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BASEL III: IMPACT AND CHALLENGES TO ISLAMIC FINANCIAL INSTITUTIONS: EVIDENCE OF PAKISTAN AND MALAYSIA

Dr.Arifa Bano Talpur
Assistant Professor, Mehran University Institute of Science Technology and Development (MUISTD) Jamshoro
Email: arifasafder@gmail.com
Dr.Kamleshwer Lohana
Assistant Professor, Mehran University Institute of Science Technology and Development (MUISTD) Jamshoro
Email: kamleshwer.lohana@faculty.muet.edu.pk
Zareen Khan Rind
Assistant Professor, Abida Taherani Sindh Development Studies Centre University of Sindh Jamshoro
Email: zareen.baloch@usindh.edu.pk

ABSTRACT

The global financial crises 2007 bring about the current banking regulations which stood inadequate to avoid banks from taking in unnecessary risk actions. Therefore, Bank for International Settlement (BIS) and G-20 leaders endorsed a new international standard of banking regulations by revising previous Basel II rule, introduced in 2004, into Basel III in late 2010, so as to enhance the quality including quantity of capital, leverage ratio and liquidity standards, which has become a challenge for nationals to implement these strict reforms under their existing banking system.

Parallel with the conventional banking system, for which the Basel Committee formulated Basel framework, Islamic banking introduced in early 1977 to 1980 in Pakistan in response to the decision by the Shariat Bench of Supreme Court, necessitates that the financial system be transformed to operate in conformity with sharia. The State Bank of Pakistan (SBP) and Bank Negara Malaysia are the regulator of Islamic banks and full member of IFSB. The Islamic Financial Services Board (IFSB) established in 2002 in Malaysia as an international standard-setting organization to enforce the international regulatory and supervisory guidelines for Islamic financial organizations along with other standard setting bodies such as AAOIFI and ISDB to achieve this objective. The IFSB promotes the stability and soundness of the Islamic financial institutions by issuing guiding standards and prudential regulations for the industry, The IFSB applied Basel standards in the context of Islamic banks and its operating models. This paper critically evaluates Islamic financial institution's regulatory and supervisory structures particularly for Pakistan and Malaysia and examines financial position after implementing Basel Accord rules. Study suggests a positive impact in case of both countries.

Keywords: Basel III, Islamic banking, Islamic Financial Services Board (IFSB), Financial Stability, Shari'ah Compliance.

INTRODUCTION

Islamic financial industry constitutes a rising institutions such as commercial banks, investment banks and companies, Takaful (mutual insurance). Banks remain chief source of financial services institutions in various countries as well as financial offshore centers and, as such, Islamic banking is viewed as an alternative sort of banking. As they comprise a greater number of financial transactions their soundness is of major concern for firmness and systematic stability (Sundarara and Errico, 2002). Zaring (2012) highlighted the importance and development of banking system in international scenario. Due to active function of foreign banks into domestic financial system it is crucial to adopt the international financial regulations and standards with an object to create international financial stability of banking system.

Parallel with the conventional banking system Islamic Banking, which is one of the most important parts of the financial sector, plays a crucial role in development of an economy (Chisty, 1998). It is not only facilitator of deposits of surplus unit but also main source of financing to productive unit. As channeling funds efficiently from savings to productive activities or playing an essential role of financial intermediary between savers to investor, the soundness and stability of banking, either conventional or Islamic, is foundation for economic growth and welfare (Dewett, 2005). The Basel Agreement, therefore, developed an effort to protect stability in financial and economic system by means of standardized set of rules which are suitable for entire global economic and financial system, which is later adapted by Islamic Financial Institutions (IFI's) as well with the aim and objective of sustainable Islamic Financial Industry.

The study critically evaluates the challenges rising from international financial innovations and developments which arise after a series of financial crises. The focus of this paper would be impact and influence of international Basel standards on Islamic Financial Institutions, where banks required excessive capital under Basel III standard and liquidity to treat future shocks. The study is design in certain parts to contain the introduction about Islamic financial institutions particularly focus would be Islamic banking and Basel accord as a stability tool. Literature review defining the whole scenario about regulatory framework under Basel I, II and final rule III as well as execution of Basel III rule in Islamic financial institutions following the Islamic Financial Stability Board (IFSB).

