The difference between Risk in Islamic banks and commercial banks

Salah Omar Ali Idhbea

PHD Candidate, University SINGIDUNUM Belgrade

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Abstract:

Purpose – The purpose of this paper is to examine the difference between Risk in Islamic banks and commercial banks in general.

The importance of this paper lies in assessing the performance of conventional and Islamic banks is important because of its importance in the banking structure.

Design/methodology/approach – this research paper relies on the inductive method in a manner available to a researcher from the research sources of electronic research and books, periodicals supports research topic.

Findings: The risks in Commercial and Islamic banks are similar many of them in (risk of theft and loss, cybercrime risk), and also a lot of difference, especially with regard to interest rate risk in classical banks without Islamic banks as well as risks related to financing. Also, Profit in Commercial banks is interest paid on deposits and interest received from loans - Islamic banks (Profit is realized from work and profit Halal). Islamic banks suffer from high liquidity risks, which increases the opportunity cost of using these funds more than Commercial banks. Despite the possibilities and modern methods used by conventional banks in risk management and hedging, they are more vulnerable than Islamic banks. Because the Islamic banks' style of participation enabled them to choose sound projects that avoid them from taking risks.

Practical Implication: Considering the importance of risk management practices in Islamic and conventional banks; Bankers, investors, regulators, and policymakers are likely to benefit from the results of the study as a guide when developing and reforming the existing risk management practices.

Originality: this paper will add value to literature and will be useful for conventional banks, Islamic banks, practitioners as well as for academic point of view.

Key Words: Islamic banks, Conventional Banks, Risks, Risk management, risk classification, Transactional Risks, Credit Risk, Liquidity Risk, Market Risk, Operational Risk, Murabaha financing risk, Participatory financing risk - Mudaraba, Risks of Salaam Financing.

1-1- **- Introduction**

The Bank is a financial intermediary that collects the savings of individuals and institutions through various spot deposits and deposits on a term basis and in turn transfers these deposits or savings to loans through various financing operations. In addition to this main activity, the Bank carries out a large number of other secondary activities.

It is through knowledge, Risk management to achieve higher profits and returns. However, failure to manage these risks in a correct scientific manner may lead to loss of revenues and failure to achieve the Bank's strategic objectives.

With the growing sophistication of the banking industry, the use of electronic means and electronic funds, the banking services provided by banks have grown and diversified, and the complexity of banking operations has increased in a market characterized by intense competition. In order to cope with this development and the associated risks, it is necessary to monitor the level of risks surrounding the work and to establish the necessary control measures to control and manage the adverse effects of these risks in a proper manner.

The banking industry witnessed technological developments in the field of communication and globalization, increasing the number of branches and dealers, and the volume of transactions of Islamic banks, which led to increased competition between banking institutions, especially between conventional and Islamic banks. Traditional and Islamic banks play the role of financial intermediation between those with financial deficits and those with surplus financial resources. However, the activity of traditional banks is based on the interest rate system, whether in attracting depositors' money or granting funds to investors. But Islamic banks are based on the rules of the system of participation derived from the fundamentals of financial transactions in Islamic and law does not deal with the benefit at all not by taking or giving.

Islamic banking emerged as a practical reality and started functioning in the 1970s. Since then it has grown continuously all over the world. The Islamic banking industry has reached US$1.0 trillion US dollars by the end of 2008. International Rating Agency, Standard & Poor estimate that the Islamic financial industry has potential to grow to US$4.0 trillion over the medium term. The speed of the growth of Islamic banking in most the world has been expedited since 2002. (Awan, 2009).

The research aims to know the relationship between Islamic banks and conventional banks and discuss the risks of Islamic and conventional banks

It is appropriate then to put the research problem into context using the following main question: Is there a difference in the risk to Islamic banks and commercial banks?

The current research is divided into three main parts, which are as follows:

1- Conventional Banking products, Financial risks, Banking Risks.

