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FINANCIAL INNOVATION CHARACTERISTICS AND ISLAMIC BANKING PERFORMANCE OF PAKISTAN WITH THE EFFECT OF RISK MANAGEMENT

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Abstract

This research study is based on the financial performance of the banks by using innovative indicators such as financial innovation, specific innovation and horizon innovation with the help of inclusion risk management indicators. In this research study, it has been analyzed that the Islamic bank performance differs from conventional bank performance. The methodology used for data analysis is based on the secondary data. The data is collected from the financial statement of Islamic Banks of Pakistan. Five Islamic Bank data has been collected using the financial statement and formulate it according to our objectives. This research study is based on purposive sampling. The outcome achieved shows the positive impact of Financial, horizon and specific innovation on financial performance on the Banks of Pakistan. Moreover, it has been analyzed that the data is unstandardized, and outcome can be improved if more year data for Islamic bank in Pakistan will be available. Moreover, some more variables can be added in order to examine the banking performance based on the financial indicators.

Keywords: Islamic Bank; Islamic Bank's Performance, Financial Innovation; Risk Management; Financial Performance.

Introduction

In this time of innovative world, almost everything needs to change with respect of time requirements to sustain for long-term. This rule is applicable to financial sector as well. Financial Innovation is also important in this perspective. Innovation means change towards more efficient and effective method. Banks plays an important role in any country's financial stability by providing different tools (Amin, & Siddiqui, 2020). Therefore, financial innovation is also challenging for Banks, as they also need to think out of the box with some financial risks to contribute to better world.

Many things had got better but betterment also comes with some more challenges and competition. In this modern era of competitive environment, financial development remains as really difficult for banks seeking to stay in the field (Effiom & Edet, 2020). It is very difficult to come up with something innovative and people accept it. So, due to this Banks need to work hard to have a good place in market.

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However, despite the obvious significance of financial advancement in clarifying bank performance, his effect doesn't appear to be totally tended to. There is by all accounts an absence of comprehension concerning the development related components and their effect on financial performance. Truth be told, most examinations seem to embrace an oversimplified approach regarding the development performance restricting relationship, without genuinely representing the significant qualities of financial advancement and different variables influencing the relationship (Arjun, & Suprabha, 2020). Remembering blended ends, we consider it helpful to lead a Tunisian setting-based review, by which, the impact of financial advancement related qualities on bank performance would be thoroughly thought of.

As a matter of fact, risk management has turned into a significant key part of the financial capacity that requires to be additionally kept up with, for a strong soundness and benefit of the financial area to happen. In a current powerful setting, it was archived that banks are presented to a few risks, prone to make genuine dangers to their endurance and achievement. All the more noticeably, the significant determinant for the endurance and improvement of the financial business comprises in the manner these foundations ought to deal with their related risks (Chien et al., 2020). In this regard, researchers have found that a powerful risk management system can assist banks with weakening their openness to risk and upgrade their market intensity. Applying and executing the risk management methodology is essentially directed by the administrative bodies and specialists, through presentation of prudential guidelines inside the Basel Committee system.

<u>Problem Statement</u>

Financial innovation is one of the key processes that help in creating diverse opportunities regarding product and services for financial institutes, banking sector and competitive market. In Pakistan, the banking sector is growing with the rapid innovative changes due to the transformational period from conventional banking to Islamic banking concept (Poon, Chow, Ewers, & Ramli, 2020). There are plenty of examples available in which financial innovation has taken place and dramatic enhancement had been visible for others. Despite the wide-scale implementation of financial innovation, most banking institutions appear to detain a limited knowledge of the potential risks associated with the newly launched products and services. Some banks, however, mainly small banks, do not appear to adopt adequate risk management structures, whereby they could adequately assess and monitor the risks and challenges associated with such innovative products and services (Zouari-Hadiji, 2021).

