

Comparative Analysis of the Dividend Policy of Islamic and Conventional Banking in Pakistan

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Abstract

The aim of this study is to find out the comparison between the Islamic and Conventional banks in terms of the dividend payout policy. This study is confined to the Islamic and conventional banking industry operating in Pakistan. For that one Islamic banking and one Conventional bank has been selected. The quarterly data for the both banks have been gathered from annual reports of both banks from the year 2011 till 2020. The data has been analyzed using Ordinary Least square regression in the statistical software STATA 14 version. The results of the study revealed that the higher dividend is paid to the shareholders by the conventional banks. Further, the results stated that the debt to equity ratio has the significant impact on the dividend payout policy for Islamic bank. The debt to assets had no impact on the dividend payout policy while current ratio and net profit margin negatively affected the dividend payout policy of the Islamic bank. Further, for the conventional bank results revealed that the current ratio and debt to equity had insignificant impact while the debt to assets and Net profit margin negatively impact on the dividend payout policy of the conventional bank. This study suggests the higher management of Islamic banks as well as the conventional Banks to give proper attention for setting up the dividend policy as the dividend payout influence the behavior of the investors regarding investment in the different stocks.

Key Words: - Islamic banking, Dividend policy, Conventional banking, Ordinary least square, current ration, debt to assets ratio, debt to equity and net profit margin.

Introduction:

Background of Study:

The financial segment is the basic piece of the economy and plays out a fundamental job in the monetary exercises; in the present period, the economy can't act without the nearness of satisfactory financial framework. The customary ordinary financial framework depends exclusively on giving assets and procuring reserve. The fundamental issue in this framework, it isn't agreeable with Islamic Shariah since it contains accompanying components: Riba , Gharar, Qimar and anything furthermore but a benefit supported framework in which may prompt exceptionally perilous budgetary circumstances. In the nineteenth century, Muslim researchers began developing a financial

framework that would eliminate the non-Shariah components contained in our flow monetary system. The Muslim Scholars make a financial framework which rejects the accompanying variables: Riba , Gharar , Qimar and makes it an advantage upheld budgetary framework. In the 2008 money related emergencies, there was a huge effect on the regular budgetary organization because of the sub-prime home loan which was not resource sponsored rather it dependent on subsidiaries, which not allowed in the Islam. After the money related emergencies of 2008, the monetary expert and authority broke down that Islamic Financial and banking framework not influenced by this emergency and development of Islamic budgetary organization expanded because of the worldwide monetary emergencies Ahmed, Rafay, and Ahmed (2018).

The speculator is progressively agreeable to put resources into the Islamic Financial Institutions as contrast with the regular money related organizations particularly in Islamic nations; however the essential want of the financial specialists is to boost the arrival on ventures. This aim has made a scholarly rush researching the contrast between Conventional or traditional and Islamic Banking frameworks and investment return. Besides, various records of studies led to contrast Islamic and traditional Banking segment in respect to their presentation, return, development, and so on. Be that as it may, just a couple of sorts of research have played consideration and thought about the profit arrangement of both banks. Almost every organization gains profit through their financial activities and distributes this profit to their investors. The instrument of dispersing profit varies depending on the organization's financial strategy and its development opportunity (Zameer, Rasool, Iqbal, & Arshad, 2013). If the organization has a practical development opportunity, they reinvest their profit in the organization's development. In Pakistan research is restricted for decide of effect of profit strategy on depositors. There is likewise a discussion that there is any distinction between profit of the budgetary part and non-money related division, the most recent writing proposes that the profit payout arrangement of the monetary business is not the same as the non-monetary segment due to the diverse controller and various approaches like duty strategies, hold gaining techniques, development openings (DeAngelo, DeAngelo, & Stulz, 2006).

