

**EVOLUTION OF ISLAMIC CAPITAL RISK MANAGEMENT- HISTORICAL TRENDS AND FUTURE PROSPECTS**

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**ABSTRACT**

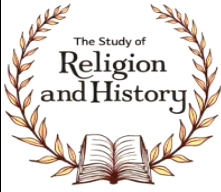
*In the larger context of promoting Islamic banking principles, practices, and regulatory frameworks for sustainable growth, this study analyses the evolution of Islamic Capital Risk Management (ICRM) by analyzing past trends and predicting prospects. The goal is to provide a comprehensive view of the evolution of ICRM, highlighting its importance in the developing field of Islamic banking. The strategy combines meticulous historical analysis with predictions for the future. It offers in-depth historical analyses of ICRM that clarify how risk assessment, risk mitigation tactics, and regulatory frameworks have changed over time. Then, it projects historical trends into the future using mixed analysis and expert judgment, offering insightful information about the adaptation and sustainability of ICRM in the face of new difficulties. The main purpose is to emphasize the crucial part that ICRM plays in fostering financial stability and long-term growth within Islamic finance. It includes documenting the ICRM's historical development and key moments, examining regulatory shifts, and evaluating cutting-edge risk management techniques. Additionally, it forecast future ICRM trends while integrating digitalization, sustainable finance ideas, and shifting regulatory paradigms. The ultimate objective of this study is to offer crucial understandings that advance comprehension of the past, present, and future of ICRM and enable its continuing progress within the dynamic environment of Islamic finance.*

**Keywords:** Risk management, Islamic capital, sustainable Finance, Pakistan

**INTRODUCTION**

Islamic finance guarantees a halal (acceptable) financial system and does away with riba (interest). It is distinguished by the lack of financial institutions and transactions based on interest, dubious transactions or uncertainty (gharar), stocks of businesses engaged in illegal and immoral unethical activities such insider trading, short selling, and market manipulation. Since 1960s, when it was first modernized, the five primary subsectors through which the Islamic financial industry has operated are Islamic banking, sukūk (Islamic investment), takaful (Islamic insurance), and other Islamic financial organizations (for Islamic funds) and certificates.

The Islamic Financial Services Board, 2019 states that the global assets of the Islamic financial services industry reached US\$2.44 trillion, reflecting the considerable development in demand for Shariah-compliant products and services over time.(2020). According to the Islamic Financial Services Board (2020), the Islamic finance sector attained a moderate 11.4% growth in 2019 compared to a 3% growth in 2018.The global Islamic industry saw a 2% increase in 2018, rising to US\$1.57 trillion in 2019.Over the same time period, takaful's grew by 1%. There were reports that financial institutions had experienced a decrease. The decrease in Growth was ascribed to slowdowns in the top markets for the sector, namely Saudi Arabia and Iran. In Saudi Arabia and Malaysia; Islamic finance is not limited to traditional Muslim and Arab markets; rather, it is constantly diversifying and expanding to service a rising number of Muslims and nonMuslims. Some observers characterize the UK's active participation in its growth as a "standalone" project aimed at advancing Islamic banking outside of Arab and



Muslim worlds. Furthermore, the part played by a few US financial firms in the advancement and endorsement of Islamic finance is noteworthy<sup>1</sup>

With more than 200 banks operating in more than 70 countries, Islamic banking is fast expanding sector of the global banking and capital markets. This comprises leasing companies, mutual funds, investment houses, insurance companies, and commodity trading companies that are Islamic. Nonetheless, Islamic banking is still largely unknown in the West and poorly understood in many Muslim countries. To offer Muslim populations a range of financially acceptable services that align with their religious beliefs, there is an Islamic banking and financial system in place. Apart from their unique role, financial and banking establishments in Islamic society are anticipated to "contribute richly to the achievement of the major socio-economic goals of Islam," much like all other facets of society. Socioeconomic justice and an equitable distribution of income and wealth, stability in the value of money, and the mobilization and investment of savings for economic development in a way that ensures a just (profit-sharing) return for all parties involved are the most crucial of these. Full employment and rapid economic growth are also important. In the sense that the chance to perform financially sound and religiously justified operations has worth well beyond that of the financial operation's mode, perhaps the religious dimension should be stated as an additional explicit purpose.<sup>2</sup>

