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A Survey and Comparative Analysis of Risk Management Practiced by Islamic and Conventional Banks in Pakistan: An Empirical Study on Improving Risk Management

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ABSTRACT

The purpose of this study is to assess the behavior of Islamic and conventional banks towards the improving risk management. This study is focused on survey and comparative of risk management practiced by Islamic and conventional banks in Pakistan. The study also examines the adequacy level of risk management and managerial practices by these banks. Five types of risks faced by both Islamic and conventional banks including market risk, liquidity risk, credit risk, operational risk and risk management practices have been taken into the scope of this study. In order to assess the behavior of these banks towards the attentiveness of minimization of operational risks and following the aforementioned tools, exploratory approach has been adopted by developing a questionnaire for data collection. For this purpose, the concerned managerial level employees of 5 Islamic and 5 conventional banks have been selected. By the analysis of data collected, it is concluded thatcompared to conventional banks, Islamic banks in Pakistan place a greater emphasis on risk management practices to reduce operational risks.However, conventional banksare more focused on credit risk, liquidity risk and risk management practices than Islamic banks while the focus on risk management practice is shared by both types of banks. A conducting of survey and comparative analysis of risk management practices has important implications for improving organizational risk resilience, guiding policy and regulatory decisions, fostering best practices, and promoting overall market stability. Organizations can use the insights to refine their risk management processes, while regulators and policymakers can leverage the findings to enhance industry standards and safeguard public interests.

Key words: *Islamic banks, conventional banks, risk management tools, Pakistan.*

INTRODUCTION

Banking sector in Pakistan

Fundamental changes have been realistic in bankinginstitutions of Pakistan over a phase of several decades. Initially, it goes through lack of capital and indecisiveness due to conventional, political and socio-economic

disaster. Consequently, changes were made to empower the functions of Stste Bank of Pakistan. Moreover, privatization improvements of bankingindustry which begin in 1992, inspired local investors and triggered international financial institutions. Financial institutions are given with an imperative responsibility to execute in the economic program by acting as intermediaries between the surplus and deficit units, creating jobs as mediators of critical importance for effective allowance of liquidity in the contemporary economic program. Pakistan practices dual banking system whereby Islamicfinancial institutions function part in part with the conventionalfinancial institutions, creating it interesting to compare the way how both observe risk management. Therefore, it is expected that this study will help to enhance the literary work in the area of risk management and lay down the base to link the gap between the two.

The Islamicbankingstarted from 1980's in Pakistan. The effort was for bringing a change in the banking system of Pakistan on Islamic shape which was taken from 2 decades. Islamic banking is defined as banking with the social and value structure of Islam and management, along with the conventional good government and risk management rules, by the values laid down by Islamic Shari'ah. Currently, there are 5 full fledged Islamic banks and 15 conventional banks offering Islamic banking products in Pakistan.

Riskinfinancial institutions

Riskinfinancialexpressionsisusuallydefinedasthelikelihoodthattheactualreturn mayfluctuate fromthe expected return (Howells andBain, 1999).In thefinancial structure,thereareatleastthreeextensivecategoriesofrisks,businessrisk,financial risk,andoperationalrisk.Financialriskconsidered risksraisesfrom thebehaviorofbanks, while operationalriskandbusinessriskrelatetothe bank'sinternaloperations.

Risk in banking sector

Risk is a natural element of big business. It is thesituation that increases the probability of losses, gains and the unclear possible activities which could operate the achievements of financial institutions. A well establishedrisk management methods (RMPs) can assist financial institution to decrease their contact with exposures. A disciplinedrisk management framework can helpIslamicfinancial institutions to decrease their expose to risk, and enhance their capability to supply in the competitive market. Islamic banks' problems in RMPs can lead to financial loans (Hassan and Dicle, 2006). The risk management theory explains as it is the technique through which decisions are set (Frosdick, 1997). Risk management is a two phase technique. The first thing is to indentify source of the risk (Rosman, 2009). The second phase is to develop methods to evaluate the risk. Risk management is a base of realistic banking techniques. Islamicfinancialinstitutions function with many items that do not exist in conventionalfinancial institutions and thus suffer from increasing exposure. Islamicfinancial institutions are facing a lot of exposure such as credit risk, liquidity risk, foreign-exchange risk, market risk, and interest rate risk etc. For this reason, effective risk management is incredibly necessary (Al-Tamimi, 2002). The risk summary of Islamicfinancial institutions is more or less similar to the conventionalfinancial institutions. However, the risk faced by Islamicfinancial institutions is classified of two measurements. The first category of practice which are alike to conventional framework, and not in conflict with the Islamic financial concepts, and the second category of methods that are innovative or tailored which believed to assemble the Islamic laws and concepts. Discovering, evaluating, managing and examining a variety of risk contacts are the major fundamentals of risk management process.

