

Performance Efficiency of Islamic Banking in Pakistan after Global Financial Crisis: A case Study of Meezan Bank Limited

Author's Details:

Tanweer Chnna

M.Phil Student - Deptt:of Public Administration, Shah Abdul Latif University Khairpur Mirs

Nazar Hussain Phulpoto

Associate Professor-Deptt:of Public Administration, Shah Abdul Latif University Khairpur Mirs

Dr.Chandal Lal Rohra

Pro-Vice Chancellor-Shah Abdul Latif University Campus , Shahdadkot

Abstract:

The current research investigates the Performance Efficiency of Islamic Banking in Pakistan after Global Financial Crisis: A case Study of Meezan Bank Limited. Data were collected from various secondary sources i.e. Annual reports of State bank various issues after 2007-08. Data were analyze by using SPSS-25 version. During 2009 the worldwide output witnessed a decline of 2.2 percentage and unemployment price expanded to round 7 percentage globally this means that that round 35 million humans misplaced their job. The regressions along with manage variables observed pay-for-overall performance relationships much like preceding studies. After the disaster, the coefficient of inventory returns is barely higher, indicating a more potent pay-for-overall performance courting and higher alignment with shareholders' hobbies. The courting among fairness-primarily based totally repayment and organization overall performance indicates no obvious adjustments earlier than and after the disaster. Another signal indicating higher alignment of managers' and shareholders' hobbies is the connection among control repayment and fairness hazard (inventory fee volatility). Before the disaster a big high-quality courting existed. After the disaster this courting became drastically negative. This approach that managers have been rewarded earlier than the disaster to growth inventory fee volatility, while after the disaster, expanded inventory fee volatility brought about decrease repayment. In addition, the cost of granted alternatives is negatively associated with fairness hazard after the disaster, in evaluation to earlier than the disaster.

Keywords: Islamic Banking, Global Financial Crisis

Introduction:

In the start of recent century, the costs of actual property area in United States after a increase abruptly declined to their lowest degree which moved the evolved US financial system. This triggered an unfavourable effect on American financial gadget in particular on credits, coverage and different economic establishments mainly banking and lending establishments. The current crises has witnessed extraordinary momentum for the duration of 2004-07 while the inventory change of evolved nations had been both crashed or a excellent sluggish down become witnessed and lots of large economic establishments carried out for bailout applications to keep away from collapse. To triumph over the state of affairs governments of many nations intervned and introduced rescue/bailout applications. Many evolved and below evolved nations along with growing nations confronted the effects of disaster. The disaster additionally hit the boom of South Asian nations, their Balance Of Payments, Balance of Trade, inventory change and economic gadget along with Pakistan which become already dealing with excessive financial problems e.g. BOP, BOT, inflation, unemployment, poverty and funding from overseas and home because of battle towards terror which gave a awful sign to investors.

The declining financial system of Pakistan become already tormented by dual deficits, modern account and excessive monetary deficit with low foreign exchange reserves and vulnerable forex which pulled down the financial system in a country of dilemma. Very vulnerable and fragile Pakistani financial systems become dealing with financial and political crises which predate the prevalence of world economic disaster. The international economic disaster resulted into credit score squeeze globally which has affected banking area in Pakistan and created a excessive liquidity crunch ,in a single day name quotes has multiplied to ever excessive ranging to 30-forty percent. To cope with the excessive liquidity problem crucial financial institution of the united states of america spontaneously injected round fifty four billion rupees into the economic gadget. It become intended that the united states of america withinside the brief run can undergo

and get away from the shocks of the current economic disaster due to the fact economic area of the united states of america isn't always deep rooted and is by some means fragile and isn't always deeply rooted.

On the opposite Pakistan will should go through as a result of disaster on diverse fronts which encompass overseas remittances, overseas direct funding, overseas improvement useful resource and exports. During 2008, Pakistan with the assist of IMF evolved stabilization software to avoid any default as a result of debt servicing. Due to hike in commodity costs including meals and oil costs mainly wheat costs has multiplied macroeconomic imbalances of united states of america in 2007-08. The after consequences of the worldwide recession had been additionally felt on change stability as a result of fall in commodity costs and reduce of their call for globally. Pakistan's banking area incorporates on range banks having forty one banks, along with thirty one business banks (5 PMeezanic and twenty six neighborhood personal banks), six overseas banks, 4 specialised banks. Pakistan's banking area remained robust sufficient to stand the consequences of world economic disaster which become already dealing with pressures of vulnerable macroeconomic imbalance considering 2007.

