RISK OF GOVERNANCE AND FINANCIAL STABILITY

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APPROVAL FOR EXAMINATION

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Declaration of Authentication

I, hereby, declare that no portion of the work referred to in this thesis has been submitted in support of any application for another degree or qualification of this university or any other institution of learning.

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Abstract

Purpose

This purpose of the study is specific role of risk governance in promoting financial stability in banks. Using hand collected data, it develops a Risk Governance Index (RGI) to measure the strength of risk governance structures and then examines its impact on six main indicators of financial stability for conventional and Islamic banks in the countries.

The objective of this study is to assess and compare the profitability of Islamic banks and conventional banks. In the Panel data framework fixed and random effect models are used on the data from Pakistan, Malaysia, and Bangladesh ranging from 2008-2018.

The results show that interest/mark-up income enhance the ROA and ROE of both Islamic and conventional banks. Further non-interest/non-mark-up income increase the profitability (ROA and ROE) of Islamic banks while decrease the profitability (ROA and ROE) of conventional banks. On the contrary, loan/advances to deposits (LTD) increase the profitability of conventional banks while discourage the profitability of Islamic banks.

The effect of deposits to total assets is significant and positive on the ROE of both Islamic and conventional banks while insignificant on ROA. Moreover, loan/advances to assets (LA) positively effect and capital adequacy ratio (CAR) negatively affect the profitability of both Islamic and conventional banks. Interestingly, the impact of size on the profitability of Islamic banks is positive and on the profitability of conventional banks it's negative. Lastly, the economic activity (GDP) helps to increase the profitability of both Islamic and conventional banks. The country-wise analysis indicate that the impact of the profitability of banks is significant different of one country from another.

Methodology & Design

Statistical regression technique has been used in this study to analyze the risk governance index based on 8 banks in in which four Islamic and four conventional that's working in Pakistan.

Findings

This study found natural logarithm of total assets, size of bank, credit risk has positive and significant impact on risk governance and financial stability.

Limitations

Every study has limitations and there are no exceptions.

Data took only form banks & no other financial institutions.

Other variable like economy, inflation etc. did not consider.

Recommendations

While comprehensive, a large number of indicators can cause complexity difficulties when comparing overall financial stability across different banks or regions. The purpose of this research is to construct a comprehensive stability indicator.

Keywords

Risk governance index, capital adequacy, financial stability indicators, Islamic and conventional banks, credit risk and firm size.

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