LITERATURE REVIEW

The global financial crises like the Great Depression in the 1930s, international financial crisis of 1970s and the current crisis of 2007-2008 were particularly characterized by major bank failures that brought global economies unprecedented instability (Claessens and Kodres, 2014).

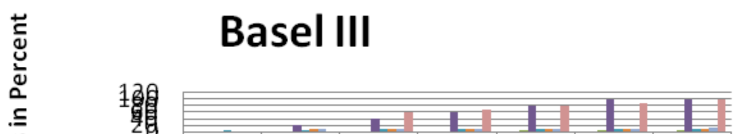
On May 17th, 1930, the Basel Committee, after Establishment of Bank for International Settlement (BIS), formed a forum in 1974 by G10 leaders; pursuing the slump of Franklin National Bank of the United States and Bankhaus Herstatt of Germany, for providing cooperation on banking supervisory matters, purportedly enhance financial stability. The Committee of Basel is the key international standard-setter for the bank's prudential regulation and furnished a forum for collaboration on supervisory matters of banking. Its directive is to strengthen the banking practices, regulation and supervision worldwide with the motive of increase financial stability (BIS, 30th December 2016).

In response to such international financial crises of 2007-2008 Basel committee released a new revised Basel framework after Basel I and II, entitled "Basel III" a global regulatory system for more strong banking sector and to enhance ability of banking and to take up shocks turned out from economic and financial stress. A great deal of modifications introduced by Basel III, with regard to stricter capital requirement, liquidity and leverage ratios (Jayadev, M; 2013 and Masood and Ghauri, 2015).

Infect in September 2008, prior to collapse of Lehman's brothers, an essential strengthening in Basel II had apparently required. Consequently, due to some lapses in Basel II came to light during the crisis and banking sector had stepped into financial crises because of highly leveraged and insufficient liquidity buffer. Resultantly, Basel III was commenced in 2010, which is a complete deal of reform determination, and formed by BCBS (the Basel Committee on Banking Supervision) to make stronger the regulation and supervision as well as risk management of the banking sector (SBP, 2016 and Masood and Fry, 2011).

Such measures would augment the potential of the banking sector to take up shocks resulting from financial as well as economic stress, regardless the origin to enhance the governance and risk management to build up transparency and disclosures of banks (BIS, September 1997). Besides requirements of capital, liquidity necessity as well as a leverage ratio were also established and adjust to present in the medium term. From this perspective, Basel III accord is a wide-ranging improvement of regulation in banking (Christensen, 2012).

TABLE-1:
BASEL III STAGES AND TIME ARRANGEMENTS
(ALL DATES ARE FROM 1 JANUARY)



	2013	2014	2015	2016	2017	2018	2019
Minimum (common Equity capital ratio)	3.5	4	4.5	4.5	4.5	4.5	4.5
CCB (Capital Conservation Buffer)	0	0	0	0.625	1.25	1.875	2.5
Minimum (Common Equity) Plus (Capital Conservation Buffer)	3.5	4	4.5	5.125	5.75	6.375	7
time of deductions from common equity tier 1 (CET1)	0	20	40	60	80	100	100
Minimum (Tier 1 Capital)	4.5	5.5	6	6	6	6	6
Minimum Capital (total)	0	8	8	8	8	8	8
Minimum (total Capital) plus (Conservation Buffer)	0	8	8.625	9.25	9.875	9.875	10.5

Source: Bank of International Settlement (BIS, BASEL III)

- Leverage ratio began in a Parallel run from 1 Jan 2013 to 1 Jan 2017 and Disclosure starts from 1 Jan 2015. In 2018, it migrates to Pillar 1.
- Instruments for capital, which no longer qualify as (non-core Tier 1 capital) or (Tier 2 capital), Dispose of gradually over 10 year cycle starting in 2013.
- Net stable funding ratio introduced minimum standard in 2018/2019.

