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The Effect of Car Ijarah / Lease Financing on the Pakistani Islamic Banking Sector's Performance

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ABSTRACT

Purpose: This study aims to identify the effect of car ijarah / lease financing on the Pakistani Islamic banking sector's performance. It is one of the primary enhancements offered by Islamic financial institutions.

Research Gap: Lack of studies that focus on how Car Ijarah / Lease financing affects Islamic banks is a research gap in this field.

Design/Methodology/Approach: In the study, six independent variables were used: return on equity (ROE), net profit margin (NIM), Log of total financing (LTF), Ijarah real financing (IJRF), cost of total financing (CTF), total financing over total resources (TFTR), base percentage (BP), customer value index (CVI) and gross domestic product (GDP). Moreover, study analyzes the effect of Ijarah financing on Islamic bank performance in Pakistan from (2018-2022) using Variable and Arbitrary Effect Models Analysis (AFMA).

The Main Findings: The study shows that Islamic banks are more profitable, liquid, better capitalized, and have lower credit risk than conventional banks. However, operational efficiency and ROE are negatively linked, while Ijarah's finance and cost total financing have a positive impact on NIM and GDP.

Theoretical/Practical Implications of the Findings: Ijarah facilitates ROE development, making it attractive for banks, especially for development contributions. As a result, Ijarah financing is supportive of racial and religious growth. Thus, Islamic bank profitability and sustainable growth can be enhanced by Ijarah financing.

Originality/Value: This paper presents an original study of the Islamic banking system's performance based on the study of Car Ijarah / Lease finance in Pakistan.

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1. Introduction

The primary source of income for conventional banks (CB) is riba (advance). Islamic finance (IF) does not allow such transactions due to the prohibition of interest legislation (Shari'ah) and the limited prospects for unethical investment-financed lending (Iqbal et al., 2023). Instead of being a commodity, money is a transaction medium. A no-interest financing system is fundamental (Iqbal et al., 2023). In a pioneering paper on the Fisher impact in Pakistan, Iqbal et al. (2022) propose replacing the obligation-based financial framework with exchange-based financial alternatives. The interest-free banking system should be replaced with a profit/loss sharing system (PLS) in Islamic banking (IB). As IF has large resources, random impacts caused by CF crises may be consumed. The Asian financial crisis (AFC) of the late 1990s is just the tip of the iceberg in comparison to the ongoing global financial crisis (GFC) of 2008.

Islamic banks follow Shari'ah law and avoid prohibited products. In summary, they are financial organizations that follow Islamic law and conduct their activities in accordance with Islamic principles. Car Ijarah / Lease Financing assists Islamic Banks in risk management and maximizing profits. This is done while ensuring clients have access to the products and services they require. Furthermore, because it promotes the development of the Islamic banking industry, this method of financing promotes economic growth in Muslim-majority nations. Furthermore, Car Ijarah / Lease Financing is an effective way to attract people to Islamic institutions. This will help the Islamic banking industry succeed. According to Isa et al. (2018), Islamic banks provide a variety of assistance services to its customers. Visas, house financing, auto financing, individual loans, and rent contracts are examples of them. These contracts are divided into three types: deal contracts, benefit-sharing agreements (value-related), and rent contracts. According to Isa et al. (2018), Islamic banks must provide a diverse variety of products and services to its consumers.

Ijarah is a specific rental arrangement in Islamic banking. A lease is a contract between two parties (the lessor and the tenant) that transfers the benefit of one resource to the other. The owner will pay the lessor a rental charge under an agreement between the owner and the lessor. Ijarah is defined by the Islamic Meezan Bank (IMBL) as the transfer of ownership of aid resources during a designated stage of analysis. Ijarah is the first Islamic bank agreement utilized for assessing additional financial agreements such as Murabaha, Tawarruq, Inlet Inah, and others. For example, under an Ijarah agreement, a customer may rent a car from a bank in exchange for monthly rental payments. This is instead of purchasing the car with a loan. Therefore, Ijarah is a popular agreement among Islamic banks and is an effective tool for procuring and financing support resources (Chhapra et al., 2018; Iqbal et al., 2022 and Iqbal et al., 2023).