Market risk

Market risk can occur due to the movements in interest rate and exchange rate or from variation in equity, bond or commodity prices.

Operational risk

Operationalrisk is any probability of loss coming up as of rare or substandard inner procedures, people, and systems or from exterior events.

Credit risk

According to Basel Panel on Financial Supervision(2000), credit risk is most simply described as the potential that a bank client or counterparty will fall short to meet its responsibilities according to decided terms. The goal of credit risk management is to enhance a company'sloan with risk-adjusted rate of return by keeping credit risk visibility within appropriate factors. Financial institutions need to manage the financial risk natural in the entire profile as well as the risk in individual credit or dealings. Financial institutions should also consider the connections between credit risk and other risks.

LITERATURE REVIEW

RMP are vital for strategic management (ISO-IEC, 2002). It is used by a strategicmanagementfor better participation to the objectives. RMP protects and creates value for quarter concerned and must include company extensive RMP as an unlimited and developing process to be able to accomplish its objectives.A scientific research determined that VAR is incorrect in foreseeing future profile outcomes.The error was due to the minimal movements in the pre-crisis circumstances where VAR designs were used to calculate risk. The argument is reinforced by the point that the VAR was initially designed to assess risk under stable market conditions and not when the market encounters a problematic situation. Therefore, to be able to correct the upcoming investment short fall under emergencies, a pressured VAR was designed using reports over an earlier period of strict market distress(Jime´nez-Martin et al., 2009), regardless of the point that the step-by-step credit risk is significant to the financial institutions. The financial institutions may need ten times more investment under pressured circumstances to absorb market risk(Varotto, 2011). The research by (Tafri et al., 2011) claims that a significant difference prevails in the level of use of Market Value at Risk (VAR) between IFI and CFI.The most significant function provided by the employed credit risk designs was the identification of the counterparty default risk. A research conducted on the largest US based banking organizations indicates that 90% of participants agreed that credit risk policy is part of the company-wide investment management strategy. At the same time, it also established that designs proficient in managing counterparty migration risks are clearly used by nearly 50% of the replying banking organizations while on the contrary only a handful of banking organizations use either an exclusive or a vendor-marketed model for credit risk management(Ali Fatemi, 2006). Furthermore, evidence suggests that a significant difference prevails in the level of use of credit risk minimization methods between IFI and CFI (Tafri et al., 2011).

Bashir & Azeez (2022) investigates how both types of banks identify, assess, and mitigate risks, highlighting differences in their approaches due to the distinct nature of their operations. Islamic banks operate under Shariah law, which prohibits interest-based transactions and emphasizes ethical investing, while conventional banks operate on profit-maximizing principles, including interest-based transactions.The findings suggest that Islamic banks face unique challenges, particularly with managing risks related to compliance with Islamic principles, such as the risk of non-compliance with Shariah laws. Conventional banks, on the other hand, focus more on market and credit risks. The study also emphasizes that both banking systems are exposed to common risks like operational, liquidity, and credit risks but use different methods to address them.In conclusion, the study sheds light on how risk management frameworks differ based on the operational and philosophical differences between Islamic and conventional banks. Islamic banks tend to integrate Shariah compliance within their risk management strategies, while conventional banks rely more on traditional risk management models.