2- Islamic banking, Risk management.

3- Conclusion.

1- Conventional Banking products, Financial risks, Banking Risks:

1-1- commercial banks

This is a financial institution providing services for businesses, organizations and individuals. Services include offering current, deposit and saving accounts as well as giving out loans to businesses.

Commercial banks make their profits by taking small, short-term, relatively liquid deposits and transforming these into larger, longer maturity loans. This process of asset transformation generates net income for the commercial bank. (lexicon.ft.com/Term?term=commercial-bank).

1-2- Financial risks and The Basel Committee's work

1-2-1- The concept of Risk Financial risks

"The Basel Committee also knows identified the risks as: "the probability of the Bank being exposed to unexpected and unplanned losses or the fluctuation of the expected return on a particular investment, resulting in a negative effect, which has the potential to affect the achievement of the desired objectives of the Bank and to implement its strategy successfully" .(Keegan, 2004).

"Risk financial are fluctuations in the market value of the enterprise" (Union of Arab Banks, March 2005, p. 42).

1-2-1- risk classification

Risk is classified into Two categories, systematic risk, and unsystematic risk.

The commercial banks are facing the several risks of which

Credit risk, operational risk, liquidity risk, market risk, interest rate risk, foreign exchange risk, solvency risk, counter-party risk, compliance risk, sovereign risk and legal risk (Bhattachariya, 2010).

1-2-1-1- The systemic risk arises when the failure of a single entity or cluster of entities can cause a cascading failure, due to the size and the interconnectedness of institutions, which could potentially bankrupt or bring down the entire financial system. (Indian, 2003, pp250).

1-2-1-2- Risk unsystematic The risk that affects a very small number of assets. Specific risk, as its name would imply, relates to risks that are very specific to a company or small group of companies. This type of risk would be the opposite of an overall market risk or systematic risk.

Sometimes referred to as "Specific or diversifiable risk."

Moreover, Oldfield and Santomero (1997) mentioned that there are three risk-mitigation strategies generally

- Eliminate or avoid risks by simple business practices.
- Transfer risks to the other participants.
- Actively managing risks at the bank level (acceptance of risk).

1-3- Banking Risks

Risks arise from the uncertainties surrounding the probability of achieving or not realizing the expected return on investment. (Matar, 2004, p22).

"Risk in simple words is uncertainties arising due to adverse fluctuation of profits and losses. The main risks faced by conventional banks include credit risk, liquidity risk, operational risk, market risk, interest rate risk, foreign exchange risk, and mismatch risk". (Bessis, 2002).

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1-3-1- Transactional Risks

These risks create hurdles for individuals and companies in dealing with different foreign currencies as exchange rates of currencies might change over a short time-period. This effect can be decreased by using currency swaps and other similar securities. (Vyas and Singh, 2010).

1-3-2- Credit Risk

Prominent risk in the banking industry. According to Drzik et al,(1998), Credit risks comprised 60% of total risks in commercial banks. (Arab Accountant Forum, Kamal, 2013).

" Credit risk is the risk that customers default on payment (In the sense they are, they fail to meet their obligations) and result in a total or Partial loss of any amount of lender to counterparty" (Hammad, 2007, p 197).

Credit risk is divided into following credit risk component

1-3-2-1- Customer's risk: This type of risk arises because of the Credit Reputation of the customer and its financial solvency.

1-3-2-2- Risks of the economic sector to which the customer belongs: These risks are related to the nature of the activity in which the customer operates. Each economic sector has risks that vary according to the operational, productivity and competitive conditions of the sector's units.

1-3-2-3- Risks of general conditions: These risks are related to economic conditions and developments Political and social.

1-3-2-4- Risks associated with bank errors: These risks are related to the efficiency of the credit management of the bank in following up the credit provided to the customer and to verify that the customer meets the agreed terms In the Credit Grant Agreement. One of these errors is the bank's failure to deposit deposits Customer, which placed it as collateral for credit facilities and customer withdrawal of these deposits.