## 1.SIGNIFICANCE OF RESEARCH

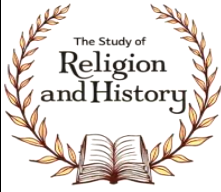
The study guarantees adherence to Sharia law, supports Islamic banking, reduces risk, and promotes stability in the financial system. As a comprehensive understanding of the development of Islamic Capital Risk Management (ICRM) is essential for a range of stakeholders, such as financial institutions, policymakers, researchers, and the general public, so this study also supports the creation of Islamic finance-specific regulatory frameworks, which promote a thriving financial industry. By improving risk management procedures and guaranteeing adherence to Sharia law, it is crucial for bolstering Islamic finance. It advances academic research, fosters socially conscious financial behavior, and advances economic development—all of which are in line with the objectives of global sustainability. To put it simply, this study is helpful to the expansion, sustainability, and moral coherence of Islamic finance on a worldwide scale.

## 2.RESEARCH METHODOLOGY

In order to fully understand the many facets of "Evolution of Islamic Capital Risk Management: Historical Trends and Future Prospects," mixed research ( both qualitative and quantitative) will be essential. This research technique will explore the subtleties and subjective insights that support the development of Islamic Capital Risk Management through in-depth interviews and surveys with prominent figures in Islamic finance, risk management experts, and regulatory bodies. By talking to these stakeholders, we hope to learn about their perspectives, experiences, and professional judgments regarding the ICRM's past development, present situation, and expectations for the future. This qualitative method will reveal important information to support the quantitative analysis in this extensive study and

<sup>1</sup> Bashir Tijjani et al., "A Bibliometric Analysis of Quality Research Papers in Islamic Finance: Evidence from Web of Science," *ISRA International Journal of Islamic Finance* 13, no. 1 (2021).

<sup>2</sup> Kabir Hassan and Mervyn Lewis, *Handbook of Islamic Banking* (Edward Elgar Publishing, 2009).



offer a full knowledge of the human, environmental, and cultural aspects that have shaped ICRM.

### 3. RESEARCH OBJECTIVES

This paper aims:

1. To examine the evolution of risk assessment procedures in Islamic banking across time
2. To evaluate the effects of digitalization and fintech integration on risk management practices
3. To examine how sustainable finance concepts can be included into ICRM, with an emphasis on how risk management techniques can incorporate ethical, environmental, and social factors. managerial techniques
4. To enrich the project of future ICRM trends while taking the effects of digitization into account.

### 4. RESEARCH QUESTION

What significant historical turning points and modifications to risk assessment and mitigation procedures have occurred within Islamic banking, and how has Islamic Capital Risk Management (ICRM) changed over time.

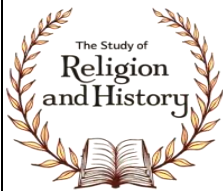
### LITERATURE REVIEW

The Islamic Bank of Bahrain's (IDB) goal is to promote social and economic development while adhering to Shariah. As of April 5, 2000, the bank had an authorized capital of 6 billion Islamic Dinars (ID), of which 2.5 billion were paid up and 4.1 billion were subscribed. The bank's normal resources are members' subscriptions, reserves, and retained earnings. Rather than taking out loans from conventional financial markets, the bank develops financial products and plans that adhere to Shariah. These are the Export Financing Scheme (EFS), the IDB Unit Investment Fund (UIF), and the Islamic Banks' Portfolio (IBP). The Islamic dinar, which serves as the IDB's accounting unit, is equivalent to one Special Drawing Right (SDR) issued by the International Monetary Fund (IMF). One International Monetary Fund (IMF) Special Drawing Right (SDR) is equal to one Islamic dinar, which is used as the IDB's accounting unit.<sup>3</sup>

Although the roles played by Islamic banks and financial intermediaries are similar to those of their conventional counterparts but models for these roles have been created utilizing different Islamic financing sources. Profit sharing is used in place of interest on both liabilities and assets in the Two-Tier Mudarabah model. The bank's main operation is taking deposits from the general public and providing them to company owners on the same terms. Demand deposits, checking and current accounts, accounts for restricted investments, and general investment deposits can all be found within. This model enhances the stability, equity, and efficiency of the banking sector. The combination of One-Tier Mudarabah with other investment tools has developed from more conventional financial instruments, such as mudarabah and musharakah, to more adaptable arrangements for managerial tasks. A variety of price and object-deferred sales arrangements, including installment sales, short-term Murabahah, pre-paid or price-deferred manufacturing orders, and pre-paid or rent-deferred leasing, have also been established by Islamic banks. The agency concept can be used to set up an Islamic bank acting as a wakeel.<sup>4</sup>

<sup>3</sup> Mabid Ali Al-Jarhi and Munawar Iqbal, "Islamic Banking: Answers to Some Frequently Asked Questions," *Occasional paper* 4 (2001).

