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EXPLORING THE DETERMINANTS OF PAKISTANI ISLAMIC BANK: EMPIRICAL SURVEY

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Abstract:

The growth recorded by the banking industry in Pakistan prompted assess this advancement, the paper is an endeavor to measure and investigate the performance of Islamic banks in Pakistan over the period 2001 - 2014. In this profound dissection we assessed the interbank performance of Islamic banks in Pakistan. The realization of this target is guaranteed through building an investigation. The empirical research has been made in four significant performance indicators for banks i.e. profitability, risk, solvency and liquidity. Mean, standard deviation, T-test and F-test has been utilized to test the significance of the consequences of the sample. The essential finding of the survey relied on annual reports of banks. This study figures out that not just Islamic banks are less productive than the commercial banks in Pakistan, however the fundamental modes of Islamic keeping money, Mudharabah and Musharakah, are not mainstream in Pakistan.

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EXPLORING THE DETERMINANTS OF PAKISTANI ISLAMIC BANK: EMPIRICAL SURVEY

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Introduction:

Execution assessment is a critical essential for maintained development and advancement of any circumstance. It is standard in banks to assess the foreordained objectives and goals, with the progressions objectives and targets, the criteria of assessment of banks have experienced changes extra time.

Assessment of bank execution is paramount for all stake holders: managers, Investors, indebted individuals, leasers, government, investors, bank administrators and controllers. The execution of banks offers bearings to the stake holder about their execution. Case in point it provides guidance to the debt holder and the speculator to settle on choice that possibly they ought to put cash in bank or contribute their some place else. Essentially, it flashes bearing to bank administrators whether to enhance its store administration or advance administration or both to enhance its back. Controller and government are likewise intrigued to know for its regulation purposes.

The fundamental subject of this paper that Meezan bank is chosen as the essential bank as my base paper has chosen Bank Islam Malaysia Bhd (BIMB) in Malaysia which is single undeniable Islamic bank in Malaysia. On this base I have chosen Meezan Bank which the biggest and most seasoned Islamic bank of Pakistan. I have looked at Islamic bank in two periods from 2000-2005 and 2006-2014. In the investigation for 2014 information, I have taken information up to August 2014. then I contrasted this bank and Islamic bank industry. Between alia, I contrasted the Meezan bank and two individual routine banks and those are MCB and orix bank. After this I contrasted the Meezan Bank and Eight haphazardly chose traditional banks. Rundown of customary bank is given toward the end of this paper.

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Literature Review:

The preclusion of enthusiasm toward Islamic law brought about numerous compositions to approach with thoughts making banks that don't chip away at the premium premise. So to fill this need in Pakistan Meezan bank began their operation as first Islamic bank in Pakistan. The administration sets off an abnormal state commission, teams and advisory groups to foundation and push Islamic banking on parallel premise with traditional framework. 2001 The Shariah Supervisory Board is secured at Al-Meezan Investment Bank headed by Justice (Retd.) In 2002 the first Islamic banking permit is issued to Meezan Bank by the State Bank of Pakistan. At the same time, Meezan Bank procures the Pakistan operations Societe Generale, a French business bank. Which accomplished a solid monetary record with phenomenal working profitability, including a capital sufficiency proportion, that set the Bank at the highest point of the business, a long haul element rating of A+, and a transient substance rating of A1+, the most elevated fleeting rating.

As examined prior I am breaking down execution of the Pakistani Islamic bank area in four real ranges: profitability, liquidity, risk and dissolvability and group advancement. The same degrees were utilized by Abdus Samad & M. Kabir Hassan to measure the execution of Malaysian Islamic keeping money segment. The examination manages the experimental testing of the discoveries from element dissection to see what is the general productivity and execution level of Islamic banks working inside an ordinary saving money set-up in Pakistan. Essential Data has been gathered from the banks' concerned divisions.