Due to very restricted portfolio of volatile property and derivatives the direct hit of disaster become nearly negligible but because of proportion of overseas banks withinside the united states of america stood round one 10th of overall financial institution deposits of the united states of america consequently effect become very minimum at the financial system in addition to on banking industry. However economic marketplace seriously suffered from liquidity crunch which become very well timed and judiciously addressed via way of means of crucial financial institution via financial coverage instruments, hobby quotes had been raised to fight the state of affairs aleven though it had a poor effect on overall performance of patron loans and inflamed the appearing loans drastically in coming years. Literature Review It is obvious aleven though that the current disaster specially has caused a few profound modifications. Concentration, which become already growing in lots of superior economies for a few time, similarly multiplied after the disaster, elevating worries of too large to fail troMeezanes worsening (Strahan, 2013). How the disaster has affected overseas financial institution presence, but, has now no longer been studied so far.four Given the essential position of overseas financial institution in lots of markets and the shifts in international banking networks, documenting and knowledge those modifications is essential. Second, our paintings pertains to the extra trendy literature on economic globalization and its submit disaster evolution.

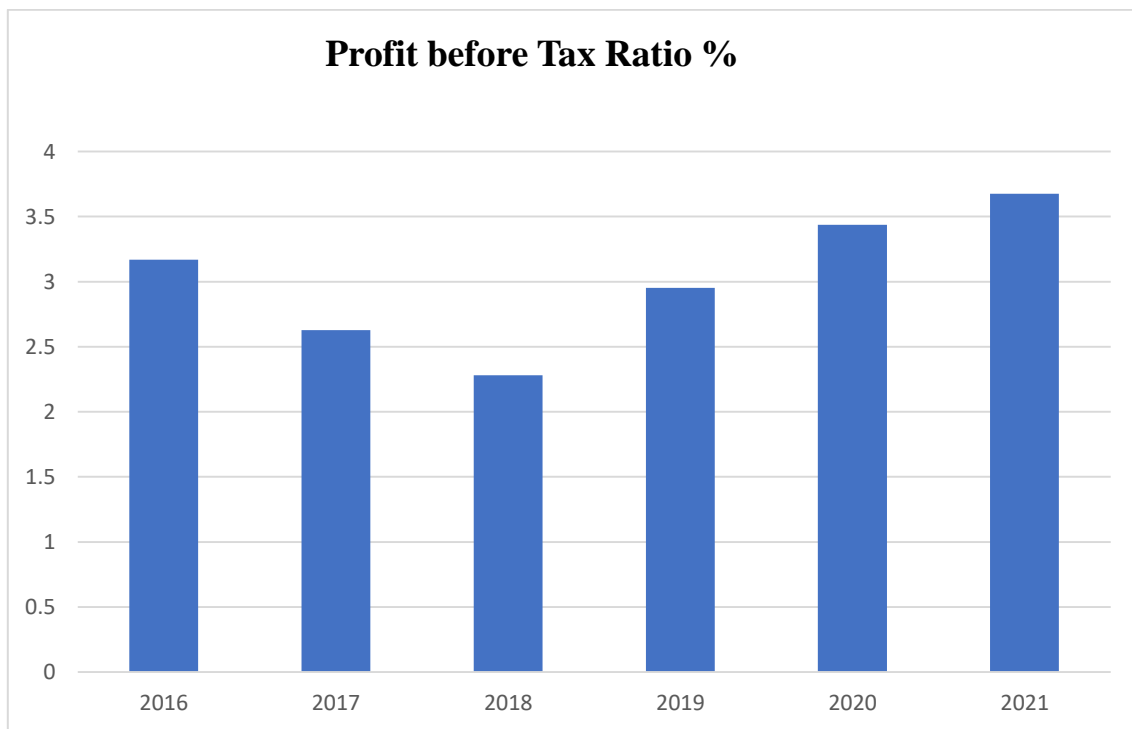
While earlier than the disaster, maximum noticed economic internationalization as absolutely beneficial, a few did spotlight that the stability of advantages and dangers isn't always apparent and may depend upon many elements, along with borrowing united states of america traits (see Kose, Prasad, Rogoff and Wei, 2010 for a review). The disaster has highlighted a number of those dangers as three Overall, overseas banks were located to lessen typical fees and enhance the best of economic intermediation, growth get entry to to economic offerings and enhance overall performance. economic and financial advantages in their borrowers. but, the presence and volume of those blessings seem to differ relying on sure conditions, along with the traits of the neighborhood marketplace and of the overseas banks themselves. Limited financial improvement and boundaries to access can impede the performance of overseas banks or even lead to "skimming". banks additionally upload much less in nations in which they've a restricted marketplace proportion, in which settlement enforcement is expensive, and creditor records is restricted. proportion of overseas property has a tendency to expose more marketplace strength The existing, revised and prolonged literature in Claessens and Van Horen has recognized numerous elements that have an effect on the area selections of overseas banks in everyday times: anticipated financial boom withinside the host united states of america and neighborhood banking inefficiencies; variations in fees and regulations; bilateral change hyperlinks and overseas direct funding; geographic, cultural or institutional proximity; similarity withinside the financial measurement and in improvement; and the aggressive blessings related to the general shape of the worldwide banking gadget.