Akhtar & Sadaqat (2011) focuses on how each type of bank manages liquidity risk, which is the risk of not being able to meet short-term financial obligations. The authors examine the differences in approaches due to the distinct operational frameworks of conventional and Islamic banks. The study concludes that both types of banks need to improve their liquidity risk management frameworks, with Islamic banks requiring more Shariah-compliant tools and mechanisms to enhance their ability to manage liquidity risk effectively.

Nizam (2025) investigates the viewpoints of Shariah scholars regarding Islamic banking practices in Pakistan. It explores their perspectives on the adherence to Islamic principles within the banking sector and identifies challenges faced in ensuring compliance. The study also examines the role of Shariah scholars in guiding and supervising Islamic banks to maintain Shariah compliance. The findings provide insights into

the effectiveness of current practices and suggest areas for improvement to align Islamic banking operations with Shariah guidelines.

Sarwar (2024) examines the foundations and definitions of financial risk management (FRM) within the context of Islamic finance. It explores the implications of financial risks and assesses how FRM practices align with Shari'ah standards, highlighting the importance of ensuring that financial transactions comply with Islamic ethical and legal principles

Liquidity Risk

Liquidity problems may negatively affect a given bank's revenues. A bank can face liquidity problems to meet the demands of depositors. However, this liquidityrisk may be minimized through maintaining asufficient money provisions, increasingdown payment support, minimizing the liquidityspace and NPLs. Sufficient money provisions will minimize the financial providers dependence on the repo market. This will minimize the price associated with over the late night borrowings. Moreover, it will also help the banking organizations to prevent fire transaction risk. It is imperative for the financial provider's management to be conscious of its liquidity position in different portfolios. This will help them in improving their financial commitment profile and providing edge against competitors in the marketplace. It is the utmost priority of a financial provider's management to pay the required attention to the liquidity problems. These troubles shall be rapidly addressed, and instantcorrectiveprocedures should be applied to prevent the consequences of illiquidity.Islamic banking organizations counterextraexposure due to the environment of their stability sheet and Shariah compliance. Un-availability of banking equipment to Islamic banking organizations is a mainobstruction in their way to handle market exposurein contrast to the normal banking organizations. Whereas, few of the fiqh-related problems are supposed to be resolved by Shariah college students, fixing up of facilities for organizations to be done by the government and regulating bodies in different countries. Evidently, due to religious limitations, the Islamic banking organizations cannot go through the normal bankingindustry, but the normal banking organizations are offering the Islamic items concurrently with their own items. Competitors, no doubt enhance efficiency and stage it as a prerequisite for a healthy aggressive environment. A more stage for competition between Islamic and conventional banking organizations in this hold cannot be guaranteed unless the Islamic banking organizations have alike supporting facilities organizations. On the side part, there is a requirement to present a risk management lifestyle in Islamic banking organizations. One way to apply this lifestyle is to start form internal ranking system. Specifically, risk weighting of all their liquidity independently is needed. In the average and longer-run, these could develop into more refined systems. Beginning of such a system can be helpful in satisfying the gaps in the risk management system and therefore improving the ranking of the same by the regulators and external credit assessment agencies.

Zheng (2008)stated that value at risk is best method to manage the liquidity problem. He also suggested to the use for effective Monte Carlo method which applies to profile of investments or individual investments and look upon the approximate depending value on the risks and vice versa of complete percentiles on the reduction allocation with in individual group of sections. Some researchersimplythat Islamic banking organizations should enhance the risk management methods like enhancing secondary market requirements. They need price precision and liquidity(Ismal, 2010), specifying that in concern to liquidity handling. The Islamic banking organizations in Indonesia are assessing themselves depending on three aspects like banking organizations liquidity management policy, responsibility part and liquidity part and they stands in the index of good grade (Ismal, 2010).Therefore, Islamic banking organizations should enhance the policies to stabilizeresponsibility and resource, converse their procedure and principles to public to enrich their indulgent towards Islamic banking organizations and reorganizemanagement of liquidity and responsibility so that they can improve and enhance their liquidity management.Wetmore (2004)observed the connection amongliquidity risk and loans. He determined that standard loan-to-core down payment rate have greater than beforeacross the timepremeditated thatmirror modify in the liability/asset management methods of banking organizations. Also,he determined a good connection happening amongmarket risk and modify in loan-to-core remains rate after 1994, with anopposite connection happening prior to this period. Moreover,

(Bibi ,2024) find out that private firms have sufficient internal sources and not go for external debt so liquidity risk is low in private firms of Pakistan.