Islamic banking is based on the Islamic faith, and all of its activities and deeds must adhere to Islamic Law, also known as Shariah. The Arabic word Shariah originally meant "the route to the root of life," but it is now used to refer to a legal system based on the code of conduct mandated by Prophet Mohammad's (PBUH) preaching and the Holy Qur'an (Koran).The absence of interest-based (riba) transactions; the avoidance of economic activities involving injustice (zulm); the avoidance of economic activities involving speculation (gharar); the imposition of an Islamic levy, zakat; and the prohibition of the production of goods and services contrary to Islamic value are the guiding principles of Islamic banking (haram) Traditional banking, on the other hand, is primarily built on the debtor-creditor relationship between depositors and the bank on the one hand, and creditors and the bank on the other. Interest is the credit price, and it reflects the money's opportunity cost (Ramlan & Adnan, 2016). The idea of banking started at the beginning of 1800 BC and has led to the growth of countries such as Gambia. Research shows that financial institutions such as banks make an enormous contribution to the growth of a country, which no exception is the Gambia. For instance, the stability and growth of any economy is largely dependent on the banking sector's stability, which serves as an intermediate between surplus and deficit units in the economy. This is to say, financial institutions like banks provide the lubricant required for economic growth and development(Al-Gazzar, 2014).

Since the Bank of England was only founded in 1694, modern conventional banking was considered non-existent in England before to 1640. However, the first Islamic bank, Mit Ghamr Saving Bank, was created in Egypt in 1963, and its transactions were based on Shariah principles and laws. Furthermore, just because the first Islamic Bank was created in 1963 does not mean that there were no preceding Islamic money and banking activity in Islamic history. In accordance with the book of Sudin Haron and Wan Nurso fiza "before or after the arrival of Islam in Mecca, deposits were made for safe keeping. The person entrusted to keep the deposits would pledge to return the amounts

deposited. However, during the time of Prophet (peace and blessing upon him), one of his Companions, Az Zubair al Awwam would refuse money from depositors if it was in the form of saving. Instead, he preferred it to be in the form of loan or Qard.” On the other hand, we are all aware of the principles of Conventional Banking system which includes the transfer of risk to others and its primary goal of maximizing shareholders’ value at any cost (Sumner & Whitcomb, 1999).

In general, the banking business is divided into two types of banking systems. The Islamic Banking System is an interest-free financial system, while the Conventional Banking System is an interest-based banking system. To please its consumers, the two financial systems compete with one another. They are so different in terms of principles guiding their approach to banking operations, yet share some areas of convergences. For example, they both act as safe havens for money, as well as financiers and lenders to their customers and the government. The Islamic banking system focuses on equity rather than debt financing. Conventional banking operations are interest-based, whereas Islamic banking operation is based on profit and loss sharing basis between two parties (risk diversification principle). While Islamic banking is based on 'Sharia' (rules derived from the Quran and Teachings of the Prophet; Mohammad S.A.W), conventional banking is mostly influenced by clients' ability to pay within a specified time frame. To put it another way, 'man made' rules (Hasan & Dridi, 2011).

Before the declaration of his prophet hood, the people of Makka used to deposit their money and jewels with the Holy Prophet (PBUH) since he was the most honest and was known as Amin (trustworthy). Until his emigration from Makka to Medina, he kept these deposits and treasures in his own. Before leaving, the Holy Prophet gave these deposits and treasures to his cousin and son-in-law, Hazrat Ali, who would return them to their rightful owners (Naqvi, 1993).

According to Naqvi (1993), safe-keeping of money was a typical practice in the Arab world. People who had savings put their money in the hands of reliable people and received it back in the same form when they needed it. Zubain Bin Al-Awwam, the Holy Prophet's companion, had a reputation for being trustworthy. He was the most trustworthy individual when it came to money storage and had a secure storage infrastructure. His method of receiving deposits was unique and distinct from that of others. He was given money as a loan rather than as a deposit. His preference for receiving money as a loan rather than a deposit was to secure the right to dispose of the money by treating it as a loan rather than a deposit in order to ensure or guarantee payback to the owner, as money sitting idle in the form of a deposit could be a loss to the owner. When a deposit is transformed into a loan, however, it is secured because it becomes the borrower's liability. The total amount owed to him at the time of his death was 2,200,000 Dirham, a significant number in the context of the time. His son, Abdullah Bin Zubair, paid off his father's whole debt and split his father's possessions among his relatives.

For financial experts, dividend payout strategy is fundamental, and it plays a crucial role in convincing investors to invest money in specific stocks. There were few models developed knowing how investors would behave in relation to the profit or dividend structure of the firms. The primary financial indicators for a bank are its dividend or profit arrangement. In this context, dividend arrangement is important for investors as it also determines the financial experts' entry into a project. In order to distinguish between the dividend payout strategies of Pakistan's Islamic and regular banks and to determine how Islamic banks attract financial experts to Pakistan, this investigation aims to develop a model. This study will examine how profitability, liquidity and financial leverage effect on the dividend payout policy of the conventional banks and Islamic banks in Pakistan. These three variables are selected on the basis of previous studies and these variables define the financial stability of the organization.

