



**EMPIRICAL DETERMINANTS OF SAVINGS DEPOSIT
IN ISLAMIC BANKS**

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ABSTRACT

Nowadays there are tendency of depositors to withdraw their fund and transfer it to the conventional bank which offers higher interest rate and according to The Malay Mail (July 25, 2012) since there is no guarantee by the government for saving against losses for shariah compliant retirement scheme has affected depositors to put their saving in other commercial bank's deposit. Therefore, this paper aims to determine what all the factors that influencing savings deposit and to evaluate whether the factors are related to the savings deposit of Islamic bank in Malaysia. This study will be use total savings deposit as dependent variable and selected economic factors such as Consumer Price Index (CPI), the rate of return of Islamic Banks, interest rate of Conventional Banks, and exchange rate as independent variables. Consistent with the studies, the rate of return of Islamic Banks and interest rate Conventional Bank will be measure by percentage, Consumer Price Index (CPI) by ratio and exchange rate. The data will be gathered then analyze by using Multiple Linear Regression Model. By using time series data, the data were collected from Bank Negara Malaysia and DataStream from June 2009 until April 2012 on monthly basis. For the scopes of study, first the paper explores the relationships between savings deposit and the selected factors such as Consumer Price Index (CPI), rate of return of Islamic Banks, interest rate of Conventional Banks and exchange rate. Second, the paper attempts to examine the relative importance of those factors in encouraging savings deposit in Islamic Bank.

CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

This first chapter is an overview of the research study that discussed the background of the study, problem statement, research questions, research objective, significance of the study, scope of the study, and limitations in doing this study. In addition, to help readers get better understanding with this study, definition of term and history of Islamic Banking are also being included.

1.1 History of Islamic Banking

Islamic banking refers to a system of banking that complies with Islamic law also known as Shariah law. The underlying principles that govern Islamic banking are mutual risk and profit sharing between parties, the assurance of fairness for all and that transactions are based on an underlying business activity or asset.

These principles are supported by Islamic banking's core values whereby activities that cultivate entrepreneurship, trade and commerce and bring societal development or benefit is encouraged. Activities that involve interest (riba), gambling (maisir) and speculative trading (gharar) are prohibited.