<sup>4</sup> Munawar Iqbal, Auşāf Aḥmad, and Tariqullah Khan, *Challenges Facing Islamic Banking*, vol. 1 (Islamic Research and Training Institute Jeddah, 1998).



A fixed rate of return on deposits is not guaranteed in an Islamic banking system; instead, depositors are recognized as shareholders in an equity-based system. If the bank is profitable, they are entitled to a share of the profits; if the bank is losing money, they are entitled to a negative rate of return. In order to adhere to Islamic law, banks are required to adopt profit-and-loss sharing models for investment and financing instead of charging interest on loans. The implementation of an interest-free economy in Islamic economies necessitates the creation of substitute financial instruments and appropriate monetary policy alternatives.<sup>5</sup>

Since the mid-1990s, the Islamic finance industry has grown rapidly due to a variety of factors, including realigning revenue patterns, raising awareness of Islamic financing and investment techniques, and educating a wider range of finance professionals about Shariah-compliant structures, principles, and precepts. Scholars of Shariah have also accumulated expertise in intricate financial frameworks and collaborating with traditional Western finance experts. Though the business is still in its early stages, scholars of Shariah have made important choices about the application of Shariah principles and precepts in the activities of capital markets. The AAOIFI Sukūk Standard and the DJIMI Fatwa have played a pivotal role in honing the implementation of these ideas in international markets, fostering the expansion of the Islamic capital markets' equity segment, and fostering

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collaborative integration with more expansive interest-based economies. Nonetheless, the application of Shariah-compliant principles in the sukūk markets has presented challenges, since structural variance has shifted to the left, emphasizing the necessity for additional improvement and adjustment.<sup>6</sup>

Important tenets of the Islamic economic system include contracts, individual and property rights, the ban on interest, wealth and labor, and the role of the state. According to Islam, human duties lead to the acquisition of specific rights, which are then the result of those obligations. Three fundamental tenets form the foundation of Islamic property rights: the invariance of ownership, sharing of natural resources, and God as the ultimate owner of all property. The Shariah provides a solid foundation for contracts, with a strong emphasis on the ability to enter into agreements. The Quran stresses that work and wealth are essential components of Islam and forbids the giving and receiving of interest or *riba*. The goal of the Shariah is to alter the distribution of wealth and income by defining ways of acquiring, holding, and disposing of property. Equitable access to natural resources, equitable opportunity, market monitoring, and fair exchange are all responsibilities of the state in the Islamic economy.<sup>7</sup>

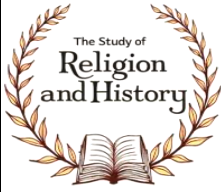
Extreme weather, droughts, floods, and other natural calamities that endanger human life are being brought on by global warming. The overuse of natural resources brought about by rapid industrial growth has increased carbon gas emissions. A market failure that has an impact on GDP and the economy is climate change. Citigroup discovered that if global temperatures were dropped to 2.7° F over the next few decades, global GDP losses might be avoided by \$50 trillion. Micro-level productivity is also impacted by climate change, as are

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<sup>5</sup> Mohsin S Khan and Abbas Mirakhor, "The Financial System and Monetary Policy in an Islamic Economy," *Journal of King Abdulaziz University: Islamic Economics* 1, no. 1 (1989).

<sup>6</sup> Michael JT McMillen, "Islamic Capital Markets: Market Developments and Conceptual Evolution in the First Thirteen Years," *Available at SSRN 1781112* (2011).

<sup>7</sup> Mohsin S Khan and Abbas Mirakhor, "The Framework and Practice of Islamic Banking," *Finance and development* 23, no. 3 (1986).



higher business running expenses. According to a survey conducted by the Carbon Disclosure Project, 31% of the 2,000 enterprises surveyed reported higher expenses and 44% reported production delays as a result of rain and drought. In 2047, Indonesia is predicted to undergo a change in climate, with lower crops due to drought and high temperatures.