Islamic banks hold Ijarah resources collectively under the Ijarah contract. Resource usage is the only customer qualification. It is possible that Ijarah's assistance will affect the wager that impacts Islamic banks' display in Pakistan. This is because of its innovative features. As a result of the client's lack of financial responsibility, Islamic banks are often exposed to credit risk when providing Ijarah financing (ISRA, 2018). For example, payment defaults on Ijarah contracts can lead to losses for Islamic banks, as the customer is not required to provide collateral to the bank (Iqbal et al., 2022; Iqbal et al., 2023).

Commercial banks have a duty to reach out to customers with heads and premium (bank credit) to grow its business, according to (Anderson, 1991). A bank takes the risk that its customers will not pay back the head, while a consumer receives a sum of money known as the head. Therefore, wagering costs are used to calculate borrowing costs. Due to Islamic banking's prohibition on credit with income, they cannot ask for more than what they have already been granted (Ayub, 2007). For instance, a bank may lend a customer a certain amount of money. However, they cannot ask the customer to pay back more than that amount, regardless of how long the loan is taken out. Overall, the wagering cost in Islamic banking makes it a more efficient and fair method of lending (Iqbal et al., 2022; Iqbal et al., 2023 and Ismail, 2019).

In profitable banking, bank credit relates to a loan provided to clients, which includes both the principal amount and the interest (Iqbal et al., 2023). Consumers receive a sum of money referred to as the principal, while banks face the risk that consumers might fail to repay the principal. This risk is therefore incurred through interest rates. Islamic banks prohibit credit with interest, which means they cannot request more than the initial amount supplied. This practice prevents inefficiencies in the financial system (Iqbal & Fikri, 023). In a premium-based credit exchange, the loan specialist receives a fixed rate of return from the borrower as interest without any effort. In Islam, advances are not a legitimate means of generating wealth, as interest payments are prohibited. Therefore, cash is considered potential capital rather than actual capital, as it becomes capital only when invested in a business (Ismail, 2019). The rational for this study is to assess the effect of Car Ijarah / Lease Financing on the performance of the Pakistani Islamic Banking Sector. By examining this specific area of Islamic banking, we aim to provide valuable insights into the effectiveness and potential benefits of Car Ijarah / Lease Financing. This will drive Islamic banks' growth and profitability in Pakistan.

1.1 Problem Statement
Leasing financing is a significant support plan provided by banks for the private and family sectors. Islamic banks use Ijarah as an unusual agreement compared to Murabahah, Tawarruq, and Cove Inah. Car Ijarah financing is entirely owned by Islamic banks, while the client is only qualified for the resource. However, this uniqueness could raise credit risk, negatively affecting Islamic banks' performance in Pakistan. Islamic banks often face default risk from clients using Ijarah support items, as they do not own the funds. Car Ijarah financing is concerned when clients cannot repay the funds, negatively affecting Islamic banks' execution in Pakistan. Islamic Banks (IBs) exclusively offer the agreement to clients, reflecting the risk the agreement carries for the IBs. These risks could arise from data leakage or credit defaults, which can adversely impact Islamic banks' performance. Due to the limited presence of Pakistan Islamic banks, there is limited research on the impact of Car Ijarah financing on Islamic bank performance. Therefore, this study focuses on the impact of Car Ijarah funding on Islamic banks' performance in Pakistan.

1.2 Research Questions
1. What are the current developments in Islamic banking in Pakistan in the context of Car Ijarah financing?
2. What effect does Car Ijarah assistance, bank specifics, and macroeconomic conditions have on Islamic bank shows in Pakistan?

1.3 Research Objectives
1. To determine the development of Car Ijarah financing by Islamic banks in Pakistan.
2. To examine the effects of Car Ijarah financing, bank specific variables and macroeconomic conditions on Islamic bank performance in Pakistan.

1.4 Significant of Study
For now, this is the first study that analyzes the effects of Car Ijarah financing on Islamic bank performance. It examines experimental evidence to determine how Ijarah funding affects the performance of Pakistan Islamic banks. It will present Car Ijarah financing statistical literature in one particular nation testing. This study provides crucial information for Car Ijarah finance and Islamic bank performance. Furthermore, this evaluation contains many components that may alter the way Pakistan Islamic banks are presented. As a result, these findings will give insight and assistance to Islamic banks' boards in logically analyzing the primary components that determine the level of performance for Islamic banks in Pakistan.

2. Literature Review
2.1 Ijarah Financing and IBs Performance
Insurance companies and Islamic banks earn earnings (based on premiums and benefits combined) in addition to offering credit or assisting the unfortunate. According to Lepetit et al. (2008) investigation, commercial banks obtain the bulk of their funding from credit, and credit premiums are a significant source of income for them. Thus, Grassa et al. (2012) discovered that compensation from financing has a considerable impact on Islamic banks' revenues (Ayub, 2007).