Domestic economic improvement and the percentage of overseas banks have a awful relationship, because of this that that a rustic may be financially very (or poorly) evolved with few or many overseas banks present. In addition, Karolyi and Taboada (forthcoming) consider that benign regulatory arbitrage is an essential component for cross-border banks. While economic globalization must in precept improve global chance sharing, lessen intake volatility and sell financial boom, in exercise the consequences were much less noticeable. The break up has commonly multiplied barely for superior nations, consistent with their better degrees of economic openness, however has now no longer had a enormous effect on rising markets and

growing nations. While economic globalization has now no longer multiplied macroeconomic volatility or the frequency of crises in nations with well-evolved economic structures and a especially excessive diploma of institutional best, it has multiplied volatility for nations that do now no longer. fulfilled those preconditions or thresholds.

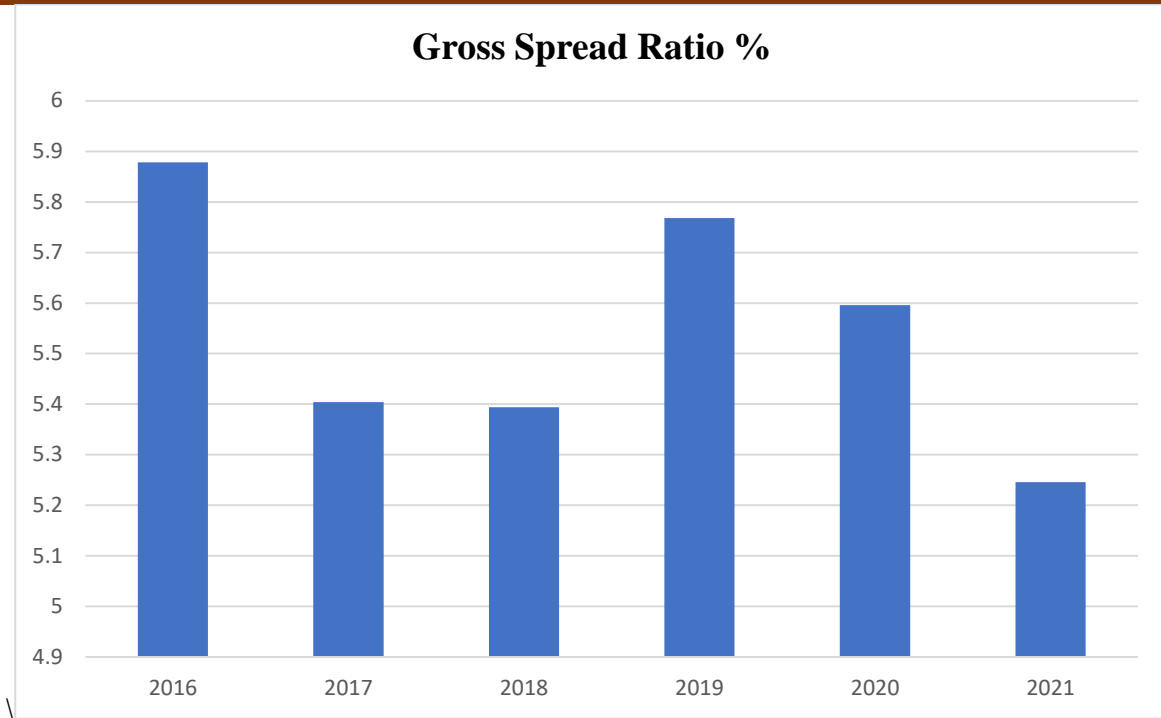
The hyperlink among economic globalization and financial boom become additionally complex. Agha Hasan Abedi based this financial institution in 1959. MEEZAN has a protracted records withinside the United Arab Emirates and is the second one overseas financial institution to open its department in Abu Dhabi, United Arab Emirates in July 1967. MEEZAN is found in important centers, along with Pakistan, United Arab Emirates, Bahrain, Qatar, Yemen, United States, United Kingdom, Switzerland, Oman, Egypt and Iran. In 2002, the authorities of Pakistan offered it in an open pMeezanic sale to a consortium of Abu Dhabi Group and Bestway Group.

