

Risk Management Practices In Islamic Banking Institutions: A Comparative Study Between Malaysia And Jordan

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ABSTRACT

The results of the analysis revealed that factors, such as the level of understanding risk management, risk assessment and analysis, risk control, and monitoring, feature more prominently in Malaysian Islamic Banks than in their Jordanian counterparts. However, Jordan's IBs are ahead in terms of the level of risk management practices. Both countries are similar in their risk identification. It is also found that Islamic Banks in Malaysia and Jordan are somewhat reasonably efficient in managing risk where risk assessment and analysis (RAA), and risk control and monitoring (RCM) are the most influencing variables in RMPs in Malaysia; whilst understanding risk management (URM) and risk control and monitoring (RCM) are good predictors of RMPs in Jordan.

Keywords: Risk Management Practices; Islamic Banking Institutions; Risk Assessment and Analysis

1. INTRODUCTION

In contemporary economies, Islamic banking has become one of the vital sources of economic growth, particularly in countries where a significant number of Muslims refuse to deal with *Riba* transactions (Alwady & Samhan, 2007). These countries include Malaysia and Arab countries, such as Jordan and Egypt. Islamic banking was re-introduced in Egypt over four decades ago by Doctor Ahmad Abed Alazez Alnajar. He created a local Islamic savings bank in Egypt in 1963. Islamic banks were also opened in Cairo in 1971, Saudi Arabia in 1974, Dubai in 1975, Sudan in 1977, and Kuwait in 1977. Jordan started to practice Islamic banking in 1978 with the opening of the Jordanian Islamic and financing bank (Alwady & Samhan, 2007).

Although the issue of Risk Management Practices in Islamic banking institutions (IBs) has been widely debated by academics, risk management committees, practitioners, accountants, and investors, the issue continues to be of remarkable interest. *Al-Qur'an* emphasises the management's responsibilities towards managing risks, as stated in Surah Yusuf, Verse 67: A man should adopt precautionary measures against any risks. Additionally, a well-known *Hadith* has also advised Muslims to take appropriate action in minimizing losses: *The Prophet (PBUH) once asked a Bedouin to tie his camel before placing trust in Allah for its protection*. Therefore, it is obligatory for the management team of Islamic banks to seriously recognise, control, and manage their risks.

Certain risks could be avoided, reduced, shared, or accepted (Romney & Steinbart, 2012). Nevertheless, more rigorous risk identification and management systems (Khan & Ahmed, 2001) are needed in Islamic banks due to the new and unique risks that they have faced in recent times, such as *Shari'ah* non-compliance risk, rate of return risk, displaced commercial risk, and equity investment risk (Chan & Khan, 2000; Sundarajan & Errico, 2002). Credit risks, mark-up risks, liquidity risks, market risks, and operational risks are also examples of risks faced by Islamic banks (Khan & Ahmed, 2001, p. 63). Additionally, the use of a combination of the permissible Islamic modes of financing, such as profit-loss sharing (PLS) and non-PLS (Makiyan, 2008), would also be considered as a riskier approach in IBs. The lack of risk-hedging instruments, underdeveloped money markets, and government

securities based on PLS, limited availability to access to lender-of-last-resort (LORL) facilities by central banks, and minimum or no return for the reserves accounts placed in central banks are some of the challenges generally faced by the IBs (Makiyan, 2008, pp. 47-48). In order to mitigate those risks, risk analysts should work closely with Islamic scholars.

IBs implement the Profit-loss Sharing (PLS) concept, and, in doing so, contribute to distributive justice as well as allocative efficiency, economic stability, and growth (Al-Omar & Abdel-Haq, 1996). The absence of an interest-based system of banking found, for example, in *Mudharabah* contracts, acts as an efficient revelation device that might lead to the enhancement of investment levels (Presley & Sessions, 1994). PLS would also positively assist in the identification and measurement of risk. However, a study by Khan & Ahmed (2001) revealed that the PLS modes of financing, such as *Mudharabah*, *Musharakah*, and Diminishing *Musharakah*, are perceived to have higher credit risks regardless of the distinctive character of PLS. Additionally, Sundarajan and Errico (2002, p. 4) stated that the PLS modes make Islamic banks vulnerable to risks normally borne by equity investors rather than holders of debt.

