Malaysian banking sector. Meanwhile the study of Haron (2004) had shown before that the rates of profit on funds deposited with Islamic banking system in Malaysia had raised a few important elements. Those elements include the management of Islamic banks toward attitude of depositors in which is indifferent to those of conventional banks, and therefore, the same rates of return will be rewarded with rates of conventional banks.

On the other hand, the study of Kamel (2002) concluded that the different types of deposits available at the conventional and Islamic banks carries a different rate of interest or yield to the depositor, that lead difference in both banks growth and profit margin. His study concluded that the higher rate of interest, the more money will be saved, and because at higher interest rates people will be more willing to present consumption.

The study of Safiullah (2010) analyzed the profitability of Islamic and conventional banking in Bangladesh and found that profitability of Islamic is superior and indicates higher profitability than conventional banks. In the Gulf region, the study of Olson and Zoubi (2008) had compared the performance of both conventional and Islamic banks over the period of 2000 to 2005, by using 26 financial ratios. Their study had found that Islamic banks are profitable but less efficient than conventional banks.

METHOD

Secondary data has been obtained manually from Palestinian monetary authority publications and individual banks websites. The data consists of 2 Islamic banks (Arab Islamic bank and Palestinian Islamic bank), 5 local banks (Alrafah microfinance bank, Bank of Palestine, Palestinian commercial bank, Alquds bank and commercial bank of Palestine) that are listed in Palestinian exchange market (PEX), and 5 foreign banks (Arab bank, Jordanian Ahli bank, Jordanian commercial bank, Jordanian Kuwait bank, and Housing bank). Each bank financial data has 6 years periods from 2005 until 2010, in order to test the difference among these groups of banks, the selected sample of study formed 67% of Palestinian banking industry operating in West bank and Gaza strip as showed in table 1. While the other banks excluded from sample of study due to limited information about the other banks and modernity of some.

Table 1.
Random sample from Palestinian banking sector end 2010

No.	Name of bank	Type	# of branches
1	Arab Islamic bank (AIB)	Islamic	10
2	Palestinian Islamic Bank (PIB)	Islamic	15
3	Bank of Palestine (BOP)	Local	19
4	Alrafah for Microfinance Bank (AMB)	Local	5
5	Palestinian Commercial Bank (PCB)	Local	8
6	Alquds Bank (QUDS)	Local	11
7	Palestinian Commercial Bank (BCP)	Local	13
8	Arab Bank (ARBK)	Foreign	12
9	The Housing Bank for Trade and Finance	Foreign	12
10	Jordan Ahli Bank (JAB)	Foreign	5
11	Jordan Commercial Bank (JCB)	Foreign	3
12	Jordan Kuwait Bank (JKB)	Foreign	2

Source: http://www.pma.ps/index.php?lang=enandpage=124757213422

Table 2 listed below shows the growth number of Palestinian banks between the periods 1994 to 2010 which include 18 Islamic and conventional banks with 212 branches until the end of year 2010:

Based on previous literatures, most studies argued that the appropriate method used to evaluate profitability of bank is Return on equity (ROE) and return on asset (ROA). ROE has been used in the most banks profitability performance studies like (Abusharbeh, 2011), Srairi (2008), Haron (2001), report that it measures the profit earned per dollar of assets (net income divided by total assets), and indicates how the bank management uses the bank operating, investing and financing activities to generate profit. While ROA (net income divided by total assets) that measures the profit earned per dollar of equity as study of Abusharbeh (2011), Bashir and Hassan (2003), and Haron (2004) that provided most empirical evidence used that ratio as measure of banking profitability.

Table 2.
The Number of Banks and Branches Operating in Palestine (1994 – 2010)

Years	Islamic		Local		foreign		Total	
	Banks	Branches	Banks	Branches	Banks	Branches	Banks	Branches
1994	0	0	2	9	5	24	7	33
1995	1	0	2	14	10	43	13	57
1996	1	2	3	20	10	50	15	72
1997	2	5	6	26	11	59	19	90
1998	3	6	6	36	12	64	21	106
1999	3	9	6	41	12	64	21	116
2000	3	9	6	43	12	68	21	120
2001	3	10	6	46	12	68	21	124
2002	3	10	6	47	11	68	20	125
2003	3	10	6	48	11	73	20	131
2004	3	10	6	50	11	73	20	133
2005	3	11	6	58	11	70	20	139
2006	3	12	6	65	11	74	20	151
2007	3	16	7	66	11	78	21	160
2008	3	21	7	68	11	101	21	190
2009	2	22	7	82	10	105	19	209
2010	2	25	6	85	10	102	18	212

Source: Palestinian monetary authority (PMA), Annual report, 2010.