Islamic banking portfolios are classified according to Islamic agreements such as Murabaha, Ijarah, Bai Inah, Mudarabah, Musharakah, and others (Ismail, 2019). Prioritize this type of funding portfolio. Islamic banks have implemented laws that favor obligation-related financing contracts over value-based financing contracts, making it easier for experts to grasp their financing processes. According to several researchers, the lack of Islamic financial data is a concern when establishing portfolios based on Islamic agreements (Ahmad et al., 2011; Rosly, 2005; and Haron, 1996). Because Islamic banks are still in their infancy, their financial data is not as extensive as conventional banks'. Such information is critical when examining and analyzing the financing methods of the Islamic banking industry. This is to guarantee that their agreements comply with Islamic regulations (Iqbal et al., 2022; Iqbal et al., 2023 and Qamar et al., 2023).

Because banks periodically reach a threshold where they are no longer able to get more resources, corporate money theory suggests that banks concentrate rather than increase their loan portfolios (Langrin and Bug, 2008). Banks, according to proponents of the focusing hypothesis, may optimize focus benefits by increasing their competence in specific financial sectors. Banks should focus their efforts on a certain line of business to capitalize on their executives' knowledge (Tabak et al. 2011). The financial crisis of the 1980s, caused by Citicorp, Bank of America, and Malaysian banks overextending their activities, bolstered their argument even further. Taking this viewpoint into account may impact Islamic banks' judgments about whether to broaden their aid offers or focus on a specific type of financing, such as Ijarah financing.

The customer does not have access to resources, which distinguishes Ijarah finance from other types of term aid (such as in-house financing, individual funding, etc.). Because of these factors, it offers clients the option of renting things via the rental option (Ayub, 2007). As a result, the item is suitable for buyers looking for a resource without spending a penny. If everything is equal, the consumer pays the merchant, and the Ijarah promoter receives the remaining balance. Furthermore, Ijarah assistance is valued differently than term finance since the former uses a basic benefit calculation, and the latter uses enhanced estimation (Ismail, 2019; Iqbal et al., 2022 and Iqbal et al., 2023). Additionally, the latter option combines two agreements, whereas a typical hire purchase is structured in one agreement. This is a significant difference between traditional and Islam-based finance (ISRA, 2018). The Ijarah financing method provides customers with a resource in accordance with Shariah and contains no aspects of Islamic law that are prohibited. Ijarah financing allows customers to fulfill their financial obligations without compromising their faith (BNM, 2018).

As a result of making this agreement available only to their clients, Islamic banks can assess the risks to their business based on Ijarah's normal business practices. Normally, the bank owns and provides capital in Islamic financial transactions. Due to incomplete information or credit issues, clients may have difficulty fulfilling their financial obligations. Sindani et al. (2016) report that credit defaults result from the acquisition of supporting agreements and negatively impact monetary framework performance. As the U.S. economy continues to flourish despite rising inflation and interest rates and a 45-year high inflation, the number of defaults has increased from 27 in 2021 to 33 in 2022, although it remains relatively low (Iqbal et al., 2022; Iqbal et al., 2023).

Ijarah regional offices of 10 Islamic banks are now available to organizations and consumers in Pakistan. In table 2.1, the IBs in Pakistan that provide Ijarah financing, including Car Ijaraha Ease of Consumer, Auto Ijarah, and Ijarah Financing products and offices, are listed. For instance, the Car Ijarah product from Pakistan's Meezan Bank provides customers with a rent-to-own system in which they can buy a car through monthly installments, without interest payments. In this way, Ijarah has become an increasingly popular choice of financing for both businesses and consumers in Pakistan.

