Impact of Investment Deposits & Risk Taking on Capital Decisions in Islamic Banks of Islamic Financial Services Board Member Countries

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Impact of Investment Deposits & Risk Taking on Capital Decisions in Islamic Banks of Islamic Financial Services Board Member Countries

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• Capital decision in Islamic bank function is applied.
• The panel data is used for empirical analysis.
• Policy recommendations have been provided.

Abstract

Purpose: This study analyzes the impact of investment deposits and risk taking on capital decisions in Islamic Banks of selected Islamic Financial Services Board (IFSB) countries (Pakistan, UAE, Qatar, and Malaysia). Five Islamic banks of each country were selected as a sample for the period of 2010 to 2014. Methodology: The panel data was used. Fixed/random effect was selected on the bases of Hausman test. Findings: The results of current study show the significant impact of investment deposits (Profit Sharing Investment Account) and risk on capital decision (Capital Adequacy Ratio). Recommendations: This study recommends improvement in the implementation of profit and loss sharing to curb unnecessary risk taking for making effective capital decisions in Islamic Banks.

Keywords: Investment Deposits, Capital Decision, Islamic Banks

JEL Classification:

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I. Introduction

Today, addition to the real economy and principled aspect is very supportively making progress and international society is showing concern in Islamic Finance. The financial crisis has not shown a considerable shock on the performance of Islamic banks and their progress more or less in the world. Bank products are meeting Islamic ethics and investments on productions are optimistic. They are also saving their integrity by providing products, fair operations, financial instruments, and practice according to Islamic laws and rules (Shariah). Profit and loss sharing is the core feature of Islamic Commercial Banks that is very different from Conventional Commercial Banks. Mudarib contract of Islamic Banks shows usual intermediation function. Islamic Banks are same as entrepreneur (Mudarib) and investor (capital provider) (Rab al mal). On the liability side, as a Mudarib, the banks manage the customer’s deposit accounts. From the asset side, as a Rab al Mal, it should make the deposited funds obtainable to entrepreneurs (Hamza and Saadaoui, 2013). Profit and Loss sharing account between shareholders and their partners is the originality of Islamic Banks. The rule of principle of Profit and Loss sharing account is that parties will share equal amount of risk on financial transaction. In balance sheet its effect on both sides of banks: the liabilities and the assets, which are both affairs to the surrounding of PLS amid shareholders, entrepreneurs (borrowers) and depositors (Chong and Liu, 2009). Profit and loss sharing investment account (PSIA) enforced profit and loss sharing (PLS) principles that precise Islamic Banks. Profit sharing investment account (PSIA) is considered as investment product they are not capital certain, or insured accounts. Through capital and risk decision Islamic Bank’s creditworthiness negatively brunt on governance and it hike a huge problem, Investment account holders do not appreciate equal assurance as other shares holders, depositors (saving and current account), but they are treated as investor. The present study burnt on bank capitalization and draws on factual and theoretical consideration on leverage and moral hazard (Merton 1977, Marcus 1983). Capitalization of Islamic bank precise thinking of paid to the consequence apply aside Profit sharing investment account (PSIA). From the liabilities side Moral Hazard may, certainly arise, in the case where PSIA achieve with less capital and to boost banks to take greater risks (Visser, 2009). There is another point of view, high in the share of (PSIA) Profit sharing investment account can take bank to higher displaced commercial risk i.e., risk in rate of return, in particular if it increases by highly risk taking and related with huge leverage.