Literature Review

Dividend is the return that investor gets from business. The measure of dividend relies upon a lot of investment ways. The dividend is the arrival on venture for the financial specialists. The dividend might be as money, which implies the organization pays money add up to the investors; in some cases profit is as stock profits in which organization gives new stock to the financial specialists concerning

balance portion of speculation (Jiang & Lee, 2007).

In profit distribution to investors by income, some purposes are; a sound profit sum shows that the organizations have great incomes and budgetary quality. Through profit speculator get their arrival on venture on the customary premise so those financial specialists who need their benefit on income base, incline toward those stocks that deliver the sensible measure of dividend. Firms who delivered the sensible measure of profit had simple abundance to the capital market. Moreover, payout of dividend approach additionally influences valuation of stock (Marito & Sjarif, 2020).

At a point when views are on the customary financial framework verses Islamic financial frameworks, then three distinct viewpoints discovered: First, socio-strict Level and theoretical structure: Islamic Banks chips away at exchanging and speculations model and not loan the cash straightforwardly. The regular banks included straightforwardly in loaning and obtaining business and furthermore act just as the moneylender. Second, plan of action and Shariah Banks work with an exacting shariah overseeing structure having shariah rules and a board which affirms each exchange and items considering shariah rules and educating. The customary banks take a shot at the premium based structure. Third Islamic Banking items sponsored by resources and include exchanging of benefits, leasing of advantages and cooperation on benefit and misfortune premise. Traditional banks treat cash as the item and loan it against premium (Imtiyaz, 2022).

Islamic banking has gathered significant consideration as of late inferable from its quantum development. This investigation analyzed the lopsided relationship between Islamic financial turn of events (IBD) and monetary development (EG) in Pakistan that traverses 2007Q1 to 2017Q4. They apply the non-linear autoregressive dispersed slack (NARDL) model. Discoveries affirm co-integration among IBD and EG in Pakistan. The positive (negative) stuns of IBD have huge positive (negative) relationship with EG in the long-run; notwithstanding, just sure stuns have critical positive relationship with EG in the short run. We see that the interconnection between IBD-EG is awry/non-linear in the long-run, though symmetric/straight in the short run. Study inferred that not at all like the straight models, the non-linear models give sensible outcomes by catching shrouded imbalances, in this manner helping policymakers in valuable dynamic (Ullah, Zhao, Kamal, Riaz, & Zheng, 2020).

This paper meant to look at the since quite a while ago run connection between Islamic financial turn of events and monetary development in Malaysia for a long time from 2004Q1 – 2018Q4. This examination utilized the bound testing approach and since quite a while ago run models which are created inside the autoregressive circulated slack (ARDL) system. Islamic financial improvement is addressed by the quarterly time-arrangement information of the Islamic banks' absolute stores $\ln(\text{dep})$, while Gross Domestic Products $\ln(\text{GDP})$ addresses the monetary development. What's more, four control factors were chosen, to be specific gross fixed capital arrangement $\ln(\text{GFCF})$, exchange receptiveness $\ln(\text{OPN})$, purchaser value record $\ln(\text{CPI})$, and general government consumption $\ln(\text{GE})$. The discoveries uncovered that there is an Islamic money development relationship in Malaysia. In addition, they likewise featured the distinction in the Islamic money financial development nexus among pre-and post-IFSA 2013. The discoveries are required to have significant ramifications for the financial organizations, controllers, and policymakers in figuring future systems to upgrade both the banking and monetary advancements in Malaysia (Yusof & Loong).

Islamic banking, which has seen phenomenal development in the last quarter of the century is guessed to have the option to add to the advancement of the monetary area and hence to financial development through devices natural to this religious model of banking. Study tried the theory that a higher relative presence of Islamic banking is gainful to the development of outside money subordinate ventures. Utilizing information for 28 businesses in 14 nations with double financial frameworks, we locate that the outright and relative size of Islamic banking do decidedly affect industry development. The outcomes were vigorous to controlling for the nature of account just as for the level of rivalry in the financial business (Chazi, Mirzaei, Zantout, & Azad, 2020).

