

A Systematic Literature Review of Risk Management in the Islamic Banking System: Research Agenda and Future Directions

Md Alamgir Hossain^{*1}, Romzie Rosman², Nasrin Jahan³, Shahana Afroz⁴, Kaniz Afroza⁵

^{1,2}IUM Institute of Islamic Banking and Finance, International Islamic University Malaysia, Kuala Lumpur, Malaysia

³Independent Researcher, Dhaka, Bangladesh

^{4,5}Kulliyyah Of Economics & Management Sciences, International Islamic University Malaysia, Kuala Lumpur, Malaysia

^{*}Corresponding Author

DOI: <https://dx.doi.org/10.47772/IJRISS.2025.90300093>

Received: 18 February 2025; Accepted: 27 February 2025; Published: 01 April 2025

ABSTRACT

In the evolving landscape of global finance, effective risk management within the Islamic banking system has garnered significant attention. This paper presents a systematic literature review that explores the research agenda and future directions in risk management practices specific to Islamic banking. Utilizing the PRISMA framework, a total of 43 relevant articles published between 2004 and 2024 were meticulously selected from the Scopus database and analyzed. The review highlights a diverse range of methodologies, with 34 articles employing quantitative approaches, 7 utilizing qualitative methods, and 2 incorporating mixed methods. The findings indicate a strong predominance of quantitative research, suggesting a critical need for further exploration of qualitative and mixed-method studies to achieve a more comprehensive understanding of risk management in Islamic banking. Additionally, the analysis identifies a significant gap in the literature regarding innovative risk management strategies that align with the unique principles of Islamic finance. This review serves as a vital resource for researchers, practitioners, and policymakers aiming to enhance their understanding of risk management within the Islamic banking sector. By synthesizing existing literature and pinpointing areas for future research, this paper contributes to the ongoing discourse on effective risk management in Islamic finance.

Keywords: Risk management, Islamic banking, systematic literature review, PRISMA. Future Direction

INTRODUCTIONS

According to (Sani & Abubakar, 2020a), Islamic banking has emerged as a powerful alternative within the global financial landscape. This is due to the fact that Islamic banking is differentiated by its ethical roots and dedication to equitable economic practices. Based on Shariah principles, which restrict interest-based transactions and prioritize profit-sharing and risk-sharing agreements (Hassan et al., 2021), this industry has undergone tremendous growth and acquired international recognition (Bashir & Azeez, 2022a; Rianto, 2017). As a result of these principles, this sector has gained international recognition. Considering the fact that Islamic banking is continuing to spread throughout a variety of countries, it is becoming increasingly important to conduct a comprehensive investigation into the risk management procedures that it employs.

Despite the rapid growth of Islamic banking globally, with assets exceeding \$2 trillion in 2023 (IFSB, 2023), the sector faces significant challenges in managing these risks effectively. For instance, the COVID-19 pandemic exposed vulnerabilities in liquidity management and credit risk mitigation, particularly in regions with dual banking systems (Reyad et al., 2022b). Furthermore, the lack of standardized risk management frameworks across jurisdictions has led to inconsistencies in how Islamic banks address these challenges, raising concerns about financial stability and regulatory compliance (Sani & Abubakar, 2020b).

This paper seeks to address these critical issues by conducting a systematic literature review (SLR) of risk management practices in Islamic banking. By synthesizing existing research, this study aims to identify gaps in the literature and propose future directions for developing robust, Shariah-compliant risk management frameworks that align with the unique principles of Islamic finance.

The Scope and Objectives of Research

The purpose of this systematic literature review is to conduct an in-depth investigation into the development and current state of risk management within the Islamic banking system. The review will concentrate on works that were published between 2004 and 2024 and are accessible through Scopus. This review aims to answer important research questions that provide light on critical aspects of risk management in Islamic banking by synthesizing a wide range of scholarly contributions. These questions are as follows:

Research Questions:

1. What are the predominant themes and emerging trends in risk management research within the Islamic banking system?
2. Which countries, authors, and journals have significantly contributed to the discourse on risk management in Islamic banking?
3. Which keywords are frequently employed in discussions pertaining to risk management in Islamic banking?
4. Which sources, and countries have garnered the highest citation impact in the field?
5. How interconnected is the research landscape, streams and area of risk management in Islamic banking across different regions and institutions?
6. What are the primary gaps in current literature, and what future research directions should be pursued to advance understanding and practice in Islamic banking risk management?

These research questions were chosen to address the lack of comprehensive, systematic reviews in the field of Islamic banking risk management. While previous studies have explored specific aspects of risk management, such as credit risk or liquidity risk, there is a notable absence of holistic reviews that synthesize the diverse methodologies, themes, and regional contributions in this area. By addressing these questions, this study aims to provide a structured framework for understanding the current state of research and identifying areas for future exploration.

Structure of the Review

A strategy that is rigorous and systematic is utilised in this review in order to compile, analyse, and synthesise pertinent literature on risk management in Islamic banking (Bilgili & Sheu, 2022). Section 2 provides an overview of the methodology that was utilised, which helped to ensure that the review process was both transparent and reproducible. Furthermore, bibliometric findings are presented in Section 3, which provides insights into productivity, citation patterns, and topic clusters that are present within the body of literature. Within the realm of Islamic banking, important research streams and thematic focusses in risk management are identified through a complete content analysis that is presented in Section 4. In the fifth section, we explore the knowledge gaps that have been found and offer a complete agenda for future research with the intention of influencing both policy and practice in the field. Finally, Section 6 offers a condensed review of the most important findings, acknowledges the limitations of the study, and indicates potential possibilities for additional academic investigation.

By systematically analyzing the existing literature, this review aims to contribute to the development of risk management practices in Islamic banking in several ways. First, it identifies the most pressing risks faced by Islamic banks, such as credit risk, liquidity risk, and Shariah non-compliance risk, and evaluates the effectiveness of current mitigation strategies. Second, it highlights the need for more qualitative and mixed-method research to capture the contextual nuances of risk management in Islamic banking. Finally, it provides a roadmap for future research, emphasizing the importance of developing standardized, Shariah-compliant risk management frameworks that can enhance the resilience and competitiveness of Islamic banks in a rapidly evolving financial

landscape.

LITERATURE RESEARCH AND METHODOLOGY

Literature Review

Risk management in Islamic banking has been a growing area of research, driven by the unique challenges posed by Shariah-compliant financial practices. Existing studies have explored various aspects of risk management, including credit risk, liquidity risk, and operational risk, as well as the comparative performance of Islamic and conventional banks (Bashir & Azeez, 2022b; Noor et al., 2022b). However, the literature remains fragmented, with a strong emphasis on quantitative methodologies and a lack of qualitative and mixed method approaches to capture the contextual nuances of risk management in Islamic banking (Nazir, 2021b).

One of the key gaps in the literature is the absence of a comprehensive, systematic review that synthesizes the diverse methodologies, themes, and regional contributions in this field. While some studies have focused on specific risks, such as rate of return risk or Shariah non-compliance risk, there is a need for a holistic review that identifies overarching trends and emerging issues in Islamic banking risk management (Reyad et al., 2022b). This study aims to address this gap by conducting a systematic literature review (SLR) that not only summarizes existing research but also provides a foundation for developing innovative, Shariah-compliant risk management frameworks.

Key Issues and Variables

This study focuses on several key issues and variables related to risk management in Islamic banking, including:

1. **Credit Risk:** The risk of default on financial obligations by borrowers, which is particularly challenging for Islamic banks due to the prohibition of interest-based lending and the reliance on profit-and-loss sharing (PLS) arrangements.
2. **Liquidity Risk:** The risk of being unable to meet short-term financial obligations, which is exacerbated by the limited availability of Shariah-compliant liquidity management tools.
3. **Operational Risk:** The risk of loss resulting from inadequate or failed internal processes, people, or systems, which is a growing concern for Islamic banks as they expand into new markets and adopt digital technologies.
4. **Shariah Non-Compliance Risk:** The risk of financial losses or reputational damage due to non-compliance with Shariah principles, which is unique to Islamic banking and requires specialized governance frameworks.
5. **Comparative Performance:** The performance of Islamic banks relative to conventional banks in terms of risk management practices, financial stability, and resilience to economic shocks.

By focusing on these issues, this study aims to provide a comprehensive understanding of the unique challenges faced by Islamic banks and identify best practices for managing these risks effectively.