Since 2018, Islamic institutions that demonstrate the alignment of sharia principles with sustainable financing are BSM and other Islamic banks. The health sector accounted for 63% of the financing given to sustainable finance by the wholesale segment, while green micro-entrepreneurs made up 37% of the retail segment. From 29.56% in 2018 to 47% in 2019, the sustainable finance share of BSM's financing distribution represented a notable rise. However, government backing and coordinated laws and regulations are necessary for Islamic banks to implement sustainable finance effectively. In general, Islamic banks need sustainable finance to keep their market position in the Islamic banking sector.<sup>8</sup>

Shariah principles govern the Islamic banking and financial system and are the guiding principles for Islamic banks, a prominent player in the Islamic banking market.

These guidelines forbid interest payments, profit-and-loss sharing, and other things. The manner in which Islamic finance integrates into the traditional financial system and gains from enhancing and completing it will determine the sector's long-term viability and expansion. Sustainability is the process by which businesses manage the financial, environmental, and social risks associated with their operations. It encompasses social equality, economic progress, and environmental protection. Institutional and welfare techniques are the two main models used by Islamic banks in their banking operations. The Sustainable Development Goals (SDGs), which were established by the UN to promote sustainable development, offer a great chance to cover a wide range of sustainable development research topics. Over the last forty years, the Islamic financial system has expanded significantly, and during the 2021–2022 timeframe, the \$2.2 trillion global

Islamic finance sector is predicted to rise by 10%–12%.<sup>9</sup>

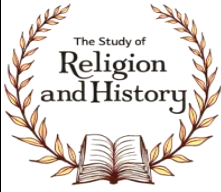
#### **GUIDELINES AND PRACTICES REGARDING ISLAMIC GROWTH HUB**

Islamic economics is a comprehensive framework that organizes people's relationships with Allah, other people, and the environment and offers rules for behavior throughout life. It involves the creation, exchange, and utilization of products and services and is an essential part of human existence. Islamic finance and economics have seen a resurgence in the last several decades, drawing interest from academics and general public that grasp the economic behavior of humans requires a grasp of the fundamentals and principles of Islamic Economics, which are taken from the Quran and the Sunnah. In the Quran Allah Says:

“But seek, with that (wealth) which Allah has bestowed on you, the home of the Hereafter, and forget not your portion of lawful enjoyment in this world; and do good as Allah has been good to you, and seek not mischief in the land. Verily, Allah likes not the Mufsideen (those who commit crimes and sins, oppressors, tyrants, mischief makers, corrupters)” (Al Quran 28:77).

<sup>8</sup> Lucky Nugroho, Erik Nugraha, and Ahmad Badawi, "Sustainable Finance Portfolio Analysis in Islamic Bank (Segment Perspective)," *International Journal of Commerce and Finance* 6, no. 2 (2020).

<sup>9</sup> Valerio Brescia et al., "Exploring Sustainability from the Islamic Finance Perspective," *European Journal of Islamic Finance*, no. 19 (2021).



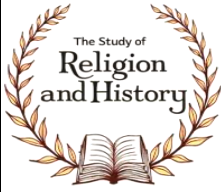
Prophet Muhammad (Peace be upon Him) too preferred trade and always encouraged business. **In a Hadith the Prophet Muhammad (Peace be upon Him) said:**

“A truthful businessman will be under the shade of the throne of Allah Ta’ala on the Day of Resurrection”-(Al Isbihani). In another Hadith the Prophet Muhammad (Peace be upon Him) said: “The truthful merchant [is rewarded by being ranked] on the Day of Resurrection with prophets, veracious souls, martyrs and pious people” (Tirmidhi, No: 1130).

### GUIDELINES

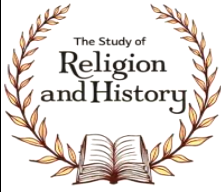
Some guidelines related to Islamic finance are:

- **Ownership:** The Quran makes it very evident that Allah is the creator of all riches, both on earth and in the skies. He is therefore the true owner of this world with all of its wealth, resources, and production inputs. It is acknowledged that both individuals and groups of people own human resources and money, and that each person should work hard to obtain these resources and make use of them, adding to and gaining utility from financial operations. Each and every person has an equal right to use the natural resources that Allah has made. It's not allowed to host the assets or resources that have been idle or unproductive for an extended time frame. According to the Quran, if any property after a person passes away, is left behind, then it must be shared with others under the Quranic "rule of inheritance".
- **Position of Human Being:** Humans ought to adhere to the rules supplied by Allah in the form of Holy texts so that they are responsible for all they do. Considering their behavior, whether it would be good or bad, or it would be reward or penalty. Picking and adhering to the appropriate route is surrender to the will and the Creator's commandments that would be the deciding factor in this reprimand. A sense of accountability produces responsible people who act as travelers in this world rather than owners of the earth and its resources.
- **Resources:** Every individual is urged to put in a lot of effort to obtain, earn and make use of materials but only in the manner instructed by God. In order to acquire and use resources one needs to keep in mind that wealth is intended for human use and Allah has also made a definite distinction between what is allowed and what is not.
- **Wealth and Relationship:** We do not find two environments equally productive or fertile, nor two people equally capable of overcoming adversity or effective work and equally wise to take advantage of the chance. It is feasible for one person to become wealthier than the opposite. In Islam, a portion of the excess money generated (in a certain amount of time) by people as a result of Allah's compassion or because of aptitude and favorable circumstances that Allah has granted; he must provide his share to other fellow creatures.
- **Financial Operations:** One cannot produce the goods and services that are detrimental to society and forbidden in Islam. The goods and services that must be produced are divided into categories: luxury & comforts. The production's top preference; Process will be applied to needs, then comforts, and finally then luxury items. Moving on to distribution, anything that is being produced ought to be distributed among the people working on the production, without any deceit, in accordance with their portion. As it proceeds Regarding distribution as well, adherence to the Islamic rules and regulations found in the Quran and Sunnah. The excess money that is left over after the allocation of a portion owned by each party may be reinvested in the Considering commerce and business through the same Islamic lens Thirdly, it is not expected by individuals who enjoy the fruits of prosperity to live their own lives and make their own consumption choices. It is



not permitted to not to concentrate wealth in a small number of hands. Islam does not forbid anyone from living a pleasant life but actually promotes it giving the intention behind the obtaining comforts in a way to recognize Allah's bounty and not for show or pomp.

- **Trading:** With mutual consent and no harm to one another, trade is permitted. In trade and business, "transparency" is required. Trade in goods that are against the Quran and Ahadith, expressly forbidden, and not in the best interests of society as a whole is prohibited. It is forbidden to use methods and strategies in trade that are uncertain.
- **Money and Commodities:** Humans require a large number of commodities for survival, and transactions of exchange that are inevitable. However, commodities are not of the same type or measure, making it necessary to have a medium to measure their exact value. Money was invented as a medium to measure all commodities, services, assets, or wealth as a whole. Money cannot directly fulfill human needs but can only be used for acquiring some goods or services. Commodities have intrinsic utility and can be utilized directly without exchanging them for another thing. Money has no quality except as a measure of value or a medium of exchange. It is a tool to measure the value of all commodities and is not a commodity in itself. All units of money of the same denomination are 100% equal to each other.
- **Debt:** There are two ways to accumulate debt: selling an asset with postponed payments and applying for loans. Both kinds of debts are regarded as duties in Islam. "Dayn" the Arabic word for humiliation and obedience, is the counterpart of debt. Islam discourages people from taking on debt unless it is absolutely necessary and views it as a serious matter. obligation-based transactions ought to be carried out with the intention of repaying the obligation according to its terms. It is regarded as a serious sin to take on debt that you have no intention of repaying. The Quran and Hadith contain several verses that offer advice on getting into debt contracts and making requests for debt payback.
- **Zakat:** In Islamic banking and finance, the practice of purifying one's wealth in order to obtain Allah's blessing is known as zakat. Islam encourages people to work hard and accumulate wealth, without regard to its quantity or worth. However, as a means of purification and as the needy' share, a tiny percentage (2.5%) of the surplus money must be paid yearly in the form of Zakat. This idea is based on the idea that all money is the property of Allah, and that humans are merely His trustees. Apart from obligatory practices such as Zakat, Islam also promotes nonformal means of social welfare spending, such as charitable giving. Zakat is a set sum of money given to individuals who are eligible to receive it each year in accordance with Islamic law and regulations.
- **Savings:** The idea that Islam solely encourages people to spend money and says nothing about conserving money is a greatly misinterpreted one. This supposition isn't correct. Islam really promotes saving for future necessities. Even when we look at how the Zakat rule is applied, it distinctly shows that in the absence of monetary reserves and other types ,Zakat is imposed and it is impossible to follow this requirement. based on a particular amount of money saved and assets owned for a single lunar year's duration. You can save as much money as you'd like. Yet the need is that one must contribute the appropriate amount to the impoverished, those in need, and those who make requests.
- **Reward:** Islam says that while self-development, profit, and self-satisfaction are important, they are not as important as Islam recognizes an afterlife. There is a lot more than these worldly prizes which come in the shape of paradise and genuine achievement in the afterlife .In actuality by adhering to the heavenly precepts for acquisition use and allocation of resources,



both privately and publicly and society enjoys the benefits of growth and prosperity and prosperity in both this life and the one that follows.

