BUSINESS RISK MANAGEMENT IN ISLAMIC INSTITUTIONS AND BANKS: A PERSPECTIVE

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ABSTRACT
The banking sector frequently confronts several challenges and risks concerning their operations. These risks can hamper everyday operations, cripple the business system, and cause financial loss. In this regard, this study strives to propose the objectives and measures of risk management in Islamic institutions and banks to consolidate the concepts of Islamic banking. The researchers highlighted the types of risks that Islamic banking tends to avoid and the efforts to deal with them. Furthermore, it also recommended measures to circumvent the challenges faced by Islamic financial institutions, i.e., lack of experts regarding risk management and the weak risk management system. Thus, the paper also suggested several recommendations, such as diversification of investment and financing tools to reduce risks, attract savings, and diversify resources.

KEYWORDS: Risk Management, Islamic Institutions, Banks, Finance

INTRODUCTION
Comprehensive risk management refers to a systematic decision-making process in an environment of uncertainty about an event that can happen. Especially, whose probability and impact can have adverse consequences (Al Rahahleh et al., 2019; Alghizzawi, Habes, & Salloum, 2019; Salloum, Al-Emran, Habes, et al., 2019). It is an unavoidable concern in the day-to-day development of business. It constitutes a strategic challenge to achieve better performance, growth, and competence as it a substantial component of essential business management (Benlemlih et al., 2018). Integral management implies a holistic global administration of risks at all levels of the organization to facilitate the achievement of strategic decision-making. Taking into account the interaction of the company with its environment, the relationship with stakeholders, the interrelation between processes, and the implementation of mechanisms that guarantee business continuity demand strategic risk management (Choi et al., 2016). Thus, risk management requires structured, comprehensive, and permanent strategies to identify, evaluate, and monitor all risks that can hinder obtaining business goals. Regarding regulations, international Coso II (K. M. A. Islam & Barghouthi, 2017) established an integrated framework, based on strategic objectives with different techniques, focusing on the potential risks to financial information. This is one of the previous norms of risk management (Alghizzawi et al., 2018; Habes, Alghizzawi, et al., 2020; A. Islam & Amir, 2016).
We assume that Islamic banks are a national product derived from Islamic jurisprudence, and the data of Islamic civilization aimed to extend the development efforts and keeping pace with contemporary banking approaches(Habes, Salloum, et al., 2018; Muhaisen et al., 2020a; Salloum, Al-Emra, et al., 2019). As noted by (Habes, Salloum, et al., 2018; Khaki & Sangmi, 2012) Islamic Banking ensures interest-free loans known as "Qard-e-Hasna" as the proposed mode of financing in Islamic Banking is "Financing on Profit & Loss Sharing." Aimed at the ease of recipients, Qard-e-Hasna aims to facilitate both the individuals and society. However, Islamic banks work on the same structures and principles of conventional banking. They provide distinguished asset transformation details, brokerage service, risk management guidance, and others (Mcmillen, 2015). Due to interest-free loans and banking services, Islamic banking prohibits debt security,

and due to this, creditors enjoying benefits without interests or any other additional charges (Iqbal, 2017). Thus, many approved sources are offering better solutions to contemporary issues, foremost of which is banking. In this way, Islamic banking is developed as a genuinely national product in its originality and development.(Aldoseri & Worthington, 2016)(Alhawamdeh, Alghizzawi, et al., 2020)

MANAGEMENT OF TRENDS AND RISKS THROUGH BUSINESS INSURANCE

The risks for Islamic banks increased due to several developments, growing use of new financial instruments, and integration of technology. However, to tackle the challenges, risk management was raised as an essential aspect of banking. For this purpose, the Basel Committee included risk management efficiency as one of the crucial axes for determining bank solvency. Therefore, Islamic banks sought to search for hedging methods that differ from the traditional model that does not serve the nature of their business (Pope, 1992). According to (Rahahleh, 2019), Islamic financial services institutions must follow comprehensive procedures for managing risks and preparing reports about them. These procedures may involve appropriate oversight by the senior management to identify, measure, follow-up, and monitor the relevant risk categories and prepare reports on them. These procedures include steps to comply with the Sharia and ensure the adequacy of the information submitted to the supervisory authorities.(Alghizzawi, Habes, Salloum, et al., 2019; Alnawafleh et al., 2019)