Data Collection

For the purpose of conducting the systematic literature review on risk management in the Islamic banking system, the SCOPUS database serves as the fundamental source of information. SCOPUS was chosen because of its comprehensive coverage of literature that has been subjected to peer review across a wide range of fields, including a strong representation of studies in Islamic banking and finance (Hassan et al., 2021; Noor et al., 2022a). This database is well-known for its exhaustive indexing of articles of high quality that have been published in respected journals (Shah et al., 2021). This ensures that the dataset is dependable and thorough, making it suited for rigorous bibliometric analysis.

Why SCOPUS Database?

The selection of SCOPUS over other databases was made due to several significant advantages. First and

foremost, in comparison to many free alternatives, it provides access to a more extensive collection of multidisciplinary databases in the social sciences that have been subjected to peer review. This ensures that users have access to a wide range of scholarly literature that is pertinent to Islamic banking (Rehman et al., 2020). In the second place, SCOPUS upholds rigorous standards of publication quality and indexing practices, which instils confidence in the dependability and validity of the literature that is retrieved for the purpose of academic research. Thirdly, SCOPUS contains a substantial number of publications that publish research on Islamic banking. This ensures that the area is covered in a manner that is both complete and representative (Sarker, 2022).

Search Strategy and Selection Process

A comprehensive investigation was carried out using keywords that were associated with Islamic banking and risk management (Oyewo, 2022). More precisely, the search was conducted using the phrase "Islam AND Bank" in order to locate a wide range of papers that were pertinent to the topic. This preliminary search produced a significant number of results, which were further narrowed by using additional keywords such as "Risk Management*" AND "Banking" in order to zero in on the topic of interest in a more specific manner. The purpose of this iterative procedure was to reduce the size of the dataset such that it contained only those documents that were very pertinent to the aims of the study.

A stringent set of inclusion and exclusion criteria was followed during the selection process in order to guarantee precision and excellence. Journal articles that were published in English and were subjected to peer review were the only types of documents that were considered for inclusion. This included conference papers, book chapters, and reviews. In addition, for the sake of further investigation, we only kept articles that specifically addressed risk management in the context of Islamic banking. Using this methodical approach, a final dataset consisting of 42 articles was found for the purpose of conducting an in-depth analysis. These papers were chosen because of their congruence with the study's subject focus and the methodological rigour that they exhibited. This was done to ensure that the systematic literature review would have a solid foundation.

PRISMA 2009 Flow Diagram

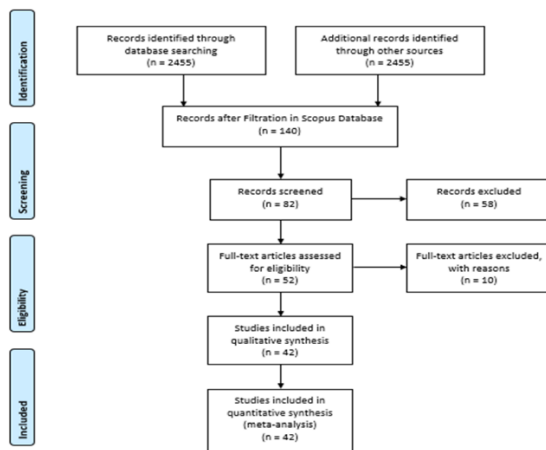


Figure 1. PRISMA 2009 Flow Diagram of Selection and Screening Process

Data Analysis

The data analysis for this review is carried out with using the help of Microsoft Excel, which makes it easier to organise the bibliographic information in a systematic manner and to explore it in greater detail (Fernando & Sriyalatha, 2015). Primary research fields, overarching research streams, and recurring research themes are some of the important qualities that are included in the study. Other essential attributes include publication year trends, citation metrics, publisher-wise distribution of publications, nations or regions that are focused on the literature, methodology adopted, and primary research methodologies. For the purpose of gaining insights into the development, trends, and present level of research on risk management in Islamic banking, these measures are systematically categorised and analysed.

Analytical Approach

In order to proceed with the analysis, organised categorisation and coding of each document attribute are performed within Excel. This method makes it possible to do comparative analysis across a variety of dimensions, such as the temporal trends in publications, the geographical distribution of research, the methodological approaches that were utilised, and the theme concentrations (Islam et al., 2021). In this study, the utilisation of Excel for the purpose of data management and analysis guarantees both methodological rigour and transparency in the process of synthesising findings from a variety of sources contained within the SCOPUS database.

FINDINGS

Publisher Wise Publication

This systematic review examines publishers' contributions to Islamic banking risk management literature. Data from several publishers shows rising scholarly interest and research dispersion across publication platforms.

Emerald Publishing: The most prolific contributor with 23 publications (15 under Emerald Publishing and 8 under Emerald Group Publishing Ltd.), Emerald is a vital platform for Islamic banking risk management research. Their broad portfolio shows their dedication to this specialised sector.

Medwell Journals: Two well-read journals by Medwell Journals have supported Islamic finance risk management scholarship. With three well-regarded publications (2 under Palgrave Macmillan and 1 under Palgrave Macmillan Ltd.), Palgrave has contributed key insights and enhanced scholarly conversations. Allied Business Academies, American Scientific Publishers, CIBER Institute, Econjournals, ISOSS Publications, John Wiley and Sons Inc., King Abdulaziz University Scientific Publishing Centre, LLC CPC Business Perspectives, Multidisciplinary Digital Publishing Institute (MDPI), Premier Publishing, Inc., Sage Publications India Pvt. Ltd, Virtus Interpress, World Scientific, and World Scientific Publishing Co. Though rare, their contributions enrich the literature and give diverse viewpoints.

Publisher-wise research shows that Islamic banking has a wide range of risk management practices. It emphasises the importance of major publishers like Emerald in research and the value of smaller or specialised publishers. The diversity of Islamic finance research papers shows its interdisciplinary and global relevance, emphasising the importance of risk management in this burgeoning subject.

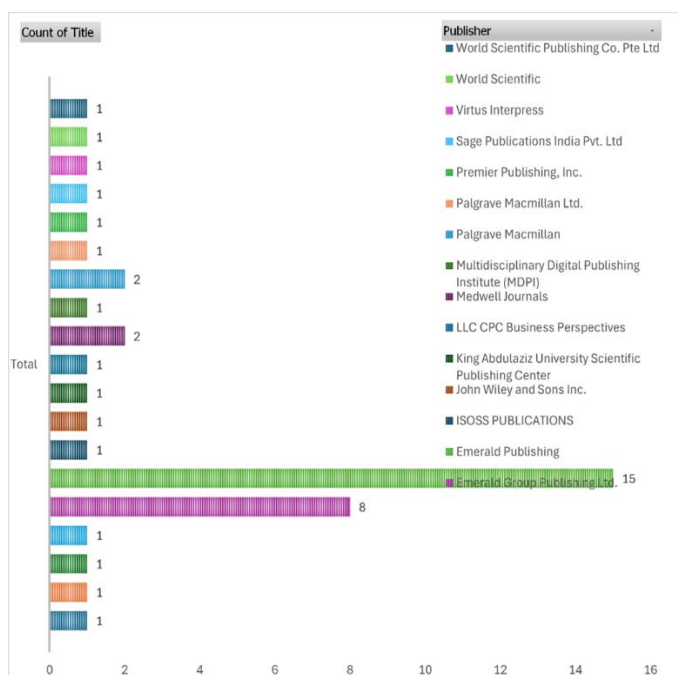


Figure 2: Publisher wise publications

Year Wise Publications

This systematic review covers 2004–2024 research on Islamic banking risk management practices. The analysis shows an increasing scholarly interest in the topic, with important trends and key contributions affecting the understanding of Islamic finance risk management. Early years (2004–2012) represented the beginning of research, with publications rising gradually. Initial studies examined Islamic banking legal, financial, and operational issues. This period saw studies on savings drivers, monetary policy shocks, and rate of return risk. Understanding Islamic financial institutions' particular risk management challenges was paved with this early research.

From 2014 forward, research effort increased, peaking in 2015 and continuing for several years. This period witnessed studies on Islamic and conventional banks, risk management's impact on performance, and risk management techniques. The increased number of publications over this period indicates a growing field with more empirical approaches to understanding and managing Islamic banking risks.

The last few years (2020–2024) show continuous interest and increased research output, especially in 2024 with five publications. This period shows the field's resilience to global crises like COVID-19. These years' attention covers advanced subjects like machine learning's predictive potential in risk management and Islamic deposit insurance's alternative models. Effective risk management practices are becoming increasingly important for Islamic banking sector stability and resilience, as publications rise.