On April 2, 2002, a meeting held in Washington DC on the sideline of World Bank and International Monetary Fund (IMF) spring meeting, a new organization the Islamic Financial Stability Board (IFSB) established with participation and concern of central bank governors of Malaysia, Bahrain, Pakistan, Indonesia, Kuwait, Islamic Republic of Iran, Saudi Arabia, Lebanon, United Arab Emirates, Sudan and Senior Officials from Islamic Development Bank (IDB) and The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which is then inaugurated in November 2002 officially and started operations in March 2003. The ultimate objective would be to help protect sound and sustainable growth of Islamic banking, excluding Islamic Insurance Institutions (Takaful) and Islamic collective investment schemes, in the future. The formation of Islamic Financial Services Board (IFSB) is turning point in recognition of increasing importance of Islamic financial products and institutions globally and to promote sound regulatory as well as supervisory practices and sustainable prudential standards. Therefore, in December 2005, IFSB issued its capital standards referred as IFSB-2 and recent Guiding principles IFSB-15 in December 2013 with a purpose to promote stability and soundness of Islamic Financial Industry (Sundararajan and Errico, 2002; IFSB, 2013).

ISLAMIC FINANCE

Kettell (2011) and Usmani (2004) described the principal belief throughout the Islamic concepts is that the entire universe is created and directed by Allah (God). Askari, et al (2010) also added that, the structure of Islamic Finance is based on restricted debt financing system. Therefore, interest and other financial activities are prohibited that are not allowed in Islam such as, gambling, distribution and producing sprit and wine. Islamic finance assumed trust, sharing of risk, transparency and strengthening values of Islam such values are foundation of Islamic financial and Economic system. Kettell (2011) and Usmani (2004) further said Islamic banks provide services to their customers free from interest (*ribe*)[1] and based on Quranic principles in their objective and operations. The Banks provide commercial services which follow with religious injunction of Islam; hence trade-off of interest is restricted for every transaction. Therefore, this prohibition

[1] Riba is the Arabic word which means ‘Interest’ (Usmani, 2004).

causes fundamental difference of an Islamic banking from a conventional banking system. The market economy and market force are not rejected by Islam. The objectives for profit are still acceptable to reasonable level. An asset- backed financing is one of the significant characteristic of Islamic finance.

Prohibition of interest (Riba) is the primary tenet of Islamic banking, originate from the following Qur'anic quotation: Those who eat riba will not stand (on the day of Resurrection) except like a standing of a person beaten by shaitan (satan) leading him to insanity. That is because they say: "Trading is only like 'riba', whereas Allah has permitted trading and forbidden riba. So whosoever receives an admonition from his lord and stops eating riba shall not be punished for the past; his case is for Allah (to judge); but whoever returns [to riba], such are the dwellers of the fire- they will abide therein". The Qur'an–Al-Baqarah (275-281): The Holy Qur'an is basic source of Islam. Although, some questions arise regarding what substitute the interest if the receiving and paying of interest is prohibited, by what mean the Islamic banks operate? In this place "PLS" appears; replace interest in profit and loss sharing as resource allocation method. Although, a huge number of distinct contracts attributes in Islamic financing, beyond doubt transactions of different kind are crucial, such as, Mudaraba (Trustee finance), Musharaka (Equity participation) and markup methods.

On implementation of Basel III in Islamic Financial Institutions (IFI's): Hussain, Shahmoradi and Turk (2015) mentioned that the globally recognized and standardized sets of regulations are required in the Islamic financial industry to safeguard financial stability at international level. A comprehensive regulatory system has appeared to attain a higher status of regulatory convergence, by that promoting international financial stability in operations of Islamic financial institutions. A complete deal of cross-sectoral prudential standards is being provided for banking and capital markets as well as for insurance. Right after the establishment of IFSB in 2002, a set of guidelines were issued in 2005 via IFSB-2 and in 2013/2014 stability reports such as IFSB-15, which is concerned on the necessity to strengthen financial buffer for the Islamic financial services of Islamic institutions, along with the formation of a Shari'ah-compliant such as, Lender of Last Resort (SLOLR), deposit insurance, and an efficient management of crises and proposed framework. Archer and Karim (2018) further added that, all banks are required to uplift their capital standard is one of the requirement of Basel III, adding together tier 1 capital of high quality, which would permit the Islamic financial institutions to greatly assimilate the impact of financial distress in time a head to prevent repetitive financial crises.

