

## Risk Management in an Islamic Framework

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**Abstract :** The problem is, investment management in modern conditions boils down to risk management which is very underdeveloped in Islamic financial theory and practice. Add to this the fact that, in Islamic perception, this is one of the areas of conventional finance in need of drastic reforms. This need was recently underlined by the story of Long Term Capital Management (LTCM ), ( told by Roger Lowenstein in his book, When Genius Failed, Random House, 2000 ). So we face a double challenge, to develop Islamic techniques of risk management and to see that these new techniques are free from the ills with which conventional methods are suffering. This is different from the challenge faced in the middle of twentieth century, to develop a method of financial intermediation free of interest. Risk was always there, especially in business. But industrialization brought risks unknown in trade and agriculture. Industrial production often involves long periods of time .The longer the period of production the more the uncertainty. The scope of the market has expanded to cover the whole world, introducing new kinds of risk. More than a thousand years ago, when Islamic laws were being written, the nature and scope of risk and uncertainty was different. However, something can still be learnt which, in combination with the modern experience, should enable us to realize the Shariah objectives of justice, fairness and efficiency.

**Keywords :** financial markets, Islamic framework, risk management, investment

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