Chapter 13
The Effect of Market Power on Stability and Financial Performance of Islamic and Conventional Banks in Pakistan

Muhammad Ayub Awan
https://orcid.org/0009-0000-0917-0135
International Islamic University, Islamabad, Pakistan

Abdul Rashid
International Islamic University, Islamabad, Pakistan

Muhammad Ali Chohan
https://orcid.org/0000-0002-8860-0603
Guangdong CAS Cogniser Information Technology Co., Ltd., China

Shamaila Butt
https://orcid.org/0000-0003-1411-9590
Sohar University, Oman

Ain Naadia Binti Mazlan
https://orcid.org/0000-0001-5132-146X
University of Technology Malaysia, Malaysia

ABSTRACT

The aim of the study is to explore the impact of market power on the financial stability and financial performance of Islamic banks and their counterparts. In our

DOI: 10.4018/979-8-3693-6386-7.ch013

study the five conventional and five Islamic banks are selected from Pakistan for the period of 2007 to 2016 using Panel data. We have used different techniques to analyze the effect of market power on stability and financial performance. The findings reveal that efficiency of Islamic bank does not depend on the stability. Market share is statistically significant for both Islamic and their counterparts, therefore greater market share leads to increase the financial stability. The asset growth is statistically insignificant in case of both Islamic and their counterparts, therefore asset growth does not have any impact on financial stability. The interest rate spread is statistically significant with conventional banks. The policy makers of the conventional banking sector should work on a tradeoff among the financial performance and financial stability.

1.1. INTRODUCTION

Banks play a vital role in the economy and financial system of the any country. Currently banks have momentous role in society; even without the banking system the imagination of the life is not possible. A bank is a financial organization that licensed to accept the deposits. Banks also provide the financial services. In order to encourage the economy government plays a vital role via banking system through "Monetary Tools". The banks are the group of actors of the financial market as objective is the financial intermediation. Allen and Wood (2015).

Financial performance is defined in the words of FrichKohlar (2015), suggested that performance is the general word which refers to a part or all the activities conducted in the organization for a specific time period. Often though these activities may be related to the past projects, the efficiency of the project costs, and may also include the responsibility or accountability of management in any organization. Financial performance is used for the indication of the success of any organization in different financial activities. It is the process of measuring the firm's policy and also operations in monetary terms (Mayor Roth 2010). It is also used for checking the financial health of the any organization for a specific time periods across the same industry.

Financial stability is the important for the financial system of the any country and for economic development. Furthermore, the financial stability of the banking industry is prerequisite for managers, Regulatory authorities, and as well as for the government officials. Financial stability plays a vital role in the development of any country and important for the policy design and operational frameworks (Schinasi, 2014 and Chant, 2010). Financial stability is the prerequisite for sustainable and essential for the stability of economic growth (Swamy, 2014).

Related Content

Transformation of Industrial Production: The Effects of Digitalization

Kravchenko Maryna, Olena Trofymenko, Boiarynova Kateryna, Marzena Sobczak-Michalowskaand Kashuba Svitlana (2024). *Applications of Synthetic High Dimensional Data (pp. 209-221).*

www.irma-international.org/chapter/transformation-of-industrial-production/342993