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## **ROLE OF ISLAMIC BANKING IN PROMOTING CUSTOMER SAVINGS**

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## ABSTRACT:

In this study, we delve into the fascinating realm of Islamic banking and its pivotal role in encouraging customer savings, set against the backdrop of the global financial landscape. Islamic banking, guided by the ethical principles of Shariah law, offers a compelling alternative to traditional banking, particularly for individuals seeking financial solutions aligned with their moral and religious beliefs. We embark on a journey through the theoretical underpinnings of Islamic banking, elucidating its essence and the diverse array of savings accounts it presents, including Mudarabah, Wakalah, and Qard Hassan accounts. Moreover, we explore the profound significance of Islamic banking within the broader financial ecosystem, emphasizing its contributions to financial inclusion, stability, and ethical finance. By facilitating access to banking services for diverse segments of society and fostering risk-sharing mechanisms, Islamic banking not only promotes economic stability but also underscores its commitment to ethical investment practices. Our investigation also delves into the symbiotic relationship between Islamic banking and customer savings, characterized by mutual trust, shared risk, and a steadfast adherence to Shariah principles. Through primary data collection methods, including the distribution of questionnaires to Islamic banks in Erbil, we endeavor to unravel the factors influencing individuals' decisions to opt for Islamic banking for their savings endeavors. Utilizing sophisticated statistical techniques, such as factor analysis conducted via SPSS, we meticulously scrutinize the reliability of our data and its implications. Ultimately, this research endeavors to shed light on the principles and impacts of Islamic banking on customer savings, offering valuable insights for policymakers, financial institutions, and individuals navigating the terrain of ethical finance.

**Keywords:** Islamic banking, customer savings

## 1 CHAPTER ONE

### 1.1 Introduction

Islamic Banking is a concept that is based on Sharia'ah principles and the structure is different than conventional banking from its essence, nature and spirit. The Sharia'ah principles are those rules and injunctions that are derived from Qur'an, Hadith, Ijma and other sources which involves exercise of intelligence and reasoning based on interpretations (Ali Mushtaq,2015).

Religious or faith-based features are the most distinctive features of Islamic banking in comparison to the conventional banking. Theoretically, faith-based features of Islamic banking seemed to be better than the conventional banking from customers' perspectives. Islamic banking do not price money, eliminate interest, share the risk, no excessive penalty, all transactions are assets-based/assets-backed, and most importantly community oriented based on ethical, social and moral (Wachid,2021).

More than 70% of global Islamic banking assets are concentrated in the GCC countries, Malaysia, Bangladesh, Jordan, and Pakistan, with domestic market shares ranging from 85% to 15%. Sharia-sensitivity, awareness and confidence are relatively higher in these markets, with the presence of supply-side drivers and the segment being long-established. However, there are countries with large Muslim populations – like Indonesia, Turkiye, Egypt, Nigeria, Algeria and Morocco – where Islamic banks have a niche presence, with less than a 10% domestic market share.

In many OIC countries and non-Muslim countries with sizeable Muslim populations, Islamic financial services are not present or are relatively undeveloped due to impediments in both the demand and supply drivers (Bashar,2023).

## 1.2 Problem of the Research:

The global financial landscape has witnessed a surge in interest towards Islamic banking, yet the specific impact on customer savings remains underexplored. Traditional banking systems may not cater to the ethical and Sharia-compliant preferences of certain individuals, hindering potential savers from participating in mainstream financial activities. Identifying the

challenges and opportunities in this context is crucial for a comprehensive understanding of the role of Islamic banking in customer savings.

### 1.3 Objectives of the Research:

To analyze the principles of Islamic banking that differentiate it from conventional banking in the context of customer savings.

To identify the factors influencing customers to choose Islamic banking for their savings needs.

To assess the performance of Islamic banking products and services in promoting long-term and sustainable customer savings.

To examine the impact of Islamic banking on financial inclusion and the accessibility of savings options for diverse demographic groups.

### 1.4 Significance of the Research:

This research holds substantial significance for several reasons:

**Financial Inclusion:** Understanding how Islamic banking contributes to financial inclusion will inform policies and strategies for a more inclusive financial system.

