An Alternative Approach to Liquidity Risk Management of Islamic Banks

Islamic Banking Risk Management Problems Of Islamic Banks And Recommendations

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The expert contributors examine why an ethical foundation is important and why the system requires well-thought-out regulations to ensure outcomes that protect the community's well-being. The volume explores in detail the nature of Islamic banking products. The volumes of this series are devoted to research in Islamic theory and practice that will subserve the rapidly expanding Islamic finance industry. Given the huge potential impact of Islamic economics and Islamic finance upon Muslim, and even global, business practice, there is a broad field of opportunity to cater to the growing need of products and solutions for the Islamic business domain. This series aims to present the many theoretical and practical dimensions of Islamic economics and Islamic finance to academics as well as to professionals. This book addresses three main dimensions of risk management in emerging markets: 1) the effectiveness of risk management practices; 2) current issues and challenges in risk assessment and modelling in emerging market countries; 3) the responses of emerging markets to the recent financial crises and the design of risk management models. Despite noticeable growth in Islamic banking and finance literature in recent years, very few published books in this area deal with supervisory and regulatory issues in Islamic banking—both theoretically or empirically—and none with the critical issue of risks involved in liquidity management of Islamic banks. This unique book is the first of its kind in dealing with challenges these financial institutions face in the absence of interest rate mechanism and debt-based financial instruments. The
book examines critically issues involve in managing the risk of liquidity management for these types of institutions, including those stemming from Basel requirements. It then offers an alternative regulatory framework more appropriately suited for such banks without compromising safety and security. The book's unique features and innovative dimensions diagnostically differentiate between Islamic banks and conventional banks as related to liquidity management risks. It proposes a risk-sharing regulatory framework that, once implemented, would mitigate risks posed by balance-sheet mismatches. The book aims to assist regulators, supervisors, Islamic finance practitioners, academicians and other relevant stakeholders. New Issues in Islamic Finance & Economics: Progress and Challenges provides a review of the main issues and challenges facing Islamic finance. The application of Islamic finance is currently limited to banking. This book starts with an overview of the factors and motives behind the development of Islamic finance. A critical review of issues facing the industry is provided followed by a detailed analysis of areas where further attention is required. The book offers some original thinking on issues pertaining to governance, institutions, public finance and economic development within an Islamic financial system. Gain insight into the unique risk management challenges within the Islamic banking system. Risk Management for Islamic Banks: Recent Developments from Asia and the Middle East analyzes risk management strategies in Islamic banking, presented from the perspectives of different banking institutions. Using comprehensive global case studies, the book details the risks involving various banking institutions in Indonesia, Malaysia, UAE, Bahrain, Pakistan, and Saudi Arabia, pointing out the different management strategies that arise as a result of Islamic banking practices. Readers gain insight into risk management as a comprehensive system, and a process of interlinked continuous cycles that integrate into every business activity within Islamic banks. The unique processes inherent in Islamic banking bring about complex risks not experienced by traditional banks. From Shariah compliance, to equity participation contracts, to complicated sale contracts, Islamic banks face unique market risks. Risk Management for Islamic Banks covers the creation of an appropriate risk management environment, as well as a stage-based implementation strategy that includes risk identification, measurement, mitigation, monitoring, controlling, and reporting. The book begins with a discussion of the philosophy of risk management, then delves deeper into the issue with topics like: Risk management as an integrated system The history, framework, and process of risk management in Islamic banking Financing, operational, investment, and market risk Shariah compliance and associated risk The book also discusses the future potential and challenges of Islamic banking, and outlines the risk management pathway. As an examination of the wisdom, knowledge, and ideal practice of Islamic banking, Risk Management for Islamic Banks contains valuable insights for those active in the Islamic market. The growing presence of Islamic banking needs to be accompanied by the development of effective regulation and supervision. This paper examines the results of the survey conducted by the International Monetary Fund to document international experiences and country practices related to legal and prudential frameworks governing Islamic banking activities. Although a number of countries have made considerable progress in creating legal, regulatory, and supervisory frameworks that accommodate Islamic banking, there are substantial differences. This paper also identifies a number of challenges faced by regulatory and supervisory agencies regarding Islamic banking. Examines the resilience of Islamic banking during the global financial crisis and lessons for risk management. Do Islamic financial