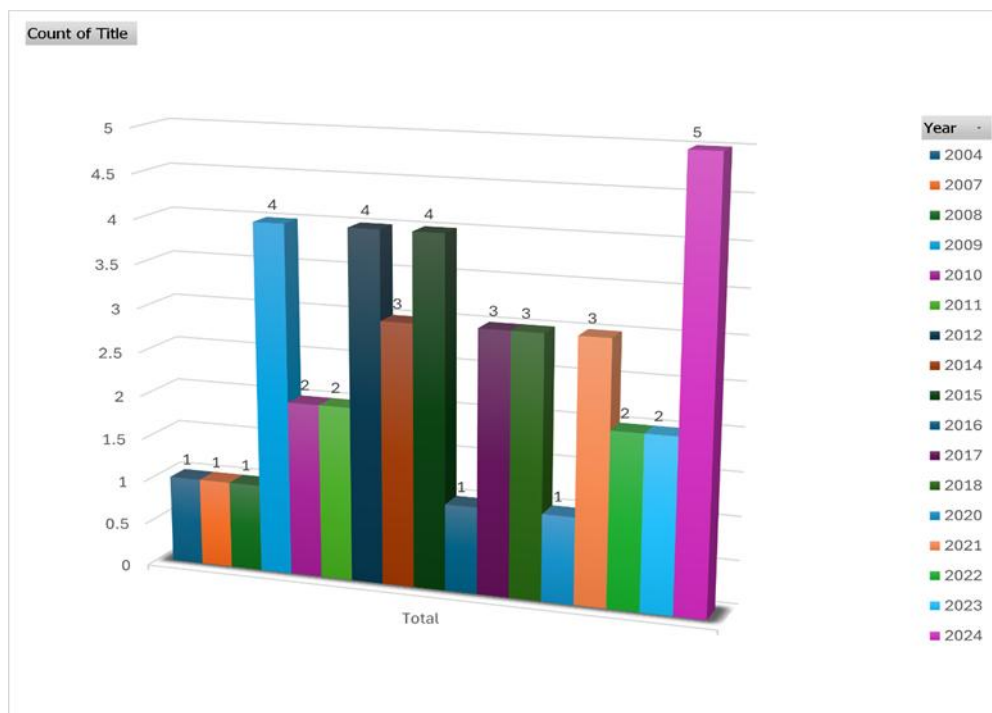


Figure 3: Year wise publications

Country Wise Publications

This systematic review of the literature on risk management practices in Islamic banking examines the distribution and trends of publications on risk management practices from 2004 to 2024. The geographical focus and intellectual contributions from different regions show worldwide interest in Islamic banking.

Malaysia has the most publications with ten, indicating its Islamic finance powerhouse status. Key studies include rate of return risk, financial shocks, and Malaysian Islamic bank risk management practices. Malaysia's leadership in Islamic finance shows its proactive attitude and modern infrastructure, making it a research and innovation hub. Nine international studies demonstrate Islamic banking research's collaborative and comparative nature. These studies compare regional practices, providing a broader view of Islamic finance risk management. Islamic deposit insurance methods and risk management techniques in varied banking situations are notable

contributions. Multiple-country studies show that the sector is realising the necessity for cross-border analysis and best practices.

Five publications from MENA, five from Pakistan, and two from Egypt are also noteworthy. Due to its importance in Islamic finance, MENA studies focus on liquidity risk management, credit risk, and risk management techniques. Pakistan's empirical evidence on bank performance and risk management practices shows its rising research and practical applications in Islamic banking. Egypt's developing financial sector is also shown by studies comparing Islamic and traditional bank risk management.

The country-wise distribution of publications shows a diversified and globally interconnected Islamic banking research ecosystem. Malaysia's leadership, multi-country collaboration, and MENA and Pakistani contributions reflect the widespread and growing interest in Islamic finance risk management and enhancing risk understanding practices.

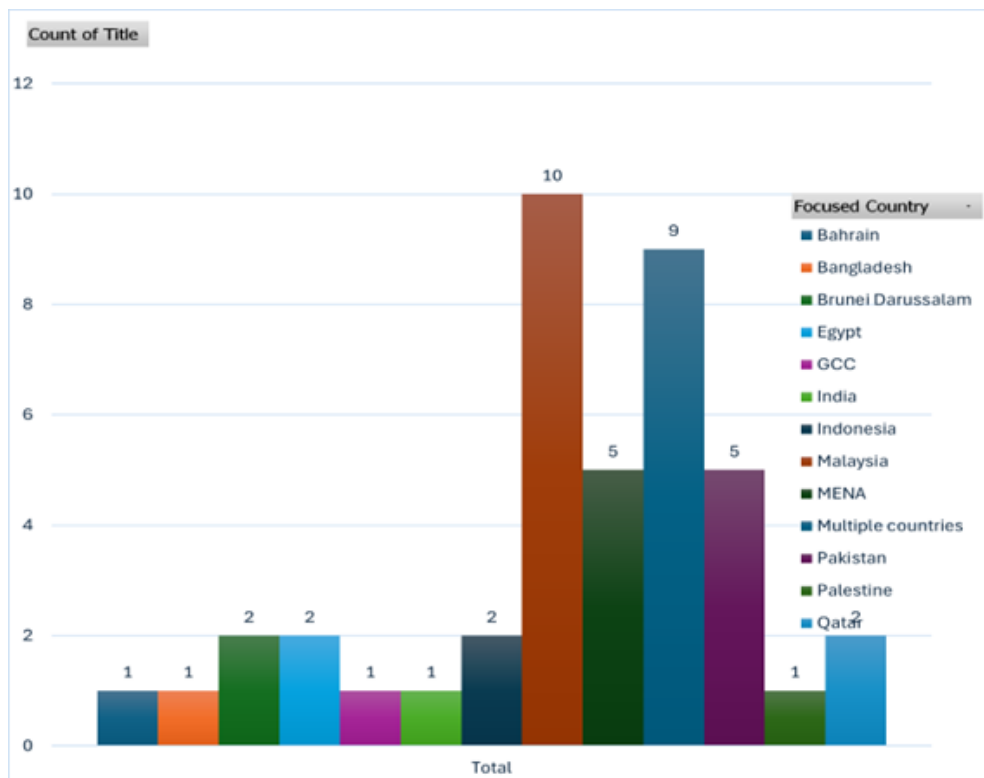


Figure 4: Country Wise Publication

Citations by Year

The citation trends of publications on Islamic banking risk management practices from 2004 to 2024 are examined. 1,037 citations show the scholarly significance and recognition of these works over the years.

The early years (2004–2012) produced landmark works. The 2004 article "Developing economy banking: The case of Islamic banks" received 23 citations. With 52 citations in 2007, "Islamic takaful: Business models, Shariah concerns, and proposed solutions" showed increased interest in Islamic financial products. Four publications were cited 264 times in 2009, including "Risk management practices of Islamic banks of Brunei Darussalam" with 136, stressing ethical explorations and the importance of early studies. From 2014 to 2020, citation counts fluctuated but remained high, indicating academic interest. The 2011 study "The Effects of the Global Crisis on Islamic and Conventional Banks: A Comparative Study" received 188 citations and popularised the comparison of Islamic and conventional banks during crises. Citations were moderate but consistent during the period of 2014 to 2017, peaking at 63 for three publications, reflecting ongoing research and increasing insights into risk management practices.

Citation counts have dropped in recent years (2021–2024), likely due to new publications. The 2021–2023 period

witnessed low citation levels due to the time it takes for new research to be recognised and referenced. Despite this, the number of publications climbed, indicating a rising body of research that will likely be cited. Though uncited, the five 2024 publications show the newest advances and field interest. Citations show the field's growth and the effect of individual studies. Later research expanded on early foundational works, creating a rich and changing academic debate on Islamic banking risk management.

