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The role of Islamic banking Reducing Credit risk of banks

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ABSTRACT

Risk is an integral part of the banking industry. Due to the special nature of Islamic banking contracts, in addition to conventional banking risks are faced with unique risks. Among the most common risks in banking, credit risk, the methods and tools for measuring and managing diversity, it has been used. At the end of the study indicate that risk, credit risk arising from default in repayment of loans and its control in most ways similar to traditional banking, Islamic banking is. Islamic banking given that the contracts to build partnerships and objective of credit risk is less. However, Islamic banking, in addition to specific tools to manage reset the routine use of risk management practices in traditional banking applications.

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INTRODUCTION

Credit risk management in banks significant role in the survival of banks and credit institutions and, therefore, A variety of methods have been proposed to calculate the amount that each have their own advantages and disadvantages. Risk or danger to predict the future is defined as the probability of being realized. In other words, risk means the possibility of a loss or damage as a result of both financial and non-financial activity. In fact, according to this definition, anything that causes future predictions are not realized as a risk factor is considered. Credit risk in Islamic banking is different from the traditional banking and foreign attention has been and a great deal of research has been done on the causes. The Iranian banking system saw the launch of a comprehensive system validation are Iranian banks in response to the problems of determining the amount of credit to its customers, However, with the option to determine the amount of credit risk, the guidelines proposed by the Basel Committee, which has played a role in reducing credit risk. The present article discusses the causes of these risks in Islamic banking; management refers to the various methods used. Although the above methods to prevent too much loss on hefty credit default Islamic banks But above to optimal control and risk management, there is plenty of space. The risk of loss arising from failure to repay the loan principal and interest paid by the customer Or the risk of not returning the profits from investment banking, credit risk is called. (E.I. Altman 2012, p.23.) Credit risk of borrower default or declining credit quality may occur. Always the possibility of an economic loss resulting from Failure or inability to perform the contract obligations are completed. The effect of Risk Through calculating the replacement cost is calculated as cash flows by the opposite side. Financial institutions History indicating that the main reason is the risk arising from bank failures. In an overall view of credit risk contracts, the two types of "pre-settlement risk" and "settlement risk" is split, (Edward I.Altman, 2009) Prior to settlement risk as the probability of loss over the term of the contract due to inability Commitment is defined as the complete opposite. For example, in traditional banking and loan contracts between the bank and the customer, there is always the possibility that Customer's payment obligations that form part of the installment are received, the default. It is therefore possible risks during the contract period before settling there. Unlike the pre-settlement risk, settlement risk, the risk of cash flow payments as promised by one of the contracting parties or our cash flow for the contract before receiving compensation the opposite occurs. (p1Meissner.2005.). Probability of default risk is the failure to pay all or part of the obligations of the borrower. Credit risk due to declining credit quality of the debtor's resignation comes into existence. If a credit union, the credit receiver (issuer asset base) to assess and reduce or about his credit rating is declining credit quality. The third model of Islamic banking is provided by the tendency to consider the role of Delegate representing bank for Islamic banks Towards their customers and fixed asset management commission will take action. Assets used. (Khan, Ibid, p 53) There have been numerous studies on the risks in Islamic banking.

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Sandrarajan and Eriko (2002) paper on "Role of Islamic financial instruments and investment institutions in the international financial system, major issues and challenges in risk management." The complexities and risks of its funding through participatory methods have focused on Islamic banking. Mahdavi Najmabadi (2002) article "The fundamental differences between Islamic banking system and traditional risk distribution," examines four types of financial risk, operational, market and external focused on Islamic banking and conventional Risk Management in Islamic Banking and concluded that due to the specific characteristics of traditional banking is very difficult. His approach to reduce the risks facing Islamic banking, risk sharing facilities with the receiver of the bank by taking collateral and enforcement of the legal system. Aghylykermany (2002) paper on "Risk Management in Banking as compared to conventional interest-free banking" four kinds of credit risk, market, operational and liquidity in Islamic banking refers to And it is concluded that the traditional banking and non-banking credit risk, interest-only different. Thus, in terms of interest-free banking, risk management, credit risk just to be different from traditional banking approaches presented. He presents two recommendations for this issue. First, the move to traditional banking and borrowing facilities to Second; act as investment companies, because of the impossibility of the formation of an efficient portfolio, moving towards traditional banking prefers. Mohammed Obaidullah (2000) in an article titled "Islamic Risk Management: Towards greater efficiency and ethics" to define and evaluate the performance of the contract Options for mitigation and risk management in the context of Islamic law and has proven efficient option contract in the options of the system is usury. Mahdavi and Mousavi (2008) study "the feasibility of using credit default swaps credit derivatives in Islamic banking as one of" the use of derivatives as insurance contracts between a bank or credit union and insurance company were examined.