The execution of Basel III towards Islamic banks will place special but apparently surmountable challenges. Islamic banks turned up well-capitalized so far (with high levels of Tier 1 capital that is largely in the form of common equity). However, issues remains with respect to the computation of risk-weighted assets considering the modification across jurisdictions in the conduct of PSIAs that are comprised of capital as per alpha factor which differ across jurisdictions. This highlights the importance of attempt to achieve better firmness to the alpha factor wherein levels of replaced commercial risk as well as the RWAs are identical. Furthermore, it is important to apparently ascertain the instruments eligible for cure as an additional Tier 1 as well as Tier 2 capital, in addition to, through the implementation of the newly amended IFSB standards at capital adequacy such as IFSB-15, Islamic banks apt to maintain high amount of liquidity named High-Quality Liquid Assets (HQLA), basically, they still suffer from unavailability of well established markets conducive to Shari’ah-compliant. The one is liable to force various Islamic banks to maintain a higher percentage of cash that may affect profitability of Islamic banks (Kammer et.al., 2015).

TABLE-2
STAGES FOR ADAPTATION AND FULL EXECUTION OF THE MINIMUM REQUIREMENTS OF CAPITAL UNDER IFSB STANDARDS

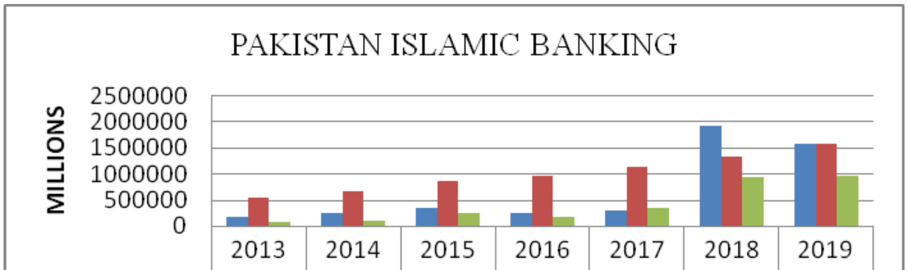
Ratio (in percent)	End of the Year						From Dec 31
	2013	2014	2015	2016	2017	2018	2019
Common Equity Tier 1 (CET1)	3.5	4.5	4.5	4.5	4.5	4.5	4.5
Tier 1 Capital (CET 1 Plus AT-1)	5.5	5.5	6.0	6.0	6.0	6.0	6.0
Total Capital (Tier 1 Plus Tier 2)	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Capital conservation buffer (CCB) (contains only CET1)	-	-	-	0.625	1.25	1.875	2.5

Source: IFSB (IFSB-15 2013)

The unavailability of Shari'ah-compliant deposit assurance may aggravate that required to keep excess liquidity (so as Islamic banks exercise greater run-off factors upon deposits as well as PSIAs) beyond advised run-off factors in the context of the Basel III requirements of LCR. In a further course, Islamic banks could lower risk of liquidity which would be to reduce the period of maturity to their financing, guaranteeing an improved maturity balance with liabilities of institutions. The development and expansion of Sukuk issuer concept that could also support mitigate this problem through augmenting the supply of greatly rated and marketable Islamic securities, additionally the efforts of the International Islamic Liquidity Management Corporation (IILM) that is functional in generating short term securities of Shari'ah-compliant (Kammer et.al., 2015).

Islamic Financial Services Industry in Pakistan: The Islamic financial and economic system in the banking and financial institutions in Pakistan introduced in 1977 to early 1980s and various measures were utilized to initiate interest-free banking in Pakistan (S.H. Siddiqi 1994). In parallel with conventional banking, Islamic banking have been introduced in response to the decision by the Shariat and Supreme court, necessitates that the financial system be transformed to operate in a conformity with the Sharia. However, the SBP is practicing a three extended strategies. First, licensing full-fledged Islamic banks that perform only in Sharia compliant product and services; second, permitting conventional banks to finalize Islamic banking through distinct committed subsidiaries; and third, permitting existing commercial banks to operate devoted branches for Islamic banking.