Effective credit risk management Be aware the need to identify, measure and monitor credit risk, as well as maintain capital adequacy levels that enable it to cover losses that may arise from credit risk, thus contributing to the success of any banking institution in the long term. (Zubaidi, 2002, p179).

It is important to recognize first that any lending process is subject to certain risks and that these risks vary according to each process. The lender, Bank must therefore try its best to prevent these risks from becoming a reality because if it does not, it will not achieve the desired return, These risks may also lead to the loss of lending money also, so the lender bank estimates the risk of giving individuals have a loan.

It analyzes the borrower's ability to repay, Hence it must form the payment installments (monthly, quarterly, semi-annual, annual).

The bank often asks the customer to provide a guarantee that the bank can use if the borrower fails to pay.

It also grants loans to an individual borrower or borrowers linked to the bank through ownership, if not subject to proper control and may lead to the creation of many problems. Because the determination of the borrower's eligibility is not objective, such as granting advances to shareholders, the parent company, subsidiaries and executives, In such cases, granting loans depends on the bias, which leads to the risk of losses caused by these loans.

1-3-3- Liquidity risk

These risks are the inability of the bank to pay the financial liabilities when they mature, and the bank that cannot meet its short-term Term obligations is the beginning of the occurrence of the deficit phenomenon, which if it continues can lead to bankruptcy.

Liquidity risk is the difference in the net income and market value of equity arising from the difficulty the Bank faces in obtaining cash at a reasonable cost, either from selling assets or acquiring new loans. The liquidity risk increases when the Bank cannot anticipate the new loan or draw Deposits and cannot access new sources of money. The liquidity of assets is identified by indicating the owner's ability to transfer cash assets at the lowest loss from the drop in price. Most banks have some assets that can be sold immediately at a value close to the underlying value. To meet the needs of If the bank needs money, it can sell assets or increase loans, and Banks are constantly monitoring their core cash flows and their ability to meet these needs and commitments. (Kurdi, 2010).

Liquidity risk refers to the risks faced by banks when they do not have sufficient funds to meet their financial obligations at the set time. Liquidity risk includes short-term and long-term risks. The bank must meet the demand for liquidity arising from customers wanting to withdraw part of their deposit On loans, if the bank has two sources of liquidity are (Ramadan, 2013, p. 57).

1-3-3-1. Assets and liabilities.

1-3-3-2 - borrowing from others (it means is borrowing from the central bank and other banks).

Banks can not maximize their returns or maximize their liquidity. High liquidity means sacrificing returns while low liquidity forces them to borrow. The higher the bank's liquidity, the higher the risk.

A decline in the return because most of the money has not been operated and invested and remained with the bank as funds disabled, and this in itself risk to the bank and in this case will face the risks (inflation, time value of the leader, In the event of theft, increase tax base).

The lower the bank's liquidity, the higher the risk is, and the higher the return is likely, because most of the money was operated by the bank and thus the bank will face the risk of bankruptcy and inability to take advantage of opportunities in the market.

Liquidity is not an end in itself, if there is a point of balance between the amount of liquidity with the bank and what the bank is trying to reach from the proceeds so should not be deviated from them to increase or decrease.

- Opinions differ on the causes of these risks such as

Reasons related to the difficulty of liquidating current assets

Increased incidence withdrawals are especially large, which causes the bank to liquidate some of its assets at a value that is less than its carrying value to settle the liabilities, which affects profitability.

- Reasons on both sides of the budget range

1- Commitments side: Meaning when the applications for withdrawing depositors are increased, the bank may have to borrow at an additional cost from other banks or to issue more securities such as bonds.

2- Assets side: whereas The service of letters of guarantees, which done are extrabudgetary and which as soon as they do the client a loan under which they appear in the budget arises liquidity risk, which causes the bank to pay for the sale of a compulsive value of less than the value due to provide liquidity.