There has been no study up till now concerning how the Islamic bank in Pakistan has performed in liquidity, profitability, risk and dissolvability, and in addition its dedication to economy and Muslim group amid 2000-2014. Such issues of profitability, liquidity, risk and dissolvability; and group association of the bank amid 2000-2014 are vital to investors and financial specialists. Thus, the present study expects to assess the execution of Islamic banks utilizing the aforementioned criteria. This study is not quite the same as the base paper studies as for substance, scope of years and approach. The distinction I will clarify in subtle element in the system.

Several papers are consolidating the beneficial role of Islamic banks in economy³ according to the findings of Iqbal and Molyneux (2005), Islamic banking could also be a source of efficiency and effectiveness⁴ as highlighted by Jaouadi, S. et al (2014).

³ Iqbal, M., & Molyneux, P. (2005). Thirty Years of Islamic Banking: History, Performance, and Prospects.

⁴ Jaouadi, S., Jazia, R. B., & Ziadi, A. (2014), Examining the Efficiency and the Effectiveness of Islamic and Conventional Banking: Evidence from Indonesia. *International Journal Of Academic And Scientific Research*.

Premium free banking is by all accounts of exceptionally late starting point. The soonest references to the rearrangement of banking on the premise of benefit imparting as opposed to premium are found in Anwar Qureshi (1947) and Mahmud Ahmad (1952) in the late forties, took after by a more expound work by Muhammad Hamidullah's 1955, 1957 works excessively ought to be incorporated in this classification.

They have all perceived the requirement for Islamic business banks and the detestable of enthusiasm toward that undertaking, and have proposed a banking framework focused around the idea of Mudarabha - benefit and misfortune offering.

Execution investigation of banks is possible in distinctive courses, contingent upon the sort of dissection and the particular needs of the client. One of them is degrees investigation. Proportion investigation comprises of the quantitative and qualitative parts of measuring the relative budgetary position of banks among them and among commercial ventures. The employments of the money related degrees are truly normal in the writing. Bank controllers, for instance, use money related degrees to help assess a bank's execution. Booker (1983z), Korobow (1983), Patnam (1983), Samad (1999) and Spindler (1991) gave utilized monetary degrees for assessing a bank's execution.

Methodology and data:

To see to see the execution of Pakistani Islamic banks this paper will assess the execution of Meezan bank over the seven years. As it were, the paper makes correlation of execution of Meezan bank between two periods 2000-2005 and 2006-2014. In the setting of present study, bank execution of the yearly periods 2000-2005 is contrasted with that of later period 2006-2014. Notwithstanding bury worldly examination, the study makes correlation of Islamic bank with other Islamic banks those are Al Baraka Islamic Bank and Bank Alfalah constrained and eight customary banks exhibitions. Examination of Meezan bank and the traditional bank is made here. This kind of between bank examination is normal in bank execution study Sabi (1996).

In the aggressive money related business, execution of a bank can be better seen by a dissection of between bank examination. The study utilizes fourteen monetary proportions for bank's execution. These degrees are assembled under four general classes. The dissection of bank execution focuses on the accompanying on four budgetary proportions: profitability; liquidity; risk and dissolvability; duty to local and Muslim group.

This study is not the same as its base papers in a few viewpoints one is that in base paper no examination has been made between one Islamic bank to an alternate however I have made this correlation.

a) Profitability Ratios:

In economic theory, we could assess the profitability of banks through these indicators as the bulk of academic researches⁵.

- 1) Return on asset (ROA) = Profit after tax/ total asset
- 2) Return of equity (ROE) = Profit after tax/ equity capital
- 3) Profit expense ratio (PER) = profit/total expense

ROA and ROE are the markers of measuring managerial productivity. ROA is net winning for every unit of a given holding. It demonstrates how a bank can change over its advantage into net profit. The higher ratio shows higher capacity and thusly is a pointer of better execution. So also, ROE is net income for every rupee value capital. The higher ratio is a marker of higher managerial execution. Then again, profitability is just piece of bank execution story. A high PER shows that a bank is expense productive and makes higher benefit with a given cost⁶.

b) Liquidity Ratios:

The deep review of financial literature allowed to identify few measures for liquidity in accordance with the study of Athanasoglou, P. P. et al⁷.