Would different countries with different environments and different schools of thought have practiced different approaches in managing risks in their Islamic banking institutions? This article focuses on examining the level of Risk Management Practices of Islamic banking institutions (IBs) in Malaysia and Jordan. Due to the different environments, various variables suggested by previous researchers (namely, risk management practices, understanding risk management and techniques used in risk management, risk identification, risk assessment and analysis, and risk control and monitoring) are subject to further review. The main aim is to provide evidence and an enhanced understanding of the current risk management practices of the institutions in question.

The remainder of the article is organised as follows: Section 2 briefly explains the development of the IBs environment in Malaysia and Jordan. Section 3 summarises the theoretical framework and empirical evidence that could be used to explain the importance of rigorous risk management practices in the industry. Section 4 details the research method applied, and Section 5 presents the results and discussions. Finally, Section 6 provides the general conclusions.

2. ISLAMIC BANKING INSTITUTIONS IN MALAYSIA AND JORDAN

Islamic Banking is a financial sector with aims, principles, and practices that comply with Islamic Law (Saleh & Zeitun, 2007). *The underlying principles that govern Islamic Banking are mutual risk and profit sharing between parties, the assurance of fairness for all and that transactions are based on an underlying business activity or asset* (BNM, 2007).

Islamic Banking Institutions (IBs) in Malaysia and in Jordan emerged due to the growing awareness and increasing demand from Muslims for financial services and products that are managed in accordance with Islamic principles. The IBs have become one of the most important players in the economy of the two countries. Islamic funds are mobilized more effectively in the market due to the assurance that the business activities are free from *Riba*, gambling and elements of uncertainty; borrowers and financiers share risks and profits equally; and transactions are based on underlying business activities or assets.

The main objective of the Islamic banking system in Malaysia is to meet the financial needs of Muslims in particular and the nation at large. It is an alternative system based on Islamic principles and also accepted as a modern and viable system to develop the country's financial sector (Mahayuddin, 2012). The first Islamic financial product offered to Muslims in Malaysia, namely the Pilgrims' Fund Board (Lembaga Tabung Haji), was established in 1963 (Capital Market Development in Malaysia: History and Perspective, 2004). Subsequently, in 1983, Bank Islam Malaysia Berhad (BIMB) was incorporated as Malaysia's first Islamic bank in order to cater to both Muslim and non-Muslims needs. BIMB was given a grace period of ten years to operate without competition to protect its growth and development. Demand grew over the years, and, today, many types of bank offer Islamic banking in Malaysia, specifically Islamic banks, International Islamic banks, Commercial Islamic banks offering Islamic banking, investment banks, and development financial institutions banks. These banks are operating parallel with the conventional banking systems. The financing concepts available in Malaysia are *Bai Bithaman Ajil (BBA)*, *Ijarah*, *Ijarah Thuma Al Bay' (ITAB)*, *Murabahah*, *Musyarakah*, *Mudharabah*, and *Istisna* (Abdul Rahman et al., 2012).

In Jordan, Islamic savings and financing banks were introduced in 1978. Currently, Jordan Islamic Bank, Al Rajhi (foreign), Jordan Dubai Islamic Bank, and Islamic International Arab Bank are the Islamic banks operating in Jordan. Jordan's banking system has traditionally been dominated by the Central bank and Amman Financial Market (Saleh & Zeitun, 2007). As in Malaysia, Islamic banks in Jordan were established to cover the diverse economic needs, specifically to provide the necessary funding for a variety of sectors (Sadah & Al-Thaher, 2012). The country's GDP has been improved with the existence of these banks (Alwady & Samhan, 2007). Hamilton et al. (2010) stated that the financial system of Jordan including the Islamic banks, accounted for over 17 percent of the Jordanian GDP.

3. DEVELOPMENT OF HYPOTHESES

Sound risk management practices are essential nowadays in order to mitigate strategic and operational problems, and to reduce the probability of large negative cash flows, specifically in the Islamic banks (COSO, 2004). Consequently, by identifying and proactively addressing risks and opportunities, IBs can protect and create value for their stakeholders. IBs should be more credible in the market place, and could attract more sophisticated consumers compared to the conventional banks.

