JOURNAL OF EMERGING FINANCE AND SOCIAL SCIENCES
ISSN (PRINT) :2790-5675
ISSN (ELECTRONIC):2790-5683

**Journal of Emerging Finance and Social Sciences, Vol. 1, Issue 1**

# Investment Account Promote the Financial Stability of the Dual Banking in Pakistan

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## Abstract

The main purpose of the research study is to investigate the impact of the both Islamic banks and conventional banks of Pakistan and stability. The time period of the study is from the 2010-2018.The research study uses two methods to find out the banks stability of Pakistan. The method of the study the research makes the index of the both Islamic and conventional banks. The 2nd method of the study research regressed the banks age, growth andtotal asset of the both banks. The objective of the study behind is the banks to find or investigate the stability of the both banks of Pakistan. The research find from his that the Islamic banks stability positively affect the banks size, banks age and the banks total. The banks have effectively managed the total asset. The banks are more stable. The research examine that the Islamic banks size, banks growth and banks total has impact and on the banks performance.

**Key words of study:** Islamic and conventional banks, performance, Z-score, size, Pakistan

## Introduction

The crisis of late 2008 in the world the regulatory body much gives much attention toward the proper financial regulation and supervin. Regulatory policy maker give attention for promoting the financial stability. The Islamic financial industry and Islamic financial product received much attention toward the financial stability in the world. The academicians believe that the Islamic finance industry is much strong and stable are compare the conventional industry. The examiner examine from the study that the Islamic banks are performance are much better than the counterpart.[1] The financial stability of the banking industry is key component on the investment and economic growth. Banking system is all over world is most popular and regulated industry; the main purpose of the banking is to give stability to country financial system. Islamic financial system is working under the International financial service board (IFSB). From last some years, the Islamic financial sector show fast growth in the Muslim countries. Like a dual banking system where both Islamic and conventional counterpart share the market. Islamic finance main and absolute advantage is to offer the shariah complaint products to market. The Islamic sector is different in the market from the counterpart. The Islamic financial sector not act is a speculator in the market. The Islamic banks act like agent in the market regarding the investment of the investor. The Islamic investor where profit comes easily from the market, the Islamic banks are not taking risk in the market. The main advantage of the Islamic finance industry is to alleviate poverty from the country. The research find from his research study, the Islamic financial sector and counterpart have a dual banking in market structure.[2] The dual banking system is a system where both Islamic banking industry and the counterpart conventional bank operate in same market. The Islamic finance industry show their greater strength in the late 2008 crisis is compare competitor in the marke.[3] Mostly countries the Islamic banking sector and the counterpart conventional banking industry are moving in same line. The Islamic financial industry is diversifying the financial product and service and the Islamic banking system ability to maximize the profit and work for the welfare of the society. Some of the research study investigate that the Islamic financial banking is ability to maximize the profit in the society.[4]

Literature review:

The financial sector are playing positive and significant role of the economic growth on entire world. Taken the data from 1993 to 2000 the examiner study examine, that the financial industry in form of large or short scale will boost up the economic growth.[5] during from the last few decades, the Islamic finance has rapidly growth in worldwide. The research study examines that Islamic finance capture up to 15% to 20% per year (Banker 2004)[6]. Moreover the research study also investigates that the increase in financial industry impact of the economic growth.[7] The Islamic financial sector is less risk averse compare to the counter part in the market. Taken the data from 2007 to 2008, the result of the research examine that the banking sector improve the stability.[8] Financial stability is the essential instrument for the development of the economic growth. However the research study examine that the financial stability and economic growth link each other.[9] The baking sector shows the greater stability in the financial system of the country. Financial stability act is an intermediary and significant role on the economic growth the country. The recent dual banking sector also makes the main objective to stability of the banking in worldwide different tool of the measurement.

According to the research study examine that the Islamic banking are fully Sharia banking and less risky, that the main reason the stability of the Islamic compare the counterpart conventional banks.[10] Moreover the research also examine from the study, that the Islamic banking sector is more stability than the counterpart of the banks in the market.[11] Some of other research study, examine that the banking index are not more stable than the counterpart of banks. Overall performances of the conventional banks are much better than the Islamic banks.[12] Based on the different research study results, the current research study find out the Banking stability of the both Islamic banking sector and conventional banking sector in Pakistan. So In this study to find out the level of stability of both banking sector in Pakistan Shariah banking system and conventional system to measurement of the both performance the study use the Z-Score and BSI approach. Many economic participants, especially financial market participants, have recognized the term financial stability. In principle, financial stability relates

to 2 elements, namely price stability and financial sector stability including financial institutions and financial markets that support the entire financial system. If any of these factors are disrupted or unable to run correctly, other elements will be affected in one hand.[13] According to law no. 9 of 2006, the stability of the financial system is a condition of the financial system that works.