PSIA (Profit sharing Investment Account) having high risk in investment deposits could negatively impact the capital decisions. This highlights the need to study risk management of Islamic Banks. Due to the narrowness of the interbank market where lending or borrowing of short-term funds takes place, the transactions are very limited, which also limits the Islamic banks liquidity related to even riskless securities, such as money market instruments like short-term government bonds. To manage the liquid reserves by Islamic Banks the only way out is in dealing in short-term money market instruments or interest-free borrowing from the Central Bank. Moreover, the Islamic Banks have to face greater risks due to deposit insurance system or lender of last resort mechanism is not present and dealing with risks which are higher than conventional. Like-wise the ability of Islamic banks to manage their assets and liquidities effectively is reduced due to non-presence of large and secondary market for IFI (Islamic Financial Instruments). Corporate Governance is also a relevant issue raised because PSIA’s holders have equity investor risk with no governance rights, with no voting rights and no access to information of financial performance which leads to higher risk in enhancing capital by Islamic Banks (Archer and Karim, 2009). PSIA has an impact on risk taking and capitals decision in Islamic Banking which is high risk for Investment account holders and could affect negatively in generating capital by Islamic Banks because of governance and liquidity management gaps. In consideration of the above problems and the high growth of the Islamic Banking sector, there arises a need to analyze the risk taking practices of this sector. As not only in Pakistan, UAE, Qatar and Malaysia but also globally generally people are rapidly switching to Islamic Banking which is based on Shariah compliance, therefore the present study tries to cover five each Islamic Banks of Pakistan, UAE, Qatar and Malaysia to analyze their PSIA and risk taking effects on capital decision. Better the investment deposits and risk taking practices better will be the capital decision but investment deposits and risk taking practices are not being performed properly which interrupt the capital decision which is concern of present research to solve this problem.

The Islamic banking capital decisions are dependent upon investment deposits and risk taking which does not able Islamic banks to meet the regulatory requirements as for other depository institutions, which is the requirement of central banks of most of the countries. This study will debate governance and regulations of five each Islamic Banks of Pakistan, UAE, Qatar and Malaysia by observing the PSIA (Profit sharing Investment Account) effect on Bank’s behavior since PSIA (Profit sharing Investment Account) is a moral risk as bank is not accountable to compensation investment account holder in situation of loss and Islamic Banks finance in riskier and expensive operations. The study will concentrate on the impact of PSIA (Profit sharing Investment Account) and risk taking on capital
decisions in Islamic Banks. This study will recommend the improved implementation of the principle of profit and loss sharing and to mitigate unnecessary risk-taking in Islamic banks to manage capital decisions. The study will make guidance to meet liquidity risk of Islamic Banks by inspecting the impact of PSIA (Profit sharing Investment Account) on banks behavior that too much risk-taking deriving from PSIA. This research will facilitate existing banks and new Islamic Banks to expand business with low risk taking and this study will provide Islamic Banks guidelines to manage their liquidity risk effectively which will result in high volume of investment deposits which ultimately makes capital decision with low risk.

The objective of present study is to analyze the implementation of investment deposits and risk taking practices in Islamic banks of Pakistan, UAE, Qatar, and Malaysia. This study further determines the impact of investment deposits and risk taking on capital decisions in Islamic banks of Pakistan, UAE, Qatar, and Malaysia.

II. Literature Review
In bay’al-salaam or Iistisna contracts, the bank is subjected to the risk of failure to provide on time, to provide at all, or to provide the quality of things as legally specified. Such failure could lead in a delay or default in payment, or in delivery of the product, and can lead Islamic banks to financial losses of income as well as capital (Greuning and Iqbal, 2008). Under Islamic banking, depositors are not neutral providers of funds, and the most of the deposits fall under unchecked investment accounts. Such depositors instead provide investment accounts and take part in the bank investment activities through risk-sharing methods. As a result, Islamic bank depositors take less protection than conventional bank depositors (Ariss and Sarieddine, 2007). The bank risks are divided into two major risks: bank-level specific decision affecting credit risk and overall risk, and macroeconomic decision affecting credit risk and overall risk. This is important to mention that in Pakistan banking sector is making progress day by day and there is a lot of competition among them. If risk and cost of failure are shifted to the society it must be considered as perfect and proper justification for the regulation of the banking system. Main factors in bank as capital regulation, bank size, profitability, and charter value decrease the level of bank risk taking and on the other hand some other important factors of bank are high volume of activity in market, off-balance sheet activities, and shares of stock policy. All these factors increase the level of bank risk taking. Industrial factors namely concentration enhance the level of bank risk taking and ownership structure has a most powerful impact on the level of bank risk taking which effects the capital decisions (Rahman et al. 2015).

