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## A STUDY ON THE CREDIT RISK MANAGEMENT IN ISLAMIC BANKING AND FINANCE

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### Abstract

Risk management for Islamic banking financial products and services is one of the greatest challenges that Islamic Banks, are facing today. Islamic finance is a rapidly growing part of the financial sector in the world. Indeed, it is not restricted to Islamic countries and is spreading all over the world. As a result of this market growth in Islamic financial products there is a high demand to understand how to assess and manage the risks arising from applying these 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. Risk management for Islamic banking financial products and services is one of the greatest challenges that many conventional, as well as Islamic Banks, are facing today. The central issue should be addressed is the implications of Shari'ah compliance on risk management system. Since its conception 40 years ago, Islamic banking and finance has enjoyed impressive growth and has demonstrated it is a feasible and viable form of finance. The benefit to users of Islamic financial products, as well as a notable rate of innovation in these products has meant this sector has presented itself as a practical alternative to conventional finance. Today Islamic finance and banking deserves recognition as a valuable constituent in the global financial system. In an efficient competitive financial market, Islamic Finance becomes a motivating prospect for investors, financials and researches especially during its significant growth in the last Four years. As a result, Economists do consider nowadays the Islamic financial system as one of alternative solutions.

Different theoretical studies conducted on Islamic banking in the past have focused on Islamic modes of financing and their ability to perform financial intermediation for catering to the needs of people so as to be substitutes for loans while ensuring the compatibility of these modes with laws regulating banking operations. However different types of risk underlying in these operations and their proper management has not received its due share in