Comprehensive risk management offers improvements in the strategic planning stage, threat minimization, opportunity exploitation, and management of transversal risks. Risk management also aims to obtain an integrated business vision, asset protection, and improvement of the image of the organization (Choi et al., 2016). It also allows a more efficient allocation of resources and develops a structure that enables future activities to be carried out in a controlled manner and promotes business growth. (Abdul Ganiyy et al., 2017)

However, for Comprehensive Risk Management to be effective, it must be aligned with the critical functions of the organization. For a program or system to be successful, it must be included within the operations of corporate governance, where the board of directors and the Senior management define the policies, strategic objectives, and guidelines of risk management, while conducting a continuous review of it (Alghizzawi et al., 2018). Additionally, organizations should design appropriate performance indicators, and managers assume responsibilities before risk committees and the board of directors for compliance and feedback (Noomen & Abbes, 2018). More than formal and simple regulatory compliance, organizations should possess robust and effective risk management systems (Mohamod, Kasim, 2014). Organizations must contemplate policies, procedures, and other mechanisms to intervene in threats or vulnerabilities to prevent or control existing risks. It is crucial to design an appropriate risk management system, and senior executives should provide permanent guidance, channeling, and supervisory bodies for the implementation, compliance, and effectiveness of the policies, procedures, and controls (Megeid, 2017).

But all areas of the organization should ensure adequately managing the risk, benefitting all the interest groups to minimize the threats, which may positively contribute to achieving the institutional objectives (Abdul Ganiyy et al., 2017). Such management is a productive investment that can bring companies protection and beneficial results while avoiding risks in the medium and long term business activities. This management should not be assimilated as another legal obligation, but rather as a social responsibility, having the importance it truly deserves.(Huang et al., 2017)

As noted, risk management should incorporate stages, i.e., identification, evaluation, control, and monitoring (Barney, 1986), sufficient budgetary, human, technical, and training resources must be provided to the areas responsible for compliance and management. These resources will help in risk prevention, detection, mitigation, and control (Megeid, 2017).

RISK MANAGEMENT IN ISLAMIC BANKS

Concerning risk management in Islamic banks, a compliance program is a pre-requisite as one of the essential steps. As it is necessary to define how vulnerable an institution is, to qualify at what level it is, and to determine the class, impact, frequency, and assessment of the controls needed to nullify the possible risks. This depends on the thorough analysis of the different risk generating factors, i.e., type of clients, size of the entity, market where it operates, location or jurisdictions, products and services, distribution channels, the applicable regulations of the country, the international standards, and best practices that can be assimilated (Cheng & Chen, 2015).

The role of risk analysis is influential in improving assurance. Still, the risks are lethal while investing in financial derivatives due to the uncertainty attributed to their prices, dependence on future expectations, and the extent to which their access opportunities are realized (Manual & Xin, 2016). Despite its high risks, investors use banking and financial institutions as a source of generating revenue. Capitalists generate revenue through investing in financial contracts where their income depends on fluctuations in the prices of the original financial instruments (the subject of the contract). Besides, risk management allows investor opportunities to identify market risks related to financial agreements and manage each risk separately(Habes, 2019; Habes et al., 2021; Muhaisen et al., 2020b)

risk management allows the investor opportunities to identify market risks related to financial contracts and manage each risk separately to reduce the risk in general by hedging the effects of price fluctuations, which arise from either fluctuating interest rates, fluctuating exchange rates, or fluctuating prices of investment portfolios, whether they are commodities or securities.(Salloum, Al-Emran, Khalaf, et al., 2019) The risks of the last lender: Those who follow the budgets and investments of Islamic banks note the following:

RESERVES:

The budgets of Islamic banks refer to a large number of reserves and their diversity, including mandatory reserves, optional reserves, and investment risk reserves, etc. In some banks, "Takaful and Solidarity Fund," and all the previously mentioned reserves aim to protect the creditors against a defined risk. Creditors resort to internal sources that can compensate for urgent withdrawals as there is no "final lender" to rely on during emergencies. Whereas traditional banks have many means that they may resort to urging crises, as the central banks aid these banks in several ways, including:

- Cash loans.
- Take advantage of the process of discounting and re-discounting.
- Resorting to cash reserves.
- Other means of liquidating their assets, which are for the most part prohibited by Islamic banks