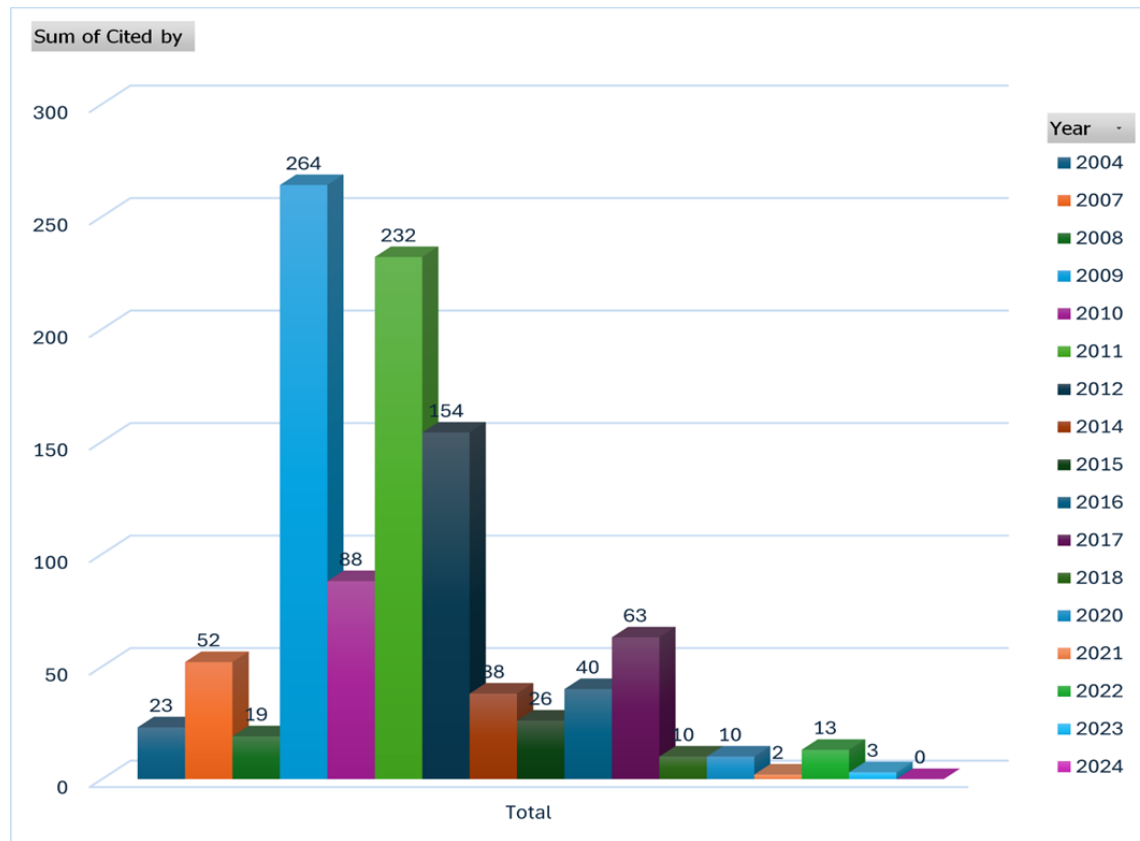


Figure 5: Year Wise Citations

Content Analysis

Research Instruments Used in Studies

The variety of research instruments used in Islamic banking risk management studies is examined in this systematic literature review. The review of 42 studies from 2004 to 2024 shows questionnaires were used in 15 studies. Its speed in collecting primary data and insights from banking experts and stakeholders makes it important for documenting risk management practices in Pakistan, Brunei Darussalam, Egypt, and Qatar. Four studies used literature reviews, the second most popular research instrument, to synthesise knowledge, identify research gaps, and gain a complete understanding of the subject.

The studies balance qualitative and quantitative methods. Content analysis, interviews, and literature reviews provide comprehensive, contextual insights in studies like the systematic literature review of Islamic banking system hazards and alternative Islamic deposit insurance models. Quantitative methods like descriptive statistics, Mann Whitney U test, VAR (Vector Autoregression) analysis, and panel data analysis are used in studies like Islamic banks' rate of return risk exposure and empirical savings determinants. Annual reports include thorough financial and operational data.

The different methods show a robust and multifaceted approach to Islamic banking risk management research (Mohan & Bakar, 2021a). Methodological rigour and triangulated outcomes are emphasised by using various research tools. While Islamic takaful research includes a literature review, studies comparing Islamic and conventional bank performance use T-test and logistic regression. Methodological variety improves Islamic finance risk understanding and management, according to the report.

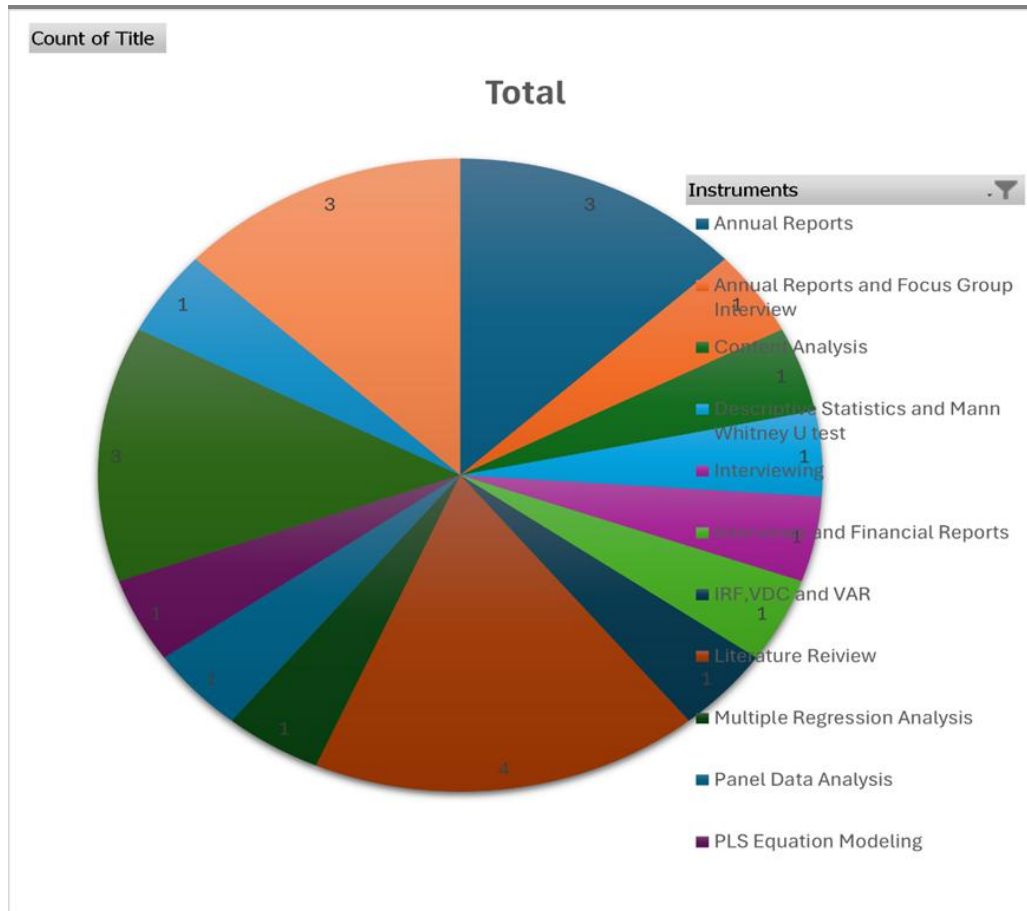


Figure 6: Research Instruments

Classifications

The purpose of this systematic literature review (SLR) is to explore risk management practices within the Islamic banking sector. The SLR analyses 42 papers that make use of qualitative, quantitative, and mixed-method approaches. In order to have a comprehensive understanding of the various research approaches that are utilised in this discipline, the methodological classification of these papers offers a rigorous framework.

Data Collection and Classification

The review methodically categorized the 42 selected articles into three primary methodological approaches:

- **Quantitative:** 32 articles
- **Qualitative:** 8 articles
- **Mixed method:** 2 articles

This classification was based on the specific research methods used in each study, ensuring a structured and comprehensive analysis of risk management practices in Islamic banking.

QUALITATIVE METHOD

Eight articles employed qualitative methods, offering in-depth, contextual insights into the unique challenges and strategies within Islamic banking. These studies utilized various qualitative research techniques, such as semi-structured interviews, case studies, and analyses of financial reports. Key examples include:

- A study using semi-structured interviews and financial report analysis to explore how Malaysian Islamic banks navigate operational risks in their unique contractual and legal environments.

- Research examining credit assessment practices in Islamic banks, focusing on aligning methods with Islamic principles in the absence of a formal framework.
- Studies addressing alternative models for Islamic deposit insurance, business models, Shariah compliance, and the mitigation of legal risks within Islamic banking operations.
- An investigation into the risk-taking behaviours of Islamic banks, employing qualitative methods to understand the underlying motivations and implications.