There is relationship between size of bank, regulatory, capital ratio, and risk-taking of banks. This relationship is considered as negative relationship. Capital regulation is proved as in the reduction of risk of banks. Increasing capital ratios can decrease risk of banks. Thus, one main idea from our study is that enhancing the capital requirements can contain bank risk-taking. Another important implication specifically to Pakistan is that the supervisory authority in Pakistan should set up the system to make sure that banks meet the regulatory Bank size has a significant negative relationship with bank capital, while significant positive relationship with bank risk-taking. Banks take lower amount of capital and take higher levels of risk. Special supervision should be paid to large banks to enhance their capital ratios and to reduce their risk-taking. Bank must have a better capacity for absorbing all their losses beyond the minimum standard. It can be done by holding a buffer capital in addition to minimum capital requirements. It is suggested that banks with high level of activity in market hold lower capital ratio and take lower level of risk. Bank should focus on different loan and advances as liquidity has bad impact to capital ratio. If a bank is interested in making more progress then, banks should consider their resources and expand their businesses in such a way that safety, cash activity, and earning level are subjected to attain the best and continuous development of banks. Government can also play important role in this regard. Government should work on GDP and control different prices for the perfect working of the banks (Rahman et al. 2015).

Islamic banks take deposits by using different Shariah principles. The issue of assuring investment deposits concerns the profit sharing investment accounts (PSIA) only as in other contracts, it is necessary for the bank to provide transaction since it plays the role of a keeper. However, with regards to PSIA, the Islamic bank cannot guarantee investment deposits since the under laying principle here is Mudarbah and in the accountability side of the balance sheet, the bank plays the role of manager. So the manager is not allowed to provide any guarantee for the principal and profit as far as Shariah distribution are concerned. However, Islamic bank can do it directly or can make a third party assure for the PSIA holders this negatively effect in generating capital and taking capital decision (Abusharba and Triiyuwono, 2013). The insurability of Islamic deposits and investment accounts from the Shariah perspective, and gives a preview of other insurability considerations that form the public policy objectives of selected deposit insurers. From the Shariah point of view, all Shariah contracts that form the underlying structure of deposit
The relationship between the leverage level and a set of explanatory variables of capital structure of GCC banks over the period of 2001-2010. The main purpose is to find whether the basic theories of bank financing can explain the bank capital structure. The following factors of capital structure are obtained from previous studies namely tangibility, risk, liquidity, size, profitability, bank's age, and growth. The major researches revealed negative and statistically significant relationship among GCC banks' capital structure and their profitability, represented by ROA, tangibility and size. Positive and statistically significant relationship appeared among capital structure and GCC banks growth and age. These results support the Pecking Order Theory except the association with tangibility. These studies have provided some internal aspects on the capital structure of gulf cooperation council (GCC) banks. It must be supported by both policy-makers and investors. It would indicate important factors for the former that required developing economic planning as well as determining the factors behind borrowing decision in order to manipulate the size of funds required from the creditors (Naser et al. 2015).

The search moved the consideration of policy makers against investigating the disciplining effects of banks’ charter values on capital buffers, for a few other forms of judgment regulation bygone and high risk occupying capital guidelines. In countries where the couple of bank category coincides, present study is assumed to disclose precise issues in capital adequacy rules and boost specific policy indication with view to the governance and administration of Islamic banks (Daher, 2013). Risk shifting and capitalization revealed that due to low liability, equity holders of a bank get a put option on the assets of banks from the creditors and value of their call option becomes higher more volatile is the value of assets of a bank. So, little capitalized banks are subjected to get more risk because of higher debt equity ratio (higher leverage). It is consider or suggested that Islamic banking institutions (IBIs) need to fulfill the exact minimum capital needs as the conventional banking institutions (CBIs) is doing. So that, IBIs have an extra line of protection in the form of risk sharing Mudarbah’s saving and investment (S&I) deposits based on profit and loss sharing (PLS) contract (Zaheer et al. 2013). Islamic banks defined acquisitions to boost repayment capacity and the quality of profit loss and sharing contracts by the expected capital regulation. Evidence showed that conventional banks collective administration perhaps ditto too Islamic banks (Rajhi and Hassairi, 2012). Logically, profit and loss sharing (PLS) is occupying on investment deposits and manages by shareholders equity, so Islamic bank has an equity- based capital structure. Assuming that Islamic banks are formed as authentic PLS-based organizations, there is never demand for capital adequacy regulation. In balance sheet of Islamic banks there is ongoing liabilities of fixed interest is endure, hence, being uncertain allergy by investors (Dar and Hall, 2013).

