

**FINANCIAL REGULATIONS AND BANKING  
INSOLVENCY: EVIDENCES FROM PAKISTAN'S  
BANKING SECTOR**



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## **ABSTRACT**

Financial regulations are most important to progress the liquidity and solvency of financial institutions for every country in the globe. Strict financial regulations may be making safe for bank stability. The study empirically investigates how the previously executed financial regulations enforce by state bank of Pakistan (SBP), have an effect on individual bank's banking insolvency. This study employs sample of 09 commercial banks of Pakistan over a period of time 2011 to 2015 on a quarterly basis in Pakistan.

Unlike other studies, this study employs the total assets structure of commercial banks for categorization of commercial banks and categorized banks like large banks, medium banks and small banks. This study employs ZSCOR to compute the banking insolvency of commercial banks in Pakistan. Panel data analysis is used to describe the relationship between financial regulations and banking insolvency of commercial banks for a sample selected commercial banks in Pakistan.

The empirical results expose that an increase in the non-performing loan to total loans can reduce insolvency risk of

large, medium as well as small commercial banks. Furthermore, the results also disclose that the capital adequacy ratio is originated to be unimportant with banking insolvency risk for all sample selected commercial banks in Pakistan. For large, medium and small commercial banks, it reasons that loan to deposit ratio decreases as insolvency risk increases. Similarly, liquidity ratio and nonperforming loans to total loans, loan to deposit ratio and reserve ratio have been found to be significant for large commercial banks while the capital adequacy ratio is found to be significant for medium and small banks in Pakistan.

The result of this study specifies that dissimilar financial regulations influence dissimilar to the diverse groups of commercial banks. The regulatory bodies must recognize systematic and non-systematic financial institutes inside the state. The financial and regulatory rations for systematically and non-systematically significant commercial banks must be dissimilar.

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