Research Methodology: Data were collected from from various secondary reassets i.e. Annual reviews of State financial institution diverse problems after 2007-08. Data had been examine via way of means of the usage of SPSS-25 version. Results Profit earlier than Tax ratio is obvious indicator that the pattern financial institution were adversely affected in phrases of profitability. Its Profit earlier than Tax has reduced in phrases of Gross Markup Income because of protection of Advances Deposits Ratio which become constant as 70 %



Gross Spread Ratio %

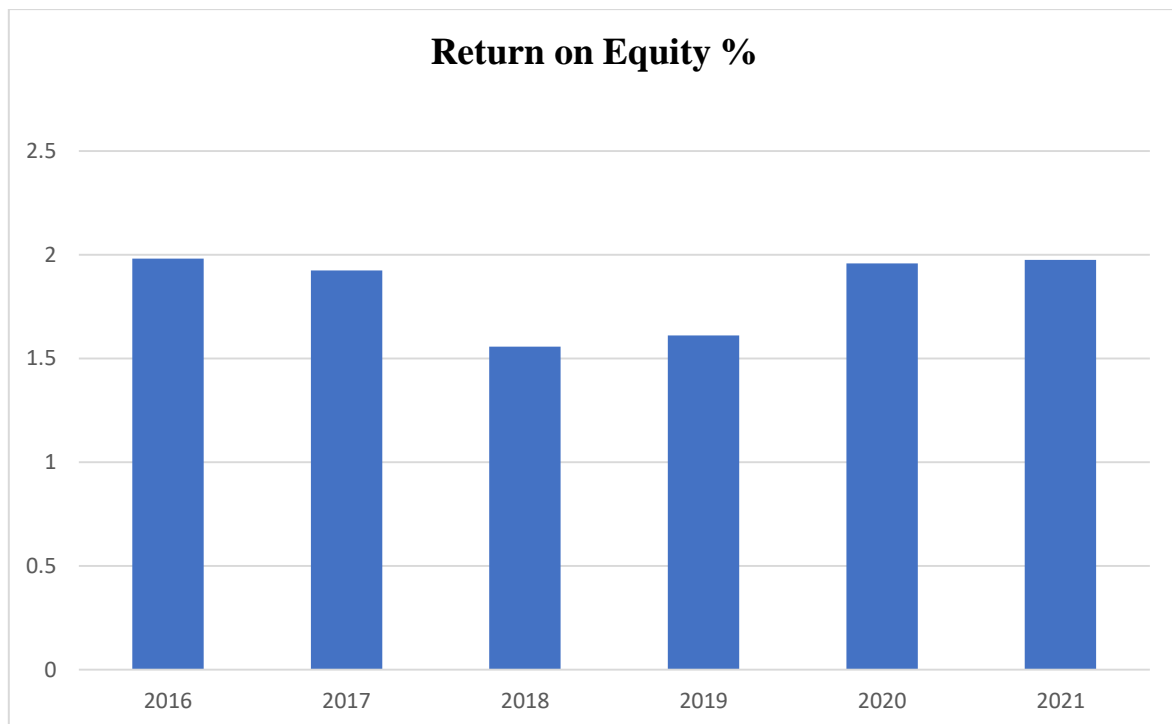
Bank	2016	20167	2018	2019	2020	2021
MEEZAN	5.878	5.404	5.394	5.7968	5.596	5.246



Return on Equity %

Bank	2016	20167	2018	2019	2020	2021
Meezan Bank	1.981	1.925	1.557	1.611	1.958	1.975

Return on equity also indicates that equity holders’ profitability was reduced significantly. Efficiency can be measured through this ratio i.e., higher ratio means better performance and vice versa.