These qualitative approaches are indispensable for capturing the nuanced aspects of risk management that are not easily quantifiable, providing a richer, more detailed perspective on the practices within the Islamic banking sector (Alam et al., 2021; Braun & Clarke, 2006a; Iskandar et al., 2020; Rhanoui & Belkhoutout, 2019).

QUANTITATIVE METHOD

The majority of the reviewed articles, totalling 32, employed quantitative methods to analyse risk management practices in Islamic banking. These methods included surveys, questionnaires, and various statistical analyses such as multiple regression, vector autoregression (VAR) analysis, and the Mann-Whitney U test. Key examples include:

- Several studies using questionnaires to collect data on risk management practices, which were then analyzed to identify trends and correlations.
- Quantitative analyses revealing significant insights, such as the correlation between higher savings in Indonesian Islamic banks and rates of return on deposits, and the greater sensitivity of Malaysian Islamic banks to monetary policy changes.
- Studies examining financial stability during the COVID-19 pandemic, efficiency and liquidity risk comparisons between Islamic and conventional banks, and the operational risks faced by Islamic banks.
- Empirical research analyzing performance differences between Islamic and conventional banks, and the impact of various financial shocks on Islamic banks.

These quantitative methods provided robust empirical evidence on the effectiveness, challenges, and outcomes of risk management strategies in Islamic banking, contributing valuable statistical insights to the field (Azariadis, 2018; Hassan et al., 2021; Nazir, 2021a; Oyewo, 2022; Zaluchu, 2021).

MIXED METHOD

Two articles utilized a mixed-method approach, combining qualitative and quantitative methods to offer a comprehensive analysis of risk management practices. These studies leveraged the strengths of both methodologies to provide a holistic understanding. Key examples include:

- A study combining annual reports and focus group interviews to assess how Malaysian Islamic banks comply with regulatory risk management frameworks, revealing mixed results in their growth performance.
- An investigation into corporate governance practices in Islamic banks in GCC countries, using quantitative data to measure effectiveness and qualitative insights to understand contextual challenges in asset quality management.

By integrating both qualitative and quantitative data, these mixed-method studies validated findings across different methodologies, offering a more nuanced understanding of risk management practices in Islamic

banking systems (Nazir, 2021a; Reyad et al., 2022a).

This thorough assessment of the present state of risk management practices in Islamic banking is being provided by this systematic literature review, which incorporates both qualitative and quantitative insights. The review draws attention to both the positive aspects and the areas that could use some work in compared to traditional banking solutions. This review establishes a solid foundation for future research directions and practical applications in the field of Islamic banking risk management by performing an in-depth examination of a variety of research methodologies.

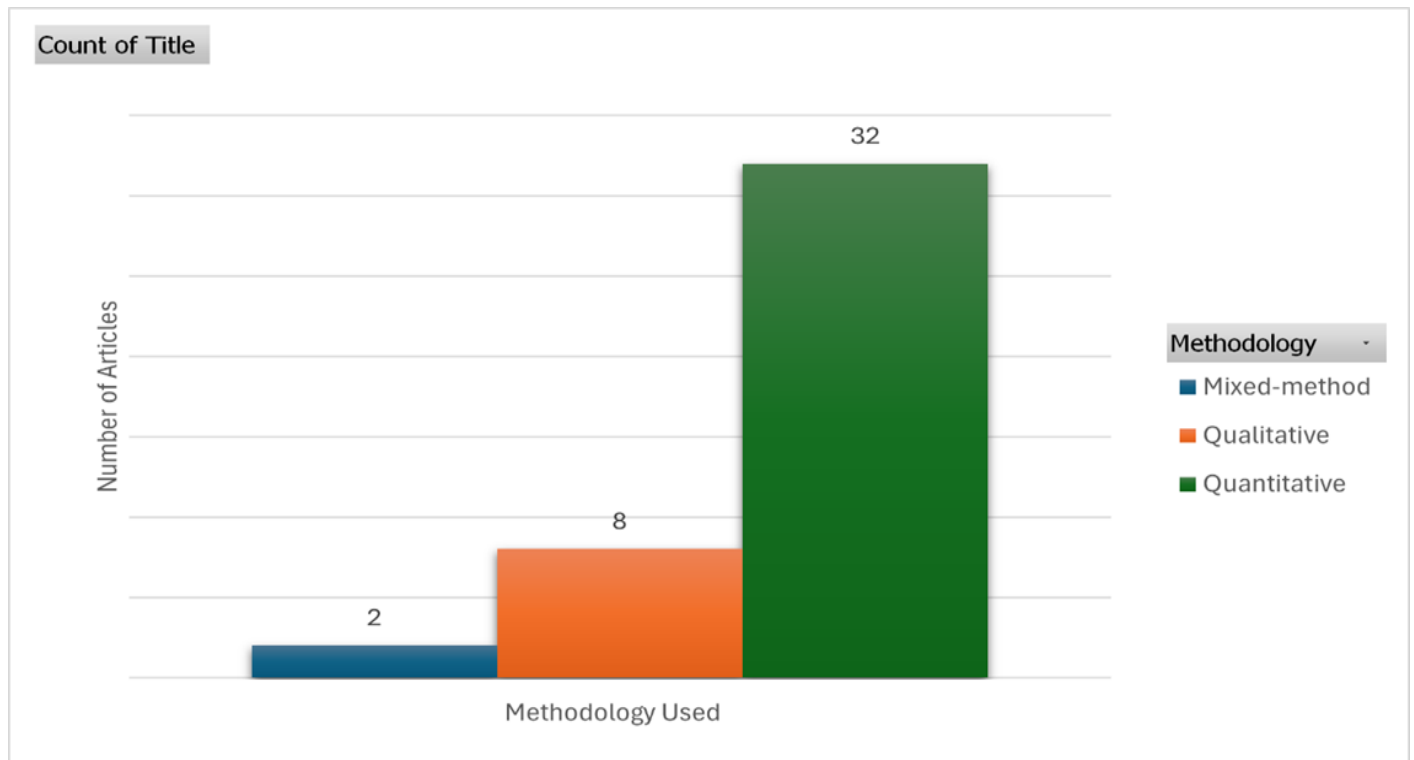


Figure 7: Methodology Used on the Articles

Focus Areas

The systematic literature review on Islamic banking risk management practices covers several topics, reflecting the field's complexity and diversity. Many studies compare Islamic and conventional banks, highlighting their similarities and differences. For example, some research examines these banks' performance and risk management practices to see where Islamic banks outperform or lag. Other studies include risk management practices, credit risk management, and traditional mitigation tools. These studies are essential because they reveal how Islamic banks handle risks differently from mainstream banks.

Other research examines banking stability and performance beyond comparative and particular risk management studies. Some publications examine how bank size, economic development, and business strategy affect risk management and performance practices. Studies on the stability and performance of Islamic vs conventional banks, for example, offer useful lessons on resilience and risk mitigation under economic duress. Competition's impact on banks' performance and risk management is also studied, revealing how strategic actions can improve or hurt risk management (Wahyuni et al., 2023).

Islamic banking risks and operational issues are also highlighted in the review. This comprises displacement commercial risk, rate of return risk, and foreign-exchange, credit, and operational risk management. Several studies examine how effective governance practices might improve risk management in Islamic banks. This review shows the extensive efforts to understand and improve Islamic banking risk management practices. This wide range of research emphasises the need for Islamic banking-specific risk management strategies (Ali et al., 2022).