- Reasons related to different due dates

We find that the maturity dates are not suitable for short-term deposits for the long-term loan repayment dates due to the Bank.

- Reasons related to the imbalance between inflows and outflows. (Nasr, 2013, p. 57).

1-3-4- Market Risk

They are related risks which are revenue as a result of changes in interest rates and fluctuations in exchange rates, prices of securities and commodity prices.

Led engagement of banks, especially major banks in trading activities, led to exposure to market risks, which resulted from the adverse movements in the prices and rates of the financial market (asset prices and interest rates). This increased the total risks to which it was exposed, which made many regulatory authorities in Many developed countries, As well as the Basel Committee for Banking Supervision That bank should reserve capital to cover market risks. (Hashad, 2005).

Market risks occur due to the changes in the market value of the interest rates, exchange rate and changes in the prices of bonds, equities and commodities. Banks are facing market risks in regards to management of balance sheet and trading operation (Ghosh, 2012). The following are the market risk factors.

1-3-4-1- Interest rate risk: These risks arise as a result of changes in the level of market interest rates in general. As a general rule, With other factors remaining unchanged, whenever the higher the interest rate levels in the market, The market value of trade securities decreased.

The interest rate is influenced by the liquidity condition in the financial market, price movements, fiscal and monetary policy, exchange rate movements, development in local and international financial markets.

It is difficult to predict the interest rate movements that may increase, decrease or remain constant over a time period.

And bears the economists of the bank to analyze the interest rate movements critically and draw a guideline on interest rate movements for a bank (Ghosh, 2012, p. 370).

1-3-4-2- the risk of exchange rate fluctuations: They result from dealing in foreign currencies and currency fluctuation occurs, requiring fully conversant and adequate studies on the causes of price fluctuations.

1-3-5- Operational Risk

(**King**) Operational risk is defined as "not dependent on how the business is financed, but how it runs its business"and "operational risk" is the link between the activity of the institution and the change in the outcome of the business". (TanTanKawtar, 2007/2008, p.15).

They are defined as "the risk of weakness in internal control or weakness of people and systems or external circumstances. The risk of loss resulting from the probability of inadequate information systems, technical failure, violation of control systems, embezzlement, natural disasters all lead to Unexpected losses ".(Marco Micocci, June 2012, Roma, p10).

Bessis (2011) explains that operational risks exist at following levels:

1-3-5-1- Internal Fraud: Acts of the kind intended for fraud, misuse of property, circumvention of law, regulations, or company policy by its officers or employees.

1-3-5-2- External Fraud: Any acts by a third party of the type intended for fraud, misuse of property, or circumvention of the law.

1-3-5-3- Work and safety practices in the workplace: works that do not conform to the nature of the job and the requirements of health and safety laws or any agreements or acts that result in compensation for personal injury.

1-3-5-4- Practices related to customers, products, and businesses: Unintentional or negligent failure to meet professional obligations to specific customers, including requirements for validity, reliability or failure resulting from the nature of the product design.

1-3-5-5- Damage to physical assets: Losses or damage to physical assets caused by natural disaster or other events.

1-3-5-6- knock off work and malfunctions in systems including computer systems: any disruption of business or system failure.

1-3-5-7- Execution and transaction management: failure to execute transactions or manage operations and relationships. Banks should identify and assess all types of operational risks they face in all their business processes and policies. Before starting any new product or activity, or any change in the system, the Bank must identify this change in the Operational Risk Management Plan. (Abdelfattah, June 2000).

2- Islamic banking, Risk management.

2-1- Islamic Banking

The Islamic banking system has the same purpose as conventional banking, i.e. to earn a profit on capital by investing a proportion of its earnings while adhering to Islamic law.

But, Islamic banks do not operate its activities on an interest-based system. It works in accordance with the Shariah principles, known as Fiqh Al-Muamalat (Islamic guidelines for transactions). The basic belief of Islamic banking is to share profit and loss and the prevention of Riba (interest). The main argument against Riba (interest) is that money is not to be considered as a commodity with which one can earn profits, but it should be earned on the sale of goods and services rather than control of money itself.

