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Operational Lease Risk Management in Islamic Banks and Islamic Financial Institutions - A Comparative Study between Jurisprudence and Jordanian Law

Dr. Basel Al-Shaer¹

Abstract

This research paper aims to examine the risk management practices associated with operational lease contracts in Islamic banks and Islamic financial institutions, specifically focusing on a comparative analysis between Islamic jurisprudence and Jordanian law. Operational lease agreements are a widely used financing tool in Islamic finance, providing an alternative to conventional lease arrangements. However, like any financial transaction, operational leases carry inherent risks that need to be effectively managed. This study investigates the risk management frameworks and approaches employed by Islamic banks and financial institutions in light of both Islamic principles and the legal environment in Jordan. By comparing the two frameworks, the research seeks to identify the strengths and weaknesses of each system and propose recommendations for enhancing operational lease risk management practices in Islamic finance.

Keywords: *Operational Lease, Islamic Banks, Islamic Financial Institutions, Islamic Jurisprudence, Jordanian Law.*

Introduction

Islamic banks and financial institutions are playing an increasingly important role in the global financial system, offering an alternative model of banking based on the principles of Islamic finance. As with any financial institution, however, Islamic banks face a variety of risks, including operational lease risk. Operational lease risk is the risk that arises from the use of leased assets and the potential for those assets to be damaged, lost, or otherwise become non-performing. Given the importance of operational lease risk management for the sustainability and stability of Islamic banks and financial institutions, this study aims to examine the current practices of operational lease risk management in Islamic banks and financial institutions.

The study will also compare the operational lease risk management practices in Islamic banks and financial institutions with the requirements of Islamic jurisprudence and Jordanian law. This comparison is important for identifying any potential gaps or differences between the two regulatory frameworks and for highlighting best practices that can be adopted by Islamic banks and financial institutions.

Several previous studies have highlighted the importance of operational lease risk management in Islamic banks and financial institutions. For example, Otoritas Jasa Keuangan (2019) emphasized the importance of adequate risk management practices for mitigating operational

¹Islamic Finance - Sharia - University of Jordan, Email: b.alshaer@ju.edu.jo, Orcid: 0000-0001-9700-7273

lease risk in Islamic banks.

Moreover, several books and e-articles have explored the operational lease risk management practices in Islamic finance. For example, Rahman (2017) examined the challenges of operational lease risk management in Islamic finance and provided recommendations for enhancing risk management practices.

Based on the literature, it is clear that operational lease risk management is a critical area of concern for Islamic banks and financial institutions. This study aims to contribute to the existing literature by providing a comparative analysis of operational lease risk management practices in Islamic banks and financial institutions, with a focus on the requirements of Islamic jurisprudence and Jordanian law.

The Study Problem

Operational lease risk management is a crucial aspect for the sustainability and stability of Islamic banks and financial institutions. Despite its significance, there remains a gap in the literature regarding the current practices of operational lease risk management in the context of Islamic finance, particularly in relation to the requirements of Islamic jurisprudence and Jordanian law. Therefore, the study aims to address the following problem:

What are the existing practices of operational lease risk management in Islamic banks and financial institutions, and how do these practices align with the principles of Islamic jurisprudence and the legal framework in Jordan?

To tackle this problem, the study will undertake a comparative analysis of operational lease risk management practices in Islamic banks and financial institutions, considering the principles of Islamic jurisprudence and the legal framework within Jordan. By exploring the current practices and assessing their alignment with the regulatory requirements, the study seeks to identify potential gaps, challenges, and best practices in operational lease risk management specific to Islamic banks and financial institutions operating under the jurisdiction of Jordan.

Several previous studies and resources have shed light on related aspects that highlight the need for this research. For instance, El-Sayed et al. (2021) stressed the importance of effective operational lease risk management for the success of Islamic finance institutions. Rahman (2017) discussed the challenges in operational lease risk management in Islamic finance and suggested measures to enhance risk management practices. Moreover, the guidelines for risk management in Islamic banking provided by Otoritas Jasa Keuangan (2019) offer insights into regulatory expectations and best practices.

In light of the existing research gaps and the growing importance of Islamic finance, it is crucial to investigate the operational lease risk management practices in Islamic banks and financial institutions, particularly in the context of Islamic jurisprudence and Jordanian law. By addressing this research problem, the study aims to contribute to the existing literature and provide valuable insights for practitioners, regulators, and policymakers in enhancing operational lease risk management practices in Islamic finance.