Gross Profit Ratio %

Bank	2016	2017	2018	2019	2020	2021
MEEZAN	3.535	3.246	2.749	3.75	3.864	3.798

Gross Profit ratio also confirms that performance was deteriorated to considerable extent. It means that Gross profit has been decreased as a result of decrease in Total revenue due to significant increase in cost of Funds/deposits. It means financial performance not affected during global financial crisis.

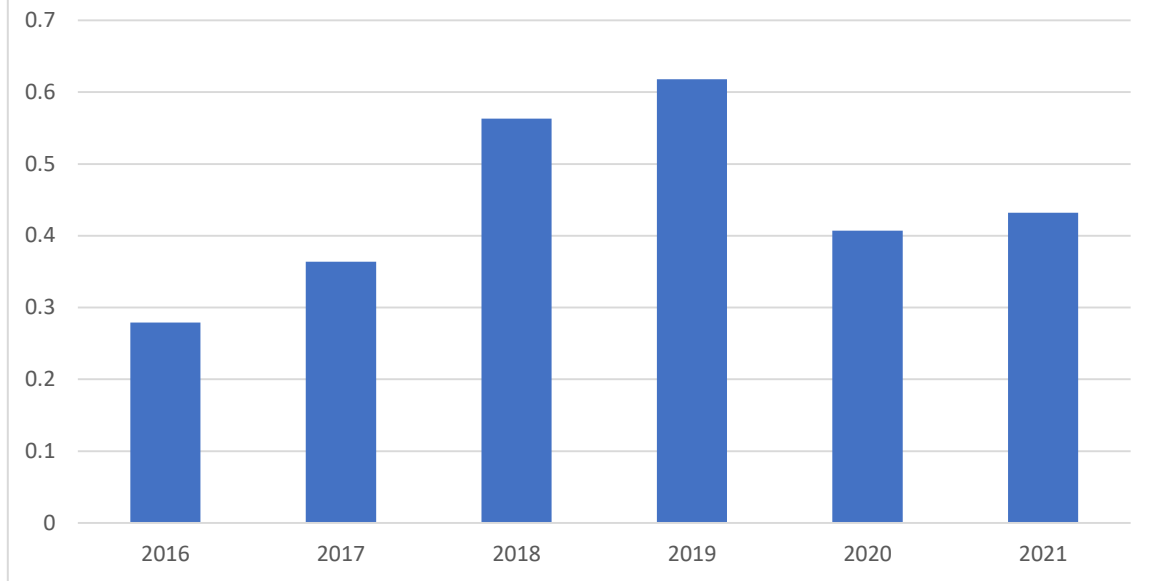


Weighted Average Cost of Deposit %

Bank	2016	2017	2018	2019	2020	2021
MEEZAN	0.279	0.364	0.563	0.618	0.407	0.432

Weighted Average Cost of Deposits increased by 71 % in 2018 as compared to base figure of 2016 which clearly depicts that Bank were under pressure to maintain their books and restore confidence in the eyes of stake holders that's why they borne extra cost to mobilize costly deposits. Although their lending was restricted above 70% at any point of time in terms of Advances to Deposits Ratio this resultantly reduced their markup income and increased markup expense.