institutions perform better than their conventional counterparts during periods of financial stress? To what extent do systems for managing risk have to be adapted for Islamic financial institutions, given the unique characteristics of their assets and liabilities and the need for shari'ah compliance? These issues have come to prominence since the global financial crisis of 2007-8 and the subsequent recession, and are addressed in this book. The challenges for Islamic financial institutions are explored in an international post Basel II system where banks are required to have more capital and liquidity. Governance issues are also examined, given their influence on client and investor perceptions and their ultimate implications for institutional stability and sustainability.Offered an in-depth assessment of how Islamic banks weathered the financial crisis and what lessons can be learnt. Asks whether Islamic banks are inherently more stable than conventional banks during periods of economic stress. Examines how Islamic banks manage risk, focusing on liquidity risk and the use of forward contracts to mitigate currency risk. Appraises the work of internal shari'ah audit units and the use of shari'ah reports to reduce non-compliance risks. Features case studies from the Gulf, Malaysia, the UK, Pakistan, Turkey and GCC countries. Islamic finance is a growing part of the global financial sector. The risks faced by Islamic banks are real, and how well they mitigate them will determine their future. This book answers questions regarding how Islamic Financial Institutions should focus on their risk management practices and the necessary solutions and policy implementation tactics. It also analyses the risk mitigation techniques Islamic institutions are putting to use, looking at different Islamic banks from across the world to investigate their strategies and solutions. Among the topics discussed here are the implementation and outcomes of Basel III, practical enterprise risk management practices, liquidity risk management, and the success story of the global takaful industry. Islamic financing system is based on the framework given by the Shariah. Shariah is basically the rules and principals, which are originated from the Quran and Sunnah. Islamic scholars also elaborated the Islamic rules in Islamic jurisprudence according to the framework of Quran and Sunnah. Furthermore, Islamic banking refers to a system of banking or banking activity that is consistent with Islamic law (Shariah) principles and guided by Islamic economics. Like conventional banks, Islamic banks are exposed to the some kinds of risks. However, in the case of Islamic banks, added attention must be paid to the contractual role of the bank, when analyzing the risks inherent in the bank's assets and liabilities. Because, Islamic banks are also, exposed to Shariah law risk which is related to the structure and functioning of Shariah boards at the institutional and systemic level. Moreover, the industries of Islamic Finance and Banking are still young so there are many problems that are facing his implementation and growth. Hence, the structure of the Islamic banks can be improved by taking some steps that are presented in this book. Deep, insightful analysis of controversial risk management issues in Islamic banking Mapping the Risks And Risk Management Practices In Islamic Banking is a comprehensive analysis of the current state of risk management practices within the Islamic banking industry, with recommendations for policy makers, bankers, and industry stakeholders. Going beyond the academic, this book presents the opinions and perceptions of industry financiers and bankers, alongside primary information and data collected by Islamic finance professionals to deconstruct and analyze the sector's current risk management practices. You'll get up to date on the latest attitudes and trends, and delve into the current issues surrounding risk management in Islamic banks. With a focus on practical applications,
this authoritative guide discusses the unique risks facing Islamic banks, from the perspective of a wide range of practitioners. Risk management is one of the biggest, most controversial issues in Islamic finance, yet it remains under-researched. Many uncertainties exist for which the answers are still unclear, yet will play a large role in shaping the industry's future. This book digs deep into current ideas and practices to discover what's being done, what needs to be done, and what needs to stop happening to keep the future of Islamic finance strong. Explore both Islamic and traditional attitudes toward risk Examine current Islamic risk management practices Understand the latest industry issues and trends Consider the diverse range of risks unique to the Islamic banking sector Effective risk management in Islamic banking deserves priority attention. Unless the industry develops its own genuine risk management architecture, it cannot achieve its full potential and the viability needed for a more resilient financial system than the debunked Wall Street model. Mapping the Risks and Risk Management Practices in Islamic Banking provides a deep, authoritative analysis of where the industry is today and where it needs to develop. The case explores the risk and remedial management challenges facing credit risk officers within Islamic banking institutions. This is assessed within the context of a two-tiered istisna'a (procurement) and ijara (leasing) transaction, shedding light on the specific Shari'a stipulations underpinning these types of transactions. Resilience and Stability A Socio-Economic Response in South East Asia (A M Venardos); Brunel: A Niche Money Market for Offshore Islamic Finance (K A Khairuddin); Legal and Regulatory Issues Concerning Islamic Finances Development in Malaysia (N N Thani & M M Hussain); Making Sense of the Fast-Growing Islamic Finance Market (T Maeda); Islamic Banks: Resilience & Stability Not Immune from Crisis (S Akhtar); USA and Southeast Asia: Islamic Banking and Finance Development