The data are analyzed by (SPSS and Excel package *software*) using two related important statistical tools for testing hypotheses of study. Independent two samples T-Test is a statistical tool that is commonly used to compare the mean scores of two groups on a given variable (Park, 2009). It used by this study in order to analysis the profitability ratios between groups of Islamic banks compared to local and foreign conventional banks. One way ANOVA (analysis of variance) is a statistical tool that is used when the independent sample t-test is limited to comparing the means of more than two groups (Park, 2009). The study uses ANOVA to make comparison of profitability among groups of Islamic, local and foreign banks

FINDINGS AND DISCUSSIONS

This study aims to analysis and compare profitability of Islamic bank against local and foreign (Jordanian banks operating in west bank and Gaza strip) conventional banks.

Table 3 displays descriptive statistics of means and standard deviation between Islamic banks, local and foreign banks return on equity (ROE) ratios. Generally, the results show that Islamic banks achieved average return on equity of 1.6% compared to local and foreign conventional banks which are offered average mean of 7.6%, and 13.3%% respectively.

Specifically, by looking at each period between 2005 and 2010, the highest average return on equity of 6.7% for Islamic banks are offered in year 2007, but this rate is still below compared to conventional banks. Where as, local and foreign banks offered highest average return on equity respectively of 22.2 % and 18.9% in year 2005. The result from table 3 concluded that foreign and local banks had performed better return on equity compared to Islamic one.

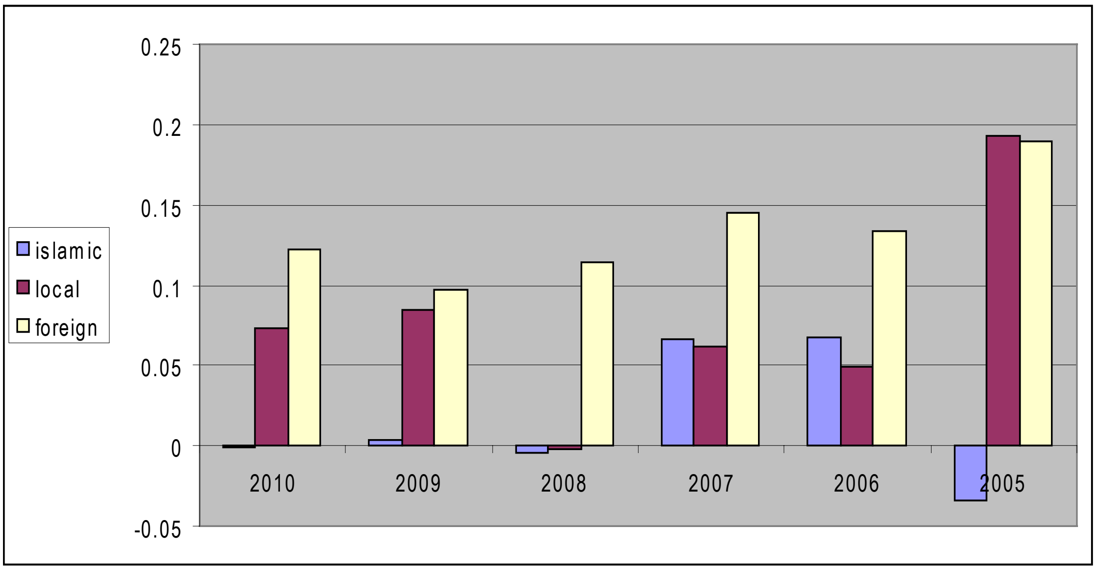
Figure 1 indicates that Islamic banks in Palestine average return on equity (ROE) declined over compared to other local and foreign banks during the tested periods, the worst low profit rate was in year 2005, 2008 and 2010 respectively of -0.45%, -0.345% and -0.15% Where as local conventional banks faced challenges with it profitability performance in end of 2008, that achieved lower rate of- 0.2%, but still less effected by Israeli sanctions than Islamic one. Meanwhile the study has noticed that foreign conventional banks had better profit rate performance compared to other local banks. The study generally concluded from figure 1 that average return on equity declined over period of study as result of political instability of Palestinian economy.