With these critical challenges, banking sector who deliberately transforming their operations from conventional banking to Islamic banking looking forward for the effective research study for the implementation of financial innovation concept in Islamic banks Frame, Wall & White, 2018). Moreover, there is limited research available regarding the implementation of research innovation indicators considering risk management to examine the impact on financial performance of the Islamic banks. Therefore, it is a challenging situation of the researcher to collect the data in depth through past published sources. Risk management is also a significant indicator that helps the practitioner of financial bodies to analyze the possible risk during the transformation from conventional banking to Islamic banking (Qamruzzaman, & Jianguo, 2018).

Research Questions

1) What is the impact of financial innovation characteristics on the bank financial performance?
2) What are key indicators of financial risk management that can influence the overall banking performance of Pakistan?

Research Objectives

The objective of this research is to determine the impact of financial innovation on risk management and bank financial performance. Moreover, it is also the objective of this research to analyze the key indicators of financial risk management that can influence the overall banking performance of Pakistan.

Significance of Study

This research study helps the financial expert and professional to analyze the impact of risk management on the financial performance of banking sector. The key innovation towards the Islamic concept in banking sector helps the practitioner and professionals to formulate the strategy and determine the uncertainty of the market for the future perspective in order to make the financial sustainability for the investors and other beneficiaries.

Limitation of Study

As far as research study concern, interesting results have been found in this research but there are certain limitations in this study as well. First, this study the study is based on the secondary research. Some limitation occurs while collecting the data from online sources. There are some issues that some of the data is hard to collect in perspective of Bank due to their migration and joint venture with other bank in Pakistan. Moreover, there is a restriction of obtaining relevant research paper based on the proposed model for this research.

Literature Review

Financial Innovation and Risk Management

The dramatic categorical variation in the financial sector brought diversity in the banking institutions that required the implementation of an acute contingency plan. Considering the current study, the investigation relies on the relationship between the innovation strategy and financial system considering the defined institutions. It is necessary for the researcher to examine this innovation strategy of financial practices with the uncertain and certain risk elements for the benefit of the institutions (Qamruzzaman & Jianguo, 2018). With this risk management determination, professional can be able to develop more effective innovative strategies for the financial institutions. However, other factors can also influence the outcome of this strategic scenario in case of uncertain financial risk.

Few monetary instruments can maintain close customer relationships without exposing themselves to unnecessary credit risk. Subordinated loans, 2-loan defaults and mortgage securitization were initially used to hedge or protect against monetary risks such as the risk of financial costs, unknown transaction fluctuations and disappointments (Das, Verburg, Verbraeck & Bonebakker, 2018).

Banks must use unambiguous data to ensure that significant risks are sustainably assessed, verified, monitored and reported. Current monetary developments such as permanent gross redemption (LBTR) allow companies to save money by betting heavily on the open doors of the board. Therefore, obtaining credit data for a potential borrower is no longer a problematic strategy as it once was (Mutinha & Chipeta, 2018). Such a technique can certainly reduce the sufficiency of an adverse risk for the determination.

Risk Management and Bank Firm Performance

It is worth noting that banking activities in general are characterized by the dominance of a high level of risk, and that the company's financial results are adversely affected if the risks are not adequately managed (Yang, Ishtiaq & Anwar, 2018). For this reason, banking risk management has always received a great deal of attention. Some studies have highlighted the idea that if a bailout mechanism is not in place, the health of the financial system in general can be compromised and in some cases lead to the complete suspension or closure of the business of these institutions (Shad et al., 2019). Therefore, banks have an interest in managing their own risks and applying a security policy appropriate to their size and business activity.

In this way, risk management frequently results in increased financial success. Therefore, in order to increase its value on the market, every company must actively maintain and manage a specific amount of risk (Shad et al., 2019). Likewise, describe how risk management is a crucial role that banks may play in generating value for their shareholders and clients. The methods of financial risk management were discovered to positively correlate with both financial performance and shareholder value in the same environment. In fact, an efficient risk management procedure typically produces worthwhile results and benefits to the financial returns of the institutions (Finger, Gavious, & Manos, 2018).