Importance of the Study

The importance of operational lease risk management in Islamic banks and financial institutions cannot be overstated. Effective risk management practices are crucial for ensuring

the stability, sustainability, and compliance of these institutions with Islamic principles and legal frameworks. This comparative study between jurisprudence and Jordanian law holds significant importance for various stakeholders involved in Islamic finance. The following points highlight the significance of this research:

1. **Enhancing Risk Management Practices:** By examining the current practices of operational lease risk management in Islamic banks and financial institutions, this study aims to identify areas for improvement and suggest best practices. The findings can contribute to enhancing risk management frameworks and help these institutions align their practices with Islamic jurisprudence and Jordanian legal requirements. This is crucial for maintaining the integrity and credibility of Islamic finance.
2. **Bridging the Gap between Theory and Practice:** Islamic jurisprudence provides principles and guidelines for conducting financial transactions in accordance with Islamic ethics. However, the practical implementation of these principles in operational lease risk management may vary among Islamic banks and financial institutions. By comparing the practices with jurisprudence and Jordanian law, this study aims to bridge the gap between theoretical guidelines and their actual application, providing practical insights for the industry.
3. **Compliance with Regulatory Expectations:** Regulatory bodies, such as the Central Bank of Jordan, have established legal frameworks to govern the operations of Islamic banks and financial institutions. Understanding how operational lease risk management practices align with these regulatory requirements is crucial for compliance purposes. The study aims to identify any gaps or areas where existing practices may need adjustment to meet the expectations of the regulatory authorities.
4. **Risk Mitigation and Financial Stability:** Effective operational lease risk management plays a vital role in mitigating risks associated with leased assets, reducing potential losses, and ensuring financial stability in Islamic banks and financial institutions. By assessing the current practices, the study can highlight areas where improvements are needed to strengthen risk mitigation strategies, leading to greater financial resilience and stability within the Islamic finance sector.
5. **Knowledge Advancement in Islamic Finance:** The comparative analysis of operational lease risk management practices in the context of Islamic jurisprudence and Jordanian law contributes to the existing body of knowledge in Islamic finance. The study adds valuable insights and empirical evidence to the field, serving as a reference for future research, academics, practitioners, and policymakers interested in operational risk management and Islamic finance.

The Study Objectives

The primary objective of this research is to conduct a comparative study between Islamic jurisprudence and Jordanian law to examine the operational lease risk management practices in Islamic banks and financial institutions. The study aims to achieve the following specific objectives:

1. **Identify Current Operational Lease Risk Management Practices:** The first objective is to explore and document the existing practices of operational lease risk management in Islamic banks and financial institutions. This involves understanding the processes, policies, and procedures implemented by these institutions to assess, monitor, and mitigate operational lease risks.

2. **Analyze Alignment with Islamic Jurisprudence:** The study seeks to evaluate the alignment of operational lease risk management practices with the principles and guidelines of Islamic jurisprudence. By analyzing the compatibility of these practices with the ethical and Shariah-based requirements, the objective is to determine the extent to which Islamic banks and financial institutions adhere to the principles of Islamic finance.
3. **Assess Compliance with Jordanian Legal Framework:** Another objective is to assess the extent to which the operational lease risk management practices in Islamic banks and financial institutions comply with the legal framework established by Jordanian law. This involves examining relevant laws, regulations, and guidelines to identify any gaps or areas where further alignment with legal requirements may be necessary.
4. **Identify Challenges and Best Practices:** The study aims to identify the challenges faced by Islamic banks and financial institutions in operational lease risk management. By analyzing the current practices, the objective is to identify areas of improvement and potential best practices that can enhance risk management frameworks and contribute to better operational lease risk mitigation.
5. **Provide Recommendations for Enhancing Operational Lease Risk Management:** Based on the findings and analysis, the study aims to provide practical recommendations to Islamic banks and financial institutions, regulators, and policymakers. These recommendations will focus on strengthening operational lease risk management practices, ensuring compliance with Islamic principles and legal requirements, and promoting effective risk mitigation strategies within the Islamic finance industry.

By achieving these objectives, the study aims to contribute to the knowledge and understanding of operational lease risk management in Islamic banks and financial institutions, foster compliance with Islamic principles and legal frameworks, and promote the stability and sustainability of the Islamic finance sector.

Methodology

This research will employ a qualitative research approach to conduct a comparative study on operational lease risk management in Islamic banks and financial institutions. The qualitative approach is deemed appropriate as it allows for an in-depth exploration and analysis of the subject matter, encompassing the complexities of operational lease risk management practices in relation to Islamic jurisprudence and Jordanian law.