Opportunities (M Kuo); The Risk Profile of Mudaraba and Its Accounting Treatment (H S Latiff); Current Developments of Islamic Banking in Indonesia (H Hamzah); Islamic Trusts for Wealth Management (A Z Hj Abdul Rashid & K A Jamil); Islamic Capital Markets: A Growing Area for Investment (M Mahlknecht); Legal and Regulatory Changes to Promote the Development of Islamic Banking and Finance in Singapore (A Selvam); Lessons from the Pakistani Model (B Rasul); Islamic Structured Products: Issues and Challenges (A Bin Hasan); and other papers. This book discusses competitive issues related to globalization, financial system and institutions from a managerial perspective. Contributions in this volume cover competitive strategies, risk management, controlling and custom finance in Finance & Banking. The novelty of the book is in demonstrating the innovative solutions to managerial issues in the global financial system. The contributions in this volume are peer-reviewed by the Society for the Study of Business and Finance. Gain insight into the unique risk management challenges within the Islamic banking system Risk Management for Islamic Banks: Recent Developments from Asia and the Middle East analyzes risk management strategies in Islamic banking, presented from the perspectives of different banking institutions. Using comprehensive global case studies, the book details the risks involving various banking institutions in Indonesia, Malaysia, UAE, Bahrain, Pakistan, and Saudi Arabia, pointing out the different management strategies that arise as a result of Islamic banking practices. Readers gain insight into risk management as a comprehensive system, and a process of interlinked continuous cycles that integrate into every business activity within Islamic banks. The unique processes inherent in Islamic banking bring about complex risks not experienced by traditional banks. From Shariah compliance, to equity participation contracts, to complicated
sale contracts, Islamic banks face unique market risks. Risk Management for Islamic Banks covers the creation of an appropriate risk management environment, as well as a stage-based implementation strategy that includes risk identification, measurement, mitigation, monitoring, controlling, and reporting. The book begins with a discussion of the philosophy of risk management, then delves deeper into the issue with topics like: Risk management as an integrated system The history, framework, and process of risk management in Islamic banking Financing, operational, investment, and market risk Shariah compliance and associated risk The book also discusses the future potential and challenges of Islamic banking, and outlines the risk management pathway. As an examination of the wisdom, knowledge, and ideal practice of Islamic banking, Risk Management for Islamic Banks contains valuable insights for those active in the Islamic market. This paper analyzes the implications of Islamic precepts on banks’ structure and activities, focusing on banking supervision issues. It points out and discusses these issues in the context of a paradigm version of Islamic banking, as well as in frameworks that fall between the paradigm version and conventional banking. The case of Islamic banks operating in a conventional system is also examined. Financial institutions are increasingly providing Islamic financial contracts in global markets. As a result of this market growth there is a high demand to understand how to assess and manage the risks arising from applying Islamic financial products and services. Credit, operational, market and liquidity risks together with the risk of non-compliance with the Shariah law are becoming very hot issues for financial institutions. This book presents a common framework on how to efficiently manage the risks faced. A comprehensive guide to one of the key risk management issues in the expanding field of Islamic finance For Islamic financial institutions, Shariah non-compliance is a growing and key risk that must be carefully managed. This book offers a thorough look at non-compliance risk and explains the legal documentation necessary to ensure compliance for professionals in the Islamic finance industry. In addition, the book offers helpful guidance and understanding for the legal departments of Islamic financial institutions, as well as lawyers, legal firms, Shariah advisors, Shariah officers, and students studying Islamic finance. The book covers fundamental concepts, major risk elements, tools and techniques for identifying non-compliance, legal documentation, and the impact of non-compliance, among other vital topics. Offers comprehensive coverage of the growing field of non-compliance risk management in Islamic finance Includes in-depth coverage of legal documentation Written by an expert on the topic who teaches at INCEIF, The Global University for Islamic Finance and IIUM, International Islamic University of Malaysia in Malaysia Despite noticeable growth in Islamic banking and finance literature in recent years, very few published books in this area deal with supervisory and regulatory issues in Islamic banking - theoretically or empirically - and none with the critical issue of risks involved in liquidity management of Islamic banks. This unique book is the first of its kind in dealing with challenges these financial institutions face in the absence of interest rate mechanism and debt-based financial instruments. The book examines critically issues involve in managing the risk of liquidity management for these types of institutions, including those stemming from Basel requirements. It then offers an alternative regulatory framework more appropriately suited for such banks without compromising safety and security. The book's unique features and innovative dimensions diagnostically differentiate between Islamic banks and conventional banks as related to liquidity management risks. It proposes a risk-sharing regulatory framework that, once