Empirical Reviews

Empirical review helps the researcher to support and backup their research by providing the relevant papers for the effective development of study. A research conducted by Al-Malkawi, & Pillai, (2018) examined the financial performance of the Islamic banks by integrating conventional governance policies. The purpose of this paper was to incorporate traditional corporate governance (CG) mechanisms into the Islamic banking framework in order to examine their impact on the financial performance (IBFP) of Islamic banks (IB) in the context of the Gulf Cooperation Council (GCC). The study uses a sample of 22 full BIs that operated in the GCC countries for an 11-year period between 2005 and 2015. This paper develops an empirical model of five quality assurance mechanisms and three control variables using panel data. The model parameters are estimated using the applicable generalized least squares framework. The results show that the five internal mechanisms of CG have a statistically significant association with IBFP as measured by the Q ratio. Ownership of internal stocks has been found to be positively associated with IBFP, while corporate and government actions are negatively associated with the Q-relationship. The results agree with agency theory, strategic adaptation theory and property rights theory. In addition, the results show that the size of the board and the CSR participation have a negative effect on the IBFP and in turn the theory of the supporting agency or the remuneration theory (Al-Malkawi, & Pillai, 2018). Control variables such as leverage, height, and age also showed a statistically significant relationship to the IBFP. IBs are encouraged to address underutilized markets by weaving Islamic values into the existing CG fabric as a viable solution to stay competitive and ensuring transparency in the delivery of innovative products versus traditional banking products.

One of the researchers examined various ownership structures like foreign, state owned and private domestic. Speaking from the perspective of Indian corporate sector, that in terms of performance, the foreign Islamic Banks have performed well as compared to other ownership structures. He suggests that as foreign Islamic Banks have a vast network, they enter into multiple Islamic Banking relationships. The factor provides them an edge over the other Islamic Banks. On the other hand, state owned Islamic Bank does not have the similar vast network and relationship structure similar to foreign Islamic Banks which limits their performance (Masnita, Yakub, Nugraha, & Riorini, 2019).

The consequences of this examination found that the BPD performed better contrasted with private Islamic Banks. This shows that BPDs have preferable execution rather over confidential Islamic Banks that is brought about by the undeniable reality that clients might be prepared to pay credits, they need unique data on that space and the exhibition of BPD is managed by government. Furthermore, how much value, financial development, money related emergency, and thusly the financial proportions meaningfully affect the presentation of the Islamic Bank (Laela, Rossieta, Wijanto, and Ismal, 2018). In any case, Islamic Bank status no affects Islamic Bank execution. Local area advancement Islamic Banks in Indonesia exist in each region. They are monetary foundations worked on nearby premise. As far as inclusion, their inclusion is far more modest than private and government Islamic Banks. The modern Islamic Banks and furthermore the local area improvement Islamic Banks serve different specialty of clients. They even have alternate approaches to doing their obligations and provide food for different business sectors. Consequently, this study will attempt to decide if the possession example can have an impact of Islamic Bank execution. This examination dissects different factors that would influence Islamic Bank execution in Indonesia. The new issues from this exploration are the Indonesia Islamic Financial framework has an interesting type of proprietorship, i.e., local area improvement Islamic Bank, the rules of Islamic Bank Indonesia (BI) on least value necessity (Laela, Rossieta, Wijanto, and Ismal, 2018). For the target of this examination, the responsibility for Bank in Indonesia can be separated into government Islamic Bank, confidential Islamic Bank and local area improvement Islamic Bank. In Indonesia, confidential Islamic Banks are constrained by individual, government Islamic Banks are constrained by focal government, and local area advancement Islamic Banks are constrained by nearby government. As per research study, the possession construction of an Islamic Bank influences the degree of director management to guarantee the Islamic Bank execution is great. The people who own a greater part offer will do more observing of the administration and will compel the supervisors to work on their presentation.