Operational risk

As compared to conventional loan companies, Islamic loan companies are not using operational risk management tools as they are in the early phase of the execution of operational risk management(Tafriet al., 2011). Due to the one of its kind, contract features and general legal environment related with functional risk in Islamic loan companies in comparison to conventional banking is gaining importance and turning more complicated (Abdullah et al., 2011). Islamic loan companies have been guarded from the modern global banking trouble by and large, simply because they operate by following the principles of Islamic funds. A purpose may be that Islamic fund prevents interest *(Riba)* centered transactions as well as excessive doubt *(Gharar)*. The paper moreover states that Islamic loan companies are maintaining superior capital rate in contrast to conventional loan companies (Chazi and Syed, 2010).The most powerful evidence showing that there are significant variations in the exposure experienced and the risk management methods of IFI and CFI comes from Malaysian research (Tafri et al., 2011).The six categories of risk can categorize all the kinds of exposure experienced by both kinds of loan companies. It was generally anticipated that IFI may be practicing risk management more carefully than CFI, especially operational risk management. During the analysis of minimization of function risk in British retail loan companies (Blacker, 2000) precises that minimization of functional risk holdscomprehensive series of relationsamongst process, people and technology. The studyreported dependability for function risk relief comes with company device management, as limitations were relaxed upon company device, which convincedthe mitigationof functional risk. Elliott et al. (2000) discovered functional risk as a construction of organization and the scaffolding in which functional risk operates.Some researchers discovered that loan companies are looking to blend both quantitative and qualitative data requirements of proceeding statistical approach to calculate the risk of operational nature.

Credit risk

The efficientmanagement of credit risk is a crucial constituent of a complete approach to risk management and necessary to the long-term success of any financial company.Credit issues are arises especially in credit risk management (CRM). Financial loans represent the great majority of CR as they account for 10-15 times the equity of a bank (Kitua, 1996). Therefore, financial business is probable to see complications when there is a small destruction in excellence of loans. Credit risk occurs from doubt when a given counterparty's ability to get together with its responsibilities. The rising wide range in the kind of counterparties (from persons to independent governments) and the ever-expanding wide range in the shape of responsibilities (from automotive loans to composite type transactions) have meant that credit score risk management has hopped to the leading edge of risk management activities conceded by firms within the banking services market.Tools such as covenants, security, credit rationing, mortgage securitization and mortgage submitting are used by bankinginstitutions in creating the world in handling credit failures (Hugh, 2001). It is also noticed that CRM employees are crucial to make certain that the detail of familiarity and verdict needed is for all timeobtainable, thus fruitfully handling the CR in the CBs . Jeremy and Stein (1999) noticed that computers are useful in credit score analysis, tracking and management, as it brings ease of keeping trace on drifttrend of credit contained by the profile.In the banking business, economics literary works that the credit risk management program of a commercial bank is composed of credit score plan and techniques which provide common and detailed functional recommendations. This also embrace the assisting factors which are an excellent of staff and technology. Some of the signs of a poor credit risk managementbanking system vary from those determined in the literary works.Khambata (2003)analyzed off-balance-sheet of credit riskamong the top 20 Japanese banking institutions. The most important outcome of this study points out towardthose banking equipments which are intensely used by the top four banking institutions and the mortgage responsibilities are the biggest source of credit risk among conventionalbank's equipment. The result also points out that there is anextensivedissimilarity across the bankinginstitutions that are in use of mixture make use of. In comparison to USA and Western banking institutions, Japanese banking institutions use less equipment as a percentage of their liquidity. It means that Japanese banking institutions are of more

conventional and risk-averse in common than their USA or Western alternatives, particularlyspecified the poor finances of Japanese banking institutions.