implemented, would mitigate risks posed by balance-sheet mismatches. The book aims to assist regulators, supervisors, Islamic finance practitioners, academicians and other relevant stakeholders. A comprehensive guide to mitigating risk and fostering growth within the Islamic financial sector. Islamic finance, like conventional finance is a business of financial intermediation. Its distinctive features relate to the requirement that it abides by Shari'a rules that promote fairness of contracts and prevention of exploitation, sharing of risks and rewards, prohibition of interests, and tangible economic purpose. Islamic finance should not fund activities considered "haram" or sinful. In Islamic Finance and Economic Development: Risk, Regulation, and Corporate Governance, authors Amr Mohamed El Tiby and Wafik M. Grais expound how these distinctive features bear on the opportunities and challenges facing the Islamic finance industry's development, risk management, regulation and corporate governance. An experienced banker with various Middle East banking institutions, notably as former Vice President at UAE Union National Bank and Mashreq Bank, Dr. El Tiby offers an informed perspective on corporate finance from within the Islamic finance industry. With a long experience in international development and finance, notably as former Director at the World Bank and Founder and Chairman of a Cairo-based Financial Advisors company, Dr. Grais brings global financial experience on the topics of financial systems assessments, corporate governance, Islamic finance, and public policy. Covers the history and basics of Islamic finance, and provides insight into current conditions and future landscape. Explores regulatory framework, including opportunities and challenges for the industry's development and mainstreaming. Presents an approach to developing a systemic Shari'a governance framework to govern operations in the Islamic finance industry. The Handbook of Islamic Banking comprises 25 studies by leading international experts on Islamic banking and finance specially commissioned to analyse the various debates and the current state of play in the field. From its origins thirty years ago, Islamic banking has expanded rapidly to become a distinctive and fast-growing segment of the international banking and capital markets. Despite this expansion, Islamic banking still remains poorly understood in many parts of the Muslim world and continues to be a mystery in much of the West. This comprehensive Handbook provides a succinct analysis of the workings of Islamic banking and finance, accessible to a wide range of readers. At the same time, it seeks to bring the current research agenda and the main issues on Islamic banking before a wider audience. Islamic banking offers, as an alternative to conventional interest-based financing methods, a wide variety of financial instruments and investment vehicles based on profit-and-loss sharing arrangements. These are all explored in detail along with other subjects such as governance and risk management, securities and investment, structured financing, accounting and regulation, economic development and globalization. M. Kabir Hassan, Mervyn Lewis and the other contributors have created an authoritative and original reference work, which will contribute to a wider understanding of Islamic banking as well as provoking further discussion and research. It will be invaluable to all scholars, researchers and policymakers with an interest in this subject. Seminar paper from the year 2009 in the subject Business economics – Banking, Stock Exchanges, Insurance, Accounting, grade: 2,1, University of the West of England, Bristol, language: English, abstract: Abstract: Islamic banking is a fast growing finance sector with a growth rate of 15% p.a. and assets value over 200 Billion Dollars. Through the renaissance of Islam it is anticipated that in the next 10 years 40-50% of all Muslim savings will be placed in Islamic
financial institutions (Zaher and Hassan, 2002). This trend is international recognised and conventional western banks like Citibank, Deutsche Bank and ABN Amro offer already Islamic banking products. Additionally, large international corporations such as GM, IBM and Dewoo use services offered by Islamic financial institutions (Haron and Ahmad, 2000). The in theory praised model of Profit and Loss Sharing faces in reality principal-agency challenges on the asset side of Islamic banks. This paper analyses the complex agency-problem of Islamic banks through their altered capital structure and investment rules whereby the depositors as quasi-shareholder are not matter of corporate governance. The paper examines the consequences and offers a collection of existing alternatives in the literature to handle this agency-problem. This book explores contemporary issues and trends facing Islamic banks, businesses and economies as presented at the International Conference of Islamic Economics, Banking and Finance. The authors leverage current empirical research and statistics to provide unique and fresh perspectives on the changing world of Islamic finance. They focus specifically on to the implementation of Islamic financial instruments and services in global capital markets and how their success can be evaluated. Chapters feature case studies from all over the world including examples from Afghanistan, Bosnia and Herzegovina and the United Kingdom, to name a few. The breadth and immediacy of the research presented by the authors will appeal to practitioners and scholars alike. The global outlook and rich database approach adopted in this book guarantee that it is a timely and valuable addition to the field of Islamic finance. The provision and use of financial services and products that conform to Islamic religious principles pose special challenges for the identification, measurement, monitoring, and control of underlying risks. Effective