**Ethical Finance:** The study will shed light on the ethical dimensions of financial transactions, catering to a growing segment of the population seeking Sharia-compliant financial solutions.

**Market Insights:** Banks and financial institutions can benefit from insights into customer preferences and behaviors, aiding in the development of tailored savings products.

### 1.5 Hypothesis:

H0: There is no significant difference in the effectiveness of Islamic banking compared to conventional banking in promoting customer savings.

H1: Islamic banking significantly enhances customer savings compared to conventional banking.

## 2 CHAPTER TWO

### 2.1 Section One

#### 2.1.1 Literature review (previous studies) Customer saving in Islamic banking

(Ahmad et al.: 2014, pp. 66-72) finds that banks will offer various economic benefits in the form of competitive advantages and several options of quality bank products so that customers have various choices for bank products. Customer loyalty is an essential factor for banks. Similarly, (Zahoor & Qureshi: 2017, pp. 21-39) states that benefits which are the source of life, are the most important condition for banks as the mediator in the financial system. Besides, finds that the loyalty of Islamic banking consumers is affected by various products offered by the bank and good service quality. These factors make customers loyal to Islamic banks. According to (Adelsarbanlar & Khoshtinat: 2016, pp. 433-440), a good bank service quality occurs if banks provide a guaranteed return on the purchase price and solve customers' problems responsively. Besides, (Karim & Chowdhury: 2014, pp. 1-11) states that banks that provide good services will have high customer loyalty and a good reputation. This will reduce the cost of failure, product marketing, and operational costs. The main factor for customers' satisfaction is the customer's perception of the quality of bank services. (Saad: 2012, pp. 52-73) finds that the customers choose a bank because they are satisfied with the service quality related to the competence, friendliness, and efficiency of employees of the bank. According to (Jhandir: 2012, pp. 14-32), customer loyalty depends on the customer's perceptions and expectations of the service quality they receive. A good company must understand customer perceptions, tastes, and expectations of products, services, experience, and communication through advertising and marketing. The service quality of Islamic banking is determined by the level of customer loyalty. However, this study only identified four determinants: (a) the speed of bank services; (b) hospitality of bank employees; (c) competence of bank employees; and (d) service facilities (online facilities).

## 2.2 Section Two

### 2.2.1 Theoretical framework Islamic banking definition

While Islamic banks respond to the needs of Muslim customers, they are not acting as religious institutions. Like other banks they are profit-maximizing entities. They act as intermediaries between savers and investors and offer custodial and other services found in traditional banking systems. El-Gamal (2006)).

### 2.2.2 Saving accounts in Islamic banking

Islamic savings accounts are financial instruments offered by Islamic banks and financial institutions that allow individuals to deposit their money with the institution for safekeeping and potential growth. These accounts operate based on Shariah principles, which prohibit the payment or receipt of interest (Riba) and emphasize profit-sharing, risk-sharing, and ethical investment (Brian Kettell (2009)).

### 2.2.3 Types of saving accounts in Islamic banking

1. **Mudarabah savings account:** Mudarabah savings accounts operate on the principle of profit-sharing (Mudarabah), where the bank acts as the Mudarib (entrepreneur) and the depositor as the Rab-ul-maal (capital provider) (Kabir Hassan and Rasem N. Kayed (2009)).
2. **Wakalah savings account:** Wakalah savings accounts operate on the Wakalah principle, where the bank acts as an agent (Wakeel) to invest funds on behalf of the depositor. A Wakalah fee may be charged for this service (Bala Shanmugam and Uner Colakoglu (2008)).
3. **Qard hassan savings account:** Qard Hassan savings accounts are based on the principle of benevolent loan (Qard Hassan), where the depositor provides an interest-free loan to the bank. The bank is obligated to repay the full amount upon demand but does not provide any returns to the depositor (Faleel Jamaldeen 2012)).
4. **Joint savings account:** Joint savings accounts in Islamic banking allow multiple individuals to hold an account together. (Brian Kettell (2009)).
5. **Sukuk-based savings account:** Sukuk-based savings accounts are structured using Sukuk (Islamic bonds), where the deposited funds are invested in Sukuk assets. Returns are generated from the performance of the underlying Sukuk portfolio (Rifaat Ahmed Abdel Karim and Simon Archer (2009)).