Table 4 explains the means and standard deviations of Palestinian banks Return on assets ROA) across period of study. On average, Islamic banks in our sample have a return on asset (ROA) of 0.45%. The mean of ROA varies slightly across Islamic banks and periods, the standard deviation on average about of 1%, as local banks average return on assets of 1.3% and standard deviation of 2.2%, but foreign banks had achieved mean profit rate of 2% with standard deviation of 1%. The result reveals that Islamic banks return on asset (ROA) declined compared to other conventional banks, except in year 2006 that maintained highest return on asset of 2.2% against other conventional banks. Meanwhile local and foreign banks had performed the best return on asset (ROA) respectively of 4.58% and 2.4% in year 2005. Generally in the table 4 the study concluded that foreign banks are better in performing of average return on assets in overall period of study, respectively compared to Islamic and local banks, that means foreign banks less exposed to the economic instability that faces Palestine territory.

Table 3.
Descriptive Statistics for Islamic Bank and Conventional Banks of ROE ratios between years 2005 to 2010

Years	Islamic (N=2)		Local (N=5)		Foreign (N=5)	
	Mean	SD	Mean	SD	Mean	SD
2010	-0.0015	0.010607	0.0734	0.069385	0.121747	0.072331
2009	0.0035	0.002121	0.0848	0.053644	0.097634	0.033456
2008	-0.0045	0.157685	-0.002	0.134957	0.114721	0.05022
2007	0.0665	0.061518	0.0618	0.100907	0.1446	0.062168
2006	0.068	0.055154	0.0498	0.116691	0.133113	0.043566
2005	-0.0345	0.10253	0.1926	0.222457	0.189888	0.076062
Average	0.01625	0.064936	0.076733	0.11634	0.133617	0.056301

Figure 1.
The combination of Average return on equity between Islamic, local and foreign banks in Palestine for the period 2005 to 2010



In Figure 2 Islamic banks return on asset ratio has reserved back during the period of study, the worst profit rate of -1% in year 2005 and best rate of 2.2% in year 2006. Where as local conventional banks had lowest rate of -0.34% in year 2008 and best rate of 7.3% in year 2005, but foreign banks had lowest profit rate of 1.3% in year 2010 and best rate of 2.4% in year 2005. In spite of foreign banks return on asset ratio declined during tested period, but it's still performed well. Generally the study concluded that foreign banks had limited exposed to the economic instability compared to Islamic and local banks.

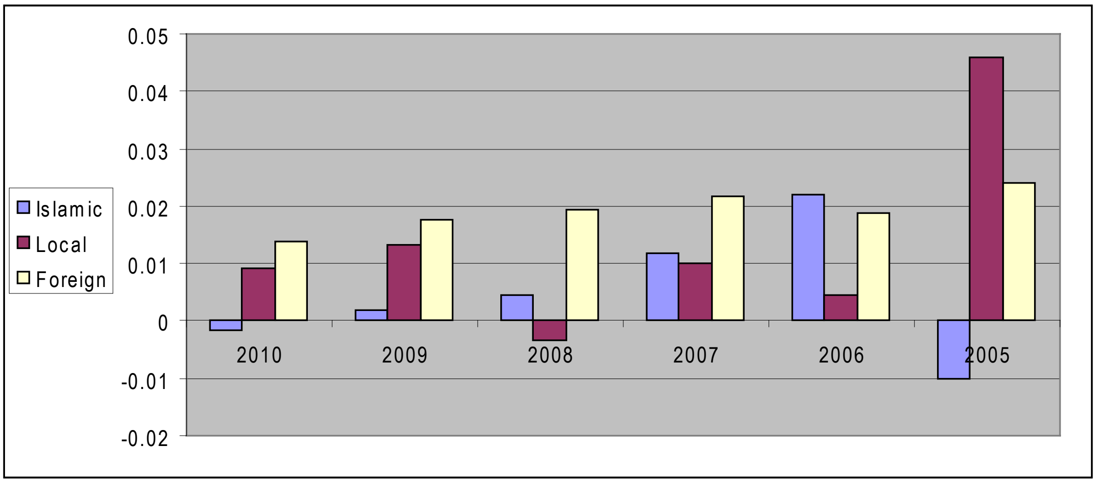
Table 5 results of testing the assumptions of independent sample t-test to make sure those variables are normally distributed; two groups of banks have equal variance and low multicolinearity among variables. The table indicates that all variables of the study follow the normal distribution. However, the percentages of normal distribution for all variables were higher than the significant of level at 5% (α = 0.05), and also the test every two groups of banks have equal variances and low multicolinearity.