Table 2: List of IBs Offering Ijarah Financing

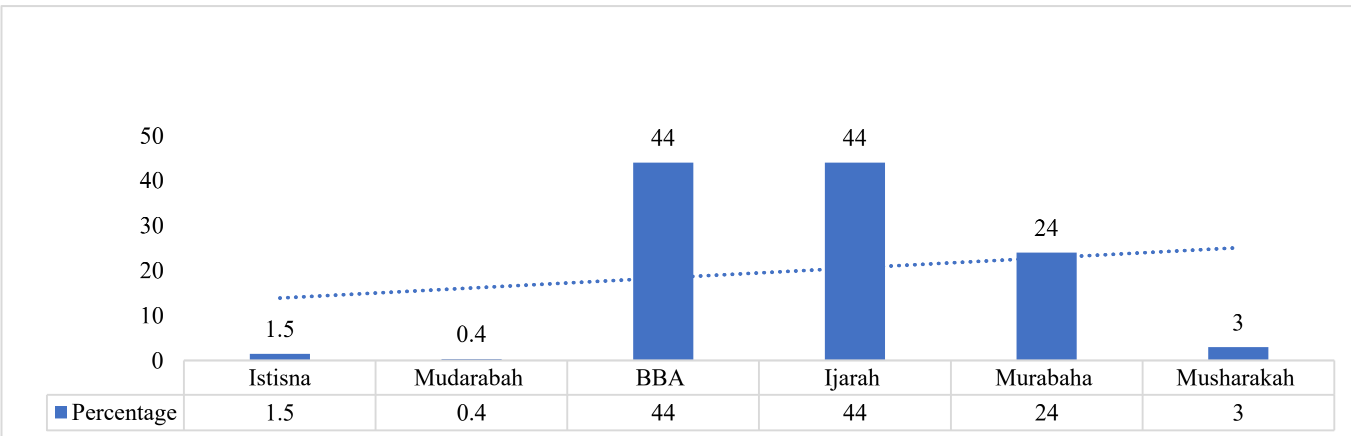
Islamic Banks in Pakistan	Ijarah Products
Meezan Bank	Car Ijarah
Dubai Islamic Bank	Auto Finance
Faysal Islamic Bank	Faysal Car Finance
MCB Islamic Bank	Roshan Apni Car
HBL Islamic Bank	HBL Islamic Car Finance
Bank of Islami	Auto Finance

Allied Bank Islami	Islamic Car Ijarah
Bank AL Habib	Islamic Apni Car Auto Finance
Al Baraka Bank	Al Baraka Carsaaz
Alfalah Islamic Bank	Alfalah Islamic Car

Source: Website of Islamic Bank's in Pakistan

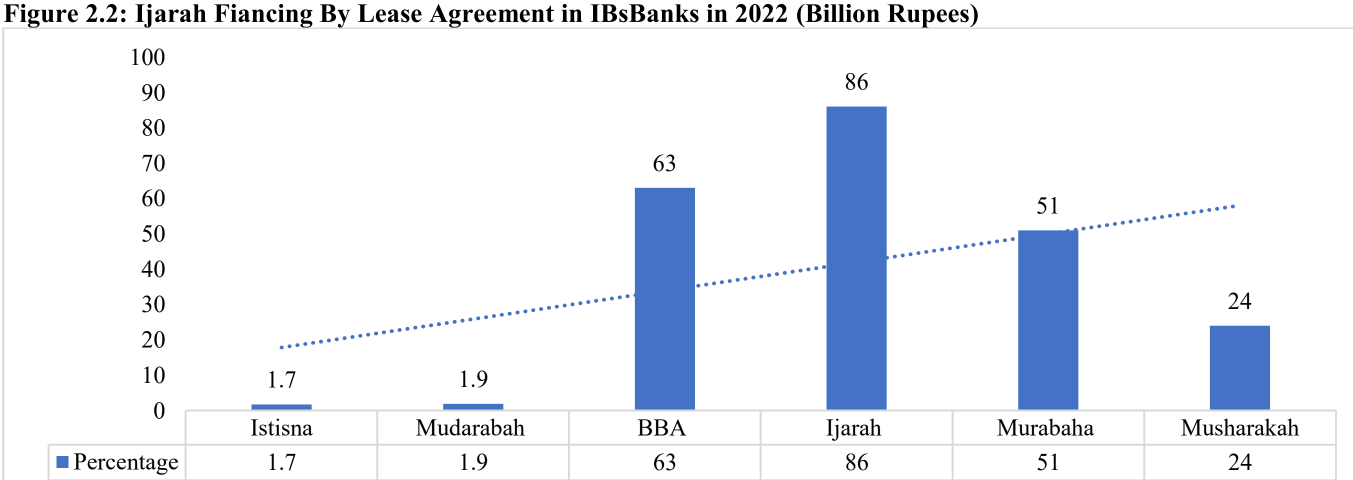
Most Islamic banks in Pakistan use Car Ijarah for vehicle financing. This is except Bank of Islami, Alfalah Islamic Bank, and Al Baraka Bank, which recommend Car Ijarah for tools, technology, & modern estates. Moreover, further IBs, including Islamic Meezan Bank, Dubai IBs, HBL Islamic Bank, MCB IBs, Faysal IBs, Allied Bank Islami, Bank AL Habib Islami, and the pioneer of Islamic Meezan Bank, recommend Car Ijaraha for individual and commercial financing. For instance, Bank Meezan Bank offers a Car Ijaraha product that allows customers to purchase an expensive car and pay installments over 3, 4, or 5 years. This allows them to finance almost any asset. A variety of Car Ijarah products are available today to meet the needs of the Islamic banking community.