STAFF

Although Islamic banks recently started their functioning, they still face a shortage of skilled, trained workforce capable of Islamic banking. It is no secret to anyone how humans are influential over the success or failure of any institution (Abdul Ganiyy et al., 2017). The human factor is one of the most potent factors in the progress of the institution, especially during the era of economic openness and the consequences of globalization.(Alhumaid et al., 2020; Habes, Salloum, et al., 2020) The seriousness of the human element lies not only in his mastery of work but also in belonging to the institution in which he works. An employee reflects his institution, especially in the Islamic banking financial institutions, whose objectives are socioeconomic development (Abdallah et al., 2016). However, in some cases, Islamic Banking is more concerned with social well-being such as Nasser Social Bank in Egypt as the Islamic Banks grant loans for purely social well-being purposes (Xin et al., 2015).

Moreover, unfortunately, Islamic banks still depend on their cadres to attract traditional bank employees. In some cases, they offer leadership positions, forgetting that Islamic banking is entirely different from conventional banks. But still, Islamic Banking resembles conventional banking in an administrative manner which can be viewed from two distinguished angles (Atawodi & Ojeka, 2012):

a. **Selection of employees:** There are exceptional standards and specifications for the employee who wants to work in Islamic banking, guided by the Almighty saying: "She said, Father, I rent it, it is better than the one who hired the honest strong." Islamic Banking needs vital, honest employees, and these two words set a particular criterion to choose an employee. A person who is strong in his faith, strong in his conscience, firm in his argument, sincere, and trustworthy for the interests of others and the institution he works in.

b. **Staff training:** "Because God loves one of you to do a job well enough," the employees must be adequately trained and qualified before they go to the field. They should be armed with knowledge and skills before dealing with the clients. For his purpose, their training includes:

i. **Technical training:** i.e., knowing the nature of the work with relevant knowledge, accompanied by field training. For this purpose, the employee should possess all the skills that can help him in his professional life.

ii. **Islamic Fiqh:** Employees should be well-trained regarding Islamic Sharia and law. Their understanding regarding Islamic banking should be well-capable of dealing publicly with banking matters and also how to deal with complex issues. They should also possess the capability to make reasonable arguments regarding their work by explaining the ideologies and principles of the work they are performing.

CONCLUSION

A fundamental component in the actual risk culture is to create commitment and generate collective awareness in all areas of the organization. Especially, to the point where all employees feel obligated to detect and prevent the crystallization of risk or control it and reduce it by minimizing its probability and, by taking it as a moral duty rather than the labor duty (Al-Shibly et al., 2019; Megeid, 2017). In general, Islamic banks should be cautious in their exposure to such risks and put in place systems for identifying, controlling, and managing them. Thus, the development of culture and techniques of risk management in banks is an integral part of the responsibility of the banking sector. In this regard, Islamic bank professionals must become fully aware of the nature of the risks and establish efficient risk management. As a result, risk awareness, power, and evaluation are distinct features for the success of banks and Islamic financial institutions concerning achieving their goals.(Alhawamdeh, Alghizzaw, et al., 2020; Habes et al., 2019; Habes, Alghizzawi, et al., 2018). The growth trends in the Islamic financial industry depend on the way these institutions deal with risks. These banking organizations can avail more acceptance in international markets if they apply international control standards, which will also improve their competitiveness. However, the Islamic Banking industry is still suffering from lack of risk management due to weak measurement tools, inadequate internal controls over risks, and lacking sufficient risk management strategies. Perhaps the coming years may celebrate the development of these strategic tools because of the development of Islamic financial engineering on the one hand and the increasing global acceptance of them on the other hand.

RECOMMENDATION

The study recommends establishing a department for scientific research dedicated to Islamic Banking to propose new techniques to keep pace with the modern banking arena. Especially on scientific and practical methods in studying, evaluating, and selecting clients can be of greater magnitude. According to scientific and empirical foundations, appropriate selection, training, and preparation of employees can bring fruitful outcome for the Islamic banking institutions. Altering the existing investment style (Murabahah) and shift to other investment formulas to reflect the Islamic investment and financing model should be taken consideration. Similarly, urging the local government to create favorable conditions for Islamic banking is also recommended.

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