A large body of research has recently been published examining the differences between the

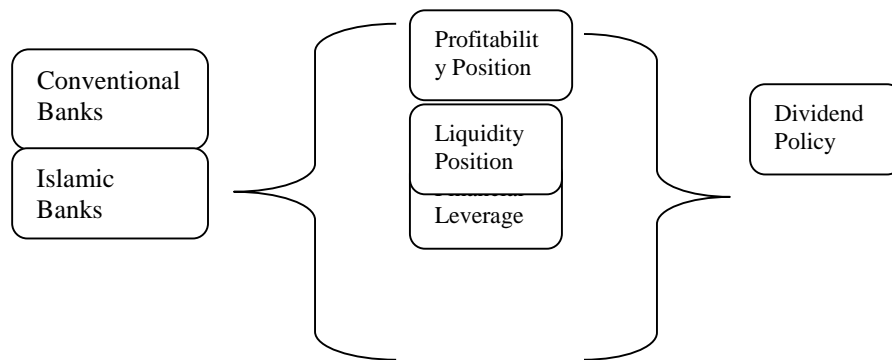
performance of Islamic and conventional banking in different parts of the world (AbdulMajid, Saal and Battisti 2010; SaifAlyousfi, Saha and MdRus, 2017; Samad, 2004). Different researchers used different techniques to measure the variables. Ratio analysis is the most widely used technique in this field. Different researchers found different results. Here is more than 20, researchers' assessment of the performance of Islamic and conventional banking. The ratio analysis technique was published in a comparative study between Islamic and conventional banking in Pakistan (Awan 2020).

In Malaysia, three Malaysian academics assessed the effectiveness of Islamic and conventional banking. They assessed the inefficiency of the two types of banks using parametric and non-parametric statistical approaches. They discovered that, while there was no statistical difference between the two, Islamic banks outperformed regular banks in terms of performance. Rosly and Bakar used empirical methodologies to assess the profitability of Islamic and conventional banks and financing companies in Malaysia (2003). The author employs six profitability ratios to investigate the disparity, including Return on Assets and Return on Deposits. Islamic banks have substantially higher ratios than conventional interest-based banks, they discovered. However, the author says that this is due to Islamic banks' discounted overhead charges, which lowers their operating costs, and Islamic banking has yet to adapt its operations and totally eliminate Riba from the Islamic banking system. They should expand risk sharing in their functions to fully build the system in accordance with religious requirements. This enhancement will also contribute to the company's long-term prosperity. The author goes on to explain that Islamic banks can increase their profitability by utilizing size and scope economies. This goal can be achieved by focusing on ethical issues (Abdul-Majid, Nor, & Said, 2005). The better performance of IBS can be justified and explained by the results of the two authors. First, A study assessed and find that the financial system which is underdeveloped may have high profitability but having low efficiency (Claessens, Demirgüç-Kunt, & Huizinga, 2000), These conclusions were reached after examining a number of banks from both developed and developing countries around the world. The authors computed potential profitability and efficiency ratios to achieve the aforementioned goal. Second, Hassoune (2002) identified similar findings in a study to learn how Islamic banks manage to smooth their profitability, and their conclusions were based on a comparison of the ROE and ROA ratios. The Gulf Cooperation Councils region's traditional Islamic banks were compared.

According to the statistics, Islamic banks have a higher profitability than conventional banks. IBs have also been shown to be additional creditworthy and less susceptible to the cyclical nature of returns on assets. Although that do not provide a whole picture for future initiatives, because the basic reason for the higher profitability ratios is that Muslims who put their money in banks do not want to make a profit. When the size of an Islamic bank's operations rises, however, all new depositors are not compelled to seek no return on their investment. These non-demanding depositors favor Islamic banks, and further if all changed to match with the Islamic banking model than cost of capital will rise. The principle of profit and loss sharing on the other hand, smooth Returns on Assets by absorbing shocks, minimizing systemic risk in the banking industry.