Among the common Islamic finance theories and models, following products are commonly used by Islamic banks, such as profit and loss sharing (Mudarabah), a joint venture (Musharakah), cost plus (Murabahah), safekeeping (Wadia) leasing (Ijarah) and Islamic insurance (Takaful).

Prohibitions of interest, gambling, excessive risk, etc. supports the social equality and defend the benefits of all parties involved in market transactions (Ahmad, and Chapra, 2000, pp. 5-20). According to the Iqbal and Molyneux (2005), Islamic banking is constructed upon the norms of brotherhood and mutual aid, which stands for a system of sharing equity, risks and profits. Islamic finance promotes a system of sharing and cooperation between the investors and users of the funds.

2-1-1- Definition of Islamic Banks

2-1-1-1- " The Islamic Bank is defined as a "financial institution operating in an Islamic framework that performs banking and financial services. It also carries out financing and investment activities in various fields in the light of Islamic Shari'a rules and regulations". (Dr. Mahmoud, 2003, p96).

2-2- Risk management

Risk management is defined as "the process by which risks are monitored, identified, measured, monitored and controlled in order to ensure full understanding and assurance that they are within acceptable limits and the framework approved by the Bank's Board of Directors for risks. (Abu Muhaimid, 2008, p. 19).

In other words, risk management in Islamic banks focuses on the actions taken by management to understand, define and analyze risks so that they can be avoided or attempted to reduce them to a minimum.

Whereas Islamic financial institutions have a comprehensive risk management framework and reporting process with the appropriate board of directors and senior management oversight for identifying, measuring, monitoring, reporting and controlling various types of risks and where necessary, they should maintain capital adequacy against such risks. The process should take appropriate steps to comply with

Shariah rules and regulations, and also to ensure the adequacy of relevant risk reporting to the supervisory authority.

Therefore, the risk management process should be comprehensive and integrated covering all departments and departments of the bank so that there are awareness and Perception of this Administration, and depends on the following main elements:

Accurate definition of the risks involved in the Bank's activities, effective risk reduction, based on accurate and correct risk assessment and of procedures, methods, and tools, through a sound monitoring and follow-up, and appropriate organizational, human and technical infrastructure. Risk management is primarily designed to ensure that all legal requirements are met at all times, to capture total exposure to risk, as well as to determine risk concentration and avoidance. (Khatib, 2005, p19-20).

2-2-1- Credit risk

Credit risk in the bank Islamic: Credit risk is the most important risk faced by banks in both systems, because borrowers' inability to pay may lead to liquidity risk, interest rate risk, erosion of asset values, and other risks. For this reason, the degree of credit risk will negatively affect the quality of existing banking assets. The question that arises here is: Do Islamic banks face more or less credit risks than conventional banks?

The initial answer to this question depends on a number of factors, such as: the general features of credit risk in Islamic finance, the counterpartys risk profile of certain Islamic financing formats. , Provides artistic methods to mitigate the effects of risk, accuracy in the calculation of expected losses of credit.

Credit risk is in the form of settlement risks or payments that arise when one of the parties to the transaction has to pay money (for example, in the case of a Salaam contract). There are some risks which are specialized to Islamic financing formulas are concerned with:

2-2-1-1- Murabaha financing risk: Murabaha contract is the most widely used Islamic financial contracts. If possible, the consolidation of the contract can be close to the risk of conventional financing. In view of this similarity, a number of financial and regulatory authorities in a number of countries have accepted this contract as a financing formula. It is noted that the jurisprudential views are not in agreement with the contract in its current form.

This divergence of views could be a source of the so-called risks of the other party to the contract.

There is a jurisprudential consensus that the murabaha financing contract, which is an updated contract (drafted by collecting a number of different contracts), has been approved as a form of forward sale.