and efficient risk management in Islamic financial institutions has assumed particular importance as they endeavor to cope with the challenges of globalization. This requires the development of not only a more suitable regulatory framework, but also new financial instruments and institutional arrangements to provide an enabling operational environment for Islamic finance. The recent establishment of the Islamic Financial Services Board, facilitated by the IMF, addresses these needs. From the world's foremost authorities on the subject, the number-one guide to Islamic finance revised and updated for a post-crisis world Because it is entirely equity-based, rather than credit-based, Islamic finance is immune to the speculative bubbles and runaway volatility of Western finance. Especially now, in the wake of the global financial crisis, this has made them increasingly attractive to institutional investors, asset managers and hedge funds in search of more stable alternatives to conventional financial products. With interest in Islamic finance swiftly spreading beyond the Muslim world, the need among finance and investment professionals has never been greater for timely and authoritative information about the rules governing Islamic finance. This thoroughly updated and revised second edition of the premier guide to regulatory issues in Islamic finance satisfies that need. Addresses the need for banks to develop common Islamic-based international accounting and auditing standards Clearly explains the key differences between Shari'ah rulings, standardization of acceptable banking practices, and the development of standardized financial products Explores the role of the Shari'ah Boards in establishing common rules regarding the permissibility of financial instruments and markets Offers guidance for regulators seeking to adapt their regulatory frameworks to the needs of the fast-growing Islamic finance sector This guide provides an integrated, structured process for managing risks in Islamic banks. It includes risk identification, measurement and
mitigation, and compares risk management in conventional and Islamic banks. The potential of the Islamic financial services industry is high, since Islamic banking and Islamic insurance have been continuously growing over the last decade. Irrespective of this growth, research about Islamic finance has been rare. Therefore, this work tries to partly close this gap by examining the risk management of Islamic financial institutions. Thereby, the risk management techniques of conventional and Islamic banks as well as insurance companies are compared, an empirical analysis that contrasts the insolvency risk, measured by the Z-Score, of conventional and Islamic financial institutions is conducted and hypothetical case studies that assess the potential and challenges of Western banks and insurance companies when entering the Islamic market are performed. This paper shows that there exist major differences between the risk management of Islamic and conventional financial institutions as a result of the condition to align all financial transactions in Islamic finance with the Islamic law, the Sharia. Moreover, the work reveals that there is no significant difference in the insolvency risk between Islamic and conventional financial institutions neither in the banking nor in the insurance industry. Furthermore, it can be highlighted that Western banks and insurance companies would face great challenges when entering into the Islamic market. Credit risk is deemed to be the leading source of problems in banking institutions. This thesis aims to analyze the management of credit risk in the Indonesian Islamic banking industry, particularly to evaluate the practices of credit risk management of Islamic banks and to compare the factors differentiating credit risk management practices between Islamic banks and conventional banks. In addition, the study aims to determine the key factors affecting credit risk in Islamic banks for the period of 2004 to 2012 and to examine the relationship between credit risk and financing structure. The study applies both quantitative and qualitative methods to handle different aspects of the research objectives and to gather all relevant information on credit risk management and to construct the main output of the study. This study utilizes three statistical analyses and econometric models, which are a dynamic panel data analysis, Ordinary Least Square (OLS) regression analysis, logistic regression coupled with a questionnaire survey and a qualitative interview technique to evaluate empirical evidence regarding credit risk management practices of Islamic banks operating in Indonesia. The overall summary of results shows that while most of the results are in line with the expectations, others are not in line with the underlying theories, which are life-cycle theory of consumption and agency theory. The findings show that the key factors affecting credit risk in Indonesian Islamic banks are real GDP growth, financing growth, bank size, profitability, cost efficiency and ownership concentration. However, the results also indicate that three explanatory variables which include unemployment rate, bank’s capital and diversification do not support their respective hypotheses since the coefficients of these variables are in the opposite direction as expected by the theory. Furthermore, with regard to credit risk management practices (CRMP), the results show that there is a general understanding of CRMP throughout the Islamic banking system in Indonesia, and all the aspects of credit risk management have a positive relationship with CRMP. By providing the empirical evidence on the factors affecting credit risk in Indonesian Islamic banks, it is hoped that this study could enhance greater understanding of credit risk management framework. Furthermore, it is hoped that the findings could create awareness to the Islamic banks regarding factors affecting credit risk in Islamic banks so that they can properly