## 2.2.4 Importance of Islamic banking

Islamic banking holds significant importance in the global financial system due to its adherence to Shariah principles, which promote ethical and responsible financial practices. One key aspect of Islamic banking is its emphasis on financial inclusion, providing access to banking services for individuals and businesses who seek Shariah-compliant alternatives to conventional banking. Additionally, Islamic banking fosters stability through risk-sharing mechanisms, such as profit-and-loss sharing contracts, which align the interests of banks with those of their customers, thereby reducing the risk of moral hazard. Furthermore, Islamic banking promotes economic development by channeling funds into productive and socially beneficial ventures, while also contributing to global financial diversity and innovation. Overall, Islamic banking plays a crucial role in promoting financial inclusion, stability, and ethical finance within the global financial landscape (Hans Visser2015)).

## 2.2.5 Customer saving definition

Customer savings, within the context of the banking sector, refer to the funds that individuals and entities deposit in various types of accounts offered by banks. These accounts typically include savings accounts, current accounts, fixed deposits, and other deposit products. Customers deposit their money into these accounts for safekeeping, liquidity, and potential returns in the form of interest or dividends. Customer savings play a crucial role in the banking sector by providing banks with a stable source of funds that they can utilize for lending, investment, and other financial activities. Banks use these deposits to extend loans to individuals and businesses, invest in financial assets, and support economic activities within the community. Customers benefit from savings accounts by having a secure place to store their money, earn interest on their deposits, and access various banking services such as online banking, debit cards, and ATM withdrawals. Additionally, savings accounts often offer deposit insurance protection, which safeguards customers' funds up to a certain limit in case of bank failure. Overall, customer savings are essential for both customers and banks, as they support financial stability, economic growth, and the provision of banking services to individuals and businesses (Mishkin, F. S., & Eakins, S. G. (2015)).

### 2.2.6 Types of saving

1. **Current Account:** Current accounts are transactional accounts typically used by businesses and individuals for frequent deposits, withdrawals, and daily financial transactions (Peter S. Rose and Sylvia C. Hudgins (Year: 2017))
2. **Fixed Deposit Account (Time Deposit):** Fixed deposit accounts, also known as time deposits, require customers to deposit funds for a fixed term at a predetermined interest rate. Withdrawals before the maturity date may incur penalties (Benton E. Gup (Year: 2017))
3. **Savings Account:** Savings accounts are used by individuals to deposit money for safekeeping while earning interest on the deposited amount. They typically offer lower interest rates compared to fixed deposit accounts (Peter S. Rose and Sylvia C. Hudgins (Year: 2017)).
4. **Joint Account:** Joint accounts are bank accounts owned by two or more individuals who have equal access to the funds. This type of account is often used by couples, family members, or business partners (Michael P. Malloy (Year: 2018)).
5. **Foreign Currency Account:** Foreign currency accounts allow customers to hold funds in currencies other than their local currency. These accounts are beneficial for individuals or businesses engaged in international transactions (T.H. Weil (Year: 1996)).

### 2.2.7 The relationships between Islamic banking and customer savings

The relationship between Islamic banking and customer savings is based on mutual trust, shared risk, and adherence to Shariah principles. Islamic banks offer various savings products that comply with Islamic law, providing customers with Halal alternatives to conventional banking. Customers deposit their savings into Islamic savings accounts, such as Mudarabah or Wakalah accounts, where profits are shared between the bank and the depositor based on pre-agreed terms. This profit-sharing arrangement fosters a sense of partnership and fairness, as both parties bear the risks and rewards of investments made using the deposited funds. Moreover, Islamic banking emphasizes ethical and responsible finance, ensuring that deposited funds are invested in Shariah-compliant ventures that promote social welfare and economic development. This relationship between Islamic banking and customer savings is built on transparency, accountability, and the principles of Islamic finance, enhancing trust and confidence in the banking system among customers seeking ethical and Halal financial solutions (Hans Visser (2015)).

