RISK MANAGEMENT
in Islamic Banks and IFSB Capital Adequacy Standards

Course Introduction:

It is widely accepted that Shari'ah banking model is one of the fastest growing areas of international Banking & finance. Estimated, that there will be more significant growth development over the next five to ten years. On the other hand Risk management is also another area that every banking industry has to attend to, Islamic banks are not different.

The course is designed for participants seeking an in–depth understanding of the Shari'ah Risk Management. The course sets out the Concept of Risk management in Islamic Banking and then moves on to the practical aspects of applying it with demonstrations from case studies and interactive exercises throughout the program.

Course Objectives:

By the end of the course, participants will be able to:

- Understanding how Islamic banks work and the kind of risk they are exposed to
- Discussing the criteria of risk management from Shari'ah point of view
- Looking into the Shari'ah-intrinsic techniques of risk management
- Studying the Basel II proposals of risk mitigation and how should they apply to Islamic banking
- Understanding the methodologies of calculating capital adequacy in Islamic banks as proposed by ISFB
- Discussing processes of monetary authorities' supervision on Islamic banks

Who Should Attend?

This is a comprehensive program designed to give delegates an all-round understanding of the issues involved in Risk management for Islamic banking.

The course specifically targets:

- Investment Bankers
- Corporate and Commercial Bankers
- Corporate Financiers
- Private Bankers
- Analysts
- Asset managers
- Risk Management Managers
- Consultants
- Lawyers

- Investment Advisors
- Regulators
- Auditors and compliance professionals

Course Outline:

- **Islamic Banking in today's World**
  - o Islamic Law and finance
  - o Why Islamic Finance?
  - o Growth of Islamic Banking
  - o Regulating Islamic bank
  - o Islamic Banking relation with Central banks
  - o Islamic banking centers
  - o Assets of Islamic banks
- **Risks in Islamic banks**
  - o The nature of Islamic finance and risks involved
  - o Risk implications of the prohibition of interest
  - o Credit risk in Islamic banks
  - o Operational Risks in Islamic banks
  - o Market risks in Islamic banks
  - o Other risks: legal, withdrawal, hari'ah confidence, litigation, etc.
  - o Are risks in Islamic banks different from conventional banks?
- **Comparison and contrast of risks in Islamic banks and risks in conventional banks**
- **Risks addressed by Basel II and IFSB**
  - o Credit Risk,
  - o Operational Risks, and
  - o Trading Book Risk
- **Risk Mitigation: kinds and effect on calculation of capital adequacy**
- **The three Pillars of Basel II Accord**
  - o Capital Adequacy
  - o Supervisory Review Process
  - o Market Discipline
- **Monetary authority supervision. Does it make a difference between Islamic**
- **Banks and conventional banks?**
- **Market disclosure in Islamic banks: a serious administrative-cum-political problem!**
- **Managing risks in Islamic banks**
  - o Establishing risk management environment, policies and procedures
  - o Maintaining processes of risk measurement, mitigation, and internal monitoring and control

- o Shari'ah-Intrinsic risk mitigation techniques
  - Revenue sharing contract
  - Revenue sharing and Revenue Sharing Sukuk
  - Service and usufruct-based finance
  - Third party guarantee: deposit guarantee
  - Reverse Murabahah and Murabahah line of credit
  - Bundles/packages financing: applying the majority rule
  - Hedging through options
  - Principal insurance and collaterals
- o Management processes and techniques of specific risks
  - Credit risk management
  - Interest rate risk management
  - Liquidity risk management
  - Operational risk management
  - Risk adjusted rate of return on capital (RAROC)
  - Securitization
  - Derivatives
- **Sensitivity of Islamic banking operations to Basel II proposals**
  - o Financial intermediation in Islamic banks and the myth of two-tier Mudarabah
  - o Traditional conservatism of Islamic banks (worry about the idea)
  - o Islamic Financing Modes and Practices Sensitive to Basel II Proposals:
    - Debt-creating Islamic modes of financing
    - Non-debt crating Islamic financial modes
  - o The effect of restricted deposits, unrestricted deposits and deposits in current accounts on credit and other risks' exposure in Islamic banks
- **Capital adequacy**
  - o Importance of capital adequacy in the banking industry
  - o Basel II proposals for the calculation of capital adequacy in conventional banks
  - o Capital adequacy in Islamic banks: The issue of last resort
- **Importance and Calculation of credit Risk**
- **IFSB Standard on credit risk in Islamic banks**
- **Methodologies of credit risk calculation**
- **IFSB Standard on operational risk and its calculation**
- **IFSB Standard on market risk and its calculation**
- **Calculation of Minimum Capital Requirement in Islamic banks, Theory and reality!**

Course Certificate:

International Center for Training & Development (ICTD) will award an internationally recognized certificate(s) for each delegate on completion of training.

Course Methodology:

A variety of methodologies will be used during the course that includes:

- (30%) Based on Case Studies
- (30%) Techniques
- (30%) Role Play
- (10%) Concepts
- Pre-test and Post-test
- Variety of Learning Methods
- Lectures
- Case Studies and Self Questionaires
- Group Work
- Discussion
- Presentation

Course Fees:

To be advised as per the course location. This rate includes participant's manual, and-Outs, buffet lunch, coffee/tea on arrival, morning & afternoon of each day.

Course Timings:

Daily Course Timings:

08:00 - 08:20	Morning Coffee / Tea
08:20 - 10:00	First Session
10:00 - 10:20	Coffee / Tea / Snacks
10:20 - 12:20	Second Session
12:20 - 13:30	Lunch Break & Prayer Break
13:30 - 15:00	Last Session