manage credit risks. In addition, the finding from the study would be useful to the policymakers and regulators in making informed decisions and formulating policies that will indeed contribute to the bottom-line of the banks and indirectly help to prevent systemic risk. Deep, insightful analysis of controversial risk management issues in Islamic banking Mapping the Risks And Risk Management Practices In Islamic Banking is a comprehensive analysis of the current state of risk management practices within the Islamic banking industry, with recommendations for policy makers, bankers, and industry stakeholders. Going beyond the academic, this book presents the opinions and perceptions of industry financiers and bankers, alongside primary information and data collected by Islamic finance professionals to deconstruct and analyze the sector's current risk management practices. You'll get up to date on the latest attitudes and trends, and delve into the current issues surrounding risk management in Islamic banks. With a focus on practical applications, this authoritative guide discusses the unique risks facing Islamic banks, from the perspective of a wide range of practitioners. Risk management is one of the biggest, most controversial issues in Islamic finance, yet it remains under-researched. Many uncertainties exist for which the answers are still unclear, yet will play a large role in shaping the industry's future. This book digs deep into current ideas and practices to discover what's being done, what needs to be done, and what needs to stop happening to keep the future of Islamic finance strong. Explore both Islamic and traditional attitudes toward risk Examine current Islamic risk management practices Understand the latest industry issues and trends Consider the diverse range of risks unique to the Islamic banking sector Effective risk management in Islamic banking deserves priority attention. Unless the industry develops its own genuine risk management architecture, it cannot achieve its full potential and the viability needed for a more resilient financial system than the debunked Wall Street model. Mapping the Risks and Risk Management Practices in Islamic Banking provides a deep, authoritative analysis of where the industry is today and where it needs to develop. Islamic finance is emerging as a rapidly growing part of the financial sector in the Islamic world and is not restricted to Islamic countries, but is spreading wherever there is a sizable Muslim community. According to some estimates, more than 250 financial institutions in over 45 countries practice some form of Islamic finance, and the industry has been growing at a rate of more than 15 percent annually for the past several years. The market's current annual turnover is estimated to be $70 billion, compared with a mere $5 billion in 1985, and is projected to hit the $100 billion mark by the turn of the century. Since the emergence of Islamic banks in the early 1970s, considerable research has been conducted, mainly focusing on the viability, design and operations of a deposit-accepting financial institution, which operates primarily on the basis of profit and loss partnerships rather than interest. This publication provides a comprehensive overview of topics related to the assessment, analysis, and management of various types of risks in the field of Islamic banking. It is an attempt to provide a high-level framework (aimed at non-specialist executives) attuned to the current realities of changing economies and Islamic financial markets. This approach emphasizes the accountability of key players in the corporate governance process in relation to the management of different dimensions of Islamic financial risk. A comprehensive overview of key developments in Islamic banking In Islamic Banking in Indonesia, renowned economist Dr. Rifki Ismal explores current issues in Islamic banking and financial products with a particular focus on the danger of liquidity risk in Indonesia. It approaches liquidity risk from the
conventional perspective of international banking standards, as well as from the Islamic banking perspective. Dr. Ismal also covers the issues of asset-liability balancing, liquidity risk index, organizational structures for managing liquidity, industrial analysis, withdrawal risk, bankruptcy risk, moral hazard risk, and market risk. Compiling all the latest academic research on liquidity risk and other risks in Islamic banking, the book provides a theoretical foundation for managing risk that will is highly useful for researchers on Islamic banking and practitioners and academics. Written by a renowned expert on Islamic banking who works on monetary policy at the central bank of Indonesia Covers the latest developments in Islamic banking, particularly liquidity risk, for a rapidly expanding market Ideal for European and American readers, in addition to Asian readers, who need a fuller understanding of Islamic banking institutions, markets, and products With the latest academic research and the expertise of a leading practitioner in Islamic banking, this book offers in-depth coverage of the most pressing issues in the field. The major business of the banks is maturity transformation of funds through mobilization of deposits which are repayable on short notice demand and use the deposits to provide longer period financing or credit facilities to the borrowers. Inability of the banks to match depositors' demand for withdrawal with realization of longer-term assets exposes banks to liquidity risk. Thus, liquidity management becomes a critical issue/area that calls for attention and prudential supervision by the banking regulators. Past and recent failure episodes of many conventional banks, various financial crises experienced by few Islamic banks in the recent past, and current global financial crisis are testimonies to the fact that