### **Shariah As Foundation of Islamic Finance**

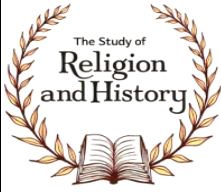
The main source of direction for Islamic finance is Shariah, often known as Islamic law. It is taken from the Hadith (sayings and deeds of Prophet Muhammad) and the Quran. The moral and ethical guidelines that control every element of a Muslim's life, including financial and economic decisions, are laid forth in shariah. These values, which bar usury (interest) and unethical business practices, as well as investments in things that are considered haram (forbidden), including gambling and alcohol, are what Islamic finance aims to uphold.

- ‡ **All-Encompassing Guidance:** Shariah is a system of laws and regulations that covers every facet of a Muslim's life, including financial affairs. It offers a moral and ethical compass for business dealings.
- ‡ **Prohibition of Gharar and Maysir:** Shariah prohibits excessive uncertainty (gharar) and gambling (maysir) in financial transactions, in addition to banning riba (usury). This means that undue ambiguity or speculation is forbidden, and Islamic financial contracts must be transparent.
- ‡ **Wealth Redistribution:** Shariah emphasizes the equal distribution of wealth. Zakat, a required almsgiving that mandates people to pay a portion of their money to support the less fortunate, is one way in which this is achieved in Islamic banking. Furthermore, ideas like Waqf (endowment) and Sadaqah (voluntary charity) contribute to the transfer of wealth.
- ‡ **Contracts and Agreements:** In accordance with its tenets, shariah offers a framework for a variety of financial contracts, such as cost-plus financing, partnerships and profit-sharing or Murabaha. For instance, in Mudarabah, one partner gives knowledge while the other supplies capital. Profits are divided according to a predetermined ratio, but the capital supplier bears all losses.

### **Role of Fiqh in Islamic Finance**

Fiqh can be thought of as the way that humans comprehend and interpret Shariah. It includes Islamic law and offers a structure for determining useful guidelines and norms to control different facets of daily life, including money. To make sure that the financial instruments and transactions utilized in Islamic finance comply with Shariah, Islamic scholars and jurists engage in the Fiqh process.

- ‡ **Human Interpretation:** Fiqh is an endeavor by humans to comprehend and interpret the tenets of Shariah in light of particular circumstances and shifting financial environments. Fuqaha, or Islamic scholars, use their understanding of Islamic law to assess whether a given financial transaction is allowed or prohibited.
- ‡ **Jurisprudential Divergences:** Diverse Islamic schools of thought, including the Hanafi, Maliki, Shafi and Hanbali schools, may interpret Islamic law in different ways. These variables may affect how Islamic financing is applied differently in various geographical areas.
- ‡ **Relevance to the Present:** Fiqh permits Islamic finance to be flexible and adjusted to current conditions. To solve current financial challenges, academics and jurists apply the method of Ijtihad, which is the application of autonomous legal reasoning. This keeps Islamic finance current and adaptable to shifting market dynamics.
- ‡ **Resolution of Disputes:** Islamic scholars, who are frequently members of a Shariah board, offer their Fiqh-based opinions in the event of disagreements or questions about whether a



financial transaction complies with Shariah. When judging whether a transaction complies with Shariah, these opinions are very important.

- ‡ **Innovation in Islamic Finance:** Another outcome of Fiqh is the creation of new financial services and products that adhere to Islamic law. Islamic microfinance, Takaful (Islamic insurance), and Sukuk (Islamic bonds) are a few examples of how Fiqh has been applied to meet modern financial demands while upholding Shariah.

The core moral and ethical precepts of Islamic finance are established by shariah, which also emphasizes equitable financial practices and the outlawing of riba, gharar, and maysir. Fiqh is the result of human interpretation and application of Shariah principles to practical financial situations. It permits flexibility, dispute settlement, and the creation of novel financial structures. Together, these ideas guarantee that Islamic banking complies with Islamic law and solves modern financial issues.