The examination on the impact of Islamic Bank status on Islamic Bank execution in Indonesia was led by utilizing the information from 2000 and 2001. The exploration result showed that there was no distinction in execution between unfamiliar trade and non-unfamiliar

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trade Islamic Banks regarding ROA, ROE and Gross domestic product. This is undoubtedly because of an unfamiliar trade Islamic Bank can't take advantage from unfamiliar trade administrations. Another variable is the large number of non-performing advances (NPL) held by unfamiliar trade Islamic Bank because of the expansion in financing cost (Sarker, Khatun, and Alam, 2019). In light of measurable test in 2001, there was no distinction between unfamiliar trade Islamic Bank and non-unfamiliar trade Islamic Bank saw from ROA and ROE. Notwithstanding, the credit to-store proportion showed that there is a tremendous distinction between unfamiliar trade Islamic Bank and non-unfamiliar trade Islamic Bank. This outcome is because of Indonesia's monetary condition improving and followed by diminishing loan cost in the Islamic Banks, so it produces beneficial outcome on the Islamic Bank. This outcome is like exploration result directed who observed that ROE and ROA of unfamiliar trade Islamic Bank are different contrasted with non-unfamiliar trade Islamic Bank for the years 2002-2006. It was found that the monetary emergency adversely affects Islamic Bank execution in Malaysia and Singapore. Indonesia and the Philippines were not affected. Cornett et al. (2010) found that the monetary emergency adversely affects Islamic Bank execution in Asian nations. In the meantime, a review during 1995-2000 in Thailand and found that monetary emergency fakers essentially and decidedly impacted Islamic Bank execution which is estimated by return on resource and return on value (Sarker, Khatun, and Alam, 2019). The variable in view of association between confidential Islamic Saves money with emergency sham didn't influence Islamic Bank execution. This is presumably because of multi-collinearity.

The proprietorship structure is characterized by the dispersion of value concerning votes and capital and the personality of the value proprietors. While possession by chiefs might be viewed as an arrangement of adjusting the interests of directors to those of the investors in a way that upgrades corporate execution, this type of proprietorship can likewise prompt entrenchment of administrators, which is expensive when they pursued their self-advantage (Elsiddig Ahmed, 2020). Moreover, greater value possession by the director may increment corporate execution since it implies better arrangement of the financial motivating forces between the administrator and other value proprietors. While on the other hand author said that expanded proprietorship focus (any sort of proprietor) diminishes budgetary execution since it raises the association's cost of capital because of diminished market liquidity or diminished expansion openings in the interest of the financial specialist.

This is a standout amongst the most dubious speculations, chiefly because of the distinctions in venture inclinations and shareholders' objectives, which argue that ownership structure has a profound effect on the performance of the firm. He suggests that when the firm is owned by institutional investors, there are various factors that impact the performance of the firm. He suggests that institutional investors are characterized by the learning and the experience curve that also helps them to apply and utilize the same features in their investment decisions and the strategic direction of the firm is set by experienced professionals (Istan, & Fahlevi, 2020). The impact of ownership could therefore be clearly felt in the strategic direction of the firm as well. The broader would be the actual strategic stance of the institutional investor, the same impact could be observed in the invested firm.

Still in the developing countries the corporate supremacy impacts some time directly and sometime indirectly. Weak business reduces the confidence of the investors and having

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issues related the finance. Rather than to accumulate the data the use the sample include of the nine countries total of 252 MENA firms. The counties include where the get the data are Egypt, Bahrain, Qatar, Kuwait, Tunisia, Dubai, UAE, Morocco, Oman and Jordan. They use the best and energetic catalogue in every country to rescue the data stream. In the collection of data, the Islamic Banks were omitted because of the complex nature of the ownership and the structure (Ajili, & Bouri, 2018). They use proxy's performance by Tobin-Q to measure the data. They founded the have the positive impact of back pockets ownership to the Tobin-Q. They also found the positive effect on the administration ownership to the firm. It was argued that there is a high-quality impact of internal control on firm price. They argue that this favorable impact is because of the treasured information possessed by using insiders in comparison to that possessed by way of outsiders. This ends in insider dominance and more potent performance, seeing that ownership and control are aligned in hobby and feature a protracted-term funding angle (Mansoor, Ellahi, & Malik, 2019). Characteristic the fantastic relation between insider ownership and overall performance to the alignment of interest among stockholders being a family member and inside the management, main to maximization of shareholder wealth.