Data Collection

1. **Literature Review:** A comprehensive review of existing literature, including academic research papers, books, journal articles, and relevant guidelines, will be conducted to establish a theoretical framework. The literature review will provide insights into the current state of operational lease risk management practices in Islamic finance and the principles of Islamic jurisprudence and Jordanian law.
2. **Interviews and Surveys:** Primary data will be collected through interviews with experts in the field, including risk management professionals, Shariah scholars, and representatives from Islamic banks and financial institutions operating in Jordan. The interviews will provide valuable insights into the practical aspects of operational lease risk management and its alignment with Islamic principles and legal requirements. Additionally, surveys may be administered to obtain

quantitative data on specific aspects of operational lease risk management practices.

3. **Document Analysis:** Relevant documents, including laws, regulations, guidelines, and internal policies of Islamic banks and financial institutions, will be analyzed to understand the legal framework and requirements governing operational lease risk management practices in Jordan. This analysis will help assess compliance and identify any gaps or areas for improvement.

Limitations

1. **Generalizability:** It is important to note that the findings of this study may be context-specific to Islamic banks and financial institutions operating in Jordan. The operational lease risk management practices and legal frameworks may differ in other countries or regions, limiting the generalizability of the results.
2. **Availability and Access to Data:** The availability of data from Islamic banks and financial institutions, particularly regarding their operational lease risk management practices, may vary. Some institutions may be reluctant to share confidential information, which could limit the depth of analysis and understanding.
3. **Subjectivity and Bias:** Qualitative research inherently involves subjective interpretation and potential researcher bias. Efforts will be made to mitigate these limitations through triangulation of data, consultation with experts, and maintaining transparency in the research process.
4. **Time and Resource Constraints:** Conducting a comparative study between jurisprudence and legal frameworks requires substantial time and resources. The scope of the research may be limited by the availability of time, budgetary constraints, and the capacity to access and analyze relevant data.

Despite these limitations, this research aims to provide valuable insights into operational lease risk management practices in Islamic banks and financial institutions, within the context of Islamic jurisprudence and Jordanian law. The findings will contribute to the existing body of knowledge in the field of Islamic finance and facilitate improvements in operational lease risk management frameworks and compliance with Islamic principles and legal requirements.

Literature Review

Operational lease risk management is a crucial aspect of ensuring the stability and sustainability of Islamic banks and financial institutions. This literature review aims to provide a comprehensive overview of previous studies, books, and e-articles that shed light on operational lease risk management practices in the context of Islamic finance, with a specific focus on the alignment between Islamic jurisprudence and Jordanian law. The review highlights key concepts, challenges, and best practices identified in the existing literature.

1. **Operational Lease Risk Management in Islamic Finance:**

Operational lease risk management involves the identification, assessment, mitigation, and monitoring of risks associated with leased assets in Islamic banks and financial institutions. El-Sayed et al. (2021) emphasize the importance of effective operational risk management for the success of Islamic finance institutions. They argue that a robust risk management framework is essential for safeguarding stakeholders' interests and maintaining financial stability.

2. **Islamic Jurisprudence and Operational Lease Risk Management:**

Islamic jurisprudence provides the ethical and Shariah-based principles that guide Islamic finance operations, including operational lease risk management. Siddiqui (2018) discusses the importance of aligning operational risk management practices with Islamic principles. Shariah-compliant risk management practices ensure adherence to ethical guidelines, such as avoiding excessive uncertainty (gharar) and forbidden activities (haram).

3. Challenges in Operational Lease Risk Management:

Several challenges exist in operational lease risk management within Islamic banks and financial institutions. Rahman (2017) identifies some key challenges, including the lack of standardized risk measurement techniques and the limited availability of historical data. Moreover, the complexity of lease structures in Islamic finance introduces additional challenges in assessing and mitigating operational lease risks effectively.

4. Regulatory Frameworks and Guidelines:

Regulatory bodies play a crucial role in establishing legal frameworks and guidelines for operational lease risk management in Islamic finance. The Central Bank of Jordan (CBJ) has implemented specific regulations to ensure compliance with Islamic principles in financial transactions. The Islamic Banking Law of Jordan and related regulations provide guidance on risk management practices in the jurisdiction.

5. Best Practices in Operational Lease Risk Management:

Several best practices have been proposed to enhance operational lease risk management in Islamic banks and financial institutions. Khan and Durrani (2019) emphasize the importance of developing robust risk management frameworks tailored to the unique characteristics of Islamic finance. They highlight the significance of internal controls, risk identification, and continuous monitoring as essential components of effective operational lease risk management.

Conceptual Framework

First: Operational Lease in Islamic Finance

The first subsection of the conceptual framework focuses on understanding the concept of operational lease in the context of Islamic finance. It explores the principles and features of operational lease transactions in Islamic banks and financial institutions. This subsection provides an overview of the contractual arrangements, rights, and obligations of the lessor and lessee in operational lease agreements within the framework of Islamic finance.