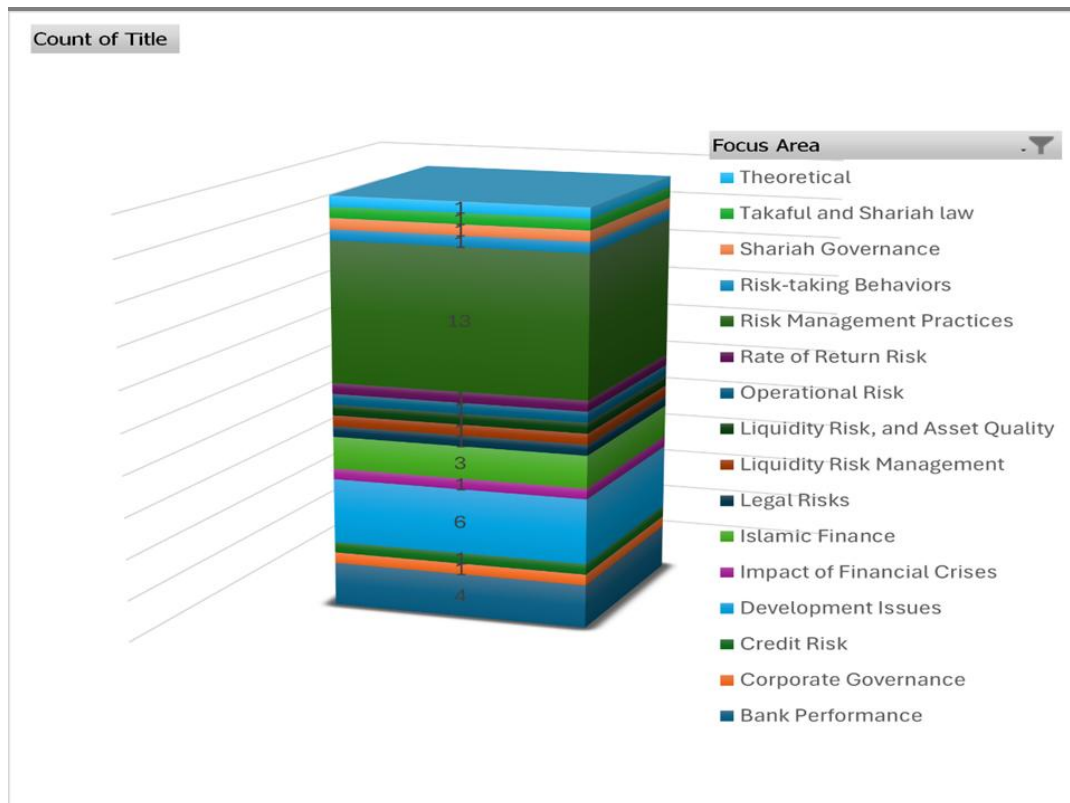


Figure 8: Focused Area

Research Streams

The systematic literature review on Islamic banking risk management practices divides research into four main areas: Comparative Studies, Islamic Banking Industry, Growth and Stability, and Corporate Governance. These tracks cover theoretical and practical Islamic banking risk management, reflecting the field's diversity.

The largest stream has 18 articles contrasting Islamic and mainstream banks. These studies examine credit risk management, risk management practices, bank performance, and financial crises. Like "A comparative study of Islamic and conventional banks' risk management practices: Empirical evidence from Pakistan" & "The Effects of the Global Crisis on Islamic and Conventional Banks: A Comparative Study." These comparative assessments provide useful insights into the similarities and contrasts in how these two banking systems handle risks, providing a comprehensive understanding of their strengths and weaknesses.

The second largest stream, with 20 articles, covers Islamic banking practices and issues. Compliance with Shariah law, legal risks, operational risks, and risk management practices are discussed. The principles and operational realities of Islamic bank risk management are highlighted in studies like "A systematic literature review of risks in Islamic banking system: research agenda and future research directions" and "Risk management, Shariah compliance governance and sustainable growth of Islamic banks in Malaysia". This stream covers Islamic banking risks such displaced commercial risk and rate of return risk.

Islamic banks' stability and expansion are affected by economic and strategic factors in this three-article series. "An Overview of Islamic Finance" and "Islamic takaful: Business models, Shariah concerns, and proposed solutions," investigate how Islamic banks grow while maintaining financial stability. These studies are essential to understanding Islamic banks' economic environment and how they might grow sustainably while adhering to Islamic standards (Siddique et al., 2022).

One article in the smallest stream discusses corporate governance's significance in Islamic banks' risk management. Effective governance arrangements reduce risks and ensure Islamic banks' long-term stability, according to the study "Standalone risk management committee, risk governance diversity and Islamic bank risk-taking". This research shows how corporate governance practices affect risk taking and risk management.

Overall, these research streams provide a thorough review of Islamic banking risk management practices. They illuminate comparative practices, industry-specific issues, growth and stability considerations, and corporate governance, deepening our understanding of Islamic finance risk management.

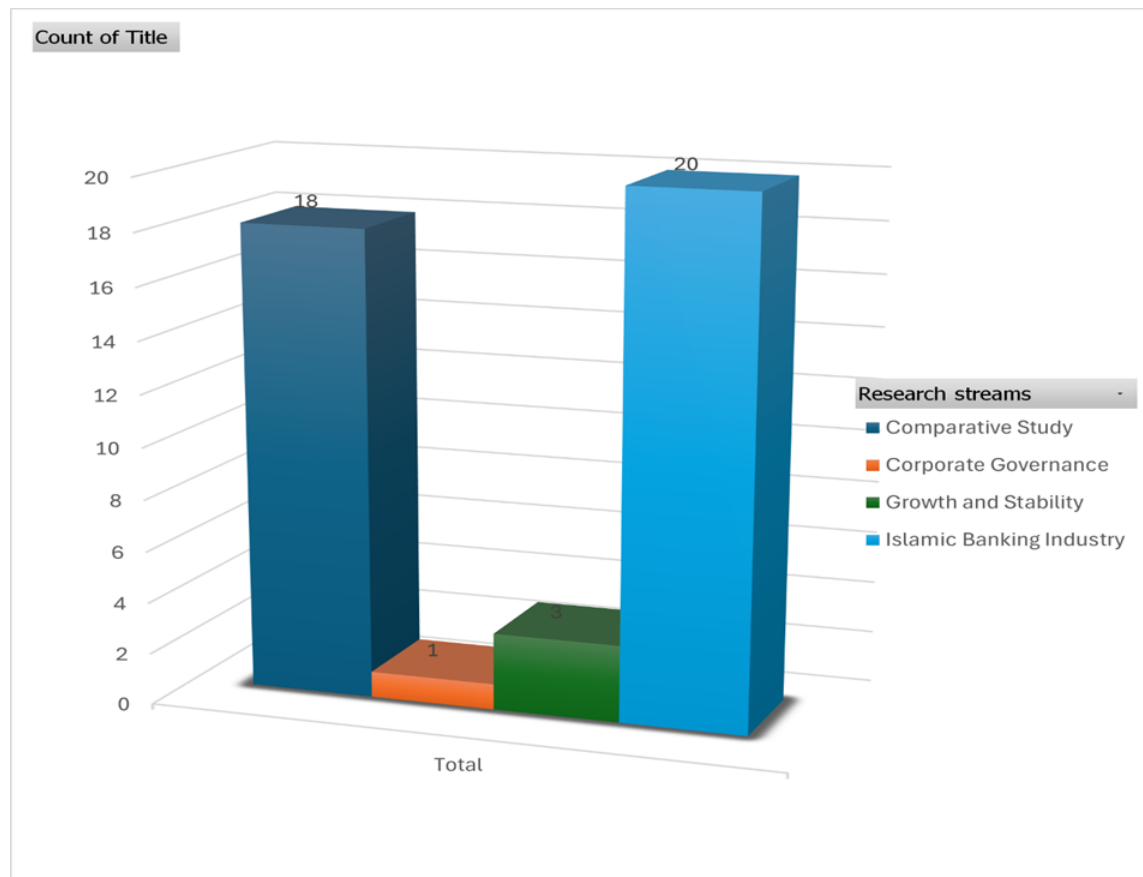


Figure 9: Research Stream

Research Themes

There are various important themes that are organised into the systematic literature review on risk management practices in the Islamic banking system. These themes include credit risk, liquidity risk, risk-taking behaviour, Shariah noncompliance risk, Shariah related issues, stability and resilience, and others. In order to provide a full understanding of the topic, these themes provide a comprehensive overview of the various and intricate aspects of risk management with regard to Islamic finance.

This theme covers Islamic banking credit risk management challenges and strategies in four pieces. Islamic banks use unique methodologies and risk assessment tools, as shown in "A univariate and multivariate non-parametric analysis: Distinction between conventional banks and Islamic banks in credit risk management processes" and "Credit risk management practices: A study on Islamic Banking vs. conventional Banking in Malaysia". These works stress the necessity of Shariah-compliant credit risk management practices.

The solvency and operational efficiency of banks depend on liquidity risk, which three articles address. "Liquidity risk management: conventional versus Islamic banking system in Egypt" and "Risk risk and corporate governance of Islamic banks: evidence from GCC countries" compare Islamic banks' liquidity risk management practices to conventional banking practices. These studies show how Islamic banks handle liquidity issues according to Shariah.

The largest theme, 11 papers, examines Islamic banking risk-taking. This includes studies like "Risk-taking behaviour of Islamic banks: application of prospect theory" & "The mediating effect of risk management for Palestinian Islamic banks' strategic planning and profitability performance." These articles examine how Islamic banks' balance risk and return, regulatory frameworks, and behavioural factors affecting decision-making.