Empirical research has examined by Maryam et al., (2019) in the courting among block holder ownership and its outcomes on firm performance. Researchers agreed that the purpose of ownership concentration aided in heading off unfastened riding problems and reduced the difficulty in tracking managers. Outsiders are prompted to end up huge block holders because of the focused control and the private advantages. The block holders obtain focused control when they maintain a massive hobby in the employer and heavy voting rights. As an end result, they become concerned with the running selections of the firm. As for the non-public benefits that can be executed while block holders use their electricity over management.

Firm statistics was performed on corporate ownership, identity, and their performances and different equations were used to capture the relationship between these variables (Arifin, & Yazid, 2018).

This study, proposed by Mohammad Iskandar Sobia and Chi Arshad (2019), considers the static, selective and dynamic effects of important types of mutual ownership in a similar model. As we look for Islamic banks in established economies with relatively weak financial security of support, we understand ownership changes as proxies for management changes. Most importantly, we uncover the decisions and dynamic implications of acquisitions by unknown regional financiers from Southeast and East Asian countries compared to those acquired by unknown non-provincial financiers. Notwithstanding our basic findings, unknown Islamic banks give the impression that they are generally smarter, since unknown investments are mainly associated with lower levels of long-term lending. Local sponsors generally select the best Islamic banks. However, domestic takeovers correlate with lower performance of acquired Islamic banks (Mohamed Iskandar Sobia and Chi Arshad, 2019). An unusual supra-regional purchase is associated with a reduction in the volume of long-term loans and an improvement in the capital of the acquired Islamic Bank. Securing unusual cities involves important leadership.

A study led by Poon, Chau, Evers, and Ramli (2020), presenting for the first time our model and observation factors to test the impact of corporate governance on Islamic bank

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performance, as estimated using productivity items and money metrics. We then briefly illustrate some additional factors in determining Islamic bank portfolios, which we use to examine the sources of variability in Islamic bank performance and to test whether Islamic banks move their portfolios in the predicted direction following changes in management. The most memorable arrangement of our tests concerns the impact of corporate governance on the Islamic Bank's performance. This exploration assessed the lasting effects of synchronizing with different types of management over the long term, the defining effects associated with the decision to switch different types of management, and the strong effects of the four types of management changes. Estimates of Islamic Banks Performance determined as a dependent variable, ROE, Rating shows how well an Islamic Bank is expected to perform compared to other Islamic Banks over a similar period to achieve the same ranking of results (Poon, Chow, Evers and Ramli) to act according to his interests., 2020). This variable depends on the residuals of the profit opportunities assessed for each quarter, which take into account the results provided by the Islamic Bank.

The review also includes two standard monetary metrics most commonly used to quantify profit and cost performance, ROE and resources. The use of the ROE is practically equivalent to the profit effectiveness assessment, since the dependent variable of the ability to win used to process the assessment of the ability to win depends on the ROE. We believe that ROE represents a lower ratio in Islamic Bank's performance for two main reasons. First, ROE does not control the results of the Islamic Bank, which can undeniably be difficult to change in the short term by means other than a major management change (Banna and Alam, 2020). As a result, one Islamic bank may be more productive overall than another because of the scale or mix of results as opposed to the nature of its operations. Second, the ROE is not consistent with long-term changes in the Islamic Bank's profit allocation. The resource variable, or full interest plus interest-free costs disaggregated by resource, is similar to the cost-efficiency rating, except that the cost/resource report is based on the cost-ability variable used to calculate the cost-efficiency rating. As with the ROE discussions, cost/resources do not control Islamic banks' results and can be fundamentally affected by changes in cost dispersion over time, making them less attractive than cost-efficiency assessments (Banna and Alam, 2020).