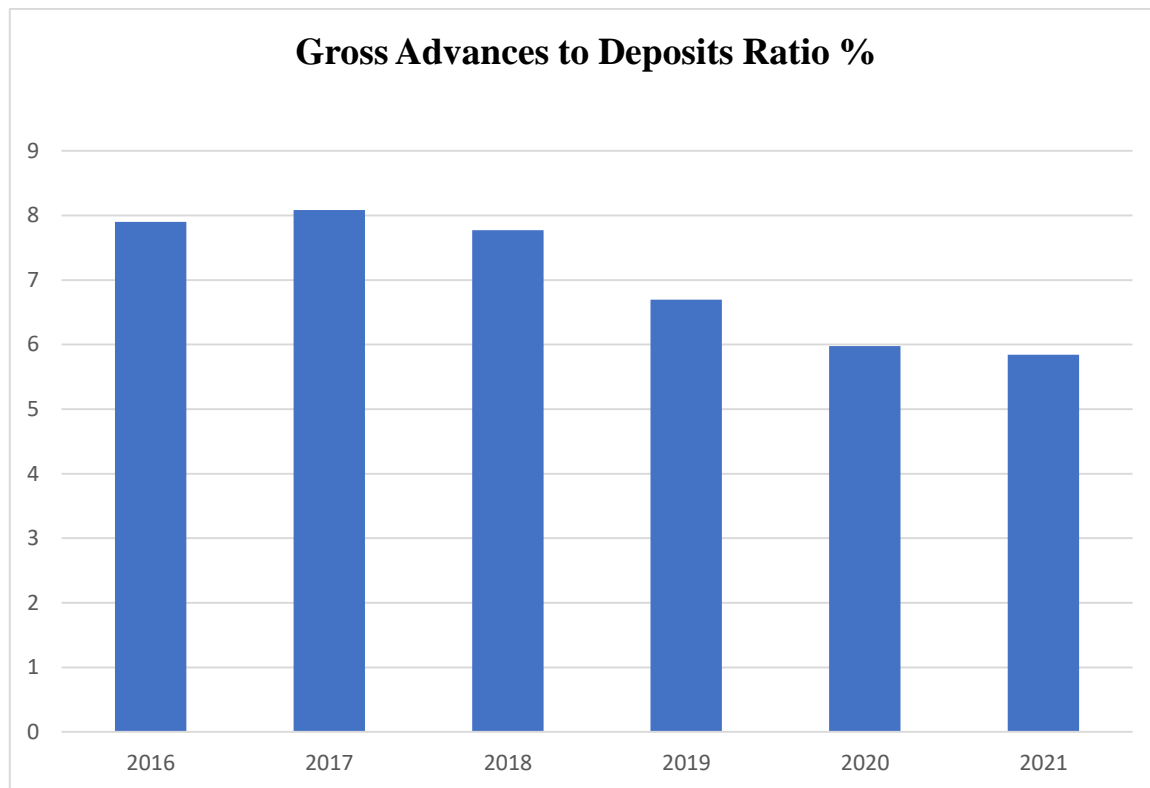
Weighted Average Cost of Deposit %



Gross Advances to Deposits Ratio %

Bank	2016	20167	2018	2019	2020	2021
MEEZAN	7.898	8.084	7.773	6.696	5.976	5.845

Gross Advances to Deposits Ratio %

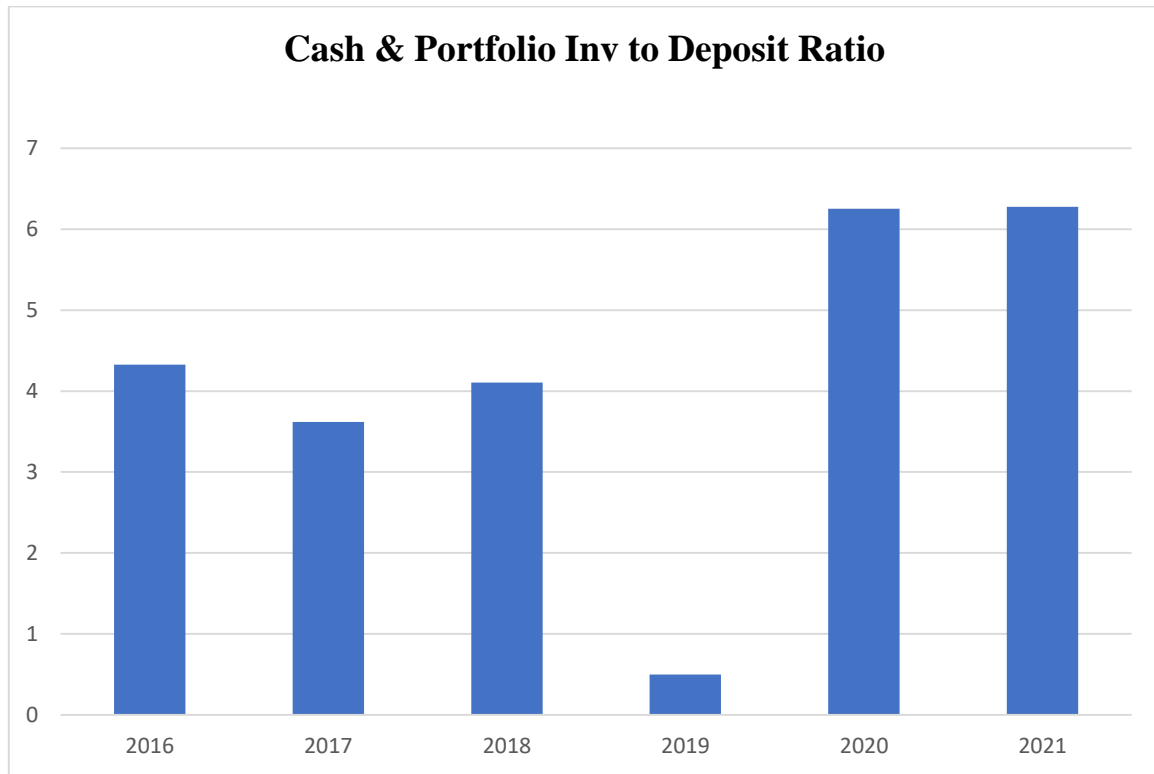


Gross Profit Ratio additionally confirms that overall performance became deteriorated to vast extent. It approach that Gross income has been reduced due to lower in Total sales because of good sized boom in value of Funds/deposits.