MATERIALS AND METHODS

The research in this thesis is a descriptive - analytical, based on the use of library and Internet resources to research and present major challenges as a result, we will. A library is a collection of methods, resources as well.

Discussion and conclusions:

Studies have suggested that the process of accreditation in the banking system credit for being judgmental, Most of the banks are subject to overall risk and credit risk so special, inattention were And have done nothing to control the overall risk assets. Consequences of the judgment system established credit in the banking system, a high volume of reserves and banks' efficiency is reduced in its wake. State monopoly in the banking system has led to some innovations in traditional systems they create. Today, the bulk of the country's banks in their organizational structure and lack of risk management In the case of risk management, control and manage the risks have not done serious action The studies conducted so far indicate the fact that the management of credit risk measurement model for the design of customer's banking system has been done. While the present results that demonstrate the fact that forecasts of customer credit risk on credit Coordinates of the customers as predictor variables and the use of statistical models are available. Credit risk relating to the risk of losses due to non-repayment of loan principal and interest paid by the customer or the risk of not returning the profits from investment banking, it is said. These risks can arise from a default or reduced credit quality of the borrower and the possibility of an economic loss resulting from the failure or inability to perform the contract obligations are completed. Credit risk stems from the fact that 22 contracts will not be obligations or fails to do. Traditional monetary cost impact of risks arising from the default of 23 contracts are measured. Losses from credit risk may occur before the actual default by the contractor should be established. Therefore, the credit risk can be defined as the probability that the loss of a credit event occurs. Credit event occurs when the ability of contractors in fulfilling its obligations subject to change. By definition, a change in the market value of liabilities due to changes in credit ratings or market awareness contract capabilities in meeting its obligations) can also be regarded as a credit risk.) On the other hand, require banks and monetary institutions and devoted to activities such as civic participation or involvement in the banking, legal, investment, "participatory" Islam and engaged in transactions Such as FDI or selling futures and buying of religion, the nature of such transactions, in practice it is a high risk arena, so that the amount of receivables outstanding bank statement KPMG International Institute expresses its high operational risk Host. However, it was clear that the process of globalization today, followed by the onset of various risks And financial crises, the need to improve the quality and quantity of Kali sector is further emphasized. In the meantime, be careful about monitoring international financial institutions requires further attention. One of the most important rules in this regard, the Basel regulations. With the increase in international banking activities, the committee is required to meet the challenges of existing rules and regulations and safety standards on a financial institution account All financial institutions in their interactions with one another must consider these criteria. Iranian financial institutions to prevent failure to adhere to the principles of Basel original, along with other countries should be much faster than the implementation of the committee appropriate in the circumstances countries, the take.

The study showed that as market risk, credit risk studies can be done at two levels:

- 1 - Reviews and customer loans individually the corresponding Risk Analysis of Individual Securities'.
- 2 - Check the credit risk of the loan portfolio is the portfolio risk analysis.

Refund Customers can evaluate the credit risk of non-repayment of funds received individually and calculate the "Validate" 24 said. Accreditation is a system by which banks and credit institutions using information from the applicant's present and past, the risk of non-repayment of loans by his estimation, and he points to his own. This method is an objective tool for managing credit risk and customer credit ratings based on qualitative and quantitative data to classify. Studies have suggested that the process of accreditation in the banking system being judgmental credit, most banks in the country risk categories such as general and specific credit risk, Have been neglected and have done nothing to control the overall risk assets. Establishing consequences 24. judgmental credit scoring system credit in the banking system, a high volume of reserves and banks' efficiency is reduced in its wake. State monopoly in the banking system has led to some innovations in traditional systems they create. Today, the bulk of the country's bank organizational structure, lack of risk management And the existence of risk management, control and manage the risks have not done any serious action. The studies conducted so far indicate the fact that the research design model for measuring credit risk of customers banking system has been done. While the present results that demonstrate the fact that the possibility of predicting the credit risk of customers When the coordinates of credit to customers and used as predictor variables in the statistical models are available.

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