State restructuring refers to specific cases where the 13 Islamic banks claimed by the government were restructured without privatization (e.g. the merger of Banque du Provision and Social Banque de Mendoza prior to their bombed privatization). In domestic M&As and unfamiliar takeovers, the "choice" is usually made by the owners of both Islamic banking federations, although the "decision" on privatization and state restructuring is made by government professionals. First, we show the knock-on effects of the initial test of the impact of corporate governance on the Islamic Bank's five executive actions. Then, at this point, we run our no power and make sure we look at the results by excluding some of the effects from the model. Finally, we briefly illustrate the results of the management change impact on the determination of the Islamic Bank's portfolio. We also test the impact of Islamic banking management on portfolio allocation between different loans and sources, between types of advances, between firms, and across regions.

Basic evidence on the fixed impact of owning Islamic banks on performance suggests that state-owned Islamic banks generally have more deplorable long-term performance than

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either local purportedly Islamic banks or unknown Islamic banks, predictably accompanied by a significant proportion of the largest write-downs of the extraordinary Large advances on bad loans for state-owned Islamic banks may reflect in part the different goals and lending mandates of these associations. The data also suggests that unknown Islamic banks underperform supposedly local Islamic banks to some extent, but the differences are not comparable to the impact of state ownership.

Hypothesis Development

H1: There is positive impact of financial innovation on firm performance of the Islamic banks of Pakistan

H2: There is positive impact of specific innovation on firm performance of Islamic banks of Pakistan

H3: There is a positive impact of horizon innovation on firm performance of Islamic banks of Pakistan

H4: There is negative impact of Risk innovation on firm performance of Islamic banks of Pakistan

H5: There is negative impact of Risk management on firm performance of Islamic banks of Pakistan

Research Model

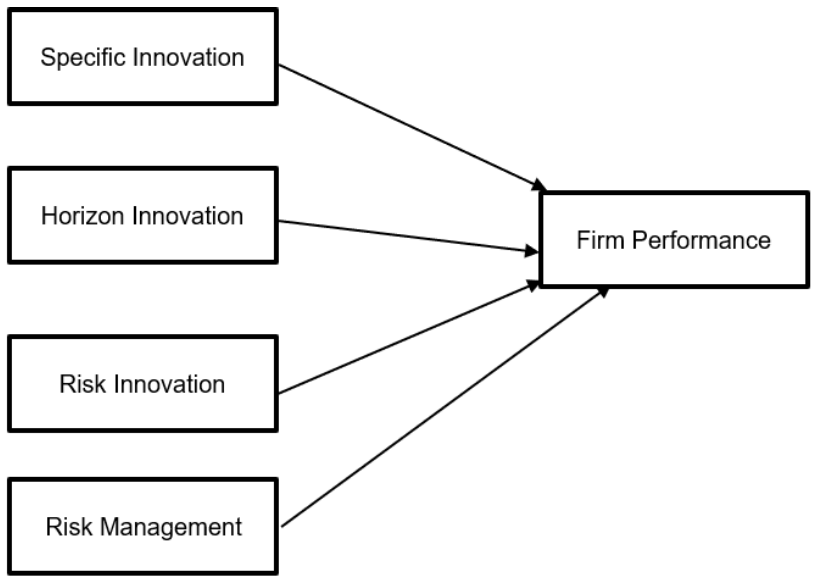

Figure 1.

Research Methodology

Research Approach

There are two types of research approaches: quantitative and qualitative. Qualitative work generally deals with words and emphasizes non-statistical tools and data analysis techniques, while quantitative methodology deals with statistics and usually involves statistical tools and data analysis techniques. The current study has quantifiable targets and a focus on statistical techniques for data analysis; thus, quantitative methodology has been used firmly.

Research Purpose

Research purpose is a technique chosen by a researcher to solve a problem efficiently. In this, the researcher identifies which research design should be used, for e.g. when the research is quantitative, then explanatory design is used or if the research is quantitative. Research purpose will help people collect the data for the problem that have been highlighted in the research. This will guide researcher that in which direction, researcher should go in order to solve the problem that has been addressed in the research. It is a framework through which researcher finds answer to the research questions. In other words, research purpose is a procedure used in collection of variables mentioned in the research. In this research, explanatory research purpose has been used to explain the model in perspective of Islamic Banks of Pakistan.