GRAPH-1
FINANCIAL POSITION OF PAKISTAN ISLAMIC BANKING

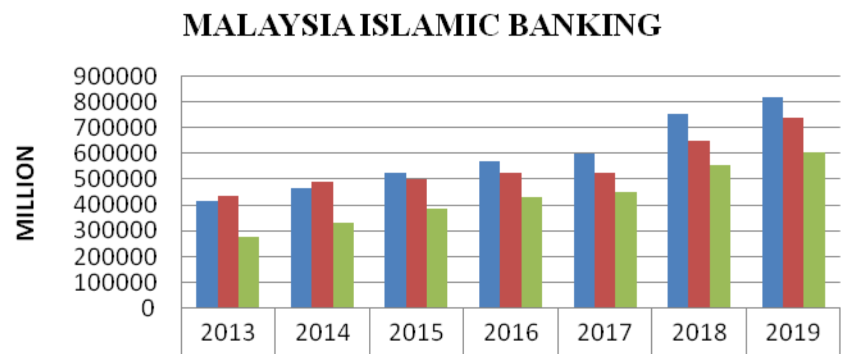


	2013	2014	2015	2016	2017	2018	2019
ASSET	177273	244913	351177	242897	294965	192706	159217
DEPOSITS	551,49	661,16	859,16	967,84	1,132,	1,339,	1,582,
FINANCING	83710	93718	236526	175598	351817	941366	956148

Source: State Bank of Pakistan (FSR 2015 and 2019) and Islamic Financial Services Board (Islamic Banking Data, 2013 to 2020).

Islamic Financial Services Industry in Malaysia: Malaysia has a leading financial center in the world and known as a pioneer of Islamic Finance. A progressive journey of Malaysia's successful Islamic and Financial industry began in 1963 with the formation of Tabung Haji, a corporation fund for the Pilgrims' to help them save for their pilgrimage to Makah. In 1983, Bank Islam Malaysia was established after twenty years as an Islamic Bank of Malaysia and started its operations, which is then in 1985 was followed by Syarikat Takaful Malaysia (the First Takaful Operator). Subsequently, in 1990 a Sukuk market of Malaysia started its operation through Shell MDS SDN BHD with an average size of issue of RM 125 million (US$ 39 million). Malaysia's initiative of Islamic Finance, as a pivotal Niche for Government and economy, is determined to stimulate economic activities that augment the contribution of financial sector to GDP (A.B. Aziz, 2013 and OBG, 2010).

GRAPH-2
FINANCIAL POSITION OF MALAYSIA ISLAMIC BANKING



	2013	2014	2015	2016	2017	2018	2019
ASSET	419549	469024	526329	572865	600408	755578	818330
DEPOSIT	436328	494738	503128	528527	528527	651460	738998
FINANCING	280476	333646	387385	431671	452046	559266	606729

Source: The Bank Negara Malaysia (2016-2019) and Islamic Financial Services Board (Islamic Banking Data, 2013 to 2020).

RESEARCH METHODOLOGY

The study discussed the data of BSCB Fixed for Basel III and schedule for its implementation. All the data to be collected is secondary base while source is taken out from Bank for International Settlement (BIS) which is the main creator of this accord and Islamic Financial Stability Board (IFSB) an international standard setting organization for Islamic financial institutions, year wise schedule for implementation is taken from BIS and IFSB which is in different phases from 2013 to 2019. Data from the State Bank of Pakistan (SBP) and the Center Bank Negara of Malaysia has been taken to discuss the execution schedule and phases, which both countries set by taking IFSB schedule rules under its own legal framework and structure of Islamic banking industry. The position and growth of Pakistan and Malaysia banking sector from 2013 to 2019 is taken to analyzed responsiveness and impact of Basel-III before and after implementation. Also other related publications, articles and speeches were also discussed.

DATA ANALYSIS

The data has been analyzed using multiple regression equation with Ordinary Least Square (OLS) method. Regression analysis is the statistical tool for the investigation of relationship between variables:

$$Y = \alpha_o + \beta_1 X1 + \beta_2 X2 \ldots\ldots \bar{e}$$

Where, Y is the Dependent Variable and X1 and X2 are independent variables and ē is the error term.