The following sections discuss the development of the hypotheses relating to the variables for the Risk Management Practices examined in this study.

3.1 Risk Management Practices

Risk management (RM) has been defined in various ways. CAS (2003) defined risk management as a process through which risk exposure is recognized, identified, analysed, assessed, mitigated, prioritized, exploited, monitored, and reviewed. RM also refers to the overall process an institution follows to define its strategy, recognize the types of risk affecting the firm, the impact of the risks in monetary values, and possible internal controls that should be implemented to combat potential threats (Cuming & Hirtle, 2001).

Ahmed and Khan (2007) analysed the issue of risk management systems in Islamic banks in ten countries; their findings indicated that IBs are able to establish better risk management policies and procedures compared to measuring, mitigating, and monitoring risk. They further suggested the IBs to upgrade their measuring, mitigating, and monitoring processes. In the case of Malaysia and Indonesia, Abdul Rahman et al. (2012) stated that the Islamic banks in Malaysia should strengthen their risk management practices with the aim of being relevant in the industry and being able to survive in the challenging environment; Islamic banks in Indonesia, on the other hand, should improve their approach to managing risk.

The previous studies, however, did not examine differences in the level of risk management practice relating to Islamic banks in Malaysia and Jordan. Since these two countries follow two different types of *Madhab* (religious jurisprudence) or schools of thought, their management teams are expected to have different perceptions of the same issues. Hence, we hypothesize that:

H1: There is a significant difference between the level of risk management practices of Islamic Banks in Malaysia and Jordan.

3.2 Understanding Risk Management and the Techniques Used in Risk Management

As Islamic bank institutions grow, they suffer several challenges. In order to remain sustainable, the management should understand the complexity of the systems, be conscious of all the risks associated with the operations, and identify suitable techniques to mitigate the risks. Romney & Steinbart (2012) listed several techniques to identify events, namely, using a comprehensive list of potential events, performing an internal analysis, monitoring leading events and trigger points, conducting workshops and interviews, using data mining, and analysing business processes. According to Khan and Ahmed (2001), the management could develop their own risk framework if they could understand the background of the risks associated with their institutions.

Since Islamic banks in Jordan have been in the market for five years longer than those in Malaysia, it is expected that the level of understanding of risk management and techniques used would be different between the two countries. Therefore, this argument yields the following hypothesis:

H2: There is a significant difference between the level of understanding risk management and the techniques used in Islamic Banks in Malaysia and Jordan.

3.3 Risk Identification

As stated in SAS99, the management, and, specifically, the risk management committee, should identify, assess, and respond to risk. Therefore, comprehensive and systematic processes of risk identification are essential in ensuring the accuracy of any risk assessments (Chapman, 1998). Chapman further argued that the risk identification processes would normally be conducted solely by the risk analyst interviewing a member of IBs, or by the risk management committee. Procedures at this stage include the following: identifying events or threats that confront IBs; estimating the likelihood of each threat; estimating the positive or negative impact resulting from each threat; identifying procedures or controls to mitigate the threats; estimating the cost and benefit from implementing controls; and deciding whether to avoid, share, accept, or transfer the risks (Romney & Steinbart, 2012). Abdul Rahman et al. (2012) examined the risk management practices of Islamic Banks in Malaysia and Indonesia and discovered that IBs in Malaysia are using more sophisticated quantitative analysis methods at this stage compared to IBs in Indonesia.

Based on the above arguments and to examine whether there is a significant difference in the level of risk identification in Malaysian Islamic banks and Jordanian Islamic banks, the hypothesis is:

H3: There is a significant difference between the level of risk identification in Islamic Banks in Malaysia and Jordan.

3.4 Risk Assessment and Analysis

Risk assessment and analysis is usually considered as one of the most challenging tasks. Once completed, the management should prioritize the risks and respond to those that need prompt corrective action. Ciechanowicz (1997) defined risk analysis as the process of identifying security risks, determining their magnitude, and identifying the corresponding areas that need safeguards. *Risks are assessed in several different ways: likelihood, positive and negative impacts, individually and by category, their effect on organisational units, and on an inherent and a residual basis* (Romney & Steinbart, 2012, p. 213). Nowadays, software tools can speed up the process of risk assessment and analysis.