Four papers cover Shariah noncompliance risks, a unique challenge for Islamic banks that must follow Islamic regulations. Governance, compliance, and the effects of noncompliance on financial performance and reputation are examined in studies like "Risk management, Shariah compliance governance and sustainable growth of Islamic banks in Malaysia" and "The practice of IFSB guiding principles of risk management by Islamic banks: International evidence".

This five-article theme covers Shariah-related business concepts and legal risks. The articles "Islamic takaful: Business models, Shariah concerns, and proposed solutions" and "Mitigating legal risk in Islamic banking operations" show how Shariah principles affect banking operations and risk management, providing a comprehensive view of Islamic law and financial practices.

Ten articles examine Islamic banks' stability and resilience to financial shocks. "Bank performance and financial stability during the COVID-19 pandemic: lessons from the MENA region" and "The Effects of the Global Crisis on Islamic and Conventional Banks: A Comparative Study" describe Islamic banks' resilience strategies during economic crises. These studies are essential for understanding Islamic banking system resilience under different macroeconomic conditions.

These five articles cover deposit structures, monetary policy, and other Islamic banking risk management themes. Example: "Does deposit structure effect Islamic bank maturity transformation? The implications of IFSB liquidity guidelines" and "Impact of monetary policy shocks on conventional and Islamic banks in a dual banking system: Evidence from Malaysia" illuminate Islamic banking's financial and operational dynamics (IFSB, 2022).

Overall, these research areas provide a deep understanding of Islamic banking risk management. They address crucial areas such credit and liquidity risks, compliance, behaviour, and stability, deepening Islamic finance understanding.

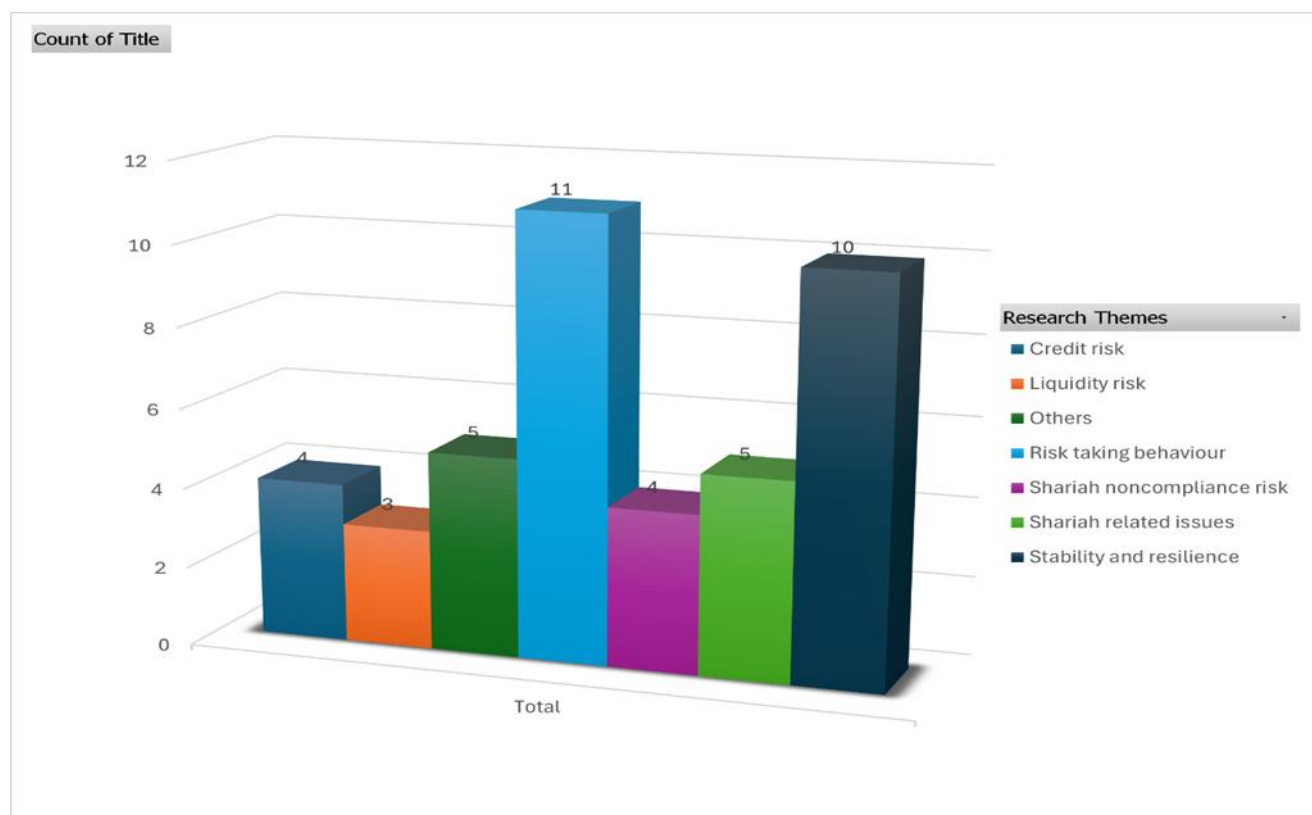


Figure 10: Research Theme

Implications for Research, Practice, and Society

This systematic review of 42 studies from 2004 to 2024 reveals significant implications across academic research, industry practice, and societal development. The overwhelming reliance on quantitative methods—32

of the 42 studies—underscores a notable gap in qualitative and mixed-method approaches. As Bashir and Azeez (2022) and Nazir (2021) have shown, embracing methods such as in-depth interviews and case studies can yield richer, context-specific insights into complex issues like risk-taking behaviour and Shariah noncompliance. Such diversified methodologies will help unpack the nuanced operational and cultural factors that influence risk management in Islamic banking (Braun & Clarke, 2006).

For practitioners, the review identifies critical risk areas—including credit, liquidity, and operational risks—that are unique to Islamic finance. The findings support earlier research by Mohan and Bakar (2021) and Noor et al. (2022), emphasizing that developing robust, Shariah-compliant risk management frameworks is essential. Such frameworks not only improve resilience and competitiveness but also enhance governance and transparency, as reinforced by (Reyad et al., 2022b). By tailoring risk mitigation strategies to the distinctive challenges of Islamic finance, institutions can better navigate both global and local financial uncertainties.

At the societal level, effective risk management in Islamic banking contributes to broader financial stability and public trust. Ethical and transparent banking practices are critical for sustainable economic growth. Strengthening risk management mechanisms ensures that Islamic banks remain resilient to shocks, thereby safeguarding the interests of depositors and the wider community while promoting a more equitable financial system (Rif et al., 2023).

CONCLUSION

This systematic literature review provides a comprehensive synthesis of risk management practices in Islamic banking over the past two decades. Employing the PRISMA framework along with rigorous bibliometric and content analyses, the study integrates insights from 42 articles spanning 2004 to 2024. The analysis reveals a predominant focus on quantitative methodologies (Bashir & Azeez, 2022b), while highlighting an underexplored potential for qualitative research to illuminate the contextual subtleties of risk management (Alamgir, 2016; Braun & Clarke, 2006b; Rastogi et al., 2022).

Key research streams identified include comparative analyses of Islamic and conventional banks, investigations into risk-taking behaviour, and studies addressing Shariah compliance and operational risks. Moreover, the review points to significant regional gaps, notably in markets like Bangladesh, where Islamic banking is rapidly evolving (Ichsan & Yuda, 2023). Addressing these gaps with more diverse methodological approaches will be crucial for developing innovative, context-sensitive risk management strategies.

Ultimately, this review lays a solid foundation for future research by mapping current trends and pinpointing critical gaps. The integration of diversified research methods is essential not only for advancing academic understanding but also for enhancing practical risk governance within Islamic finance. By bridging theory and practice, the study contributes to the evolution of ethical and resilient financial systems that support sustainable socio-economic development.