liquidity risk (shortages) is a direct consequence of ineffective and inefficient liquidity management. In a nutshell, liquidity risk is a critical issue which is detrimental to the health of financial system and harmful to the real economy. Though, given the perception of the worldwide ongoing rapid growth of the Islamic financial industry, the assumption is that Islamic financial system enjoys surplus liquidity. Hence, it is not vulnerable to this problem. However, the recent failure and closure of some Islamic banks spurred by financial crisis is a sufficient proof that there is a need for sound financial stability and efficient liquidity management which requires urgent attention and redress in order to protect the reputation of the nascent Islamic banking industry. Therefore, this study through the participation of practitioners in some full fledged Islamic banks, subsidiaries and Islamic windows and experts in Islamic banking and finance intends to investigate the causes of the liquidity problems in Islamic Banks in spite of the claimed excess liquidity, patronage and continuous growth being enjoyed by Islamic financial institutions, and determine how effective and efficient liquidity management can be achieved. The study employed quantitative data analysis using statistical tools such as SPSS 16.0 and AMOS 16.0 and statistical techniques like Descriptive Statistic, Factor Analysis and Structural Equation Modeling (SEM). The findings revealed the impacts of regulation and supervision, Islamic financial instruments; Islamic corporate governance and Islamic financial ethics towards ensuring sound liquidity risk management in Islamic banks and also identified strategies for enhancing Islamic banking liquidity risk management. The Structural Equation Modeling produced a model fit for the Islamic banking liquidity risk management framework which confirmed the relationship between liquidity risk management and its hypothesized predictors. Master's Thesis from the year 2010 in the subject Business economics – Investment and Finance, grade: 1,7, Maastricht University (School of Business and Economics), course: -, language: English,
abstract: 1.1 General Introduction to the Topic

Islamic finance is on the march. The underlying logic is simple: All investments and services are consistent with the principles of Islamic law, called Shari’ah, which literally means ‘a clear path to be followed and observed’ (Hourani, 2004a). This clear path is followed only if profit does not stem from interest (riba), speculation (gharrar) or sectors that are considered sinful according to the Qur’an (haraam), namely everything that involves alcohol, tobacco, entertainment, gambling or pork, just to name a few. The high potential of Islamic finance is clear for three reasons. The first reason relates to the emergence of a new consumer type, as there is increased demand for a Shari’ah-compliant way of investing that stems from increased globalization. The middle class from emerging markets rose from one third to 56 percent between the 1990s and 2006 (The Economist, 2009). Many Muslim countries can be found in the list of emerging markets, such as Egypt, Pakistan and Indonesia. With the Muslim population of the world exceeding 1.5 billion people (about 21 percent of the world population) and due to the fact that it is the fastest growing religion, it becomes clear why the general conditions for Islamic finance are so favourable (Central Intelligence Agency, 2009). The second reason relates to the global trend for sustainable investment; the fact that Islamic finance is an ethical way of investing which does not invest in harmful businesses and instead donates purified gains to charity is becoming more and more attractive among non-Muslim investors as well (Global Finance, 2007). The Shari’ah aspect makes Islamic financial products an alternative to socially responsible investments (Khan, 2009). The last reason is a matter of trust; in the face of the financial crisis that began shattering the world in 2007, many investors lost confidence in the traditional banks and their practices (Reuters, 2008; CNN, 2009). Today even the Holy See states that ‘the ethic principles on which Islamic finance is based may bring banks closer to their clients and to the spirit which should mark every financial service’ (Bloomberg, 2009). According to recent estimates, IFIs could increase their assets under management from roundabout $700 billion to over $1.6 trillion in 2012 (Reuters, 2009). WICHTIG: Sämtliche Recherchetätigkeiten wurden bei in den Vereinigten Arabischen Emiraten ansässigen islamischen Banken vor Ort durchgeführt. The first book to offer comprehensive coverage of Islamic finance and banking and its applications to the rest of the world, now fully revised and updated The ongoing international financial crisis has reignited debate over the development of a risk-sharing financial system, such as that required in Shariah Law. An Introduction to Islamic Finance: Theory and Practice, Second Edition highlights the core principles of risk sharing in Islam, arguing that a risk-sharing financial system is exactly what we need to promote greater financial stability. Providing comprehensive coverage of the fundamental theory behind Islamic finance and banking, according to the core concepts of Shariah law, authors Zamir Iqbal and Abbas Mirakhor clearly explain the distinct features of an Islamic financial system and how it compares with traditional financial models. Addressing the myriad important developments that have taken place in recent years, this second edition looks to the future, addressing emerging issues sure to influence future developments in Islamic finance. Explores the unique features of an Islamic financial system, how they compare to more traditional financial systems, and how they could improve them Discusses all the most recent developments and emerging issues in Islamic finance Updated with the latest developments, trends, innovations, and statistics, this new edition features additional chapters on the financial crisis, globalization, non-bank financial institutions, and recent developments in Takaful (Islamic insurance)