### **3 CHAPTER THREE: DATA AND METHODOLOGY**

#### **3.1 Data Collection**

This study relies on primary type data due to unavailability of data. As a result, a questionnaire form was created as a suitable method of gathering data. Erbil was selected as the case study location. As a result, five Islamic bank banks with headquarters in Bilad Islamic Bank, Kurdistan Islamic bank (KIB), Abu Dhabi Islamic Bank (ADIB), Al qurtas Islamic bank (AQIB), and Iraqi Islamic Bank—were each given one hundred questionnaire forms. In fact, the commercial banks that made up the study's sample returned a total of 61 forms with responses on them.

#### **3.2 METHODOLOGY**

This study has used a number of statistical techniques and tests to evaluate the reliability of the data and their analysis. sciences (SPSS) is used for descriptive and factor analysis.

## 4 CHAPTER FOUR

**4.1 Table 1: Distribution of Respondents by Gender**

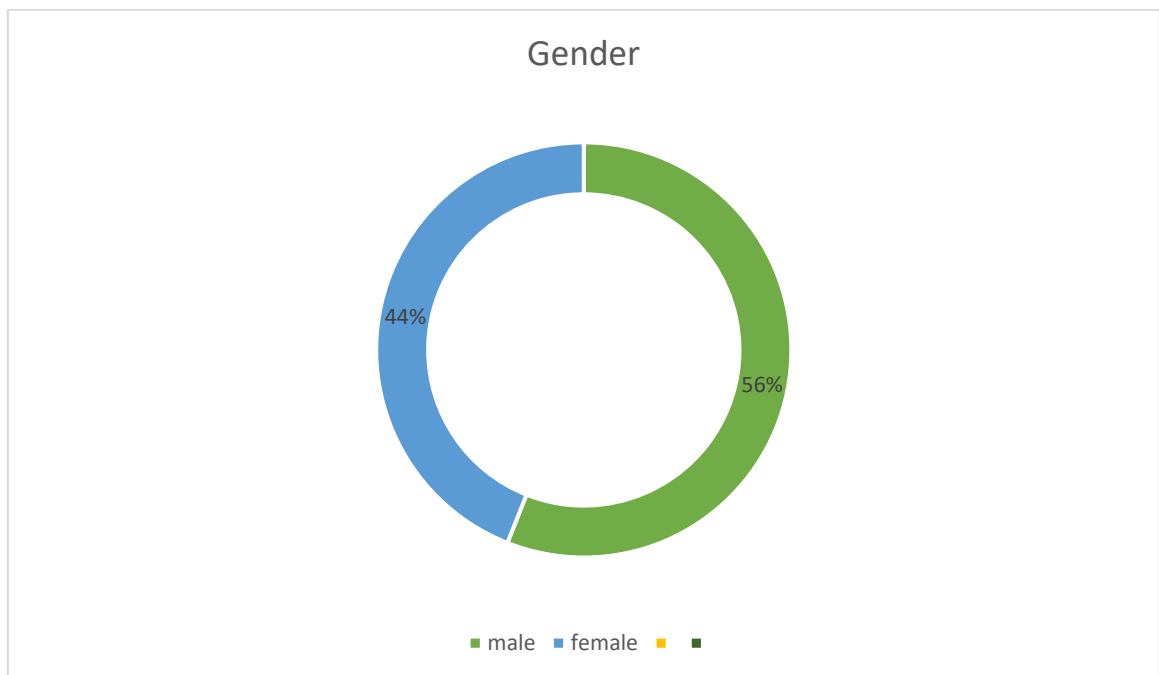
Gender	Frequency	Percentage (%)
Male	34	56.00
Female	27	44.00
Total	61	100.00

*Table 1: Distribution of Respondents by Gender*

Source: prepared by the researcher based on questionnaire data.

As can be seen from the gender of the research model in the above table, 56% of the sample respondents are men and 44% are women.

Figure 1: Gender Pie Chart



*Figure 1. Gender Pie Chart*

#### 4.2 Table 2: Respondent Distribution by Age

Age	Frequency	Percentage (%)
16 – 25	15	25.00
25 – 35	35	57.00
35 - 65	11	18.00
Total	61	100.00

Table 2: Respondent Distribution by Age

Source: prepared by the researcher based on questionnaire data.

