

RISKS IN SALAM IN ISLAMIC BANKING

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



معهد المصارف الإسلامية
Institute of Islamic Banking

RISKS IN SALAM IN ISLAMIC BANKING

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for the
MS degree in Islamic Banking and Finance**



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CERTIFICATE OF APPROVAL**CERTIFICATE OF APPROVAL**

The thesis entitled "*Shariah Stance about Risk in Salam and Istisna*" by *Hammad Fazal* (ID # 12002130-013) has been examined by the undersigned panel of examiners and has been accepted in partial fulfillment for the degree of **MS Islamic Banking and Finance**.



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DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application for another degree in qualification to this or any other university or institution of higher learning.

This thesis is a presentation of my original research work. Wherever contributions of others are involved, every effort has been made to indicate this clearly, with due reference to the literature and acknowledgement of collaborative research and discussions.

The work was done under the guidance of Muhammad Mahmood Shah Khan, Director, Institute of Islamic Banking, University of Management and Technology, Lahore, Pakistan.

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In my capacity as supervisor of the candidate's thesis, I certify that the above statements are true to the best of my knowledge.

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DEDICATION

I am very thankful to ALMIGHTY ALLAH on completion of this thesis. I dedicated this Thesis to my affectionate Parents and my Beloved elder brother. Kaleem Fazal, who has been very gracious to me.

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HammadFazal

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ABSTRACT

Purpose: The purpose of this study is to describe the risks present in different stages of Salam when it was used as mode of finance in Islamic banking. Also, to discuss the mitigation tools to avoid those risks, highlighting the boundaries and limits for risk management mentioned by Shariah.

Research Methodology: The research methodology used in this research is descriptive in nature. The study is theoretical research based. The topic that was selected is based on studying field of Islamic banking and finance and Islamic jurisprudence.

Findings: Salam transaction is allowed in Sharia, under strict conditions. These conditions had made Salam, too risky, as compared to other Islamic modes of finance. Moreover, Salam contracts consist on different steps and phases. Number of risks is associated with each stage. All such risks were mentioned in the findings. Therefore, also some risks which was associated with gharar. Presence of such risks makes Salam transactions unlawful.

Research Limitation: This research is limited to Islamic banks in Pakistan, focusing on Salam as mode of finance. In this study, Salam was discussed mainly as per Hanafi school of thought but other school of thoughts was also mentioned in a general way.

Practical Implication: This research study will be helpful for risk analyst, so that he can recognize those risks which he can face in different stages and phases of Salam transaction. Also it will be helpful for Sharia Auditors of Islamic banks and other Islamic financial institutes, so that they manage and mitigate Sharia noncompliance risks in a better way. This study is also useful for finance manager of Islamic banks so that he can mitigate and manage those risks.

Originality: Salam transaction is very useful modes of finance for Islamic financial institutes. No research work has been done on identification and management of risks involved in different stages of Salam. So writing of research paper that focuses on risk identification in different phases of Salam, their management and mitigation, was really needed.

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