

Islamic Credit Risk Management in Murabahah Financing: The Study of Islamic Banking in Malaysia

Authors : Siti Nor Amira Bt. Mohamad, Mohamad Yazis B. Ali Basah, Muhammad Ridhwan B. Ab. Aziz, Khairil Faizal B. Khairi, Mazlynda Bt. Md. Yusuf, Hisham B. Sabri

Abstract : The understanding of risk and the concept of it occurs associated in Islamic financing was well-known in the financial industry by the using of Profit-and-Loss Sharing (PLS). It was presently in any Islamic financial transactions in order to comply with shariah rules. However, the existence of risk in Murabahah contract of financing is an ability that the counterparty is unable to complete its obligations within the agreed terms. Therefore, it is called as credit or default risk. Credit risk occurs when the client fails to make timely payment after the bank makes complete delivery of assets. Thus, it affects the growth of the bank as the banking business is in no position to have appropriate measures to cover the risk. Therefore, the bank may impose penalty on the outstanding balance. This paper aims to highlight the credit risk determinant and issues surrounding in Islamic bank in Malaysia in terms of Murabahah financing and how to manage it by using the proper techniques. Finally, it explores the credit risk management concept that might solve the problems arise. The study found that the credit risk can be managed properly by improving the use of comprehensive reference checklist of business partners on their character and past performance as well as their comprehensive database. Besides that, prevention of credit risk can be done by using collateral as security against the risk and we also argue on the Shariah guidelines and procedures should be implement coherently by the banking business because so that the risk would be control by having an effective instrument for Islamic modes of financing.

Keywords : Islamic banking, credit risk, Murabahah financing, risk mitigation

Conference Title : ICIBFC 2014 : International Conference on Islamic Banking, Finance and Commerce

Conference Location : Kuala Lumpur, Malaysia

Conference Dates : August 25-26, 2014