METHODOLOGY

The current research study data covered from the period of the 2009 to 20108. The study covered 4 Islamic banks and 5 conventional banks of Pakistan. The measurement of the banks stability is by different ways. The first way of stability of banks is Bank Stability Index (BSI), whereas the 2nd way of the banks stability is Z- score to measure the stability of banks of Islamic as well as conventional banks of Pakistan. The previous research study was measure by the tow of the banks stability Z-score and Banks stability Index.[14] Some other research study also uses the same approach the study. [15] [16] Ghosh conduct study from the period of the, the research use for the banking stability is banking stability index. The research study for the banking performance is use the research study measure the Return on asset and return on equity. VAR model is this research study. The research study data use secondary data, the data obtained from the annual statement of the banks, State banks and security and exchange commission of Pakistan of the Islamic and conventional in Pakistan.

Framework of the Study:

$$L = P\text{-}CMP$$

$$P = \frac{\text{Total revenue}}{\text{Total asset}}$$

So L is a show the liner index and P of the model is shows the current price of the both banks. Where the total loan and deposits is the total asset of the Islamic and conventional banks. The same method the study in the previous study was. [17] [18] For the banks Stability the research study uses the LN Total asset of the Banks.

Mathematical model I

$$ROA = \beta_o + \beta_{1TA} + \beta_{2AGE} + \beta_2 size + \beta_3 growth + \varepsilon$$

Whereas,

Y = the return on the asset of the banks $\beta_o$ = the regressor coefficient

$\beta_1$ = the total asset of the banks

$\beta_2$ = the banks age
$\beta_3$ = the growth of the banks
$\varepsilon$ = the error term or residual value

Descriptive Statistics

| | Mean | Std. Deviation | N |
|---|---|---|---|
| ROA | .0065 | .00563 | 40 |
| TA | 18.12 | .809 | 40 |
| Growth | .47 | .552 | 40 |
| Age | 2.4782 | .53624 | 40 |
| Size | 18.4256 | .93748 | 40 |

The Descriptive statistic shows that the number is 40. The ROA means value is .0065 and totalasset of the banks is 18.12 total growths mean of the bank is .47 the age means is 2.47 and the means of the banks age is 18.425. The standard deviation ROA is .00563 and so on.

Model Summary

| Model | R | AdjustedR Square | Std. Error of the Estimate | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | R Square Change | F Change | dfI | df2 | Sig | D-Watson |
| I | .491 | .241 | .00518 | .241 | 2.778 | 4 | 35 | .042 | 1.532 |

The $R^2$ value is .491% which means that the model is good fit. The $R^2$ is explained the 49% variation in the dependent variable due to independent variables. The F change value is 2.778%. The Watson value is more than 1.5%. So we can say that there is no serial correlation in variables. The overall model P-value is .042 so it is significant.

ANOVA[a]

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| I | Regression | .000 | 4 | .000 | 2.778 | .042[b] |
| | Residual | .001 | 35 | .000 | | |

| | | | | | |
|---|---|---|---|---|---|
| Total | .001 | 39 | | | |

a. Dependent Variable: ROA

b. Predictors: (Constant), size, Growth, age, TA

In the ANOVA table is also significant with the value of .042. Which that the overall mode issignificant.

Coefficients[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| I | (Constant) | .015 | .021 | | .729 | .0471 |
| | TA | .000 | .001 | .018 | .093 | .927 |
| | Growth | .004 | .002 | .409 | 2.656 | .012 |
| | Age | .003 | .002 | .275 | 1.620 | .0114 |
| | Size | -.001 | .001 | -.182 | -.865 | .0393 |

a. Dependent Variable: ROA

The above tables shows, that the total asset has positive and insignificant impact on the banks performance. So we reject our Null-hypothesis and accepted our alternative hypothesis. The growth age and bank size has positive and significant impact on the banks performance. So the result of the study accepts the Null-Hypothesis and rejects the alternative. Because the P value isless than 5%.