Considering the previous literature, this study investigates the level of risk assessment and analysis practices of Islamic Banks in Malaysia and Jordan; therefore the hypothesis is:

H4: There is a significant difference between the level of risk assessment and analysis practice of Islamic Banks in Malaysia and Jordan.

3.5 Risk Control and Monitoring

Islamic banks currently encounter new and unique risks; this calls for the management to implement appropriate controls to protect the institution from negative events. Risk control is defined as a process to minimize the number of risks (COSO, 2004). Appropriate and clear policies and procedures should be in place. A study carried out by Khan and Ahmed (2001) reported that examples of adequate internal control include a system that is able to respond immediately to risks arising from changes to the environment, a proper disaster contingency plan, reviews by internal auditors, and backups of software and data files. Once implemented, the control mechanisms should be continuously monitored. Any unfavourable events should be measured, reported, and responded to accordingly. Makiyan (2008) opined that good internal controls could reduce mismanagement and attract market confidence.

The above studies, however, did not examine the risk control and monitoring level relating to Islamic banks in Malaysia and Jordan. As such, the hypothesis is as follows:

H5: There is a significant difference between the level of risk control and monitoring of Islamic Banks in Malaysia and Jordan.

4. METHODOLOGY

Banking institutions only disclose minimal details of their risk management programmes, and, as a result, most empirical analyses have to rely on surveys. Thus, a survey questionnaire was developed following the methodology of Al-Tamimi and Al-Mazrooei (2007), Hassan (2009), and Abdul Rahman, Syed Mohamad Noor, and Dean (2013) to suit the objective of this study. To assess the scales content validity related to the questionnaire survey, eight experts (five practitioners from five Islamic banks in Malaysia and three practitioners from Jordan Central Bank and Islamic Banks in Jordan) were involved in the pilot testing, in accordance with the suggestion of Devellis (1991). Questionnaires were distributed and returned by post, through email or by walk-in collection. The method of distribution varied, based on the preference of the particular bank.

The questionnaire was segregated into five main parts: the respondent's profile; the company's profile; the risk management process – understanding risk management, risk identification, risk assessment and analysis, and risk monitoring; general risk management practices; and governance on risk management practices. Respondents were asked to indicate, on a 7-point Likert scale (ranging from 1 = "strongly disagree" to 7 = "strongly agree," their perceptions concerning a total of 40 closed-ended questions relating to the risk management process (11 questions) and risk management practices (29 questions).

The sample in our study consists of Islamic banks listed under Bank Negara Malaysia and Islamic banks listed under the Amman Stock Exchange, Jordan. The target population of this survey includes departments that deal with risk management in Islamic banks. As of 30 June 2011, 17 Islamic banks in Malaysia and 4 Islamic banks in Jordan participated in the survey. There were 15 questionnaires distributed to each of the banks. The usable data for Malaysia comprises 136 questionnaires and for Jordan 70, which gives a total sample of 206.

5. RESULTS AND DISCUSSION

Table 1: Reliability Measurement of Risk Management Aspects

No.	Risk Management Aspects	Cronbach's Alpha		
		Malaysia	Jordan	Overall (Both)
1	Risk management practices	.895	.840	.887
2	Understanding risk management	.796	.616	.727
3	Risk identification	.821	.836	.391
4	Risk assessment and analysis	.868	.864	.860
5	Risk control and monitoring	.857	.844	.845

Table 1 shows the reliability of the respective dependent and independent variables used in the study. All the variables possess an alpha value of more than 0.7, which is consistent with Nunnally (1978) who contends that the alpha must be greater or equal to 0.7. The minimum value is Understanding Risk Management (URM), which is 0.796 in Malaysia and 0.616 in Jordan.