Table 2 displays shows that the lowest rates are for those between 35 - 65 (18%), those between 25 and 35 (57%), those between 16 and 25 is equal to (25%).

Figure 2: Pie chart for age

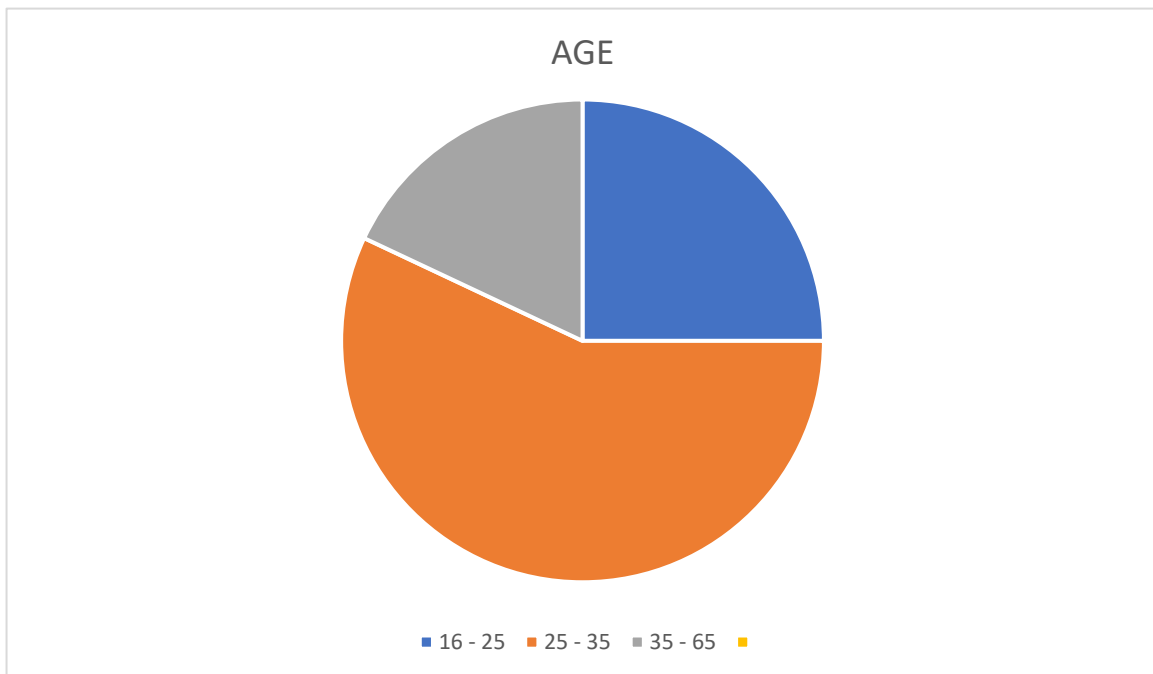


Figure 2: Pie chart for age

### 4.3 Table 3: Respondent Distribution by years of service

Year	Frequency	Percentage (%)
5 - 10	26	43.00
10+	21	34.00
Less than 5	14	23.00
Total	61	100.00

Table 3: Respondent Distribution by years of service

Source: prepared by the researcher based on questionnaire data.

Table (3) shows that the sample of research in the surveyed organizations has the percentage of respondents. The number of years of service in the current job is as follows: (43%) (5 - 10) year, (34%) for (10+) year, (23%) is include (less than 5) years.