EQUATIONS

- **ROA** $_{ij}$ = $\alpha_o + \beta_1$ (CAR $_j$) + β_2 (TICAP$_j$) + β_3 (CETTIER1$_{ij}$) + β_4 (CAPTOAST$_{ij}$) + β_5 (LIQTTAST $_{ij}$) + β_6 (LIQASTTLIB $_{ij}$) + β_7 (ROE$_{ij}$) + β_8 (ASSET $_j$) + β_9 (DEPOSIT $_j$) + ē ***Equ: (1)***
- **ROE** $_{ij}$ = $\alpha_o + \beta_1$ (CAR $_j$) + β_2 (TICAP$_j$) + β_3 (CETTIER1$_{ij}$) + β_4 (CAPTOAST$_{ij}$) + β_5 (LIQTTAST $_{ij}$) + β_6 (LIQASTTLIB $_{ij}$) + β_7 (ROE$_{ij}$) + β_8 (ASSET $_j$) + β_9 (DEPOSIT $_j$) + ē ***Equ: (2)***
- **NPM** $_{ij}$ = = $\alpha_o + \beta_1$ (CAR $_j$) + β_2 (TICAP$_j$) + β_3 (CETTIER1$_{ij}$) + β_4 (CAPTOAST$_{ij}$) + β_5 (LIQTTAST $_{ij}$) + β_6 (LIQASTTLIB $_{ij}$) + β_7 (ROE$_{ij}$) + β_8 (ASSET $_j$) + β_9 (DEPOSIT $_j$) + ē ***Equ: (3)***

WHEREAS

ROA = Dependent variable in (%),is a measure of profitability of banks, measured as a return on asset (ROA= Return on Asset)

ROE = Dependent variable in (%),is a measure of profitability of banks, measured as a return on asset (ROE= Return on equity)

NPM = Independent variable in (%),is a measure of profitability of banks measured as a Net Profit Margin (NPM= Net income to total income)

CAR = Independent variable in (%), Risk Weighted Capital adequacy ratio

TICAP = Independent variable in (%); Tier 1 Capital

CETTIER1 = Independent variable in (%); Common Equity Tier 1

CAPTOAST = Independent variable in (%); Capital to asset ratio

ASSET = Independent variable in Amount; Banks Asset as a (size) of banks

LIQTTAST = Independent variable in (%); Liquid asset to total Asset

LIQASTTLIB = Independent variable in (%); Liquid asset to total liabilities

DEPOSIT = Independent variable in Amount; Bank Deposit

TABLE-3
KEY FINANCIAL INDICATORS OF ISLAMIC BANKING

Year	CAR	T1CAPT	CET TIER 1	CAPTOAST	LIQTTAST	LIQASTTLIB	ROA	ROE	NPM
					PAKISTAN				
2013	13.40	12.40	12.40	6.90	41.90	62.00	1.00	10.70	18.10
2014	13.80	12.50	11.70	6.50	326.00	66.40	1.50	17.90	25.80
2015	13.80	12.20	11.80	6.60	35.10	72.10	1.20	16.30	24.00
2016	12.90	10.50	10.50	6.70	32.90	72.80	1.00	16.00	27.30
2017	14.10	11.20	10.70	6.50	28.80	64.90	1.20	16.60	26.60
2018	14.0	11.6	10.3	5.7	22.7	50.4	1.2	20.8	29.9
2019	15.4	12.6	11.3	5.9	20.4	52.4	2.0	35.4	45.8
					MALAYSIA				
2013	15.10	12.80	12.80	6.40	2.80	6.30	1.20	17.30	38.40
2014	16.20	12.90	12.80	6.50	2.80	7.50	1.10	16.00	39.10
2015	15.40	12.30	12.30	6.10	14.50	85.80	1.00	14.20	37.80
2016	16.60	13.00	13.00	6.10	15.20	102.00	1.00	14.30	39.20
2017	16.00	12.40	12.30	6.20	15.70	113.70	1.00	14.90	41.40
2018	17.9	14.0	13.5	6.6	19.3	137.1	1.1	16.1	42.8
2019	17.7	13.9	13.4	6.5	19.2	139.8	1.2	16.8	45.8