REFERENCES

1. Alam, Md. K., Islam, F. T., & Runy, M. K. (2021). Why does Shariah governance framework important for Islamic banks? *Asian Journal of Economics and Banking*, 5(2), 158–172. <https://doi.org/10.1108/ajeb-02-2021-0018>
2. Alamgir, M. (2016). An Analysis of Islamic Banking Activities in Bangladesh: Issues and Challenges. *Thoughts of Economics*, 25(03). <https://www.ierb-bd.org/wp-content/uploads/2016/12/An-Analysis-of-Islamic-Banking.doc>
3. Ali, W., Ibrahim Alasan, I., Hussain Khan, M., Ali, S., & Cheah, J.-H. (2022). mediating role of enterprise risk management practices: a multi-group analysis for fully fledged Islamic banks and conventional banks with Islamic window in Pakistan. *Emerald.Com*, 15(1), 125–145. <https://doi.org/10.1108/IMEFM-06-2020-0310>
4. Azariadis, C. (2018). Credit cycles and business cycles. *Federal Reserve Bank of St. Louis Review*, 100(1), 45–71. <https://doi.org/10.20955/r.2018.45-71>

5. Bashir, R., & Azeez, A. A. (2022a). Risk Management Practices of Islamic and Conventional Banks of Pakistan: A Comparative Study. *The International Journal of Banking and Finance*, 17(2), 57–90.
6. Bashir, R., & Azeez, A. A. (2022b). Risk Management Practices of Islamic and Conventional Banks of Pakistan: A Comparative Study. *The International Journal of Banking and Finance*, 17(2), 57–90.
7. Bilgili, H., & Sheu, C. (2022). A Bibliometric Review of the Mathematics Journal. *Mathematics*, 10(15). <https://doi.org/10.3390/math10152701>
8. Braun, V., & Clarke, V. (2006a). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), 77–101. <https://doi.org/10.1191/1478088706qp063oa>
9. Braun, V., & Clarke, V. (2006b). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), 77–101. <https://doi.org/10.1191/1478088706qp063oa>
10. Fernando, K. P. P., & Sriyalatha, M. A. K. (2015). Risk Management Practices of Banks: Evidence from Sri Lanka. *SSRN Electronic Journal*, 2, 1–16. <https://doi.org/10.2139/ssrn.2699704>
11. Hassan, M. K., Alshater, M. M., Hasan, R., & Bhuiyan, A. B. (2021). Islamic microfinance: A bibliometric review. *Global Finance Journal*, 49. <https://doi.org/10.1016/j.gfj.2021.100651>
12. Ichsan, N., & Yuda, E. K. L. (2023). Islamic Economic Literacy Level of Teacher in Al Tsaqafah Islamic Boarding School. *Journal Ilmiah Ekonomi Islam*, 9(01), 178–190. <https://jurnal.stie-aas.ac.id/index.php/jie>
13. IFSB. (2022). Resilience Amid a Resurging Pandemic. www.ifsb.org.
14. Iskandar, A., Possumah, B. T., & Arifuddin, A. (2020). IJIBEC RETHINKING ISLAMIC ECONOMIC AND FINANCE PRACTICES IN INDONESIA: SOME CRITICAL REVIEWS *International Journal of Islamic Business and Economics*. *International Journal of Islamic Business and Economics (IJIBEC)*, 4(2), 81–94.
15. Islam, M. T., Kokubu, K., & Nishitani, K. (2021). Corporate social reporting in the banking industry of Bangladesh: a test of legitimacy theory. *Social Responsibility Journal*, 17(2), 198–225. <https://doi.org/10.1108/SRJ-05-2019-0185>
16. Mohan, T. A. M., & Bakar, A. Y. A. (2021a). A systematic literature review on the effects of bullying at school. *Indonesian Journal of School Counseling*, 6(1), 35. <https://doi.org/10.23916/08747011>
17. Mohan, T. A. M., & Bakar, A. Y. A. (2021b). A systematic literature review on the effects of bullying at school. *Indonesian Journal of School Counseling*, 6(1), 35. <https://doi.org/10.23916/08747011>
18. Nazir, N. (2021a). Development of green technology from the past to the future development: a systematic literature review paper. *Systematic Literature Review and Meta-Analysis Journal*, 2(1), 25–37. <https://doi.org/10.54480/slrml.v2i1.13>
19. Nazir, N. (2021b). Development of green technology from the past to the future development: a systematic literature review paper. *Systematic Literature Review and Meta-Analysis Journal*, 2(1), 25–37. <https://doi.org/10.54480/slrml.v2i1.13>
20. Noor, M. A., Hossain, T., & Shirazi, H. (2022a). Effects of Financial Inclusion on the Economic Growth of Developing Countries: An Empirical Analysis of the Bangladesh Economy. *South Asian Journal of Social Sciences and Humanities*, 3(6), 10–22. <https://doi.org/10.48165/sajssh.2022.3602>
21. Noor, M. A., Hossain, T., & Shirazi, H. (2022b). Effects of Financial Inclusion on the Economic Growth of Developing Countries: An Empirical Analysis of the Bangladesh Economy. *South Asian Journal of Social Sciences and Humanities*, 3(6), 10–22. <https://doi.org/10.48165/sajssh.2022.3602>
22. Oyewo, B. (2022). Enterprise risk management and sustainability of banks' performance. *Journal of Accounting in Emerging Economies*, 12(2), 318–344. <https://doi.org/10.1108/JAEE-10-2020-0278>
23. Rastogi, S., Sharma, A., Pinto, G., & Bhimavarapu, V. M. (2022). A literature review of risk, regulation, and profitability of banks using a scient metric study. *Future Business Journal*, 8(1), 1–17. <https://doi.org/10.1186/s43093-022-00146-4>
24. Rehman, K., Khan, H. H., Sarwar, B., Muhammad, N., Ahmed, W., & Rehman, Z. U. (2020). A Multi-Group Analysis of Risk Management Practices of Public and Private Commercial Banks. *Journal of Asian Finance, Economics and Business*, 7(11), 893–904. <https://doi.org/10.13106/jafeb.2020.vol7.no11.893>
25. Reyad, S., Chinnasamy, G., & Madbouly, A. (2022a). Risk management and corporate governance of Islamic banks: evidence from GCC countries. *Emerald*, 22(7), 1425–1443. <https://doi.org/10.1108/CG-08-2020-0360>
26. Reyad, S., Chinnasamy, G., & Madbouly, A. (2022b). Risk management and corporate governance

- of Islamic banks: evidence from GCC countries. *Emerald*, 22(7), 1425–1443. <https://doi.org/10.1108/CG-08-2020-0360>
27. Rhanoui, S., & Belkhoutout, K. (2019). Risks faced by Islamic banks: A study on the compliance between theory and practice. *International Journal of Financial Research*, 10(2). <https://doi.org/10.5430/ijfr.v10n2p137>
28. Rianto, S. A. (2017). Identifying risk in shariah compliant financing for transport infrastructure projects in Indonesia.
29. Rif, M., Syadali, and Maulana Malik Ibrahim Malang, U., & Al-Yasini Pasuruan, S. (2023). Risk management in Islamic financial institutions (literature review). *Enrichment.Iocspublisher. Org*, 13(2). <http://enrichment.iocspublisher.org/index.php/enrichment/article/view/1473>
30. Sani, S. D., & Abubakar, M. (2020a). A proposed framework for implementing risk-based Shari'ah audit. *Journal of Financial Reporting and Accounting*, 19(3), 349–368. <https://doi.org/10.1108/JFRA-02-2020-0041>
31. Sani, S. D., & Abubakar, M. (2020b). A proposed framework for implementing risk-based Shari'ah audit. *Journal of Financial Reporting and Accounting*, 19(3), 349–368. <https://doi.org/10.1108/JFRA-02-2020-0041>
32. Sarker, A. A. (2022). Islamic Banking in Bangladesh: Achievements and Challenges. *Journal of Islamic Economics and Finance*, 1(1), 45–59.
33. Shah, S. A. A., Sukmana, R., & Fianto, B. A. (2021). Efficiencies in Islamic banking: A bibliometric and theoretical review. *International Journal of Productivity and Quality Management*, 32(4), 458–501. <https://doi.org/10.1504/IJPQM.2021.114268>
34. Siddique, A., Khan, M., Research, Z. K.-A. J. of A., & 2022, undefined. (2022). The effect of credit risk management and bank-specific factors on the financial performance of the South Asian commercial banks. *Emerald.Com*, 7(2), 2443–4175. <https://doi.org/10.1108/AJAR-08-2020-0071>
35. Wahyuni, S., Nabilah, S., Budianto, E., & Dewi, N. (2023). Mapping Research Topics on Risk Management in Sharia and Conventional Financial Institutions: VOSviewer Bibliometric Study and Literature Review. <https://www.researchgate.net/profile/Eka-Wahyu-Hestya->
36. Zaluchu, S. E. (2021). Risk In Islamic Banking and Comparative Analysis. 3(March), 6. <https://doi.org/10.5430/ijfr.v10n2p186>