Figure 3. Pie Chart for years of service

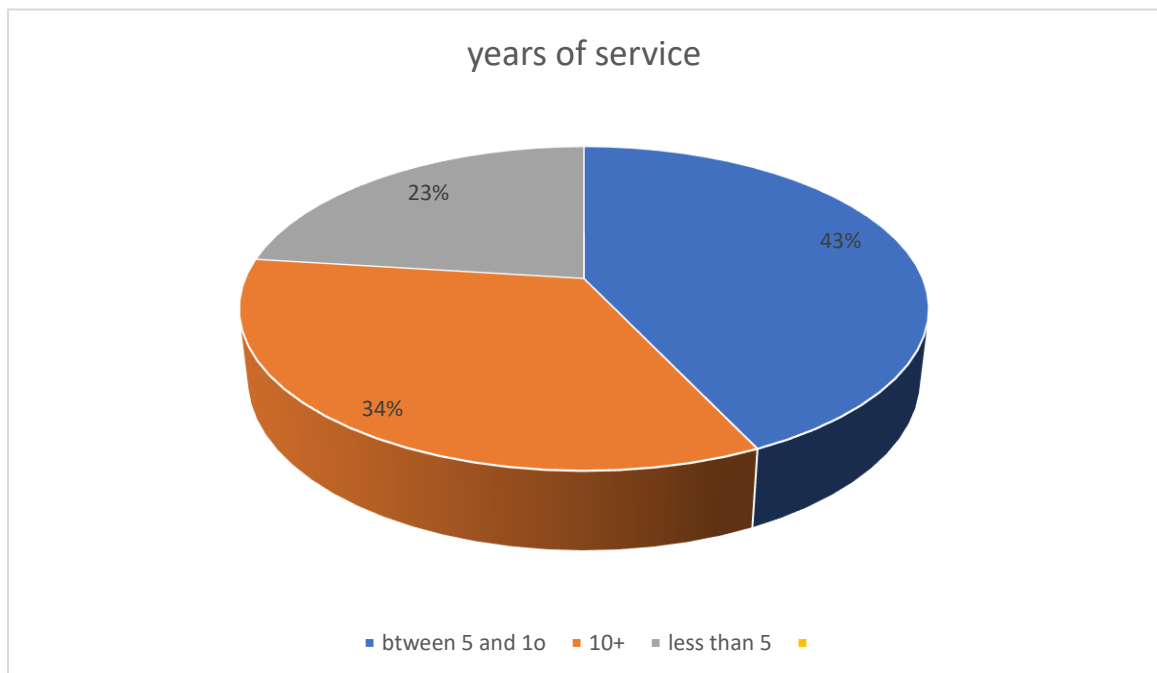


Figure 3: Pie Chart for years of service

#### 4.4 Table 4: Respondent Distribution by work in your specialty

Yes or No	Frequency	Percentage (%)
Yes	41	67.00
No	20	33.00
Total	61	100.00

*Table 4: Respondent Distribution by work in your specialty*

Source: prepared by the researcher based on questionnaire data.

In table 4 The data shows that a majority, 67%, are currently employed within their specialty, suggesting a significant alignment between their skills and job roles. However, the fact that 33% are not working in their specialty raises questions about potential mismatches between job opportunities and individuals' expertise, highlighting areas for career development or further exploration of market demand. Addressing this disparity could lead to enhanced job satisfaction and workforce efficiency.

#### 4.5 Table 5: Respondent Distribution by the degrees of employers

Degrees	Frequency	Percentage (%)
Diploma	19	31.00
Bachelor's	28	46.00
Master's	12	20.00
Doctorate	2	3.00
Total	61	100.00

*Table 5: Respondent Distribution by the degrees of employers*

Source: prepared by the researcher based on questionnaire data.

Table 5: respondents had a preparatory certificate, (31%) of the holders of a diploma, and (46%) are holders of bachelor's which is the most and this proportion is logical, the majority of them Degree is a specialist in the field of work and meets the skills of their work. Of the respondents have a master's degree (20%), doctorate degree is only (3%).

**4.6 Table 6: Decision Applied Research on a Number of Islamic Banks in Erbil Governorate for the period 2023 – 2024**

No.	Questions	Measurement	Strongly Agree	Agree	Neutral	non-Agree	non-Strongly Agree	Arithmetic Mean	Standard Deviation
1	Q1	Frequency	52	7	0	1	1	1.23	0.693
		Percentage	85.00	11.00	00.00	2.00	2.00		
2	Q2	Frequency	24	22	0	15	0	2.10	1.179
		Percentage	40.00	36.00	00.00	24.00	00.00		
3	Q3	Frequency	17	12	0	26	6	2.87	1.466
		Percentage	28.00	20.00	00.00	43.00	9.00		
4	Q4	Frequency	35	12	0	12	2	1.92	1.295
		Percentage	57.00	20.00	00.00	20.00	3.00		
5	Q5	Frequency	31	20	0	9	1	1.84	1.113
		Percentage	51.00	33.00	00.00	15.00	2.00		
6	Q6	Frequency	19	19	0	20	3	2.49	1.362
		Percentage	31.00	31.00	00.00	33.00	5.00		
7	Q7	Frequency	39	18	0	4	0	1.49	0.809
		Percentage	64.00	30.00	00.00	6.00	00.00		
8	Q8	Frequency	41	17	0	1	2	1.46	0.867
		Percentage	67.00	28.00	00.00	2.00	3.00		
General Arithmetic Mean & Standard Deviation								1.925	1.098