Mathematical model 2 for conventional banks of Pakistan

$Y_{ROA} = \beta_o + \beta_{1TA} + \beta_{2AGE} + \beta_2 size + \beta_3 growth + \varepsilon$

Where is,

Y = the return on the asset of the banks $\beta_o$ = the regressor coefficient

$\beta_1$ = the total asset of the banks

$\beta_2$ = the banks age

$\beta_3$ = the growth of the banks

$\varepsilon$ = the error term or residual value

Descriptive Statistics

| | Mean | Std. Deviation | N |
|---|---|---|---|

| | | | |
|---|---|---|---|
| ROA | .0012 | .0234 | 80 |
| TA | 21.12 | .0567 | 80 |
| Growth | .47 | .7852 | 80 |
| age | 3.4782 | .53624 | 80 |
| size | 21.4256 | .93748 | 80 |

The descriptive statistic total number of the observation is 80. The mean and SD value of return on asset is .0012 and .0234. The mean and SD value of the total asset is 21.12 and .0562. The mean and SD value of the growth is .47 and .78624. The age of the banks age value is 3.47 and SD value is .53624. While the mean and Std.D value of the banks size is 21.3 and .93.

Correlations

| | | ROA | TA | Growth | age | size |
|---|---|---|---|---|---|---|
| Pearson Correlation | ROA | 1.000 | -.144 | .428 | .171 | -.119 |
| | TA | -.144 | 1.000 | -.286 | .250 | .624 |
| | Growth | .428 | -.286 | 1.000 | -.047 | -.204 |
| | age | .171 | .250 | -.047 | 1.000 | .491 |
| | size | -.119 | .624 | -.204 | .491 | 1.000 |
| Sig. (1-tailed) | ROA | . | .188 | .003 | .146 | .232 |
| | TA | .188 | . | .037 | .060 | .000 |
| | Growth | .002 | .037 | . | .386 | .104 |
| | age | .146 | .060 | .386 | . | .001 |
| | size | .232 | .000 | .104 | .001 | . |
| N | ROA | 80 | 80 | 80 | 80 | 80 |
| | TA | 80 | 80 | 80 | 80 | 80 |
| | Growth | 80 | 80 | 80 | 80 | 80 |
| | age | 80 | 80 | 80 | 80 | 80 |
| | size | 80 | 80 | 80 | 80 | 80 |

The value of the in the correlation table, all P- Value is less 5%, but we were check here the normality of the data at level of 1%. So the we can say that the data of all variables are significant at level of 1 %. The

relationship of all variables are mixed some of has positive strong and weak relationship and some has strong negative and weak negative relationship.

Model Summary

| Model | R | AdjustedR Square | Std. Error of the Estimate | R Square Change | F Change | df1 | df2 | Sig | D-Watson |
|---|---|---|---|---|---|---|---|---|---|
| I | .608 | .569 | .00518 | .409 | 12.778 | 8 | 75 | .051 | 2.932 |

The above model explains that 60% of the independent variables explain the relationship with dependent variables. There is some serial correlation exist in the variables. The $R^2$ value is 60%where is adj. R is .569%.

Coefficients[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| I | (Constant) | .015 | .021 | | .729 | .0031 |
| | TA | .000 | .001 | .018 | .093 | .927 |
| | Growth | .004 | .002 | .409 | 2.656 | .058 |
| | Age | .003 | .002 | .275 | 1.620 | .004 |
| | Size | -.001 | .001 | -.182 | -.865 | .0456 |

a. Dependent Variable: ROA

The model of the banks explain that the only the banks age and the banks size are significant with banks performance. Means that the only the two variables has significance impact on the banks performance. The both Null hypothesis are rejected at 5% level. And the other variables null hypothesis is accepted. So when the null one is accepted then we say that there is no relationship of variables with dependent variable.

Conclusion of the study:

The performance of the banks are total depend on the financial stability. The research study examine that the stability of the banking system can create

opportunity and benefits for the society. [19] The main objective of this study is to find out the competition in the banking sector can improve financial stability in Pakistan. To find out the relationship the research study use two approach I[st] is Z- Score and the 2[nd] on the regression analysis to check the banking stability. The results of the study examine that the Islamic banks size growth and age are significant and positively affect the performance of the banks. The stability the stability of the banks contributed in the economic growth of the Pakistan.

Future direction for the study:

- The further study can examine the regulatory effect on the Islamic banks system
- The study can also use the banks governing body effect on the performance
- The study can compare with the other country of Islamic banking
- The further can also use the other variables to find the find the impact on banks stabilitytotal asset and total ROI.

Limitation of the study:

- The study is limited to Pakistan Islamic banks
- The study only few Islamic banks
- The time period is very short
- The two method only check the stability
- The next method to discuss for the stability

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