Source: State bank of Pakistan (FSR 2013 to 2019), Bank of Negara Malaysia (2013 to 2019), IFSB (January 2018)

ANALYTICAL RESULTS AND DISCUSSION

TABLE-4
SUMMERY STATISTICS OF MODELS

Dependent Variables	R	R^2	Std. Error	Mean Std Res	Df1	Df2	Durbin-Watson	F change	Sign
ROA	.988	.977	0.0605	.000	6	7	2.729	36.137	.000
ROE	.992	.984	.9247	.000	5	8	2.438	95.371	.000
NPM	.985	.970	1.8678	.000	4	9	3.050	71.663	.000

RESULTS

Table-4 presents the dependent variables in all regressions are ROA, ROE and NPM. It provides the R^2 which reflect the strength of regression model and relationship between variable. In Table-4, regression equations such as ROA, ROE and NPM contains the value of R^2 98.8%, 99.2% and 98.5% respectively, result suggest that there is a strong relationship available between variables to fit the model. Further, described by F value which is ROA (36.137), ROE (95.371) and NPM (71.663). All the dependent variables are statistically significant with Probe values ROA (.000), ROE (.000), and NPM (.000). The Durbin-Watson statistic explains the correlation between the variables in the model and values are ROA (2.729), ROE (2.438), and NPM (3.050).

TABLE-5
REGRESSION RESULTS (COEFFICIENT)

Independent Variables	**Dependent Variables**		
	ROA	**ROE**	**NPM**
Constant B	.2155 (.3241)* (.018)**	4.080 (1.125)* (.293)**	-6.761 (-.717)* (.491)**
CAR	.202 (3.799)* (.009)**	.901 (2.411)* (.042)**	6.721 (10.811)* (.000)**
T1CAP	.157 (1.780)* (.125)**	-1.937 (-3.209)* (.012)**	-5.717 (-.4821)* (.001)**
CETTIER1	-.220 (-3.967)* (.075)**	3.007 (2.497)* (.034)**	3.076 (.293)* (.789)**
CAPTOAST	-.535 (-4.945)* (.003)**	-4.320 (-1.385)* (.199)**	-3.251 (-.478)* (.665)**
LIQTTAST	.001 (3.165)* (.013)**	-.012 (-2.846)* (.022)**	-.003 (-.097)* (.929)**
LIQASTTLIB	.000 (-.247)* (.811)**	-.032 (-1.385)* (.201)**	.024 (.802)* (.481)**
ROE	.048 (12.921)* (.000)**	--	1.199 (6.838)* (.000)**
ROA	-	19.175 (14.957)* (.000)**	.288 (.011)* (.992)**
ASSET	-3.36300 (-3.411)* (.014)**	2.12500 (3.209)* (.012)**	1.76700 (.231)* (.832)**
DEPOSIT	2.2800 (8.161)* (.000)**	1.67900 (4.307)* (.002)**	-1.32400 (6.838)* (.002)**

* T-statistics
** P value (Significant at 1 %, 5%, and 10% level)

Table-5 above is consistent with theory and they all exhibited the expected signs. The correlation between dependent variables and independent variable shows mixed figure as both positive and negative correlations found between variables.

Table-5 estimated the regression model for equation, whereas, ROA implied as dependent variable with its explanatory or independent variables such as CAR, TICAP, CETTIER1, CAPTOAST, LIQTTAST, LIQASTTLIB, ROE, ASSET, and DEPOSIT.

The coefficient of CAR is .202 positive and statistically significant with ROA. The coefficient of TICAP is -.157 has non-significantly negative impact on ROA. The coefficient of CETTIER1 is -.220 negatively non-significant with ROA. The coefficient of LIQTTAST value is .001 has positive and significant impact on ROA. The coefficient of LIQASTTLIB valued at .000 is positive and non-significant statistically. The coefficient of DEPOSIT and ROE has positive value at 2.2800 and .048 respectively and significant impact on ROA. The coefficient of CAPTOAST is -.535 negative and significant statistically. The coefficient of ASSET is -3.3630 negative and significant statistically.