*Table 6: Decision Applied Research on a Number of Islamic Banks in Erbil Governorate for the period 2023 – 2024*

Source: prepared by the researcher based on questionnaire data.

Table 6 explains the arithmetic mean and standard deviation and approval for each of the phrases, where we note that:

Q1: The majority of respondents (85%) strongly agree that there is a clear policy and plan for Islamic banking. A small portion of respondents (11%) agree with the statement. Only one respondent each disagrees or strongly disagrees with the statement, which forms a very small percentage of the total responses.

The arithmetic mean of 1.23 suggests that, on average, respondents' opinions lean towards "Strongly Agree" to "Agree" on the clarity of the policy and plan for Islamic banking. The standard deviation of 0.693 indicates some variability in responses around the mean.



Q2: A significant portion of respondents (40%) strongly agree that the bank adheres to modern standards for Islamic banking, while another substantial portion (36%) agrees with this statement. No respondents chose the "Neutral" or "Non-Strongly Agree" options. However, a notable portion (24%) of respondents do not agree with the bank's attention to modern standards for Islamic banking.

The arithmetic mean of 2.10 suggests that, on average, respondents' opinions lean towards "Agree" to "Strongly Agree" regarding the bank's adherence to modern standards.

The standard deviation of 1.179 indicates some variability in responses around the mean, suggesting that there are differences in opinions among respondents.

Q3: A notable portion of respondents (28%) strongly agree that sending staff for training in Islamic banks outside the Kurdistan Region is beneficial. Another portion (20%) agrees with this statement. No respondents chose the "Neutral" option. However, a significant proportion (43%) of respondents do not agree with sending staff for training outside the Kurdistan Region, and 9% strongly disagree

. The arithmetic mean of 2.87 indicates that, on average, respondents' opinions lean towards "Agree" to "Strongly Agree" regarding the practice of sending staff for training outside the region.

The standard deviation of 1.466 suggests considerable variability in responses around the mean, indicating differing opinions among respondents.

Q4: A majority of respondents (57%) strongly agree that the bank operates according to Islamic law. A significant portion (20%) agrees with this statement. However, a notable portion (20%) of respondents do not agree with the statement, and 3% strongly disagree.

The arithmetic mean of 1.92 suggests that, on average, respondents' opinions lean towards "Strongly Agree" to "Agree" regarding the bank's adherence to Islamic law.

The standard deviation of 1.295 indicates some variability in responses around the mean, suggesting differing opinions among respondents.

Q5: A majority of respondents (51%) strongly agree that the bank is open to all investors for investment. Another substantial portion (33%) agrees with this statement. However, a notable portion (15%) of respondents do not agree with the statement, and 2% strongly disagree.

The arithmetic mean of 1.84 suggests that, on average, respondents' opinions lean towards "Strongly Agree" to "Agree" regarding the bank's openness to all investors for investment.

The standard deviation of 1.113 indicates some variability in responses around the mean, suggesting differing opinions among respondents.

Q6: An equal number of respondents (31% each) both strongly agree and agree that there is marketing for Islamic banks to attract savings and investment. However, a slightly larger portion (33%) of respondents do not agree with the statement, and 5% strongly disagree.

The arithmetic mean of 2.49 suggests that, on average, respondents' opinions lean towards "Agree" to "Strongly Agree" regarding the existence of marketing efforts for Islamic banks.

The standard deviation of 1.362 indicates some variability in responses around the mean, suggesting differing opinions among respondents.