first edition of An Introduction to Islamic Finance established the book as the market leader, and this newly revised and updated second edition incorporates the most recent developments in this booming financial sector, including financial stability, globalization, and non-banking financial institutions. In this issue, we have presented issues relevant to the most recent debate on the performance, practices, and principles of the Islamic finance industry as a whole, covering eleven distinct issues. Development of emerging countries is often enabled through non-conventional finance. Indeed, the prohibition of interest and some other impediments require understanding conventional finance and Islamic finance, which both seek to be ethical and socially responsible. Thus, comparing and understanding the features of Islamic banking and conventional banking, in a globalized economy, is fundamental. This book explains the features of both conventional and Islamic banking within the current international context. It also provides a comparative view of banking governance, performance and risk-taking of both finance systems. It will be of particular use to practitioners and researchers, as well as to organizations and companies who are interested in conventional and Islamic banking. Gain insight into the unique risk management challenges within the Islamic banking system. Risk Management for Islamic Banks: Recent Developments from Asia and the Middle East analyzes risk management strategies in Islamic banking, presented from the perspectives of different banking institutions. Using comprehensive global case studies, the book details the risks involving various banking institutions in Indonesia, Malaysia, UAE, Bahrain, Pakistan, and Saudi Arabia, pointing out the different management strategies that arise as a result of Islamic banking practices. Readers gain insight into risk management as a comprehensive system, and a process of interlinked continuous cycles that integrate into every business activity within Islamic banks. The unique processes inherent in Islamic banking bring about complex risks not experienced by traditional banks. From Shariah compliance, to equity participation contracts, to complicated sale contracts, Islamic banks face unique market risks. Risk Management for Islamic Banks covers the creation of an appropriate risk management environment, as well as a stage-based implementation strategy that includes risk identification, measurement, mitigation, monitoring, controlling, and reporting. The book begins with a discussion of the philosophy of risk management, then delves deeper into the issue with topics like: - Risk management as an integrated system - The history, framework, and process of risk management in Islamic banking - Financing, operational, investment, and market risk - Shariah compliance and associated risk. The book also discusses the future potential and challenges of Islamic banking, and outlines the risk management pathway. As an examination of the wisdom, knowledge, and ideal practice of Islamic banking, Risk Management for Islamic Banks contains valuable insights for those active in the Islamic market. As an emerging global phenomenon, Islamic economics and the financial system has expanded exponentially in recent decades. Many components of the industry are still unknown, but hopefully, the lack of awareness will soon be stilled. The Handbook of Research on Theory and Practice of Global Islamic Finance provides emerging research on the latest global Islamic economic practices. The content within this publication examines risk management, economic justice, and stock market analysis. It is designed for financiers, banking professionals, economists, policymakers, researchers, academicians, and students interested in ideas centered on the development and practice of Islamic finance. Gain insight into the unique risk management challenges within the Islamic banking system.
Middle East analyzes risk management strategies in Islamic banking, presented from the perspectives of different banking institutions. Using comprehensive global case studies, the book details the risks involving various banking institutions in Indonesia, Malaysia, UAE, Bahrain, Pakistan, and Saudi Arabia, pointing out the different management strategies that arise as a result of Islamic banking practices. Readers gain insight into risk management as a comprehensive system, and a process of interlinked continuous cycles that integrate into every business activity within Islamic banks. The unique processes inherent in Islamic banking bring about complex risks not experienced by traditional banks. From Shariah compliance, to equity participation contracts, to complicated sale contracts, Islamic banks face unique market risks. Risk Management for Islamic Banks covers the creation of an appropriate risk management environment, as well as a stage-based implementation strategy that includes risk identification, measurement, mitigation, monitoring, controlling, and reporting. The book begins with a discussion of the philosophy of risk management, then delves deeper into the issue with topics like: Risk management as an integrated system The history, framework, and process of risk management in Islamic banking Financing, operational, investment, and market risk Shariah compliance and associated risk The book also discusses the future potential and challenges of Islamic banking, and outlines the risk management pathway. As an examination of the wisdom, knowledge, and ideal practice of Islamic banking, Risk Management for Islamic Banks contains valuable insights for those active in the Islamic market.

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