Table 2: Level of Risk Management Practices for Malaysia and Jordan Through t-test

No.	Risk Management Practices	Malaysia Mean	Jordan Mean	Significant Difference
1	The executive management of your Islamic Bank regularly reviews the bank's performance in managing its business risk	5.99	6.10	.355
2	Your Islamic Bank is highly effective in continuous review/feedback on risk management strategies and performance	5.77	6.23	.000
3	Your Islamic Bank's risk management procedures and processes are documented and provide guidance to staff about managing risks	5.94	6.11	.163
4	Your Islamic Bank's policy encourages training programmes in the areas of risk management and Islamic ethics	5.83	6.33	.000
5	Your Islamic Bank emphasizes the recruitment of highly qualified people having Islamic knowledge in risk management	5.50	5.67	.320
6	One of the objectives of your Islamic Bank is 'effective risk management	5.97	5.99	.893
7	Your Islamic Bank finds that it is too risky to invest funds in one specific sector of the economy	5.64	6.52	.000
8	Your Islamic Bank is successfully implementing the IFSB and Central Bank guidelines/principles in regard to risk management	5.74	6.10	.015
9	The application of the Basel II Accord will improve the efficiency and RMPs in Islamic banking in general	5.97	6.25	.012
10	I consider the level of RMPs of my Islamic Bank to be excellent	5.75	6.56	.000
11	I consider my Islamic Bank has Risk Management Practices that are shariah compliant	6.07	6.68	.000
	Total Score	5.83	6.22	.016

Table 2 shows that Islamic Banks in both countries have a high level of risk management practices for which the mean scores are above 5 out of a possible highest score of 7. Further, the independent t-test shows that the level of risk management practices of Islamic Banks in Jordan is significantly higher than that in Malaysia, thus supporting Hypothesis 1. Further, the results show that Islamic Banks in Jordan have higher risk management practices than their counterparts in Malaysia in the following areas: highly effective in continuous review/feedback on risk management strategies and performance; Islamic Bank's policy encourages training programmes in the areas of risk management and Islamic ethics; Islamic Bank finds that it is too risky to invest funds in one specific sector of the economy; Islamic Bank is successfully implementing the IFSB and Central Bank guidelines/principles in regard to risk management; application of the Basel II Accord will improve the efficiency and RMPs in the Islamic banking in general; the level of risk management practices (RMPs) of the Islamic Bank is excellent; and Islamic Bank has risk management practices that are shariah compliant.

Table 3: Level of Understanding Risk Management for Malaysia and Jordan Through t-test

No.	Understanding Risk Management	Malaysia Mean	Jordan Mean	Significant Difference
1	There is a common understanding of risk management across Islamic banks	6.09	5.31	.000
2	Responsibility for risk management is clearly set out and understood throughout the bank	6.06	5.94	.323
3	Accountability for risk management is clearly set out and understood throughout the bank	6.05	5.81	.064
4	Managing risk is important to the performance and success of the bank	6.36	6.46	.543
5	It is crucial to apply the most sophisticated techniques in risk management	5.91	6.47	.000
6	The objective of Islamic banks is to expand the applications of the advanced risk management technique	5.89	5.62	.086
7	It is important for your Islamic bank to emphasize the continuous review and evaluation of the techniques used in risk management	6.17	6.13	.691
8	Application of risk management techniques reduce costs or expected losses	6.06	5.13	.000
9	I understand that the risk management practices in Islamic banks must be according to Shariah	6.43	5.95	.000
	Total Score	6.11	5.88	.011

Table 3 shows the independent t-test for the level of understanding of risk management for Malaysia and Jordan. Overall, the results support Hypothesis 2, which indicates that Islamic banks in Malaysia have a significant higher level of understanding risk management than IBs in Jordan. Further analysis portrays that Malaysia is significantly ahead of Jordan in understanding risk management in these areas: common understanding of risk management across Islamic bank (m = 6.09 and 5.31), application of risk management techniques reduce costs or expected losses (m = 6.06 and 5.13); and understand that the risk management practices in Islamic banks must be according to *Shari'ah* (m = 6.43 and 5.95). However, the IBs in Jordan are significantly ahead of the IBs in Malaysia in applying the most sophisticated techniques in risk management (m = 6.47 and 5.91).