Cash & Portfolio Inv to Deposit Ratio

Bank	2016	2017	2018	2019	2020	2021
MEEZAN	4.327	3.619	4.105	0.498	6.255	6.277

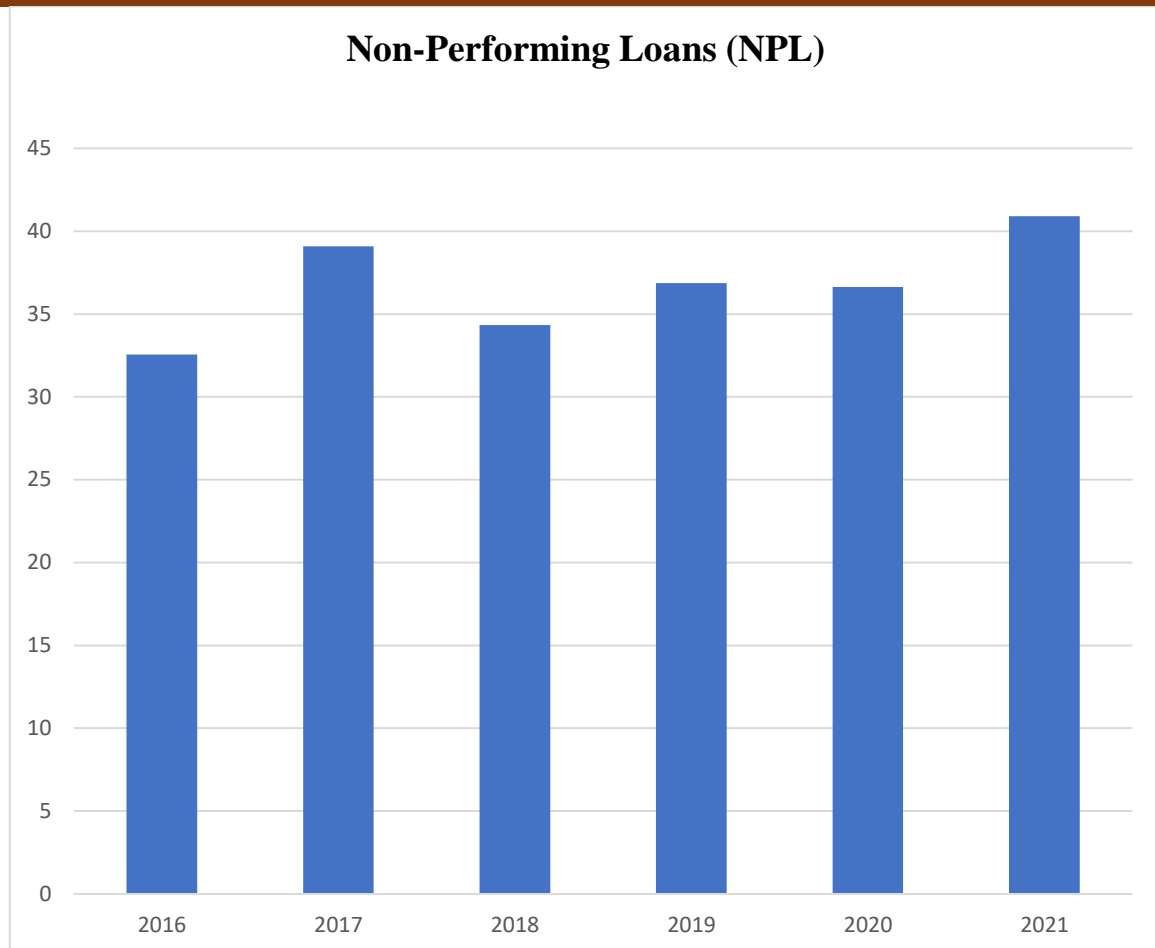
Cash & portfolio Investment to deposit ratio tells that there was decrease in cash & Portfolio investment and liquidity was relatively tight, higher ratio is better for liquidity but inversely affect profitability on idle cash. It was suddenly decreased around 10%, a clear signal of tight liquidity prevailed in the market.