- 1) Cash deposit ratio (CDR) = cash/deposit. Cash in a bank vault is the most fluid asset of a bank. Consequently, a higher CDR shows that a bank is moderately more fluid than a bank which has lower CDR. Depositors' trust to bank is upgraded when a bank keeps up a higher cash deposit ratio.
- 2) Loan deposit ratio (LDR) = Loan/deposit. A higher loan deposit ratio demonstrates that a bank takes more monetary stretch by making inordinate loan. In this manner, lower loan deposit ratio is constantly positive to higher loan deposit ratio.
- 3) Current asset ratio (CAR) = current asset/complete asset. A high CAR demonstrates that a bank has more fluid asset. A lower ratio is a sign for illiquidity as a greater amount of the assets are long haul in nature.

c) Risk and Solvency Ratios:

⁵ Jaouadi, S., & Zorgui, I. (2014). Exploring Effectiveness and Efficiency of Banks in Switzerland. *International Journal of Academic Research in Business and Social Sciences*, 4(4), 313-325.

⁶ Miller, S. M., & Noulas, A. G. (1997). Portfolio mix and large-bank profitability in the USA. *Applied Economics*, 29(4), 505-512.

⁷ Athanasoglou, P. P., Brissimis, S. N., & Delis, M. D. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *Journal of international financial Markets, Institutions and Money*, 18(2), 121-136.

A bank is dissolvable when the aggregate estimation of its asset is more noteworthy than its obligation⁸. A bank gets to be dangerous in the event that it is bankrupt. The accompanying are the ordinarily utilized measures for a danger and insolvency.

1) Debt value ratio (DER) = Debt/value capital. Bank capital can assimilate budgetary stun. On the off chance that asset qualities decline or loans are not reimbursed bank capital gives security against those loan misfortunes. A lower DER ratio is a decent sign for a bank.

2) Debt to aggregate asset ratio (DTAR) = Debt/complete asset shows the money related quality of a bank to pay its debt holder. A high DTAR shows that a bank includes in more hazardous business.

3) Equity multiplier (EM) = Total assets/offer capital. It is the measure of assets for every rupee of value capital. A higher EM shows that the bank has obtained more subsidizes to change over into asset with the offer capital. The higher estimation of EM demonstrates more serious danger for a bank.

Results:

Table 1 : Determinants of Performance of Meezan bank 2000-2005 and 2006-2014

Performance	2000-2005		2006-2014	
Measure	Mean	S-D	Mean	S-D
1.ROA	0.0944	0.0722	0.013521	0.0021
2.ROE	0.1833	0.0755	0.1411	0.0253
3.PER	2.362	1.42	0.58122	0.031
1.CDR	0.129	0.025	0.1533	0.03215
2.LDR	0.59	0.012	0.6311	0.02422
3.CR	0.21	0.0132	0.3421	0.005844
4.CAR	0.22	0.00866	0.1898	0.037741
1.DER	4.17	1.9752	9.621	0.1423
2.DTAR	0.72	0.1395	0.845	0.03641
3.EM	6.51	3.1378	13.88	0.2495
4.LDR	1.0875	0.087702	1.296667	0.025166

⁸ Demirgüç-Kunt, A., & Huizinga, H. (1999). Determinants of commercial bank interest margins and profitability: some international evidence. *The World Bank Economic Review*, 13(2), 379-408.

1.GBD	0.175	0.075939	0.31	0.01
2.LTA	0.25	0.024495	0.32	0.02
3.MM/L	0.001105	0.00109	0.0014	0.000195

Analysis of Empirical Results:

The second part of table 1 demonstrates that liquidity position of the Islamic Bank in excess of 07 years. Three measures of liquidity except LDR don't indicate factually any huge contrast. The method for the two periods for CDR, CR and CAR are not factually distinctive. This demonstrates that bank's upkeep of liquidity position stays unaltered between 2000-2005 and 2006-2014. This unaltered liquidity position rejects our speculation that Meezan bank will hold less liquidity in the consequent years of operation when bank gets to be developed.