Market risk

This evaluation is centered mostly on the loan companies through own evaluation of value-at-risk or the consistent approach for marketrisk. Focus is also placed on the organization performing pressure examining in analyzing the adequacy of investment to support the trading function.Noraini Mohammad accepts that the chance of reduction coming up from changes in the stage or motions of market costs, which can occur in the interest rate, forex trading, value and product markets. The Group uses a daily 'value at risk' (DVAR) to evaluate as the primary procedure for managing marketrisk. DVAR is calculated with a stage of confidence of 98% of the prospective reduction which might occur if the current roles are to be held the same for one business day. It uses the conventional simulator method for determining DVAR. As DVAR does not provide a direct sign of the prospective size of failures that could occur in dimensions, Barclays Capital uses a number of supporting techniques for managing market risk. Every week firm-wide pressure assessments, depending on both conventional and theoretical excessive motions of market costs are produced.

Risk management practices

The Basel Panel on Financial Guidance has implemented a unique conform, which is known as the "BaselII". The mainreason of the "Basel II" is to strengthen the international banking system. "BaselII" focuses on capital sufficiency, risk management methods, interior manages and exterior audits (Risk Net, 2007).Hassaninvestigates the level that which Islamic financial institutions in Brunei Darussalam use RMPs methods for working with diverse kinds of risks. His research exposed that Islamic financial institutions in Brunei which are mainly experiencing three kinds of riskwhich are foreign-exchange risk, track by credit score risk and managing risk and reasonably effective in risk evaluation and research, risk management and risk identification. The results givean idea about some indication of performance in credit risk managementcontained by the Islamicbanking market in Brunei Darussalam.In 2002,Al-Tamimi examined the level to which UAE professional financial institutions use exposuremanagement methods in working with multiple kinds of risk. The research discovered that the UAE professional financial institutions were mainly experiencing credit risk. The research also discovered that examination by division supervisors and financial declaration research were the primary methods used in risk recognition. The primary methods used in risk management according to this research were developing requirements, credit score rating, credit score rating research, risk rating and collateral. The research also outlined the desire of the UAE professional financial institutions to use the most complicatedrisk management methods, and recommended the usage of a conventional credit score policy(Hussein A. Hassan Al-Tamimi, 2007).Search on three most important kinds of exposures experiencing by the UAE professional financial institutions are forex trading risk, followed by creditcontrol and managing risk. Their research also exposed that the UAE financial institutions are somewhat effective in evaluating and assessing exposure, risk management methods, risk tracking and risk recognition.In 2013, Owais et al, conducted a study on risk management tools among Islamic Financial Istitution and conventional financial institutions. Their study revealed that Islamic banks are more focused on operational risk than conventional banks. While conventional banks are more focused on risk management tools than Islamic banks.In 2011,Fauziah et al, conducted a study to measure the managemet tools among banks. Their results revealed that there is a significant difference between conventional and Islamic banks.

RESEARCH METHODOLOGY

The questionnaire was used to collect the information from the management of Islamic and conventional banks. The survey was focused to mature financial experts i.e. Connection Affiliates (Credit Division), Credit Score Authorities, Primary Risk Authorities, Senior Risk Supervisors, Financial Remotes and General Branch Managers to truly evaluate the methods of the financial institutions.

Sample

Five conventional and 5 Islamic banks were selected for research purpose. Allied Bank Limited, Askari Bank Limited, Bank Al-Habib Limited, Bank of Khyber and Muslim Commercial Bank were chosen from conventional sector and Dubai Islamic Bank, Bank Islami, Meezan BankLimited, Bank Al-Falah (Islamic Banking) and Fysal Bank Limited (Islamic Banking)wereselected from Islamic banking sector.

Results and discussion

Data was collected through a questionnaire from conventional and Islamic bank officials. Total respondents were 150 which are involeved in risk management practices.

Table 1

	Fequency	Percent	Valid Percent	Cumulative Percent
20-29	38	25.3	25.3	25.3
30-39	36	24.0	24.0	49.3
40-49	49	32.7	32.7	82.0
50-59	27	18.0	18.0	100.0
Total	150	100.0	100.0	

The findings of Table 1represent that 25.3% respondents belong to the age bracket ranging from 20 to 29 years, 24% respondents belong to 30 to 39 years of age bracket, 32.7% respondents belong to the age bracket of 40 to 49 years and 18% respondents belong to 50 to 59 years age bracket.