Q7: A majority of respondents (64%) strongly agree that many people and institutions in Erbil save and invest in this bank. Another significant portion (30%) agrees with this statement. However, a small portion (6%) of respondents do not agree with the statement.

The arithmetic mean of 1.49 suggests that, on average, respondents' opinions lean towards "Strongly Agree" to "Agree" regarding the participation of people and institutions from Erbil in saving and investing in the bank.

The standard deviation of 0.809 indicates some variability in responses around the mean, suggesting differing opinions among respondents.

Q8: A majority of respondents (67%) strongly agree that the bank's activities rely on the savings of people and institutions. Another significant portion (28%) agrees with this statement. However, a very small portion (2%) of respondents do not agree with the statement, and 3% chose the "Non-Strongly Agree" option.

The arithmetic mean of 1.46 suggests that, on average, respondents' opinions lean towards "Strongly Agree" to "Agree" regarding the dependency of the bank's activities on savings.

The standard deviation of 0.867 indicates some variability in responses around the mean, suggesting differing opinions among respondents.

## 5 CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

### 5.1 Conclusion:

In conclusion, this study has provided valuable insights into the role of Islamic banking in promoting customer savings within the global financial landscape. Through an exploration of the theoretical framework of Islamic banking and an analysis of its various savings accounts, including Mudarabah, Wakalah, and Qard Hassan accounts, we have gained a deeper understanding of the principles and mechanisms driving Islamic banking practices. Furthermore, our investigation into the importance of Islamic banking underscored its significant contributions to financial inclusion, stability, and ethical finance. By adhering to Shariah principles and fostering risk-sharing mechanisms, Islamic banking serves as a catalyst for economic development and promotes responsible financial practices. The examination of the relationship between Islamic banking and customer savings highlighted the mutual trust, shared risk, and ethical considerations that underpin this dynamic interaction. Through primary data collection methods and statistical analysis, we have provided empirical evidence to support our findings, thereby enhancing the validity and reliability of our research outcomes. In essence, this study contributes to the existing body of knowledge on Islamic banking and customer savings, offering valuable insights for policymakers, financial institutions, and individuals seeking ethical financial solutions. Moving forward, it is imperative to continue exploring the evolving landscape of Islamic finance and its implications for the global financial system.

### 5.2 Recommendations

1. **Enhanced Data Availability:** Given the reliance on primary data due to the unavailability of existing data, it is recommended to establish mechanisms for systematic data collection and sharing within the Islamic banking sector. This will facilitate future research endeavors and enable a more comprehensive understanding of Islamic banking practices.

**2. Diversified Research Locations:** While this study focused on the city of Erbil, expanding the research scope to include a broader range of geographic locations can provide a more holistic perspective on the impact of Islamic banking on customer savings. This can involve conducting similar studies in other cities or regions with significant Islamic banking presence.

**3. Continuous Monitoring and Evaluation:** Implementing regular monitoring and evaluation mechanisms within Islamic banks can help assess the effectiveness of their savings products and services in meeting customer needs and preferences. This ongoing assessment is crucial for identifying areas of improvement and optimizing the delivery of Islamic banking solutions.

**4. Educational Initiatives:** Launching educational initiatives aimed at raising awareness and understanding of Islamic banking principles among the general public can promote greater adoption of Shariah-compliant financial practices. This can involve organizing seminars, workshops, and educational campaigns to disseminate information about the ethical and financial benefits of Islamic banking.

**5. Innovation in Savings Products:** Encouraging innovation in Islamic savings products and services can cater to the diverse needs of customers and enhance their engagement with Islamic banking institutions. This can involve the development of innovative savings accounts, investment opportunities, and digital banking solutions tailored to the preferences of different customer segments.

**6. Collaborative Partnerships:** Foster collaborative partnerships between Islamic banks, regulatory authorities, and academic institutions to facilitate knowledge sharing, research collaboration, and capacity building initiatives. This collaborative approach can contribute to the continuous improvement and advancement of the Islamic banking sector.

By implementing these recommendations, stakeholders within the Islamic banking industry can further strengthen their efforts in promoting customer savings, fostering financial inclusion, and advancing the principles of ethical finance within the global financial landscape.

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