The condition of the validity of this contract comes from the fact that the bank must own the commodity through the purchase and then transfer it to the customer (the borrower); the order issued by the latter to buy does not represent a sale contract but it is a promise to buy.

According to the decision of the Islamic Fiqh Academy of the Organization of the Islamic Conference, the promise may be binding on one party in the Murabaha contract. Accordingly, the Islamic Fiqh Academy, the Accounting Authority and most Islamic banks consider this promise binding on the customer. But the jurists of others consider the promise is not binding on the customer, and that the customer can retreat from the completion of the purchase contract even after the promise is made and he has to pay the deposit.

Hence, it is clear to us that the first and most important risk of this contract may arise from disagreement about the nature of the contract and subsequent judicial problems. The other potential risk associated with this contract is the customer's delay in repaying the debt, especially since the Islamic banks do not take any more than the price of the agreed commodity, which exposes the bank to the loss in the event of a slowdown or delay in payment by the customer. (Hammad, 2003, p243,246).

2-2-1-2- Participatory financing risk - Mudaraba: The expected risk in Techniques of participation and speculation increases due to the fact that there is no guarantee requirement with the potential for moral hazard and wrong selection of customers, and because of the poor efficiency of these banks in the field of project evaluations.

Many studies confirm that the Islamic banks use the funds on the basis of participation and speculation is better than using them in accordance with the fixed income formulas such as Ijara, Istisna, and speculation , but in practice, Islamic banks do not use participation and speculation Only within limits, because of the high risks they generate. One way to get rid of the risks associated with profit sharing techniques is for Islamic banks to operate as comprehensive banks that hold shares in their investment portfolios.

2-2-1-3- Risks of Salaam Financing: There are at least two types of risks in the Salaam decade sourced by the other party to the contract:

- The risk of the other party's non-delivery of the Muslim in a timely manner or of non-delivery of it is entirely different from that of the peace agreement. Since the peace contract is based on the sale of agricultural products, the risks of the other party may be due to factors unrelated to the financial solvency of the customer, for example the insufficient agricultural crop that the customer earns in quantity and quality due to natural disasters, although the customer has a good credit rating. As agricultural activity naturally faces disaster risks, the risks of the other party are more likely to be in the peace.
- The Salaam contracts are not traded on regulated markets or abroad. They are two parties' agreement that ends with the delivery of goods in kind and the transfer of ownership. These commodities need to be stored so there is an additional cost and price risk for the bank that owns the commodity under the Salaam contract. This type of cost and risk is specific to Islamic banks only. (Khan, 2003, P. 68-70).

2-2-1-4- Financing risks Istisna'a: According to the funding formula by contract the Istisna'a financing formula, the Bank offers its capital to a number of special risks to the counterparty. These risks include:

- Risk of default by the buyer of a general nature, meaning not to pay in full on the date agreed with the bank.
- If Istisna'a is considered a permissible contract a non-binding contract, according to some jurisprudential opinions, there may be risks to the other party, which may depend on the non-validity of the contract and retract it.
- The risks of the other party in the Istisnaa contract faced by banks and private to deliver the goods sold in a manner similar to the risks of the Salaam contract. Where the other party can fail to deliver the item on time or is a bad commodity. In the case of Istisna'a, the commodity is the subject of the contract under the control of the customer (the other party) and less vulnerable to natural disasters compared to the sold goods. For this reason, it is expected that the risk of the other party (contractor) in Istisna'a will be much less serious compared to the customer risk in the Salaam contract.
- If the customer is treated in the Istisna transaction as a client in the Murabaha contract and if he has the option of withdrawing from the contract and refusing to deliver the commodity on time, there is an additional risk faced by the Islamic Bank when dealing with the Istisna'a contract.

These risks may arise because the Islamic Bank, when entering into an Istisna'a contract, takes the role of manufacturer, builder, and supplier. Since the bank has not specialized in these professions, it relies on subcontractors. (Khan, 2003, P. 71-73).