Figure 2.1: Ijarah Financing By Lease Agreement in Pakistan IBs in 2018 (Billion Rupees)



Source: Meezan Bank Pakistan (2022)

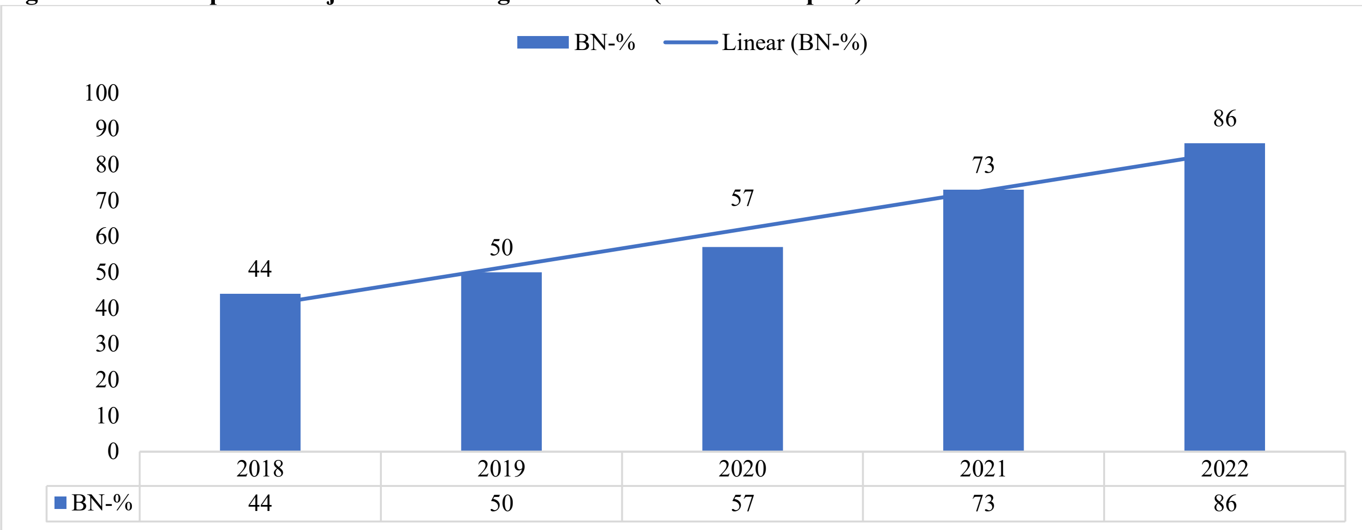
Figure 2.2: Ijarah Fiancing By Lease Agreement in IBsBanks in 2022 (Billion Rupees)



Source: Meezan Bank Pakistan Website (2022)

Figures 2.1 and 2.2 provide a summary of Islamic bank financing in 2018 and 2022 (using January as a baseline). As a result of the study, BBA and Ijarah each contributed. Pakistani Islamic banks financed 44 billion rupees in 2018. Ijarah financing is expected to grow significantly in the coming years, reaching 86 billion rupees in 2022. This will surpass Murabaha financing as the second largest financing form. Islamic finance has sales-based agreements such as Murabaha and BBA, followed by Ijarah, Musharakah, and other agreements. Ijarah involves the bank owning the asset after the agreement is concluded. The client pays rent for the property they use. Thus, the rise of Islamic finance in Pakistan will have a significant impact on Islamic finance's future.

