

**A COMPARATIVE STUDY ON LIQUIDITY MANAGEMENT  
PRACTICES OF ISLAMIC AND CONVENTIONAL BANKS IN  
KENYA**

**YASIR ALI HEILE**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIRMENT FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,  
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**NOVEMBER, 2013**

## ABSTRACT

As banking institutions, Islamic banks have to meet their liquidity needs and obligations to ensure the smooth running of their business, as it is the case with their conventional counterparts. However, the very nature of Islamic banks with their objective of avoiding *Riba* in any form, have additional issues to address in order to meet their liquidity needs because most available conventional instruments used for liquidity management are interest based, therefore, not sharia'a compatible.

The study was a comparative study aimed to identify and compare liquidity management practices used by conventional and Islamic banks in Kenya. Throughout the study both quantitative and qualitative data regarding the sample chosen were collected through primary and secondary data. The sample of the study was four banks; two Islamic banks and two conventional banks. Descriptive statistics such as frequency and percentage were used to analyze the responses.

The study found that there are similarities between Islamic banks and conventional banks on liquidity management in terms of, measurement of liquidity, minimum cash reserves banks maintain, dealing with other banks for liquidity management purpose. Also, head of treasury is the manager responsible for liquidity management in both types of banks. However, there are differences between the two types of banks in terms of: liquidity management policy; Islamic banks follow guidelines recommended by the Shari'ah board as part of their liquidity management policy, liquidity risk management approaches, possible liquidity risks banks predict and liquidity management instruments banks use.