Financial intermediation and risk taking in capital decisions are most considerable factors for civil formation and expansion. To build financial resources from excess assistant and a venue to those with lose one of major actions. So, business convenience and high social science activity is increase by shareholders and managers. Household consumers, small entrepreneurs, and micro- are boosting their own acquiring opportunities and progress, and also advance their style of living, its beneficial for all of them. In all of these cases, financial intermediations add it is adhered in a chic dynamic way, add to social inclusion, and rid economic growth (Grais and Kalathunga, 2011). Islamic banks must attract (rather than lose) deposits during risky conditions, which provide a role for religious identity and therefore it decrease the capitalization factor of Islamic banks (Farooq and Zaheer, 2015).The rules and principles of the Islamic Shariah, Islamic banks commonly expanded deposits in the mode of profit sharing investment accounts (PSIA), as interest-bearing deposits are not permitted. As interest-bearing deposits are not permitted by the rules and principles of the Islamic Shariah, Islamic banks typically increase deposits in the form of profit-sharing investment accounts. The contact amid the depositors and the bank is not a liabilities contract, and the depositors are in effect not 'capital certain (so it’s, the depositors are appropriate to get losses or adverse return), however Profit sharing investment account (PSIA) are contrasting against conventional deposits not hardly aside act
Impact of Investment Deposits & Risk Taking on Capital Decisions in Islamic Banks of Islamic Financial Services Board Member Countries

of the profit sharing description of the returns that is offer by them. Bank depositors are appropriate by valid explanation to be ‘capital certain where recent distinctive advantages to genuine regulatory complications in control. In capital structure of Islamic such ‘portable instrument’ being leads to dilemma in estimating their capital adequacy (Archer and Karim, 2009). The Islamic banks is the feasible substitute model banking warrants of the mounting appreciation the generally awareness the capital of Islamic Banks intermediary risk derive from operating environments. Any regulatory breach connected with costs reduce, which consequence through intermediary capital because banks always maintain a surplus capital from minimum regulatory in order to unhelpful possible shocks take place. These financial institution has capital buffer height are so viewpoint and factual indication of the risk profiles. Islamic banks capitalization proved the direct significant effect of risk taking (Daher, 2013). Firm value has a depressing crash beside cushion is a capital organization. According to the profit loss and sharing ratio the capital value and proceeds on investments deposits place on banks’ profits it state in their contracts. Islamic banks linked with returns and risks with specialized investment administration generous then group depositors finances (Froot, 2001).

In this study Capital Adequacy Ratio (CAR) and Total Equity Ratio (CAP) was used as proxies for Capital Decisions. Bank’s capital decision was measured through CAR. Capital instruments divided by the volume of risk weighted assets since total capital ratio included in the numerator only adequate capital instruments acknowledged by banking management. This indicator was more accurate in determining the solvency of banks as it was linked to risk weight to every asset class. CAP is total equity ratio which is ratio of equity capital instruments to total assets. It is use to check the robustness of estimation.