Table 4: Level of Risk Identification for Malaysia and Jordan Through t-test

No.	Risk Identification	Malaysia Mean	Jordan Mean	Significant Difference
1	The Islamic bank carries out a comprehensive and systematic identification of its risk relating to each of its declared aims and objectives.	6.11	5.92	.092
2	The Islamic Bank finds it difficult to prioritize its main risk.	3.07	3.73	.006
3	Changes in risk are recognized and identified with the Islamic Bank's rules and responsibilities.	5.84	5.76	.530
4	The Islamic Bank is aware of the strengths and weaknesses of the risk management systems of the other banks.	5.46	5.62	.327
5	The Islamic Bank has developed and applied procedures for the systematic identification of investment opportunities.	5.76	6.00	.074
6	In the process of identifying risk, your Islamic Bank always take shariah compliance issues into consideration.	6.19	6.43	.039
	Total Score	5.4	5.57	.171

As indicated in Table 4 there is no significant difference in the level of risk identification between the IBs in Malaysia and their counterparts in Jordan, hence, Hypothesis 3 is rejected. Analysing the data further indicates that a statistically significant difference was found for the following variables: Islamic Bank finds it difficult to prioritize its main risk (t (198) = -4.31, p < .05); and, in the process of identifying risk, Islamic Bank always takes *Shari'ah* compliance issues into consideration (t (198) = -4.153, p < .05). The results show that Jordan is ahead of Malaysia in both respects with (m = 3.73 and 3.07) and (6.43 and 6.19), respectively.

Table 5: Level of Risk Assessment and Analysis for Malaysia and Jordan Through t-test

No.	Risk Assessment and Analysis	Malaysia Mean	Jordan Mean	Significant Difference
1	Islamic Bank assesses the likelihood of occurring risk.	6.11	6.16	.699
2	Islamic Bank's risk is assessed by using quantitative analysis methods.	5.88	5.28	.000
3	Islamic Bank's risk is assessed by using qualitative analysis methods (e.g., high, moderate, and low).	5.88	5.27	.000
4	Your Islamic Bank analyses and evaluates the opportunities that it has to achieve objectives.	5.90	5.86	.742
5	Your Islamic Bank's response to the analysis of risk includes assessment of the costs and benefits of addressing risk.	5.86	5.86	.993
6	Your Islamic Bank's response to the analysis of risk includes prioritizing of risk and selecting those that need active management.	5.94	5.96	.877
7	Your Islamic Bank's response to the analysis of risk includes prioritizing risk treatments where there are resource constraints on risk treatment implementation.	5.86	6.09	.075
8	Your Islamic Bank has applied a shariah compliance risk assessment and analysis.	6.12	6.22	.527
	Total Score	5.95	5.84	0.029

Table 5 shows the results on the level of risk assessment and analysis. Significant differences between the two countries were found in the following areas: Islamic Bank's risk is assessed by using quantitative analysis

methods ($t(198) = 4.61, p < .05$); and Islamic Bank’s risk is assessed by using qualitative analysis methods (e.g., high, moderate, and low) ($t(198) = 4.61, p < .05$). This indicates that Malaysia is ahead of Jordan in these aspects of risk assessment and analysis ($m = 5.88$ and 5.28) and ($m = 5.88$ and 5.27), respectively. Hypothesis 4 is accepted as the overall results show that there is a significant difference in the level of risk assessment and analysis between IBs in Malaysia and those in Jordan.

Table 6 indicates an independent t-test that shows that the level of risk control and monitoring in IBs in Malaysia is significantly higher than those in Jordan, thus accepting Hypothesis 5. Further analysis shows that a significant difference in the risk control and monitoring factors between the IBs in Malaysia and Jordan in the following area: monitoring the effectiveness of risk management is an integral part of routine management reporting, with Malaysia ahead of Jordan ($m = 6.16$ and 5.48). However, no significant differences were found between the countries in the other areas.