Research Design

Casual research design is also known as explanatory research, and it shows the cause-and-effect relationship between variables. In this research study Casual research design is used in which relationship is determined between the variable using quantitative techniques.

Target Population

In this research study, the target population is the sample collected from Islamic Bank of Pakistan. In this research study, the data is collected from the financial statements of Islamic Bank of Pakistan which is unstandardized and test the hypothesis to examine the impact.

Sample Size

The sample size for this research study is to consider the secondary site for the chemical industry of Pakistan. The sample size would be about 10 years of data to analyze the cause of financial innovation impacted on firm performance considering financial risk in Islamic bank of Pakistan. The data is collected from 2011 to 2021 from Islamic bank of Pakistan.

Research Equation

Research Equation for this paper is as follow:

FIRM-PERFORMANCE = α + β1HORIZINNOV + β2 RISKINNOV + β3 SPECIFINNOV + β4 RISKMANAGMT + error

Table 1

Variables	Definition	Measure
Firm Performance	"Firm performance is the success or fulfillment of organization at end of program or projects as it is intended."	Return on assets "ROA" = operating income before depreciation and Research and Development expenses/ total sales Market to book "MTB" = market capitalization / book value of equity

Horizon Innovation	"Horizon innovations are generally short-term projects that generate results in 1-3 years"	Price-to-earnings ratio (PER) = market capitalization/net income
Risk Innovation	"It refers to the probability of any untoward happening that may affect the innovation process at a given rate or time."	Standard deviation ratio of return on total assets σ (ROA)
Specific Innovation	"Specific innovation is the process of creating new financial products, services, or strategies"	Intangible assets to total asset ratio.
Risk Management	"Risk management is the process of identification, analysis, and acceptance or mitigation of uncertainty in investment decisions"	Annual value at risk (VaR).d This index integrates operational risk, liquidity risk, credit risk.

Data Analysis and Discussion

Descriptive Analysis

Descriptive analysis is the key approach to analyze the collected data in order to describe or summarized the characteristics of the data and to identify the pattern to perform further analysis. In this research study, the data is collected from 5 different Islamic banks that include Meezan Bank, Dubai Islamic Bank, Al Baraka, Bank Islami and MCB Islamic Bank of Pakistan.

Table 2

Variable	Observations	Mean	Std. Dev.	Minimum	Maximum
FI	36	9.900	3.222	4.109	18.647
SI	36	17.921	2.571	13.690	23.582
FM	36	0.046	0.076	-0.133	0.211
HI	36	9.900	3.222	4.109	18.647
RI	36	43.742	12.556	19.140	70.569
RM	36	0.079	0.027	0.035	0.140

Note: FI=financial innovation: SI=specific innovation: HI=horizon innovation: RI=risk innovation: RM=risk management: FM=firm performance

In the research study, the researcher used 6 key variables in which, firm performance is the dependent variable and rest of the variables are independent variables. The data is collected in the form of unstandardized from these banks as the limitation of Islamic banks policies and formation. Total collected data from these banks was about 36 observations. The observed variables show the results for Mean, standard deviation and min and maximum values used in the data analysis.

The financial innovation mean was about 9.900 Furthermore, it shows the standard deviation of 3.22 with the maximum value obtained of about 18.647.In the similar way, Horizon Innovation shows the result of mean 9.900 with the 36 observations. Moreover, the standard deviation of 3.222 with the maximum value obtained 18.674. Risk Innovation and Risk Management are two essential variables for the data analysis in this research study. The mean for risk innovation is about 43.72 and mean for risk management is about 0.79. The Standard Deviation for Risk Innovation is 12.556 and Standard Deviation of Risk Management 0.27 for the maximum of 0.140 values.

Another essential independent variable for this research study is the specific innovation. The mean for the specific innovation is about 17.921 and standard deviation is about 2.571 for the maximum value of 23.582. The dependent variable used in this research study is the Financial Performance. In the data collected for data analysis for financial performance is 36 observations. The mean for the financial performance is 0.046 and the standard deviation is 0.076 with the maximum value of 0.211.