2-2-2- Liquidity Risk Management in Islamic Banks

2-2-2-1- The concept of liquidity management in Islamic banks

The Central Bank of Malaysia has issued a standard defining the concept of liquidity management in Islamic banks and that the: "The Bank maintains sufficient cash flows to meet sudden or unusual large withdrawals". (Bank Negara Malaysia, 2002, liquidity framework for Islamic Financial Institutions).

The availability of liquidity is very important to face depositors' withdrawals while maintaining large liquidity reduces the profitability of the bank and gives a negative indication of the bank's limited investment capacity, all of which falls within the liquidity risk defined by the Islamic Financial Services Council however, it is offering the Islamic Financial services corporation a loss arising from its inability to meet its obligations or finance the increase in assets as they accrue without incurring unacceptable costs or losses. In order to achieve this, the Islamic Bank must effectively manage liquidity risk. (Akram, Said, December 2011).

2-2-2-2- Liquidity risk in Islamic banks

Liquidity risk in Islamic banks arises from the inability of the Bank to meet its obligations towards others or finance the increase in assets, which affects the profitability of the Islamic Bank, especially when impossibility the liquidation of the assets at an acceptable cost.

The main liquidity risks facing Islamic banks can be summarized as follows: (Qanatqji, 2010, p. 433).

- Weak liquidity planning in the bank leading to Incompatibility between Assets and liabilities in terms of the maturity period
- The sudden shift of some occasional commitments into actual commitments.
- Poor distribution of assets into uses that are difficult to convert into liquid assets.
- Some external factors such as economic stagnation and crises in financial markets contribute to exposure to liquidity risk.
- In addition to lack of liquidity in the Islamic secondary market and the lack of short-term instruments to invest excess liquidity.
- Lack of special facilities for the last lender.
- Limited banking market potential among Islamic banks.
- The Legitimacyrestrictions on the sale of debts, which represent a large part of the assets of Islamic banks.

It has developed Traditional banks their tools to make use of the funds available to them, Compliance periods control between deposit term and duration of the loans, facilitated by this task that its relationship with the users of money is a creditor relationship with a debtor for a specific time despite this ease of arrangement they often fall into liquidity crises resulting from the investment of short-term deposits in long-term loans. (Khalidi18 to 20 December 2011).

Islamic banks differ on commercial banks in that they do not provide money in the form of limited term loans, but finances real projects that are difficult in most cases to control the dates of liquidation and collect the results resulting in the difficulty of finding the necessary liquidity in a timely manner to refund deposits at maturity, but in contrast, complains of the availability of liquidity due to the inflow of deposits and a large amount of capital. The problem lies in the nature of the system itself, which necessitates the establishment of controls on the forms of investment used by banks to ensure the term of time and liquidation of any assets of the bank in the event that the maturities are not compatible and these controls are reflected in the means of reducing the following liquidity risks: (Attia,1986)

- To adopt the principle of time-limits in mainly and to choose formulas that would achieve this principle.
- The liquefaction of deposits: The transfer of the largest possible amount of the assets of the Islamic Bank of the elements can be delivered and this is only issued negotiable certificates represent the assets of the Bank is available for this situation and create a market for the circulation of these certificates so that become an important part of the assets of the investment bank to a degree of liquidity allows to measure And to adjust the liquidity situation of Islamic banks.
- The development of formulas used, by adding the conditions of the options and alternatives
- Which ensure the exit of Islamic Bank out of the investment process before its end to achieve the liquidity that may need.
- Developing the tools and devices on the secondary market: the natural expression of the exit from investment before the end of its duration by another investor replacing the investor wishing to exit.

Islamic banks suffer from high liquidity risks, leading to higher levels of monetary and non-monetary assets, which increases the opportunity cost of using these funds more than conventional banks.