Another study conducted in Malaysia with an aim to analyze the impact of interest rate in conventional banks and profit rate of deposits in the Islamic banks. The customers in the IBs are encouraged by the profit maximization theory. The results concluded that the Islamic banks are less liquid than the conventional banks rejecting the notion that the IBs are more liquid than the CBs (Haron and Ahmad 2000). According to Abdul-Majid, Saal, and Battisti (2009)'s study, "the influence of Islamic banking on the cost efficiency and productivity change of Malaysian commercial banks," Islamic banks are less efficient than traditional banks since they require more input to produce the necessary outputs. From 1996 to 2002, data for Malaysian banks of both types was analyzed using the analytical model Stochastic Frontier Analysis (SFA). According to the study, full-fledged Islamic banks are addressing the issue of higher costs by making technical adjustments. The data for Malaysian banks in all categories was analyzed using the analytical model Stochastic Frontier Analysis from 1996 to 2002.

Conceptual Framework:



Research Methodology:

This study is positivist and quantitative in nature and based on deductive approach. In this study one Islamic and one conventional bank has been selected. In Islamic bank Mezaan bank limited is selected while in conventional bank, bank Al-falah limited is selected. To achieve the objective Ordinary least square (OLS) has been applied to find the impact of these banks financial ratios on the dividend policies. The data for this study is extracted from the financial reports of the company and from the central bank, State Bank of Pakistan.

Data and Variables:

The example time of the examination is from 2011 to 2020 because of the confinement in the accessibility of the date. The quarterly perception will be taken, so the example size of the investigation is (4*10*2= 80) eighty perceptions and forty perceptions for each Islamic and Conventional bank. So in this regard, two different analyses will be conducted to comparatively analyze the Islamic and conventional banks dividend policy.

The information of one Islamic Bank and the traditional bank is gathered as shown in the Table 2.1

Table 0.1 Banks under study

	Islamic Bank	Conventional bank
Name	Meezan Bank Limited (MBL)	Bank Al-Falah Limited (BAFL)
Justification	MBL is the largest Islamic bank in Pakistan listed on Pakistan stock exchange and it pays its shareholders the dividend.	BAFL is the traditional bank equivalent to the MBL in terms of the balance sheet, statement of profits and number of branches.

Following regression equation will help to test the hypothesis under study:

$$IBDY_t = \beta_0 + \beta_1 CR_t + \beta_2 DoEt + \beta_3 DoAt + \beta_4 NPM_t + \mu_{it} \quad (1)$$

$$CBDY_t = \beta_0 + \beta_1 CR_t + \beta_2 DOEt + \beta_3 DOAt + \beta_4 NPM_t + \mu_{it} \quad (2)$$

Where:

IBDY_t= DPR of Islamic Banking in year t

CBDY_t= DPR of Conventional Banking in year t

CR_t= Current Ratio in the t year
 DOE_t= Debt to Equity in the t year
 DOA_t= Debt to Assets in the t year
 NPM_t= Net Profit Margin in the t year

Data Analysis and Interpretation

The mean value for the conventional bank's dividend payout ratio is 47.24%. That is greater than the mean value of dividend payout ratio of Islamic banking which is 42.52%. This is because when the growth opportunities for an organization are higher than they pay low dividend and retain the earnings for investing in the different ventures. These results interpret that the Islamic banking in Pakistan has more opportunities of growth as compared to the conventional banking industry in Pakistan,

Table 0.1 Descriptive Statistics of Islamic Bank

Islamic Bank	DPR	Current Ratio	Debt to Equity	Debt to Asset	Net Profit Margin
Mean	.4252	1.191205	.1863335	.943325	.40285
Maximum	.1497323	1.72	1.306	0.956	0.54
Minimum	.0591193	0.95	2.335	0.912	0.39
Standard Deviation	.0250883	.8109716	.23355	.010776	.0848817

Table 0.2 Descriptive Statistics of Conventional Bank

Conventional Bank	DPR	Current Ratio	Debt to Equity	Debt to Asset	Net Profit Margin
Mean	.4724	1.1009	.185103	.928675	.369
Maximum	.169775	1.941	.8429	1.058	.58
Minimum	.49925	.98	.01147	.547	.22
Standard Deviation	.4296073	.1755	.01147	.0658489	.0819