The above Table further describes the Dependent variable ROE and analyze as, the coefficient of CAR, CETTIER1, ROA, ASSET and DEPOSIT valued at (.901), (3.007), (19.175), (21,2500) and (1.67900) respectively and explained positive and statistically significant with ROE. The coefficient of TICAP is -1.937 has significantly negative impact on ROE. The coefficient of LIQTTAST value is - .012 has negative and significant impact on ROE. The coefficient of CAPTOAST is -4.320 and LIQASTTLIB valued at -.032 negative and non-significant statistically. The coefficient of ASSET is -3.3630 negative and significant statistically.

Meanawi and Ahmed (2020) used NPM as an alternative measure of banks' performance which is directly linked to the market condition. NPM can be regarded as a direct measure of performance which may result in the market power of dominating firms as well as the residual of earned income resulted from efficient decision making of management. This study estimates NPM dividing net income by total revenue, Net profit margin regarded as the after tax net profit on the yearly revenue that made by the bank. For the assessment of the operational efficiency it is considered as an efficient indicator that reflected the role of bank's management of asset.

Similar to ROA and ROE the NPM analyzed as, the coefficient of CAR is .6.721 positive and statistically significant with NPM. The coefficient of TICAP is -5.717 have significantly negative impact on NPM. The coefficient of CETTIER1 is 3.076 positively non-significant with NPM. The coefficient of CAPTOAST is -3.251 negative and non-significant statistically. The coefficient of LIQTTAST value is -.003 has positive and non-significant impact on NPM. The coefficient of LIQASTTLIB valued at .024 is positive and non-significant statistically. The coefficient of ASSET and ROE has positive value at 1.76700 and 1.199 respectively and non-significant impact on NPM. The coefficient of DEPOSIT is -1.3240 negative and significant statistically.

CONCLUSION

It is revealed from the study that Islamic banks play a significant role for human welfare as they mobilize, allocate and save efficiently the money of public, not only that but also allocate capital to undertake with the highest anticipated social returns and exercise sound governance on financial institutions that promote innovation and economic growth.

Implementation and adoption of Basel III discussed herein above are essential not only for conventional but also in Islamic financial Institutions (IFI's). The same global standards have been adopted in the Islamic financial institution by the IFSB international standard setting organization via IFSB-2 and IFSB-15, in a same manner as in conventional institutions. Although, Basel - III has been a challenge for Islamic banks but it can furnish a reliable foundation and provide many opportunities not only for Islamic banking sector but also for economic development.

After implementation of Basel III in Islamic financial institutions of Pakistan at the first instant the asset position observed as sudden falling position from stricter rules in 2015 such as Rs.351,177 million dropped to Rs.242897 million in 2016 but again slowly recovered from 2017 to 2019 with Rs.294965 million to Rs.1,592,175 million respectively. On the other hand, a steadily positive growth in Islamic banking of Malaysia's Asset (asset size) has been observed without any falling trend, such as in 2013 RM. 419448.7 million and in 2017 RM. 600408.1 million continuously growing until 2019 at RM. 818329.8. Study observed a weak structure of Islamic banking in Pakistan to take up such stricter rules at first phase and seems in fluctuated position in performance but Malaysia found a strong Islamic banking system with no any negative impact of such regulations on financial position neither any variation observed.

Islamic Financial Institutions are highly consolidated with global economic and financial system and do not perform function in isolation and itself. Hence, the international recessionary trends as well as shocks and modification of market elements may influence the IFI's, and they likely to be subjected to some risk. Therefore, study suggested to adopt and implement existing global standards in specificities of IFI's so as to enhance soundness and stability and to harmonize such institutions that offer Islamic services.

Analytical results suggested strong and significant relationships among variables. The variables shows mixed figure as both positive and negative correlation among them. Though, Basel III has been made applicable in Islamic Financial Institutions, even then system demands its implementation as per schedule designed by the Islamic Financial Stability Board (IFSB), for a sound and stable Islamic Financial System.

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