Figure 2.3: Development of Ijarah Financing in Pakistan (in Billion Rupees)



Source: Meezan Bank of Pakistan Website – 2022

Ijarah's financial structure is illustrated in Figure 2.3, which shows an upward trend from 44 billion rupees in 2018 to 86 billion rupees in 2022. Increasing demand for Ijarah financing is being experienced by Pakistan's Islamic banking sector. As indicated in Tables 2.1 and 2.2, Islamic banks in Pakistan offer a range of Ijarah financing products, including vehicle financing. Pakistan's rapidly increasing inventory of motor vehicles financed by the Car Ijarah financing scheme influences this trend (BNM 2018). For these reasons, Ijarah financing will continue to be a significant source of financing in Pakistan. This is especially true as the country develops and diversifies its financial sector. Further, Ayub (2007) suggested that Ijarah financing could replace profit-based financing, suggesting limitless potential. In this study, the effect of Ijarah financing on Pakistani Islamic banks is examined. This is in light of the rapid expansion of other Islamic agreements such as Musharakah and Istisna. This may impact how Islamic banks are perceived in Pakistan. Islamic banks' managers and decision-makers should be aware of the findings of this research so that they can modify contracts or set up a financing structure to work on their projects (Maryam et al., 2019; Pratami et al., 2022 and Alkhazaleh et al. 2018). Based on this, Alawneh et al. (2017) research focused primarily on Al-Mudarabah and Al-Musharakah, which pertain to the acquisitions of Islamic banks in Jordan by Al-Murabaha and Al-Ijarah between 2000 and 2015. Due to these factors, it is clear that Ijarah's assistance can have profound effects on Islamic bank development in Jordan. Based on the findings, Ijarah has a significant impact on ROA and ROE. In addition, Almsafir et al. (2015) assert that Ijarah may have contributed to the notable and favorable performance of Islamic banks in Pakistan from 2002 to 2014. In conclusion, Ijarah may have played a significant role in Pakistan's Islamic banking sector's success from 2002 to 2014. As a result of these findings, Ijarah will contribute to improving Islamic banks' efficiency in Pakistan. ROA and Ijarah have been identified as having an ongoing relationship due to the findings (Yusoff et al., 2014).

Furthermore, due to the relatively recent establishment of Islamic banks, there is a scarcity of research examining the impact of Ijarah funding on Islamic banks' performance. Iqbal et al. (2023) conducted a study to investigate the influence of monetary renting on Islamic banks' performance between (2010-2016). The study revealed that monetary renting has a significant impact on Islamic banks' profitability in Jordan. In their study, Alawneh et al. (2017) examined the impact of Al-Mudarabah and Al-Musharakah, specifically Al-Murabahah and Al-Ijarah, on Islamic banks' lending activities between 2000 and 2015. The results indicate that Ijarah impacts both Return on Assets (ROA) and Return on Equity (ROE). In addition, Almsafir et al. (2015) discovered that Ijarah exhibits a significant and favorable correlation with Islamic banks' performance in Malaysia throughout 1984 to 2014. The discovery revealed a long-term connection between Ijarah and ROA. According to Yusoff et al. (2014) the primary factor to consider while choosing an AITAB facility is religious duty.

3. Methodology and Data

Bank-level data for this analysis is obtained from the Bank Yearly Reports and SBP website, as well as inconsistent board data. Ten Islamic banks operating in Pakistan from 2018 to 2022 that offer regular account management through Islamic windows, such as Islamic Meezan Bank, are included in the example. Bank performance is measured using financial measures, including return on equity (ROE) & net income margin (NIM) (Alexandru et al., 2008; Iqbal et al., 2022 and Iqbal et al., 2023). The ROE, which indicates how well bank executives earn pay from their equities, was employed in studies led by (Suppia et al., 2019; Isa et al., 2017; Wasiuzzaman et al., 2010 and Flamini et al., 2009). In addition, NIM is another measure used to measure IB performance in Pakistan. Many studies use NIM to determine profit, such as Ameur et al. (2013), which used net income margin as a performance link since it shows earnings produced by investing and Ijarah finance.

Regression analysis in research is a quantitative method for determining the relationship between variables and dependent variables. Hair et al. (2006) define this as follows. Based on the coefficients of the single independent variable, the tendency of each variable is calculated. This study examines the effects of Ijarah finance, the independent variable, on Pakistani Islamic banks' functioning. Therefore, panel regression analysis using both Fixed Effect Models Analysis (FEMA) and Random Effect Models Analysis (REMA) is performed (Regulation, 2018).