2-2-3- Operational Risks

Operational risks are associated with the failure of the system, technology related issues and functioning, including policies, procedures and weak internal processes of the Islamic banks, which lead to potential losses for the banks. Operational risk arises because of failure of internal and external processes which result in direct and indirect losses to the Islamic banks (Bessis, 2002, 2007, p 63).

Sundararajan (2005) asserted that operational risk arises in the Islamic banks due to following aspects, cancellation of Murabahah and Istisna' contract, dilemmas in internal control system for managing problems in operational processes and back office functions, technology risks, potential risk related to the enforcement of Islamic contract in a big legal

environment, the risk of non-compliance with Shariah rules and regulations, and potential cost for monitoring equity based contracts and legal risks associated with these contracts (Van Greuning and Iqbal, 2008).

In addition, operational risk consists of other risks, such as legal risk (Archer and Abdullah, 2007; Djojosugito, 2008; Fiennes, 2007; Khan and Ahmed, 2001; Sundararajan, 2005), Shariah non-compliance (IFSB, 2007; IFSB, 2005), fiduciary risks (IFSB, 2005) and reputational risk (Archer and Abdullah, 2007; Akkizidis and Bouchereau, 2005; Fiennes, 2007; Standard and Poor's, 2008).

At the list of risk exposures, operational risks are considered significant and one of the prominent risks faced by Islamic banks. Khan and Ahmed (2001) found that managers at Islamic banks believed that operational risks are more significant after mark-up risks. It has been found in the survey conducted by Khan and Ahmed (2001) that operational risks are higher in Salaam and Istisna' mode of Islamic financing and is lower in Murabahah and Ijarah contracts. The highest ranking of the risks in the instruments showed that the banks consider it difficult to implement these contracts.

3- Conclusion

1- The risks in classical and Islamic banks are the similar many of them, (risk of theft and loss, cybercrime risk), and also a lot of difference, especially with regard to interest rate risk in classical banks without Islamic banks as well as risks related to financing formats.

2- Profit in Commercial banks is the difference between the Benefit the Creditor and Interest paid (interest paid on deposits and interest received from loans) - Islamic banks: Profit is realized from (work and profit Halal).

2- The basis of financing: commercial bank: Based on lending at a specific interest rate without work, bank Islamic: based on working according to the rule of profit and loss

3- Islamic banks suffer from high liquidity risks, leading to higher levels of monetary and non-monetary assets, which increases the opportunity cost of using these funds more than conventional banks.

4- Despite the possibilities, methods and modern methods used by traditional banks in risk management and hedging, but it is the more vulnerable risk than Islamic banks this is to get away the latter about all that is Haram and its style in the participation it enabled them to choose sound projects that avoid incidence in the risk.

5- Islamic banks differ on commercial banks in that they do not provide money in the form of limited term loans, but finances real projects that are difficult in most cases to control the dates of liquidation and collect the results resulting in the difficulty of finding the necessary liquidity in a timely manner to refund deposits at maturity.

6- In Islamic banks, the relation between the Bank and its Depositors is that of Mudarib and Rabb-ul-Maal (in case of Savings Account and Term Deposits) Either in commercial banks the relation between Bank and Depositors (the Borrower and Lenders).

7- The Bank Islamic invests the funds it receives at the depositors' own risk (in case of Savings Account and Term Deposits) but being a trustee, is accountable to the depositors in case of its negligence resulting in loss but Conventional Banks provide a guarantee of the capital to their depositors.

8- Profit is shared in bank Islamic with the Rabb-ul-Maal at a pre-agreed ratio, that is, the Bank pays a share of the profits it actually earns from its operations to its depositors, but Conventional Banks provide a guarantee of the capital to their depositors, depositors are paid on a pre-agreed interest rate.

9- Despite the possibilities, methods and modern methods used by conventional banks in risk management and hedging, they are more vulnerable than Islamic banks. Because the Islamic banks' style of participation enabled them to choose sound projects that avoid them from taking risks.

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