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LIQUIDITY RISK MANAGEMENT IN ISLAMIC AND CONVENTIONAL BANKS IN SRI LANKA: A COMPARATIVE STUDY

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ABSTRACT

The banking sector is considered to be an important source of financing for most businesses in any economy. At present a lot of countries around the world currently having dual banking system, as interest free banks are functioning parallel to conventional banks. Today the most familiar region of risk with Islamic and conventional banks is liquidity risk. Liquidity risk is the outcome from the disparity involving the maturities of the two sides of the balance sheet (Akhtar, Ali, and Sadaqat, 2011). Banks are motivated by various reasons to hold a certain amount of liquid balances. Liquidity refers to the ability of the bank to meet up deposit withdrawals, maturing loan request and liabilities without setback. Banks defend its customers aligned with troubles of liquidity by captivating in financial liabilities that can be drained on demand, on the add side of the balance sheet and offering dedicated lending services (Ahmed, and Naqvi, 2011).

KEYWORDS: Banking Sector, Liquidity Risk, Risk Management, Banking