3.1 Random Effect Model Analysis (REMA)

REMA provides constant explanatory variables to apply to the model's hidden variable. The model takes into account the specific impact of banks, independent of logical considerations. Meanwhile, REMA has a random and distributed effect, which makes its particular effect independent of error. These equations show the model.

$$ROE_{it} = \alpha_0 + \beta_1 LTF_{it} + \beta_2 IJRF_{it} + \beta_3 CTF_{it} + \beta_4 TFRR_{it} + \beta_5 BP_{it} + \beta_6 CVI_{it} + \beta_7 GDP_{it} + \varepsilon_{it} \quad (1)$$

$$NIMit = \alpha_0 + \beta_1 LTF_{it} + \beta_2 IJRF_{it} + \beta_3 CTF_{it} + \beta_4 TFRR_{it} + \beta_5 BP_{it} + \beta_6 CVI_{it} + \beta_7 GDP_{it} + \varepsilon_{it} \quad (2)$$

As a result, LTF refers to "log of total funds," IJRF to "ijarah over actual financing, "CTF to "cost of total financing," and TFTR to "total financing over total resources." The base percentage (BP), customer value index (CVI), and gross domestic product refer to GDP.

In the equations above, there are seven independent variables grouped into two categories: bank-explicit financial components and large-scale financial components, as well as ward factors of ROE and NIM acting as mediators for Islamic bank performance. Banks are explicitly associated with size, operational productivity, liquidity, and Ijarah financing.

1. A bank's size can be approximated based on a logarithmic representation of all its resources. What is the total amount of resources included in the IBs monetary position report?
2. "Functional efficiency" refers to operational expenses such as employee salaries, foundation fees, advertising, and government and general expenses.
3. Liquidity is determined by dividing the total amount of support by the total amount of resources of all Islamic banks.
4. Ijarah financing is a type of financing made available to clients by Islamic banks for rental resources. As a result, any revenue-raising activity is prohibited from being charged against the principal.

Macroeconomic variables are factors that cannot be controlled and affect IB performance. In this analysis, Base Percentage (BP), Customer Value Index (CVI), and Gross Domestic Product (GDP) serve as mediators between macroeconomic variables.

1. The Base Percentage (BP), determined by Islamic Meezan Bank in Pakistan, is a significant reference rate used by Pakistani banks for financing. Macroeconomic factors affect IBs' performance and profitability.
2. Gross domestic product (GDP) is a measure of a nation's financial health & is derived from the entire market assessment of labor & goods yielded over a one-year period. With such critical variables involved, it is clear that macroeconomic variables impact the performance and profitability of Islamic banks.
3. The Customer Value Index (CVI) is a file that measures economic growth by estimating the cost of labor and products that families generally use during a defined period.

Based on Hausman tests, we determined that Fixed Effect Model Analysis (FEMA) and Random Effect Model Analysis (REMA) were most effective in analyzing the data. ROE and NIM are calculated using REMA constructed on the Hausman examine findings. Additionally, the models were examined for multicollinearity, heteroskasticity, and autocorrelation. Due to these econometric issues, robust standard error models are considered (Gujerati & Porter, 2009). For example, the heteroskedasticity issue was resolved using the White correction which significantly improved the model results.

5. Results and Discussion

The regression results are discussed in this section where the first model represents ROE, and the second model represents NIM. Table 4.1 provides results for 10 Islamic banks in Pakistan using the ROE and NIM models.

Table 4.1: Findings of Penal Regression for ROE & NIM

Variables	Model – A – ROE	Model – B – NIM
Constant	1.1984	2.0181
	0.550	0.489
	Bank-Specific Factors	
LTF	-0.0645	-0.0657
	(0.635)	(0.742)
IJRF	0.6989	1.5553
	(0.296)	(0.052)*
CTF	-41.09334	65.4365
	(0.060)*	(0.020)**
TFTR	-0.0203	-0.1215
	(0.980)	(0.896
	Macroeconomic-Factors	
BP	0.1842	0.0499
	(0.0202)	(0.782)
CVI	-0.1244	-0.1255
	(0.060)*	(0.121)
GDP	0.0130	0.0582
	(0.495)	(0.014)**
R-2	0.0990	0.1394
Obs.	173	165
Hausman	0.5255	0.8180
Autocorrelation	0.000	0.000
Heteroskedasticity	0.000	0.008

Source: Authors' Estimations

IBs: Islamic banks, LTF: log total financing, IJTF: Ijarah real financing, CTF: cost total financing, TFTR: total financing over total resources, BP: base percentage, CVI: customer value index, GDP: gross domestic product, P-Value are parenthesized. *P <0.01, *P < 0.05 & *P < 0.1. According to the study, Islamic banks are, on average, more profitable, more liquid, better capitalized, and have lower credit risk than conventional banks.

