

Financial Regulations and Insolvency Risk: Empirical Evidence from Commercial Banks of Pakistan

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Abstract : The proposed study aims to investigate insolvency risk of commercial banks of Pakistan. Furthermore, it empirically estimates the effect of already implemented financial regulations on the insolvency risk of banks. To carry out the empirical analysis, a balanced bank-level panel data covering the period 2008-2016 is used. The Z-score is used for calculating the insolvency risk of each bank. The panel regression is used to investigate the relationship between financial regulations and insolvency risk of banks. The empirics reveal that the financial regulations enforced by State Bank of Pakistan have significant impacts on the insolvency risk of banks. The results further indicate that loan ratio and reserve ratio are positively and significantly related to the insolvency risk of banks.

Keywords : insolvency risk, Z-score, financial regulations, banks

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