

Risks in the Islamic Banking Model and Methods Adopted to Manage Them

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Abstract : The financial services industry of Islam include large number of institutions, such as investment banks and commercial banks, investment companies and mutual insurance companies. All types of these financial institutions should have to deal with many issues and risks in their field of work. Islamic banks should expect to face two types of risks: risks that are similar to those faced by conventional financial intermediaries and risks that are unique to the Islamic Banks due to their compliance with the Shariah. The use of financial services and products that comply with the Shariah principles cause special issues for supervision and risk management. Risks are uncertain future events that could influence the achievement of the bank's objectives, including strategic, operational, financial and compliance objectives. In Islamic banks, effective risk management deserves special attention. As an operational problem, risk management is the classification and identification of methods, processes, and risks in banks to supervise, monitor and measure them. In comparison to conventional banks, Islamic banks face big difficulties in identifying and managing risks due to bigger complexities emerging from the profit loss sharing (PLS) concept and nature of particular risks of Islamic financing. As the developing of managing risks tool becomes very essential, especially in Islamic banking as most of the products are depending on PLS principle, identifying and measuring each type of risk is highly important and critical in any Islamic finance based systems. This paper highlights the special and general risks surrounding Islamic banking. And it investigates in detail the need for risk management in Islamic banks. In addition to analyzing the effectiveness of risk management strategies adopted by Islamic financial institutions at present, this research is also suggesting strategies for improving risk management process of Islamic banks in future.

Keywords : Islamic banking, management, risk, risk management

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