The profitability ratio which is calculated by the mean of NPM for the Islamic bank is higher (40.285%) as compared with the conventional bank (36.9%) this is because of the availability and better support of the central bank for the better investment avenues for the IB as compared to the CB. The high current ratio of Islamic Bank, i.e., 1.191 as compared to the conventional banks 1.1009 states that the Islamic banks have more potential to payout the short terms debts and excess liquidating funds to their shareholders in the form of dividends. Financial leverage in terms of debt to equity ratios of the Islamic Bank is 18% and same for the conventional banks which states that the debt of the conventional as well as Islamic banks are same for the both types of banks in the country. The debt to assets ratio for the both Islamic as well as the conventional banks look similar with a mean of 0.9, which states that the both the banks are using the same strategy for the financial leverage. The researchers employed the OLS regression approach as one of their primary analytical methods. In a linear regression model, the ordinary least square or linear least square method is used to estimate the unknown parameters. The variable's value as predicted using simple least squares. It works with dependent and independent variables, as well as for the time series data.

Due to prediction, the independent variable is utilized as an input and the dependent variable is used as an output in a data series. The OLS is a commonly utilized, effective, and efficient approach by researchers in academic, vital experimental and applied research to complete their study and obtain results.

Table 0.3 Ordinary Least Square (Islamic Bank)

Dependent Variable	Independent Variable	Coefcient	Std-Error	t-statistic	Prob.	R-squared
DY	Current Ratio	-.0050222	.004537	-1.11	0.276	0.6078
	Debt to Equity	.349565	.1718995	2.03	0.050	
	Debt to Assets	.021201	.474667	0.04	0.965	
	Net Profit Margin	-.0615673	.0421388	-1.46	0.153	
Regression Equation $DY_t = \beta_0 + \beta_1 CR_t + \beta_2 DoE_t + \beta_3 DoA_t + \beta_4 NPM_t + \mu_{it}$						

The first equation in table 3.3 estimates the impact of current ratio, debt to equity, debt to assets, and Net profit margin on the dividend payout ratio of Islamic Bank. Ordinary least square (OLS) analysis reveals that debt to assets has no effect on the Islamic Bank dividend payment ratio. The current ratio and net profit margin have a negative influence on the dividend payout ratio of Islamic banks, however debt to equity has a considerable and favorable impact.

The study's conclusions on the negative impact of current ratio and net profit margin on dividend payout ratio are minor, and they are not supported by evidence (Hashim Zameer, 2013). The study's findings suggest that the literature-recommended negative impact of current ratio and net profit margin on dividend payout ratio is correct (Khoury, 2014). The R-squared value is 60%, indicating that the econometric model of the Islamic Bank's dividend payout ratio is a good fit.

Table 0.4 Ordinary Least Square (Conventional Bank)

Dependent Variable	Independent Variable	Coefficient	Std-Error	t-statistic	Prob.	R-squared
DY	Current Ratio	2.483146	4.067064	0.61	0.545	0.530
	Debt to Equity	3.088873	7.109385	0.43	0.667	
	Debt to Assets	-5.394287	10.81837	-0.50	0.621	
	Net Profit Margin	-8.32697	10.06749	-0.83	0.414	
Regression Equation $DY_t = \beta_0 + \beta_1 CR_t + \beta_2 DOE_t + \beta_3 DOA_t + \beta_4 NPM_t + \mu_{it}$						

Table 3.4 displays the outcome of the conventional bank's regression equation; the second equation estimates the influence of current ratio, debt to equity, debt to assets, and net profit margin on the conventional bank's dividend payout ratio. The results of the ordinary least square (OLS) analysis demonstrate that the current ratio and debt to equity ratio have no significant influence on the traditional bank dividend payout ratio, whereas other variables have a considerable negative impact. The debt to assets has significant negative impact on the dividend payout ratio of the conventional banks. The net profit margin has also the significant negative impact on the payout policy of the conventional banks. The R-squared value is 53%, indicating that the econometric model for the

convention bank's dividend payout ratio is likewise good fit.

The study's findings do not refute the H2 of Islamic banks, implying that the debt-to-equity ratio has a major favorable influence on Islamic bank dividend distribution. The study's findings refute the H2 of Islamic Bank, implying that debt to assets has no substantial influence on Islamic bank dividend distribution, however current ratio and net profit margin have a negative impact on Islamic bank dividend policy.