Table 2

	Fequency	Percent	Valid Percent	Cumulative Percent
Female	44	29.3	29.3	29.3
Male	106	70.7	70.7	100.0
Total	150	100.0	100.0	

Table 2 which is about the gender description of the respondents depicts that 29.3% are female respondents, while the male respondents are 70.7% of the total population frame.

Table 3

	Fequency	Percent	Valid Percent	Cumulative Percent
Non-Bachelors	2	1.3	1.3	1.3
Bachelors	8	5.3	5.3	6.7
Masters	118	78.7	78.7	85.3
MS/M.Phil	22	14.7	14.7	100.0
Total	150	100.0	100.0	

Table 3 is related to the academic background of the respondents which shows that 6.6% respondents are holding non-bachelors and bachelors degree, 78.7% respondents are holding masters degree and 14.7% respondents are holding MS / M. Phil degree.

Table4

	Fequency	Percent	Valid Percent	Cumulative Percent
1-5 years	38	25.3	25.3	25.3
5-10 years	83	55.3	55.3	80.7
More than 10 years	29	19.3	19.3	100.0
Total	150	100.0	100.0	

Table 4 shows the experience level of respondents, according to which 25.3% managers have 1-5 years of experience, 55.3% have 5-10 years of experience, while 19.3% have more than 10 years of experience.

Table 5

	Bank Type	N	Mean	Std. Deviation	Std. Error
Tools	Islamic	76	3.5451	.32802	.03763
	conventional	76	3.6410	.71046	.08150
MRM	Islamic	76	3.7199	.24293	.02787
	conventional	76	3.8102	.45199	.05185
CR	Islamic	76	3.3076	.57134	.06554
	conventional	76	3.7845	.55812	.06402
LR	Islamic	76	3.5899	.46223	.05302
	conventional	76	4.0724	.21999	.02523
RMI	Islamic	76	3.5579	.63441	.07277
	conventional	76	4.1921	.53110	.06092
OP	Islamic	76	4.1553	.50449	.05787
	conventional	76	3.9487	.19493	.02236

Table 5 shows group statistics of each type of bank like Islamic and Conventional. Islamic banks have used tools at an average of 3.5451. While conventional banks have used almost 3.6410 average of tools which are more than Islamic banks. Islamic banks have used Market risk management at 3.72 while conventional at 3.8. Credit risk management focused by Islamic banks isaveraged 3.3 while in conventional banks 3.8. Liquidity risk management is more focused by conventional banks with the average of 4.0 while Islamic banks have 3.6. Risk management issues are more focused by conventional banks rather than Islamic banks. But Islamic banks have more uses of operational risk management than conventional banks. According to Group statistics table,it can be concluded that conventional banks are more focused on Risk management tools than Islamic banks.

Table 6: (i) Levene's Test forEquality ofVariances

		F	Sig.(2 tailed)
Tools	Equal variances assumed	39.608	.000**
MRM	Equal variances assumed	46.350	.000**
CR	Equal variances assumed	.289	.591
LR	Equal variances assumed	30.514	.000**
RMI	Equal variances assumed	.666	.416
OP	Equal variances assumed	129.373	.000*

(ii) t-test for Equality of Means

		T	df	Sig.	MeanDiff.	Std. Error Diff.
Tools	Equal variances assumed	-1.068	150	.287	-.09586	.08976
	Equal variances not assumed	-1.068	105.585	.288	-.09586	.08976
MRM	Equal variances assumed	-1.533	150	.127	-.09023	.05886
	Equal variances not assumed	-1.533	114.994	.128	-.09023	.05886
CR	Equal variances assumed	-5.206	150	.000**	-.47697	.09162
	Equal variances not assumed	-5.206	149.918	.000**	-.47697	.09162
LR	Equal variances assumed	-8.216	150	.000**	-.48246	.05872
	Equal variances not assumed	-8.216	107.319	.000**	-.48246	.05872
RMI	Equal variances assumed	-6.683	150	.000**	-.63421	.09491

