SHARIAH RISK MANAGEMENT PRACTICES OF ISLAMIC BANKS IN MALAYSIA

HASNA LUMPINGAN LIDASAN

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OF ISLAMIC BANKS IN MALAYSIA

By

HASNA LUMPINGAN LIDASAN

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ABSTRACT

Shariah risk management practices are crucial for the stability and reputation of the Islamic banking industry. Thus, the purpose of this study is to determine the factors that influence Shariah risk management practices among Islamic banks in Malaysia. Islamic banking staff in the Shariah department in five (5) Islamic banks are surveyed through a questionnaire and the results are used to examine whether Shariah risk management practices is influenced by Shariah risk management process, Shariah board involvement, knowledge and expertise. Additionally, statistical method such as multiple regressions was used to test the hypothesis. This study found that Shariah risk management practices among Islamic banks in Malaysia are moderate. Other findings show that Shariah risk management practices are influenced by Shariah risk management process and expertise in both Shariah and banking operation by the employees. This explains that higher level of Shariah risk management process and expertise among staffs will lead to a higher level of Shariah risk management practices. On the other hand, two independent variables have not given much significant influence on Shariah risk management practices. Although the response rate is 86.08%, it represents beliefs, which are not necessarily translated into actions. This study makes a significant contribution to the academic understanding of Shariah governance in the context of Malaysia, which may guide policy makers, bankers, and customer. It is expected that the results of this study would give realization to the regulators to strengthen and strictly promote the Shariah compliance in all Islamic banking products and services and put a greater emphasize on Shariah risk management. In addition, it is important for the Islamic financial institutions to widen a well-organized and synchronize Shariah risk management process through understanding Shariah risk, proper identification, and assessment of the possible occurrence of the risk as well as monitoring all the products and services to control Shariah non compliance events. Lastly, the Islamic financial institution must train experts that will enhance the Shariah risk management practices through training policies in both Shariah and banking operation, proper qualification among staff and Shariah coordination in ensuring Shariah compliance to attract more customers.

Keywords: Shariah compliance, Shariah risk, Shariah risk management, Islamic banks
ABSTRAK


Keywords: Pematuhan Shariah, Risiko Shariah, Pengurusan Risiko Shariah, Perbankan Islam
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Hasna Lumpingan Lidasan
Master in Islamic Finance and Banking
Universiti Utara Malaysia
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<tr>
<td>AAOIFI</td>
<td>Accounting and Auditing Organization for Islamic Financial Institution</td>
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<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
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<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<td>CFA</td>
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<td>EFA</td>
<td>Exploratory Factor Analysis</td>
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<td>GIFF</td>
<td>Global Islamic Finance Forum</td>
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CHAPTER ONE

Introduction

This chapter introduces the background of the global Islamic banking industry, particularly in Malaysia where this study was conducted. The chapter consists of seven parts. These parts highlight the problem statements, research questions and objectives, followed by the significance of the study, the scope of the study and definition of key terms. The chapter concludes with the explanation of the organization of the research.

1.1 Background of the Study

The Islamic banking sector has been the driving force of the global Islamic finance industry. In many Islamic countries, Islamic banking system remains as the core of financial services (Makiyan, 2008). The increasingly important role has been witnessed in connecting economies through the mobilization and channeling of funds for productive investment activities not just locally but internationally. It includes the increasing international participation in Islamic financial markets and improved cross-border activities which are based on the principles of Shariah.

The demand for Shariah-compliant products is increasing as the wealth of Muslims rises, spurred by the export-led Asian economic growth and crude oil income in the Persian Gulf. A report from the Global Islamic Finance Forum (GIFF) 2012 stated that there are currently more than 600 Islamic financial institutions worldwide that are located in more than 75 countries including Malaysia. According to Kuwait Finance House (KFH) research on Islamic finance outlook 2014, Islamic banking assets are expected to reach USD1.6 trillion by the end of 2014.
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