The least square method is used to examine the impact of investment deposit and risk taking in capital decisions of Islamic Banks of IFSB member countries risk as follows:

\[
\text{CAR} = \alpha + \beta_1 \text{PSIA} + \beta_2 \text{Z-score} + \mu t \text{E}_q
\]

\[
\text{CAP} = \alpha + \beta_1 \text{PSIA} + \beta_2 \text{Z-score} + \mu t \text{E}_q
\]

H1= There is a significant impact of investment deposits on capital decisions

H2= There is a significant impact of risk taking on capital decisions

III. Methodology
Studies may be exploratory, descriptive or hypothesis testing. This study is exploratory based on secondary data collected from financial statements of 5 each Islamic banks operating in Pakistan, UAE, Qatar, and Malaysia. For 5 years from 2010 to 2014 used panel data estimation because it is most convenient for this data. And panel data also has advantages over others in estimating data. It helps to study the each bank’s performance over the time. Arellano and Bover (1995) and Blundell and Bond (1998) introduced the GMM method that was applied in previous studies for dynamic panel. For individual dimension and temporal dimension of data the panel technique usage was beneficial. (Blundell and Bond, 1998), this provided better estimators than GMM of first-difference subsequently for determinant variables, for passably forecast of the endogenous variables the technique was used. Same authors indicated that GMM first difference was not effective then system. Hamza and Saadaoui (2013) used partial adjustment model of capital to examine the PSIA’s impact on capital decisions. The techniques which were used are Descriptive Statistics, Correlation, and Sargan Test for the validity of model to examine the impact of PSIA on capital. Alkadmani (2015) used Ordinary least square model, the fixed effect model and Random effect model to analyze the impact of capital requirements on bank risk taking during financial crises and also check the impact of economic instability between capital and risk decision. Rahman et al. (2015) used simultaneous equation model, balanced panel model, Descriptive and Correlation analysis, and panel GMM estimator to analyze connection between bank size, risk taking and capital. Data was extracted from Financial Reports of 2010 to 2014 from official websites of Islamic Banks of countries (Pakistan, UAE, Qatar, and Malaysia) for further use to get final results for analysis. Total Capital Ratio (CAR) is use for representing Cook ratio. It is similar to the regulatory capital instruments divided by the volume of risk weighted assets. Since total capital ratio includes in the numerator only sufficient capital instruments accepted by banking management. There is more perfection in this index for explaining the financial commitments of banks and connect risk weight to each asset class.

\[
\text{CAR} = \frac{\text{Regulatory Capital Instruments} \times 100}{\text{Total Assets}}
\]
Total Risk Weighted Assets

Regulatory capital instrument = TierI Capital + TierII Capital + TierIII Capital

Shareholders, equity, and other orders are considered in tier 1 capital. However, while tier 2 contains inferior debt and general loan loss supplies. For managing market risk is also directed by State Bank and it is consider in tier III, while the Bank does not have any Tier III capital. The total risk weighted asset is the denominator for the risk-weighted capital ratio. Sum of the products of each asset based on book value and their parallel risk weights. In this study equity capital ratio (CAP) for finding frame of evaluation is used. It is calculated by ratio of equity capital instruments to total assets. CAR ratio and CAP ratio are different from each other in two different ways. The first difference is that common stock, retained earnings, statutory reserves etc are consider as high quality instruments and included in numerator of the equity capital ratio. The second difference includes total volume of assets without risk-weights and it exists in the denominator of CAP ratio. On the other hand CAP ratio is basically use by literature beside with CAR ratio to assess bank solvency (Shrieves and Dahl 1992, Bikker and Metzmakers 2004). CAP ratio allow us take well made conclusions because data is available for equity capital ratio than for Cook ratio.

\[
\text{CAP} = \frac{\text{Total Equity Capital}}{\text{Total Assets}}
\]

Total Equity Capital = Common stock + Retained earnings + Reserves

Parameter \( \alpha_2 \) is associated with (PSIA) (Profit sharing investment account) and this is also our basic point of consideration in this research. The association may be positive or negative among PSIA and CAR ratio. Stronger market power and improve competitiveness is due to enlarge PSIA ratio. Bank can enhance their volume of assets under these situations. Bank can reduce risk and can invest in most beneficial and profitable projects by applying positive effect on capitalization. The effect of volume of PSIA (Profit sharing investment accounts) on CAR ratio may be negative. Irregular information and most dangerous problems may allow bank’s managers to take huge risk through higher purchase. To maximize the value, bank is directed to affect PSIA in risky investment. It happens in that situation when PSIA dominates the liability structure which may have a negative effect on capitalization and solvency. Target capital level also depends on risk-taking decisions. Z-score can be used for calculating Bank risk-taking. It is a proxy of failure risk largely used in the literature (Boyd and Runkle 1993, Lepitit et al. 2007). In this case high risk-taking may cause a huge risk of failure. The cause and effect among risk-taking and capitalization of conventional banks are studied by various theoretical and empirical methods. Various studies and conclusions show that association among risk and capital may be positive or negative (Shrieves and Dahl, 1992). Z-score is used to calculate bank risk. The latter is an indicator of financial stability, which is calculated as follows:

\[
\text{ZSCORE} = \frac{(\text{Equity}/\text{Total assets}) + \text{ROA}}{\text{sROA}}
\]

SROA is the standard deviation of the ROA

If value of Z-score is large then it shows that risk of failure is low. According to us if our first consideration is positive association among Z-score and CAR, then there is negative association among risk-taking and CAR ratio. Betterment in assets quality shows the high value of Z-score (low risk of failure) that also enhance the solvency of banks and also CAR ratio. If there is negative association among Z-score and CAR that is second consideration, it means high value of Z-score allow the bank to control the risk and enhance the volume of assets. In this case, one can see a reduction in regulatory capital. In other words a reduction in Z-score may induce an enhancement in CAR ratio, showing a judicious behavior from banks to ignore failure and regulatory consent. The term ROA is used for return on assets. It is calculated by the ratio of net income to total assets. It is consider as positive figure with CAR ratio. Since, by using retained earnings bank is capable to enhance their capital (Groppand and Heider, 2007; Jeitschko and Jeung, 2007). Thus, positive association among ROA and CAR is expected.

\[
\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}
\]

The volume of assets calculated by the natural logarithm shows the level of capitalization selected (Shrieves and Dahl, 1992; Jaques, 2001, and Heid et al., 2003). It is more easy to increase the needed funds offered by capital
Impact of Investment Deposits & Risk Taking on Capital Decisions in Islamic Banks of Islamic Financial Services Board Member Countries

market incase if the volume of bank’s assets (SIZE) is high. So large banks are supposed to take lower capital level than any other bank (Shriives and Dahl 1992, Rime 2001, Roy 2005). It is considered that the association among SIZE and CAR is negative. The most appropriate techniques of panel data were used in present study are Descriptive Statistics, Fixed and Random effect model, Correlation, and Hausman Test.

IV. Results and Discussion

Table-1. Descriptive Statistics (Individual N=25)

<table>
<thead>
<tr>
<th>Variables</th>
<th>UAE Mean</th>
<th>Std. Dev.</th>
<th>PAK Mean</th>
<th>Std. Dev.</th>
<th>QATAR Mean</th>
<th>Std. Dev.</th>
<th>MALAYSIA Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAR</td>
<td>0.197</td>
<td>0.120</td>
<td>0.179</td>
<td>0.075</td>
<td>0.190</td>
<td>0.067</td>
<td>0.124</td>
<td>0.078</td>
</tr>
<tr>
<td>CAP</td>
<td>0.134</td>
<td>0.070</td>
<td>0.099</td>
<td>0.047</td>
<td>0.160</td>
<td>0.111</td>
<td>0.188</td>
<td>0.126</td>
</tr>
<tr>
<td>BS</td>
<td>10.517</td>
<td>0.259</td>
<td>10.895</td>
<td>0.329</td>
<td>10.768</td>
<td>10.472</td>
<td>10.453</td>
<td>9.770</td>
</tr>
<tr>
<td>PSIA</td>
<td>0.711</td>
<td>0.799</td>
<td>0.828</td>
<td>0.046</td>
<td>0.534</td>
<td>0.258</td>
<td>1.700</td>
<td>2.364</td>
</tr>
<tr>
<td>ROA</td>
<td>0.009</td>
<td>0.008</td>
<td>0.000</td>
<td>0.011</td>
<td>0.020</td>
<td>0.005</td>
<td>0.005</td>
<td>0.012</td>
</tr>
<tr>
<td>ZSCORE</td>
<td>85.717</td>
<td>94.351</td>
<td>17.952</td>
<td>6.992</td>
<td>65.063</td>
<td>15.346</td>
<td>56.709</td>
<td>32.832</td>
</tr>
</tbody>
</table>