The following are possible explanations for the lack of a major influence of liquidity (current ratio) on Islamic Bank's dividend payout: First, Islamic banks have surplus depositor fund liquidity that they may not be able to employ to pay dividends. Second, unlike conventional banks, Islamic banks lack suitable investment outlets and financial markets. Third, because government assets pay interest, Islamic banks are unable to invest in them. However, the quantity of Sukuk issued by the State Bank of Pakistan did not meet the Islamic banking requirements. Fourth, conventional banking provides a significant amount of syndication for large-scale projects in the economy; sadly, Islamic banks are unable to play a significant part in these syndications. The debt-to-equity ratio has a considerable beneficial impact on dividend policy, but evidence implies that the financial advantage has a negative impact. The following factors might explain why debt to equity has a beneficial impact on Islamic bank dividends: Financial leverage of enterprises is calculated by dividing debt by equity in the literature, however in the case of banks, financial leverage is calculated by total debt (which includes depositor's liabilities). Banks operate on a very different business strategy than traditional businesses. In a traditional business model, significant financial leverage results in high interest expenses, which reduces the company's bottom line earnings and, ultimately, lowers the dividend ratio.

The study's findings refute the traditional bank's hypotheses H1 and H2. It indicates that the traditional bank's liquidity and dividend payout have a negligible link, and debt to equity and debt to assets (financial leverage) has a negligible influence on dividend payout. The study's findings refute H3 of the conventional bank, implying that profitability leverage (NPM) have no substantial influence on the conventional bank's dividend distribution. The fact that current ratio and debt to equity have no influence on dividend distribution demonstrates that traditional banks pay dividends regardless of current ratio and debt to equity.

Conclusion and Recommendation

The aim of this study was to examine the factors of the dividend payout policy for the IBs and CBs in the Pakistan. Further, this study aimed to differentiate between the dividend policy of the IBs and CBs. For that the data was collected from the year 2011 to 2020. Meezan bank ltd was selected from Islamic bank while for the conventional bank, Bank Alfalah ltd was selected as it has same size and deposits to the Meezan bank ltd. The data was collected from the financial reports of the both banks under study. The collected data was analyzed using the STATA 14.0 version using the ordinary least square.

The results concluded that current ratio negatively impacted on the dividend payout policy of the Islamic banks. The debt to equity ratio has the significant positive impact on the dividend policy. The debt to assets ratio of the financial leverage had no significant impact on the payout policy. Lastly, the profitability ratio i.e the Net profit margin negatively impacted on the dividend payout policy of the Islamic banks i.e Meezan bank ltd.

The results concluded that current ratio insignificantly impacted on the dividend payout policy of the conventional banks. The debt to equity ratio has the insignificant impact on the dividend policy. The debt to assets ratio of the financial leverage negatively impacted on the payout policy. Lastly, the profitability ratio i.e the Net profit margin negatively impacted on the dividend payout policy of the conventional banks i.e Bank Alfalah ltd.

The results of this study interpret the CBs more higher dividend as compared to IBs. This is because that the profitability of CBs is more than that of the IBs and further CBs pay the dividend without considering in the profitability. This further states that the IBs have more growth opportunities as

compared to CBs in Pakistan. Further the research conclude that IBs are committed to provide stable dividends to the shareholders, while on the other hand CBs pay dividends randomly and on subjective basis and which is not in the form of policy. Further the negative relationship of IBs with the liquidity ratio can create expropriation for the shareholders and may raise the red flag regarding the agency theory problem. This study suggest the higher management of Islamic banks as well as the conventional Banks to give proper attention for setting up the dividend policy as the dividend payout influence the behavior of the investors regarding investment in the different stocks.

The outcome of this thesis has practical implication for the investors, analyst and bank's management as this will help them to identify the factors of the dividend policy on which they can forecast and select the best valuation model for the payout of the dividends. Further, this study aims to recommend the IBs a sustainable and constant dividend policy which can attract the analysts and investors to invest in the IBs. Further to this this study directs the Board of directors, policy makers and investors to accurately monitor the dividend payout policy to avoid the agency theory. This will strengthen the confidence of the investors to invest in the Islamic banks in Pakistan.

The future studies may be conducting on different other factors of the dividend policy to examine their factors on the shareholders' wealth. Further, the study may be conducted to examine the effect of agency theory and dividend policy. On the other hand, this study may be conducted in more than one country to comparatively analyze the dividend policy of IBs and CBs as this study in confined to the Pakistani banking sector.

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