Based on Model A, operational productivity, represented by bank cost total financing (CTF) and return on equity (ROE), is negatively linked. There is a negative and significant relationship between CVI and ROE and macroeconomic factors. For Model B, Ijarah's finance and cost total financing (CTF) have a significant and positive impact on NIM. The link between gross domestic product & net income margin is positive & significant from a macroeconomic perspective.

Based on a correlation coefficient of 1.5553 for Model A, the results indicate that Ijarah financing is positively related to NIM at a 10% confidence level. Positive evidence indicates that an increase of one unit in Ijarah financing will result in an increase of 1.5553 in the NIM of IBs in Pakistan. In Model B, however, Ijarah finance does not have a significant relationship to ROE. Mousa et al. (2016) as well as Hamadi et al. (2012) observed that advancements had a positive & significantly positive link with NIM. Organizations that provide funding with high profit margins have a better chance of managing the market to impose high profit margins.

Ijarah help is also closely linked to IBs effectiveness due to the acceptable factor that results from significant equity inclusion or equity support. This type of financing provides additional Ijarah financing components that provide exceptional tax reductions in addition to the possibility of using a drifting base percentage (Abdullah et al., 2006). Furthermore, IBs may have the opportunity to enter the market at a discount & achieve Ijarah finance from buyers. This would result in a higher NIM and increase Islamic banks' advantages in Pakistan. Ijarah financing represents almost 26% of the Islamic finance product mix. Ijarah financing is one of the key components of Islamic banking.

Moreover, the results are in agreement with those of Isa et al. (2017), found that the expansion focus strategy has a different impact on Pakistani banks than the customer care focus strategy. In addition, Islamic banks have better results than conventional banks. IBs' performance has a significant effect on the focus system, resulting in increased profits and risk reduction for Islamic banks. By expanding Ijarah Finance, IBs may be able to take advantage of this positive plan in terms of exposure.

6. Conclusion

In conclusion, Ijarah financing is the most significant service provided by Islamic banks to their consumers. This study provides exact help for imaginary research into the link between Ijarah finance and Islamic banks' performance. This study expands on the present Islamic finance analysis by examining the effects of Ijarah funding as a primary variable. As a result, this study demonstrates that Ijarah financing is a beneficial service that Islamic banks may provide to their consumers to enhance their performance. According to the study findings, Ijarah financing has a major impact on IBs and NIM. This suggests that Ijarah financing is a key vehicle for equity growth that banks appreciate, especially for income generation. Higher net total revenue will allow the Islamic bank to manage its equity more effectively and produce benefits. According to the findings, Islamic banks may be able to expand their capacities through Ijarah financing. It is critical that they focus only on improving support for Ijarah finance consumers in this manner. Islamic banks will perform better and get a greater proportion of the Ijarah financing market as Ijarah financing becomes more widespread. To gain a competitive advantage in the market, Islamic banks should use Ijarah financing. It is literally an in-depth study of the country from (2018-2022), and it only offers an overview of one country. Furthermore, because not all investment banks provide Ijarah support services, the emphasis must also be on overcoming the issues caused by information loss. These difficulties may arise in the future due to information decline. Future research may look at performance in a variety of countries and use advanced approaches to determine how Ijarah financing/leasing affects Islamic bank performance.

5.1 Implications of the Study

The effect of car Ijarah/lease financing on the Pakistani Islamic banking sector's performance has significant implications. Firstly, it allows Islamic banks to diversify their revenue streams and attract a wider customer base. Secondly, it promotes financial inclusion by providing access to vehicle financing for individuals who may not have the means to purchase a car outright. Lastly, it contributes to the overall growth and stability of the Islamic banking sector in Pakistan.

5.2 Limitations of the Study

It is only a limited analysis of the country during a short period of time (2018-2022), which provides an overview of one country. Moreover, since not all investment banks offer Ijarah support services, the focus must also be on addressing the challenges resulting from the decrease in information. These challenges may be experienced in the future due to information decrease.

5.3 Future of the study

The future of this study lies in further analyzing the long-term effects of car Ijarah/lease financing on the Pakistani Islamic banking sector's performance. By examining factors such as profitability, asset quality, and customer satisfaction over an extended period of time, researchers can gain a more comprehensive understanding of the impact of this financing mechanism on the sector's overall performance.

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