

€ TRAINING

Risks of Islamic Banking Finance





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Introduction:

Islamic banking and finance operate under principles that prohibit the payment or receipt of interest riba and emphasize ethical investments and risk-sharing mechanisms. While these principles offer ethical and socially responsible alternatives to conventional banking, they also present unique risks that must be understood and managed. This training program delves into the various risks involved in Islamic banking, including credit, market, liquidity, operational, and legal risks, and how these can be mitigated. Participants will explore the intricacies of Islamic finance products and the risk management strategies employed to ensure compliance with Shariah law while maintaining financial stability.

Program Objectives:

At the end of this program, participants will be able to:

- Identify the key principles and structures of Islamic banking and finance.
- Identify and assess the different types of risks associated with Islamic banking products.
- Evaluate the impact of risk management strategies in Islamic banking institutions.
- Explore the regulatory and compliance challenges in Islamic banking.
- Develop strategies to mitigate risks while maintaining Shariah compliance.

Targeted Audience:

- Banking professionals and financial analysts in Islamic financial institutions.
- Risk management professionals in the banking and finance sectors.
- Compliance officers and legal advisors in Islamic banking.

Program Outline:

Unit 1:

Introduction to Islamic Banking and Finance:

- Overview of Islamic banking principles and the prohibition of riba interest.
- Key concepts in Islamic finance: profit-sharing mudarabah, joint ventures musharakah, and leasing ijarah.
- The role of Shariah law in Islamic banking and its impact on product offerings.

- Differences between conventional and Islamic banking systems.
- The growing global importance of Islamic banking and finance in the financial sector.

Unit 2:

Credit Risk in Islamic Banking:

- Defining credit risk in the context of Islamic banking.
- Evaluating credit risk associated with Islamic finance products: murabaha and ijarah.
- Credit risk management practices in Islamic banks.
- The role of collateral and guarantees in Islamic finance transactions.
- Risk assessment tools and due diligence processes in Islamic banking.

Unit 3:

Market and Liquidity Risks in Islamic Finance:

- Market risk in Islamic banking: foreign exchange, commodity price fluctuations, and equity risks.
- The unique aspects of liquidity risk in Islamic finance, including the lack of conventional money markets.
- Managing liquidity risks through Islamic financial instruments: sukuk and tawarruq.
- The role of central banks and regulatory authorities in managing liquidity in Islamic banking systems.
- Strategies for balancing liquidity needs and compliance with Shariah law.

Unit 4:

Operational and Legal Risks in Islamic Banking:

- Defining operational risk in Islamic banks: fraud, errors, and system failures.
- Legal challenges unique to Islamic banking: contract enforceability and Shariah compliance.
- How to manage operational risks through effective governance and internal controls.
- The role of Shariah boards and compliance officers in mitigating operational risks.
- Key legal risks related to Islamic finance contracts and dispute resolution.

Unit 5:



Mitigating Risks in Islamic Banking and Finance:

- Risk management frameworks used in Islamic financial institutions.
- The role of diversification in mitigating credit, market, and operational risks.
- Utilizing Islamic hedging instruments: options istihbar, profit-sharing, and structured products.
- Importance of developing a comprehensive risk management strategy that aligns with Shariah principles.
- Regulatory frameworks and international standards governing risk management in Islamic banking: AAOIFI and IFSB.