Results of the descriptive statistics of this model understudy are shown in Table-1. Total sample consisted of 5 Islamic Banks of UAE, Pakistan, Qatar, Malaysia, and overall results as the data was collected for 5 years (2010-2014) of Islamic Bank; as 100 observations were taken. The capital adequacy ratio (CAR) and equity capital ratio (CAP) are the dependent variables. 18.83% is the average capital adequacy ratio (CAR) of with 16.15% median and a standard deviation of 8.7%. The smaller different between mean and median shows that Capital adequacy ratio of all Islamic banks has been closed to the mean. The requirement of capital adequacy ratio of all banks in Pakistan is 10% according to the State Bank of Pakistan. Table-2 shows that ROA and Bank size has a significant and negative impact on capital, its means that Islamic banks has difficult to increase the capitalization and also effect the earning of the bank due to risky decisions. Profit sharing investment account has positively and significant impact on capitalization that have the less ability to invest in a profitable projects. PSIA has the liability of the bank and it used in projects through capital decision due to effect the bank profitability. Z-score has also positive impact on capital, which means that increase of capital will also increase the risk due to large capital. Table-3 shows that ROA and Bank size has a significant and negative impact on equity, its means that Islamic banks has difficult to increase the total equity and also effect the earning of the bank due to risky decisions. Profit sharing investment account has positively and significant impact on equity that have the ability to invest in a profitable projects through diversifying their risk. PSIA has the liability of the bank and it used in projects through capital decision due to effect the bank profitability. Z-score has also positive impact on capital, which means that increase of capital will also increase the risk due to large capital. The overall results shows that there is no impact of PSIA on total equity which means current practices of some Islamic banks like Qatar are not well being performed. Keeping set of variables in control that affect capital decision, the overall findings show that the relationship between investment deposit and Capital decisions is positively significant, which tells that Islamic Banks can make profitable investment through diversify their risk. This behavior will lead Islamic banks that have ability to take high risk in making gains which shows the positive effect of investment deposit and risk taking on capital decisions.

Table-2. Regression Analysis W.R.T CAR

<table>
<thead>
<tr>
<th>COUNTRIES</th>
<th>Hausman Test</th>
<th>Variable</th>
<th>RANDOM/FIXED EFFECT</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>7.3732</td>
<td>4</td>
<td>0.1174</td>
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</tbody>
</table>
The results of the present study are in line with the previous studies like Hamza and Saadaoui, (2013) investigated the correlation between Investment deposits and capital decisions and found that investment deposits with more effectively manage be a sign of a healthy capital. Other researchers that came up with similar findings are (Roy, 2005) and (Ariss and Sarieddine, 2007). In the response of risk taking, Bashir (1999) studied that how much a bank’s accounting earnings of risk index actions can turn down prior to it has a negative book value and found a negative and a significant relation between risk taking and capital decisions. Hamza and Saadaoui, (2013) also studied the impact of investment deposits and risk taking on capital decisions and found a significant negative relationship between Profit sharing investment account and capital decisions. The results of this work are validated by the above said studies. For the study about Return on Assets, Qoyum (2010) showed as a result of their study that the Islamic banks are efficient than conventional due to the ability of risk diversification. However, this study establishes a negative significant relationship between Bank’s profitability and Bank’s capital. On the other hand, the results of current study for Pakistan, UAE, Malaysia except Qatar in the case of PSIA (Profit sharing investment