In Table 6 Independent sample T-test has been used to analyze whether the mean of ROE and ROA is significantly different between Islamic bank and local conventional banks. The findings show the two-tailed test for the variable "Islamic bank and local conventional banks" had p-value exceeded over 5 percent level of significance, and the result of t-test for equality of means indicates that there is no significant differences between both groups of Islamic and local conventional banks for each period starting from 2005 until to 2010, except ROA of year 2009. The result

Table 4.
Descriptive Statistics for Islamic Bank, local and foreign Banks ROA ratios between year 2005 to 2010

Years	Islamic (N=2)		Local (N=5)		Foreign (N=5)	
	Mean	SD	Mean	SD	Mean	SD
2010	-0.0015	0.007778	0.0092	0.006611	0.013866	0.012186
2009	0.002	0.001414	0.0132	0.00507	0.017566	0.008941
2008	0.0045	0.017678	-0.0034	0.023923	0.019295	0.011852
2007	0.0117	0.000424	0.01	0.011336	0.021818	0.010999
2006	0.022	0.005657	0.0044	0.015209	0.018655	0.005787
2005	-0.01015	0.021425	0.0458	0.072905	0.02391	0.009765
Average	0.004758	0.009063	0.0132	0.022509	0.019185	0.009922

Figure 2.
The combination of Average Return on Assets between Islamic, Local and Foreign Banks in Palestine for the period 2005 to 2010



eventually indicates that there is no statistical difference in the mean of return on equity, and return on assets between the groups of Palestinian Islamic banks and local banks. It concluded that local and Islamic banks were similar in profitability performance for each year period of 2005 until 2010 with exception of year 2009; local banks have been providing higher (ROA) than Islamic one.

Table 7 interprets the result of testing independent sample T-test between samples of Islamic and foreign conventional banks for each period starting from 2005 to 2010. The finding generally had shown significant (2 – tailed) test of average return on equity and return on asset between groups of Islamic and foreign banks had less than 5% the level of significance, and the result of t-test for equality of means indicates that there is significantly difference between both groups of Islamic and foreign conventional banks for each period starting from 2005 until to 2010. The result of table 7 indicates that there is statistically significant difference between Islamic and foreign banks profitability in Palestine. So the study reveals that foreign and Islamic banks had dissimilarity in profitability performance for each year period of 2005 until 2010 except those ROA ratios of year 2007 and 2010 which foreign banks had similar (ROA) with Islamic bank, meanwhile foreign banks ROE ratios of year 2006 and 2007 doing the same profitability of Islamic one. Generally the study concluded that foreign banks have been providing higher profit rate than Islamic banks during the tested periods.

One way analysis of variance (ANOVA) is used to measure the difference of mean returns for each period from 2005 until 2010 for all samples of banks. Table 8 is concerned with the result from testing one way ANOVA

Table 5.
The results of check assumptions of independent sample T –test

Assumption	ROA and ROE between Islamic and local banks among years	ROA and ROE between Islamic and foreign banks among years
Normal distribution tested by nonparametric K-S test	ok	ok
Two group equal variance tested by Levene's Test	ok	ok
Low Multicolinearty tested by Pearson correlation	ok	ok

Table 6.
Independent T-test difference between Islamic and Local Banks for year 2005 to 2010

Year	Return on equity (ROE)		Return on asset (ROA)	
	T-test	Sig. (2 –tailed)	T-test	Sig. (2 –tailed)
2010	-1.269	0.260	-0.738	0.493
2009	-2.025	0.099	-2.924	0.033*
2008	-0.476	0.654	0.414	0.696
2007	-0.134	0.899	0.200	0.849
2006	0.203	0.847	1.299	0.755
2005	-1.329	0.241	-0.992	0.367

*at significant level 0.05.

to measure the difference of average return on equity and return on asset for each period of all groups of Islamic, local and foreign conventional banks.