Non-Performing Loans (NPL)

Bank	2016	2017	2018	2019	2020	2021
MEEZAN	32.567	39.091	34.338	36.87	36.631	40.91

NPLs increased from the highest figure of 2011 which was managed to large extent as of 2016 that shows that counter party failed to meet its obligation (Credit Risk)



Conclusions & Recommendations

The foremost end of this paper is that once the disaster, managers' pastimes and shareholders' pastimes are higher aligned than earlier than the disaster. The regressions with out manage variables display no fine pay-for-overall performance dating earlier than the disaster, while there's a big fine dating after the disaster. The regressions such as manage variables observed pay-for-overall performance relationships much like preceding studies. After the disaster, the coefficient of inventory returns is barely higher, indicating a more potent pay-for-overall performance dating and higher alignment with shareholders' pastimes. The dating among fairness-primarily based totally reimbursement and company overall performance indicates no glaring modifications earlier than and after the disaster. Another signal indicating higher alignment of managers' and shareholders' pastimes is the connection among control reimbursement and fairness hazard (inventory rate volatility). Before the disaster a big fine dating existed. After the disaster this dating become extensively bad. This way that managers have been rewarded earlier than the disaster to growth inventory rate volatility, while after the disaster, extended inventory rate volatility caused decrease reimbursement. In addition, the fee of granted alternatives is negatively associated with fairness hazard after the disaster, in assessment to earlier than the disaster. The coefficients of the CEO dummy are definitely associated with control reimbursement, as expected. However, the monetary effect of the book-to-marketplace ratio coefficients is negligible. The effects of the regressions with reimbursement shape as based variable display a more potent fine dating among the fairness-primarily based totally a part of reimbursement and company overall performance, after the disaster. Furthermore, a fine dating among the fairness-primarily based totally a part of reimbursement and fairness hazard exists earlier than the disaster, while this dating is bad after the disaster. These findings mean a higher alignment of managers' and shareholders' pastimes as well. However, one may want to argue that the monetary effect of those effects is as an alternative limited.

References

- i. *A.B. Ashcraft and T. Schuermann, “Understanding the Securitization of Subprime Mortgage Credit”, FIC Working Paper n° 07-43, Wharton Financial Institutions Center, Philadelphia, Pa., 2007.*
- ii. *J.P. Morgan Corporate Quantitative Research, "Credit Derivatives Handbook," J.P. Morgan, New York, December 2006, p. 6.*
- iii. *Alan Zibel, “Liar loans' threaten to prolong mortgage crisis” (2008)*
- iv. *Ahmed, O. B. (2001). Islamic Financial Instruments to Manage Short-Term Excess Liquidity (2nd Edition ed.). Jeddah: Islamic Development Bank.*
- v. *Bartlett, D. (2008) Fallout of the Global Financial Crisis, RSM International Association, accessed on May 2014 at http://www.rsmchina.com.cn/attachments/month_0908/m20098271225.pdf*
- vi. *Charnes, A. Cooper W and Rhodes E (1978) Measuring Efficiency of Commercial banks with the use of Financial ratios and Data Envelopment Conventional Banks”*