The method for DER and equity multiplier (EM) expanded from 5.16 to 9.45 and from 6.31 to 14.93 separately, and DER is factually huge at 0.5% level. Anyway EM is not critical. Different measures, in the same way as DTAR and LDR have likewise expanded however DTAR is factually huge at 0.5% level and LDR is not measurably noteworthy. On the off chance that we see the Meezan Bank execution in table 2, Section 3 of danger and solvency with other Islamic banks the ratios are pretty much same and factually noteworthy at 0.5% level.

Our essential information gives a few reasons why Mudarabah and Musharakah are not prevalent in Pakistan as contrasted with other Islamic modes. The examination of the essential information in Table 6a demonstrates that 38 of the respondents consider that (B) as a significant reason. 18 of the respondent's help that (A) will be a reason, i.e. mudarabah and Musharakah are not famous in light of the fact that the option modes of financing are more beneficial and less dangerous than Mudharabah and Musharakah. 08 of the respondents show that they don't feel great with the thought of offering joint administration (C). Just 06 help that the checking expense of the Mudaraba and Musharaka is high for the bank. The appropriation of reactions is focused around raking made in the option answer. Table 6b demonstrates that just 54% respondents place "B" in the first rank, 25% individuals have positioned "An" in the first rank. This overview has been directed through examiner which is taken from the base paper. The examiner both for banker and borrower is given at the end of this paper.

As to Meezan's group responsibility measured by the interest in government securities and loans as a rate of aggregate assets, LTA, it is observed that there has been Increase in the execution over the

two periods. T-ratio for the period recommends that the methods for the two measures are statically noteworthy (Table 1) on the off chance that we will pose as a viable rival the Meezan bank with other two Islamic banks we can say Meezan bank is not doing great in the group responsibility.

Summary and Conclusion:

Because of the known assurance about the benefits in the short run traditional banks can boost their benefits. Premium based banks can focus benefits over the long haul through supporting. Then again, there is no such degree to know the expense of trusts in advance. The depositors are paid a part of bank's benefits the volume of which is amazingly unverifiable. The Islamic banks could confront hardship in benefit base if benefit rate expected by the depositors is not understood. Islamic banks are relied upon to figure their rate of profit for PLS deposits occasionally. The common practice is that the deposits are weighted to reflect contrasts in their development. Banks set up a six month to month synopsis record of its operations and send it to the national bank, which decides the individual PLS rate to be paid by each one bank. Despite that individual banks are permitted to insignificantly go amiss from the proposed rate of return. In all actuality Islamic banks don't have control over the expense of trusts and there for it is an enormous boundary for Islamic banking.

The expense of observing, written work and upholding an agreement is higher in Islamic banking then routine banking. This is on account of, with Musharaka, the bank funds the working capital of a business wander taking a semi value position in the economy. In financing, an administration organization is structured which skims a debatable security, or the bank might totally fund a task inside the extent of its contract. Also, since the economies of nations executing Islamic banking are by and large described by business and enlightening defects, further determination of these issues will expand the expense of data. Higher expense of data could be a real issue in executing Islamic banking framework.

Islamic finance and banking framework will oblige bookkeeping hypothesis focused around Islamic standards and teachings which will give the structure to determining bookkeeping standards. Be that as it may, it must be remembered that there is no compelling reason to reinvent the wheel. Endeavors ought to be made to alter customary bookkeeping hypothesis to make it good with Islamic Shariaah. This will spare vitality and time which ought to be used over the development of new Islamic modes of financing and enhancing the over all operations of Islamic finance and banking framework.

Preventions in Islamization of economy incorporate the nullification of Riba which is a huge undertaking in itself. Be that as it may, it is not something that can not be carried out if genuine exertions sponsored by political will are taken. Operational and procedural progressions will likewise be obliged yet the rule component will dependably be the will to do so and to do away with Riba.

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