The comparison indicates that Islamic, local and foreign banks had no significant difference in profitability performance, significant 2 – tailed for each period between groups of Islamic and conventional banks exceed than 5% level of significance, the study concluded that there is no difference in return on equity and return on assets between Islamic banks and conventional banks during period of 2005 to 2010 except ROA ratio in year 2006.

CONCLUSIONS

After the data is analyzed, the study concludes some interesting evidence in the relation between Islamic banking and conventional banking industry in Palestine, especially in examining the differences of profitability between those two industries.

The results of testing independent sample T-test analysis conclude firstly that there is no statistical difference among Islamic and local banks. While secondly that there is statistical difference between Islamic banks and foreign one, the study finally concludes Palestinian Islamic banks provided lower profit rates against foreign banks and it had performing similar profit rates compared to local conventional banks to their investors. While one way ANOVA analysis argues that there is no statistical difference in mean of return of equity and return on asset between Islamic and conventional banks.

The study reveals some interesting remarks with regards to Islamic banks which are still young compared to conventional banks, due to the limited number of Islamic banks and Islamic financial institutions in Palestine (2 Islamic against 16 conventional banks operating in Palestine until end year of 2010). Islamic banks also are still limited customer deposits compared to conventional banks, but evolved by accelerated rates due to there infancy (short ages) in the Palestinian market. These banks form niche in the market by targeting those clients who do not like dealing with conventional banks due to the interest required by them. Islamic banks

Table 7.
Independent sample T-test difference between Islamic and Foreign banks for year 2005 to 2010

Year	Return on equity (ROE)		Return on asset (ROA)	
	T-test	Sig. (2 –tailed)	T-test	Sig. (2 –tailed)
2010	-2.588	0.049*	-1.471	0.201
2009	-3.758	0.013*	-2.519	0.048*
2008	-3.324	0.021*	-2.531	0.047*
2007	-1.904	0.115	-1.950	0.109
2006	-1.688	0.152	-2.674	0.044*
2005	-3.269	0.022*	-3.140	0.026*

*At significant level 0.05.

Table 8.
One way ANOVA test the differences between Islamic, Local and Foreign banks for year 2005 to 2010

Year	Return on Equity (ROE)		Return on Assets (ROA)	
	F-test	Sig. (2 –tailed)	F-test	Sig. (2 –tailed)
2010	3.033	0.098	1.392	0.297
2009	3.724	0.066	3.669	0.068
2008	2.665	0.123	3.843	0.062
2007	1.681	0.240	3.964	0.058
2006	1.263	0.329	10.224	0.005
2005	1.651	0.245	0.888	0.445

* at level of significance 0.05

would expect to increase their activities during the coming years especially if they could be deployed in most of Palestinian cities and villages.

After analyzing Islamic banking annual reports, the study concludes that Islamic banking are too small size of assets and profit rates against other conventional banks, which consist 7% of banking sector total assets and also needs more attraction to their customer depositors which to extended and ability to compete in Palestinian money market, net profit is consist 2.5% of overall Palestinian banking sector profitability.

The study also notices the economic instability and occasional crisis that face banks operating in Palestine is the important factors which interpret fluctuation case of profitability such as the lack situations that faced Palestinian economy in mid 2006 until 2007 imposed by Israeli sanctions, then due to the financial crisis in the end of 2008. The lesson learned from analysis profitability Islamic banks to understand it credit policy and restrictions regulation in granting finance because they perceive these processes as technical processes in the first place and should be subject to specific criteria in which the purpose of finance, repayment sources and collaterals all of which should be known in advance.

The conclusion of that study is the absence of a particular act for Islamic banks, and the continuity of applying the act of conventional banks on Islamic one. This is the reason behind short term financing and excluding long terms financing from the agenda of Islamic banks, the study recommended the critical need for independent Islamic banking law to govern the financial activities of Islamic banking in Palestine.

In general, public in Palestine lack knowledge pertain to banking culture and Islamic banking culture in particular. They do not know the nature of banks, their services rendered and dealing ways with several types of banks and this may be refer to the absence of banks during 27 years (1967–1994). The study recommends improving or extending the knowledge of people through media channels and promotions in the Islamic banking culture.

Developing litigation system with complex court is appropriate way to protect banks and facilitate counter procedures and delayed collectible repayments, reduce the non performance loans (NPLs) and default risks. Palestinian literature needs more studies in the area of Islamic banking industry; especially in determinants of Islamic banks profitability and liquidity management through developing models manipulate Palestinian banking industry.

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