<table>
<thead>
<tr>
<th>COUNTRIES</th>
<th>Hausman Test</th>
<th>Variable</th>
<th>RANDOM/FIXED EFFECT</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>PAK</td>
<td>8.9523</td>
<td>4</td>
<td>0.062</td>
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<tr>
<td>QATAR</td>
<td>22.819</td>
<td>4</td>
<td>0.000</td>
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<tr>
<td>MALAYSIA</td>
<td>36.565</td>
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account) shows the significant impact on CAR (Capital Adequacy Ratio). In Pakistan PSIA has negative relationship with CAR which means the Islamic banks in Pakistan has moral hazard. UAE and Malaysia have positive relationship with CAR as mentioned above they also have significant relationship that means they have low risk and can make valuable investment and increase their size. In Qatar PSIA has no significant effect with CAR which means the investment deposits are not effectively managed by the Islamic Banks. Regarding risk taking (Z-score), our study for Pakistan, UAE, Malaysia, and Qatar shows a positive and significant relationship with CAR (Capital Adequacy Ratio) and CAP, means that higher risk taking leads to successful capital decisions with low chances of risk failure and improved solvency. Qatar and Malaysia have positively correlated bank size and return on assets which means the Islamic banks of Qatar and Malaysia can diversify asset portfolio risk more than Islamic Banks of Pakistan and UAE.

V. Concluding Remarks
The present study focus on impact of investment deposit and risk taking on capital decisions in Islamic Banks of Pakistan, UAE, Qatar, and Malaysia. The research is mainly focus on financial ratios which measures significance or insignificance level with positive and negative impact of profit sharing investment accounts (Investment deposits), Zscore (risk taking), bank size and return on assets on CAP, CAR (capital decisions) and the impact level of investment deposits and risk taking on capital decisions. While going through the literature, it is note that different measures for capital decisions have been used in past. Going along with most of the researchers, Investment deposits (PSIA) and risk taking Z-score was used as a measuring the capital decisions (CAR) are better or worst. The data is collected from annual reports of Islamic Banks of Pakistan, UAE, Qatar, and Malaysia. For analysis of panel data, fixed and random effect model is used.

Results of our study in case of Investment deposits for UAE and Malaysia shows significant and positive relationship with CAR (Capital Adequacy Ratio) which means bank has the ability to increase its amount of assets and invest in further profitable projects through diversifying their risk and negative and significant relationship only in the case of Pakistan which means the given information is asymmetric and moral risk issues, bank managers enter in risky projects with high investments to gain high profit due to higher PSIA ratio that negatively affect on bank solvency and capitalization. PSIA result of Qatar has no significant effect with CAR, which means that the Islamic Bank’s investment deposits are not effectively managed with current practices. In risk taking case whose proxy is Z-score in four Islamic countries display a positive and significant relationship with CAR and CAP. It means that the chances of risk failure are low due to high risk taking. Bank size and return on assets of Qatar and Malaysia are positively correlated which means that in comparison with Islamic banks of Pakistan and UAE Islamic banks of these countries are more efficient and can diversify asset portfolio risk. The present study strongly recommends for a profound and comprehensive understanding of the concept of the impact of investment deposits, risk taking in capital decisions of Islamic Banks. The study also recommends with minimum regulatory capital requirements the Islamic Banks should decrease risk taking and increase capital for better capital adequacy. Islamic Banks should offer competitive rate through better capital decision which will result in greater PSIA. This study also recommends paying more attention by IFSB guidelines on profit sharing investment account’s effect on bank’s behavior which ultimately influence capital decision.

Like other studies, this research thesis also suffers from certain limitations. First, Variables used in our study are CAR, CAP, PSIA, Z-score, ROA, and Bank Size. Country variables like GDP, regulatory pressure were missing and should be included in future research. Second, the results of this research are based on sample of five each Islamic Banks of just four Islamic countries Pakistan, UAE, Qatar and Malaysia, since only twenty Islamic Banks were taken into consideration. The findings thus only apply to Islamic Banks of these countries and would have shown better results if more Islamic banks of other countries used. Third, the analysis was carried out on the whole sample countries. If separate analysis was for small and large Islamic Banks, for new and old Islamic Banks, the study would have attained more detailed results and a comprehensive understanding of impact of Investment deposits and risk taking on capital decisions.

Reference


Impact of Investment Deposits & Risk Taking on Capital Decisions in Islamic Banks of Islamic Financial Services Board Member Countries