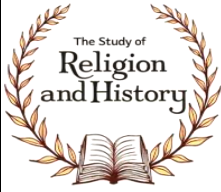
## DISCUSSION

Understanding the past evolution of risk management techniques in Islamic finance is possible through researching the evolution of Islamic Capital Risk Management (ICRM). Enhancements in regulations, investor confidence, risk minimization, and strategic decision making are all facilitated by its insights. Financial stability, investor confidence, and economic progress are all greatly aided by ICRM. Through knowledge upgrading, best practice identification, and innovation inspiration, the research advances the field of Islamic banking. Research and development, interdisciplinary cooperation, capacity building, regulatory control, and international cooperation are some of the policy proposals for sustainable growth. In an ever-evolving global financial market, these ideas are essential for strengthening the Islamic financial sector's resilience and growth.

There are important ramifications to the research on the development of Islamic Capital Risk Management (ICRM). First of all, it provides insightful information about past trends in risk management techniques used by Islamic financial institutions. Strategic decision-making requires an understanding of this history in order for Islamic financial institutions to adjust their practices and make well-informed decisions in response to the shifting risk environment. The study also has implications for improving regulations. In order to maintain the efficacy of risk management procedures while adhering to Shariah principles, it can provide regulators and legislators with information regarding possible weaknesses or areas in which current regulations may need to be reinforced.

It is impossible to overstate the role that ICRM plays in fostering financial stability. For the Islamic financial system to be generally stable, a functional ICRM framework is required. In today's interconnected global financial world, it is especially crucial to help minimize systemic risks that can have far-reaching implications. It also promotes investor trust, which is essential to the further expansion of Islamic banking. Strong ICRM procedures boost confidence among domestic and foreign investors, drawing more money into the sector and fostering long-term stability. Furthermore, the expansion of the economy depends on a stable financial system. Trade and investment are facilitated by effective ICRM, which promotes prosperity and economic progress.

This study can add to the body of information for academics, professionals, and policymakers in the subject of Islamic banking. It gives light on the evolution of risk management strategies throughout time, making it an invaluable resource for the sector. This can then result in the discovery of past best practices that can be modified and used in the development of contemporary risk management plans. By drawing attention to past examples



and encouraging the creation of fresh, more effective approaches to risk management in the Islamic banking industry, the research may help stimulate innovation.

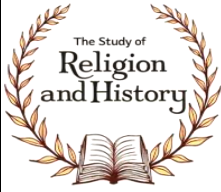
The research inevitably leads to policy recommendations for sustainable growth. Regulatory supervision is a highly recommended practice. The study's conclusions can help regulators evaluate and improve risk management laws in order to accommodate changing financial environments. Building capacity is also crucial; to guarantee that professionals in the Islamic financial industry are prepared to handle risks that are getting more complicated, there must be ongoing investments made in education and training. Furthermore, encouraging multidisciplinary cooperation between experts in conventional and Islamic finance will help advance best practices adoption and knowledge sharing, which will further the industry's expansion. It is imperative to conduct research and development projects in risk management technologies and solutions that are specifically adapted to the requirements of Islamic financing. Finally, it is important to promote international cooperation in order to standardize risk management procedures across national boundaries. This will draw in foreign capital and make Islamic finance more competitive on the world financial scene.

The study's analysis of the development of Islamic capital risk management, in highlights the significance of ICRM in advancing financial stability, advancing the field of Islamic banking, and offering suggestions for sustainable growth in terms of policy. It also has important implications for the industry. These results are essential for improving the Islamic finance sector's competitiveness and resilience in a constantly shifting global financial landscape.

#### **Limitation**

Undoubtedly, any research study has its boundaries. A study on the "Evolution of Islamic Capital Risk Management: Historical Trends and Future Prospects" may have the following possible limitations:

- The study's thoroughness may be hampered by the scarcity of historical data on risk management techniques used by the Islamic finance industry. Documentation and financial records from the past may be hard to come by or lacking.
- There may be issues with the dependability and correctness of old financial records and data. The robustness of the analysis may be impacted by issues with data integrity and record-keeping consistency across time.
- distinct geographical areas and Islamic financial organizations may have distinct historical contexts for risk management. Therefore, conclusions drawn from one setting could not apply to all Islamic financing procedures.
- Different academics and geographical areas may have different interpretations and applications of Shariah principles in Islamic finance. This variance may make it more difficult to evaluate how risk management techniques have changed historically
- The topic may not have received enough thorough investigation, which could compromise the breadth of the analysis and the capacity to reach significant findings.
- The Islamic finance regulatory landscape is dynamic and subject to change. Because of this, evaluating past patterns may be difficult because regulations may not be uniform.
- The study can rely on the opinions and judgment of experts, which could lead to prejudice. The conclusions could be impacted by the experts' opinions and selection process.
- Because of time restrictions, the study might not be able to fully cover every historical era. It could have to concentrate on particular times periods or turning points in the development of Islamic Capital Risk Management.