	Equal variances not assumed	-6.683	145.499	.000**	-.63421	.09491
OP	Equal variances assumed	3.330	150	.001**	.20658	.06204
	Equal variances not assumed	3.330	96.907	.001**	.20658	.06204

(iii) 95% Confidence Interval of the Difference

		Lower	Upper
Tools	Equal variances assumed	-.27323	.08150
	Equal variances not assumed	-.27384	.08211
MRM	Equal variances assumed	-.20653	.02608
	Equal variances not assumed	-.20682	.02637
CR	Equal variances assumed	-.65800	-.29595
	Equal variances not assumed	-.65800	-.29594
LR	Equal variances assumed	-.59848	-.36643
	Equal variances not assumed	-.59886	-.36605
RMI	Equal variances assumed	-.82174	-.44669
	Equal variances not assumed	-.82178	-.44664
OP	Equal variances assumed	.08400	.32916
	Equal variances not assumed	.08345	.32971

Table 6 (i), (ii) and (iii) show the results of independent sample test. First, there is need to focus on Levine's Test for Equality of Variances where Significance value is more important. When significance value is greater than .05, it means that the variability in Islamic and conventional banks are same. It shows that the variability in both type of banks is not significantly different. Levene's Test also shows that the credit risk is 0.591 and risk management issues is 0.416 which are greater than 0.05. It means that both conventional and Islamic banks have same focus on credit risk management and risk management issues.Similarlly, less than .05 significance value means that the variability in two type of banks is not the same. It means that the variability in the both type of banks is significantly different. Tools, market risk management and liquidity risk have 0.00 significance value which is less than 0.05 and shows that both Islamic and conventional banks are using different ways to focus on tools, market risk management and liquidity risk management. Significance(2-tailed) value is used to determine means of both banks which are statistically different.When significance (2-tailed) value is greater than 0.05, it means that there is no statistically difference betweenconventional and Islamic banks. Tools have 0.287 and Market risk management has0.127 values which are greater than .05. This showsthat there is no statistically significant difference between Islamic and conventional banks. Credit risk, liquidity risk, risk management issues and operational risk have less than 0.05 values. This numeric value demonstrates that there is a statistically significant difference between Islamic and conventional banks.

CONCLUSION

Risk management is a critical mechanism by both conventional and Islamic banks in Pakistan. It is very essential as bank's performance is associated with the risk management and managerial practices followed by these banks. This study is an attempt to check the comparative impact of risk management tools practiced by both type of banks operating in Pakistan. The study also examines the adequacy level of risk management and managerial practices by these banks. Five types of risks faced by both Islamic and conventional banks including market risk, liquidity risk, credit risk, operational risk and risk management practices have been taken into the scope of this study. In order to assess the behavior of these banks towards the attentiveness of minimization of operational risks and following the aforementioned tools, exploratory approach has been adopted by developing a questionnaire for data collection. For this purpose, the concerned managerial level employees of 5 Islamic and 5 conventional banks have been selected. Their personal information and related work experience were also examined while asking them risk management related questions. By the analysis of data collected, it has been found that Islamic banks in Pakistan are more focused on risk management

tools in order to curtail the operational risks than conventional banks. However, conventional banksare more focused on credit risk, liquidity risk and risk management issues than Islamic banks. While both type of banks have the same focus on tools and market risk management.The results of this study relates to the results of Khambata (2003) that conventional banks are more focused on credit risk thanIslamic banks. This study also relates to Hussein A. Hassan Al-Tamimi (2007) that in the industrial era, credit risk is more focused than other management issues.The results of this study also relate with the results of Owais et al,. (2013) that Islamic banks are more focused on operational risk.

In the light of the results, it is suggested that more innovations and product developments are needed for Islamic banks in managing risks efficiently. Islamic banks have to focus more to the development of new market oriented and Sharia'h compliant products to attract more customers. Similarly, they have to increase their branch network as well so that accessibility of Islamic banks can be easier in the country. This study has important implications for improving organizational risk resilience, guiding policy and regulatory decisions, fostering best practices, and promoting overall market stability. Organizations can use the insights to refine their risk management processes, while regulators and policymakers can leverage the findings to enhance industry standards and safeguard public interests.

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