Table 6: Level of Risk Control and Monitoring for Malaysia and Jordan Through t-test

No.	Risk Control and Monitoring	Malaysia Mean	Jordan Mean	Significant Difference
1	Monitoring the effectiveness of risk management is an integral part of routine management reporting	6.16	5.48	.000
2	Level of control by the Islamic Bank is appropriate for the risk that it faces	5.90	5.91	.932
3	In your bank, reporting and communication processes support the effective management of risks	5.90	5.94	.785
4	The Islamic Bank’s response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses	5.97	5.87	.441
5	The Islamic Bank’s response to risk includes action plans in implementing decisions about identified risk	6.07	5.95	.302
6	The existing control and monitoring process in your Islamic Bank always considers Shari’ah compliance issues	6.26	6.37	.363
	Total Score	6.04	5.92	0.04

The Spearman correlation coefficient determines the strength of the linear relationship between the two variables; the closer it is to 1, the better. Cronk (2008) contended that a coefficient below 0.3 indicates weak correlation, above 0.3-0.7 is moderate, and above 0.7 shows very good correlation. The results in Table 7 show significant moderate correlation. The coefficients carry values between 0.220 and 0.565.

Table 7: Spearman Correlation Matrix for the Independent Variables for Both Countries

	RMP	URM	RI	RAA	RCM
Risk management practices (RMP)	1.000				
Understanding risk management (URM)	.289**	1.000			
Risk identification (RI)	.372**	.417**	1.000		
Risk assessment and analysis (RAA)	.440**	.565**	.539**	1.000	
Risk control and monitoring (RCM)	.552**	.354**	.348**	.526**	1.000

** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed).

The regression results are provided in Table 8, which shows that the adjusted R-squares are found to be good with a value of 0.516 in Malaysia, 0.408 in Jordan, and .367 overall. Using F-statistics, it is found that there are significant differences between the two countries with 22.34 and 9.90 for Malaysia and Jordan, respectively. In Malaysia we found two significant predictors of the level of risk management practices at the 5% level vis-à-vis risk assessment and analysis (RAA) and risk control management (RCM). However, URM and RI are not significant predictors of the risk management practices in Malaysia. In the case of Jordan, URM and RCM are significant, while the remaining factors risk identification (RI), risk assessment and analysis (RAA), risk control (RCM) are not statistically significant predictors of risk management practices. The overall results indicate that the understanding of risk management (URM), risk assessment and analysis (RAA) and risk control and monitoring (RCM) are all significant. The sample of Jordan is small compared to that of Malaysia. Conceivably this finding shows the relative competition between Malaysia and Jordan regarding risk management in Islamic banking.

Table 8: Regression Analysis Results

Variables	Malaysia		Jordan		Overall
	Coefficient	Sig.	Coefficient	Sig.	
Constant	-0.17	.978	3.304	.000	1.408
Understanding risk management (URM)	.057	.608	.336	.002	.075
Risk identification (RI)	0.92	.382	-.178	.149	.153
Risk assessment and analysis (RAA)	.254	.007	.136	.226	.179
Risk control and monitoring (RCM)	.526	.000	.275	.005	.369
Adj. R ²		.516			.408
F-value		22.34			9.901
Sig.		.000			.000
N		121			79

6. CONCLUSION

The study reveals many interesting findings regarding the risk management practices in Islamic banking in Malaysia and Jordan. The study reveals that the countries differ in some dimensional aspects of risk management practices and share some practices to an equal degree. The similarities and differences in the risk management practices in Islamic banking between Malaysia and Jordan could be due to numerous factors, such as historical issues, level of development of Islamic banking in the two countries, and Islamic norms and values.

The correlation analysis shows that most of the coefficients of relationships occur at 1%, especially among the independent variables, such as RMP, RI, URM, RAA, and RCM. In addition, the regression analysis depicts that two significant predictors were found in both countries, risk assessment and analysis (RAA) and risk control and monitoring (RCM) in Malaysia, and understanding risk management (URM) and risk control and monitoring (RCM) in Jordan; this indicates that risk control and monitoring (RCM) is a good predictor in both countries.

The findings imply relative competition between Malaysia and Jordan in risk management in Islamic banking, with Malaysia leading in terms of understanding risk management, risk assessment and analysis, and risk control and monitoring, while Jordan leads in the area of risk management practices. There is no significant difference between the two countries in terms of risk identification. Overall, the results provide evidence of efficiency in risk management practices within the Islamic banking industry in Malaysia and Jordan.

The introduction of the “Basel II” provided an opportunity for sound RMPs in the Islamic banking system for both countries in that they responded to this challenge by undertaking a significant upgrading of their risk management system. Future research may want to focus on identifying the proper risk mitigation strategies for Islamic Banks.

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