- A broader range of economic and geopolitical issues may have an impact on how risk management in Islamic finance has historically evolved. It's possible that the study didn't adequately account for these outside influences.
- It may be difficult to adequately track long-term trends if longitudinal data covering a large time span is scarce.

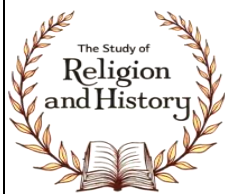
### CONCLUSION

To sum up, this research paper on "Evolution of Islamic Capital Risk Management: Historical Trends and Future Prospects" has illuminated how risk management procedures are dynamic and always changing in the Islamic financial industry. Through the examination of past data, consultation with specialists, and a thorough assessment of risk management strategies, the research has enhanced comprehension of this crucial facet of Islamic banking. The results demonstrate the industry's flexibility and fortitude in the face of shifting financial environments. It has been emphasized how crucial Islamic Capital Risk Management is to fostering financial stability. Encouraging investor confidence, minimizing systemic risks, and preserving the stability of the Islamic financial system all depend on sound risk management procedures. The study's conclusions highlight how crucial risk management is to maintaining the stability and sustainability of Islamic finance, which makes it essential to the sector's continuous expansion and prosperity. The study has made a substantial contribution to the field of Islamic banking. It is a useful tool for academics, professionals, and legislators because it presents both cutting-edge and traditional risk management techniques. This study promotes a comprehensive comprehension of the development of risk management techniques and the possibility of incorporating past achievements into present-day tactics. Additionally, it encourages worldwide cooperation and standardization, which strengthens Islamic finance's position as a strong and competitive player in the world financial system. In the end, this research highlights the necessity of ongoing study, instruction, and innovation in Islamic Capital Risk Management in order to guarantee the industry's sustained prosperity.

### RECOMMENDATIONS

Here are some recommendations regarding the topic "Evolution of Islamic Capital Risk Management: Historical Trends and Future Prospects" :

1. Evaluate how Islamic Capital Risk Management has changed over time by contrasting it with traditional risk management techniques. Draw attention to both the shared and unique characteristics in order to evaluate the efficacy of Islamic risk management strategies.
2. To monitor how risk management techniques have changed over time, perform a comprehensive longitudinal analysis. This can be used to pinpoint important turning points, patterns, and method changes.
3. To provide useful insights into how risk management has changed in various situations, including case studies of certain Islamic financial institutions or markets. These case studies can be used as practical illustrations to bolster the research's conclusions.
4. Speak with authorities on risk management and Islamic finance. Interviews with academics, risk managers, and business experts can yield insightful qualitative information about the past developments and potential future directions of risk management in Islamic finance.
5. To determine how effective risk management techniques are, use statistical analysis and quantitative data. Risk management solutions can be evaluated using quantitative metrics such as Value at Risk , riskadjusted performance, and others.



6. To learn more about the instruments and strategies used by Islamic financial institutions for risk management, survey them. This can offer up-to-date information on how risk management is doing across the board.
7. From a global viewpoint, compare Islamic financial institutions with the best practices in risk management. Determine which areas the Islamic finance sector may embrace or learn from international norms.
8. Examine how to apply scenario analysis to evaluate how resilient Islamic financial institutions are to different financial and economic scenarios. Examine the ways that various risk management techniques might assist organizations in enduring challenging circumstances.
9. Determine how regulatory organizations influence Islamic finance's risk management procedures. Evaluate how rules affect risk management and, if necessary, provide suggestions for new or improved regulations.
10. Make specific policy recommendations for improving Islamic Capital Risk Management going forward based on the research findings. These suggestions may address areas for more study and development, industry best practices, and regulatory modifications.
11. Make recommendations for programs pertaining to Islamic Capital Risk Management education and training. Determine where risk management specialists are lacking in knowledge and expertise, then suggest initiatives to close those gaps.
12. Promote increased cooperation between nations and the standardization of risk management practices among Islamic finance institutions. Urge trade associations and government agencies to collaborate in the creation and promotion of international best practices.

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