Regression Analysis

Regression analysis is the significant analysis for the research study. It is used to analyze the impact of independent variable on the dependent variables. In this research study, unstructured data is examined to determine the impact of independent variables on dependent variables. The outcome from the obtained sources has been presented as follows:

Table 3

Variable	Coefficient	Standard Error	Prob.
Financial Innovation	0.009	0.003	0.003
Horizon Innovation	0.007	0.002	0.001
Risk Innovation	-0.003	0.003	0.002
Risk Management	-0.001	0.001	0.025
Specific Innovation	0.006	0.002	0.004
C	-0.142	0.076	-0.066
Adjusted R-squared	0.891	S.D. dependent var.	0.296269
F-statistic	8.799817	Durbin-Watson stat	2.122
Prob. (F-statistic)	0.000025		

From the above result, it can be analyzed that financial innovation has a strong and significant impact on financial performance. This is due to innovative perspective of financial strategies for long term investment helps the banking industry to obtain maximum profit and gain sustainability in the market. The result obtained from the analytical perspective shows the Significant value of (P=0.003, p<0.005). Another significant variable used in this research study is the horizon innovation. From the above outcome, it has been noticed that horizon innovation has a positive and significant impact on financial performance of the Islamic Banks. Horizon Innovation represents as the market capitalization and net income of the Banks. This shows that if the Banks Net Income and Market Capitalization are in the positive growth than the Bank financial performance will also grow simultaneously.

Another significant variable is the Specific Innovation. Specific innovation is the intangible asset to total asset ratio. With the obtained outcome it has been observed that there is significant and positive association of specific innovation on financial performance. This represents as the bank performance in terms of intangible asset and total asset ratio in growing number than the impact on Bank Financial performance will also be in positive. Another variable is related to the risk factor. In this research study, there are two risk related variables. Risk Innovation and Risk Management. Risk Innovation represents as return of total asset (ROA). If the risk of the bank will increase than the financial performance can decrease. It has an inverse relationship with each other. From the data analysis, it can be observed that there is inverse relationship with financial performance. Similarly, risk management is the summarized form of operational risk, liquidity risk and credit risk. These all risk should be managed properly in order to perform the financial activities properly. As per the result, it has been observed that if the all three risk can be reduced, the risk management can be performing appropriately and with this approach the financial performance can be increased.

Conclusion and Recommendation

Conclusion

An Islamic bank's ability to innovate is often greater than its ability to understand and manage risk. To do this, banks must be able to address the characteristics of financial innovation and adjust risk perceptions that impact their operations and improve their performance. It has been showed that Pakistan's Islamic Bank are performing well to run the banking sector and to provide facilities to the customers.

As per the data analysis, it has been observed that the risk factors play essential role in managing the banking activities in order to enhance the performance of the Pakistan Islamic Banks. Financial innovation and Horizon innovation put positive and significant role in Islamic Banks to develop the strategies based on the short term and long-term investment. Another essential element is the specific innovation in which bank credibility plays also an important role in terms of investment and managing the strategic activities. This helps Islamic Bank to reduce the risk, make strong long-term investment and formulate effective strategic plans for long term sustainability in order to enhance the Islamic Banking Performance.

Recommendations

There are certain recommendations that need to be focused and financial analyst and professionals needed to implement in day-to-day operational activities

- It is recommended to focus on the long-term investment of the Banking sector in order to reduce the risk of uncertainty and able to survive in disaster time.

- It is recommended to focus on the intangible asset by provided good products and services to make respectable reputation in the eyes of the customers and investors.
- It is recommended to focus on the net income and market capitalization of the individual banks in order to improve the performance by offering effective services and gain more investments from the customers.
- It is suggested to forecast uncertain risk and make such policies and strategies that help the Banks to manage the risk in order to enhance the performance of the Islamic Banks.

Future Implication

Some gaps can be filled in future research as well. For the identification and financial performance of the Islamic banks more variable can be added. Moreover, as there is limited data available for the Islamic banks in Pakistan, in future the researcher can able to find their research objective by using more data which result in more reliability in testing the hypothesis.

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