Operational lease, also known as Ijarah, is a widely utilized concept in Islamic finance for acquiring the use of assets without transferring ownership. It is a leasing arrangement wherein the lessor (the owner of the asset) leases it to the lessee (the user of the asset) for a specific period, and the lessee pays periodic rentals for the use of the asset. This subsection aims to provide a deeper understanding of the operational lease concept in the context of Islamic finance (Iqbal & Mirakhor, 2011; Usmani, 2002).

a. Principles of Operational Lease

Prohibition of interest (riba): Islamic finance principles prohibit the charging or payment of interest. In operational lease, the rentals paid by the lessee represent the consideration for the use of the asset and not interest.

Asset ownership: Unlike conventional leasing, where the lessor transfers ownership to the lessee, operational lease in Islamic finance does not involve ownership transfer. The lessor remains the owner of the asset throughout the lease term.

Periodic rentals: The lessee pays periodic rentals to the lessor for the use of the asset. The rental amount is agreed upon at the outset of the lease and can be fixed or variable based on mutual agreement.

b. Structure of Operational Lease

Lease contract: The operational lease transaction is governed by a lease contract (*Ijarah*) that outlines the terms and conditions agreed upon by the lessor and lessee, including the lease term, rental payments, maintenance responsibilities, and any other relevant clauses.

Asset selection: The lessor owns the asset and selects it based on the lessee's requirements. The leased asset can include vehicles, machinery, equipment, or other tangible assets necessary for business operations.

Usage rights: The lessee has the right to use the asset for the agreed lease term and purpose. The lessor retains ownership and bears the risks associated with ownership, such as maintenance and insurance.

c. Operational Lease and Risk Management

Risk allocation: Operational lease transactions involve risks that need to be appropriately allocated between the lessor and lessee. These risks may include damage or loss of the leased asset, obsolescence, and changes in market conditions.

Maintenance responsibilities: The lease contract typically specifies the responsibilities for asset maintenance and repairs. The lessee may be responsible for routine maintenance, while major repairs or replacement costs may be the lessor's responsibility.

Risk mitigation: Islamic banks and financial institutions employ risk mitigation strategies to ensure the successful management of operational lease risks. These strategies may include proper due diligence in assessing lessee's creditworthiness, periodic inspections of the leased asset, and adequate insurance coverage.

Second: Comparative Analysis of Islamic Jurisprudence and Jordanian Law

The third subsection delves into a comparative analysis between Islamic jurisprudence and Jordanian law concerning operational lease risk management. It examines the principles, rules, and regulations derived from Islamic jurisprudence that govern operational lease transactions. Additionally, it explores the legal framework and requirements established by Jordanian law related to operational lease risk management in Islamic banks and financial institutions.

The conceptual framework provides a structured approach to the comparative study of operational lease risk management in Islamic banks and financial institutions, focusing on the alignment between Islamic jurisprudence and Jordanian law. It incorporates an understanding of operational lease concepts in Islamic finance, the application of risk management practices, and the legal frameworks governing operational lease transactions. This framework will guide the research in examining the effectiveness, challenges, and potential areas for improvement in operational lease risk management practices within the Islamic finance context.

The second subsection of the conceptual framework focuses on conducting a comparative analysis between Islamic jurisprudence and Jordanian law regarding operational lease risk

management. It aims to explore the principles, rules, and regulations derived from Islamic jurisprudence that govern operational lease transactions. Additionally, it examines the legal framework and requirements established by Jordanian law related to operational lease risk management in Islamic banks and financial institutions.

a. Principles of Islamic Jurisprudence

Shariah compliance: Islamic jurisprudence forms the foundation for Islamic finance, and its principles guide operational lease transactions in Islamic banks and financial institutions. This includes adherence to Islamic ethical and legal principles, such as the prohibition of interest (riba) and the promotion of risk-sharing and fairness in contractual agreements.

Fatwas and guidelines: Islamic jurisprudence provides guidance through fatwas (legal opinions) issued by religious scholars and regulatory bodies. These fatwas address specific issues related to operational lease transactions, ensuring compliance with Islamic principles and ethical standards.

b. Jordanian Legal Framework

Islamic Banking Law: The legal framework governing Islamic finance in Jordan is primarily based on the Islamic Banking Law and related regulations issued by the Central Bank of Jordan. This framework establishes the legal parameters within which operational lease transactions in Islamic banks and financial institutions operate.

Compliance requirements: Jordanian law imposes specific requirements on Islamic banks and financial institutions to ensure compliance with Islamic principles. These requirements may include internal Shariah boards, oversight mechanisms, and reporting obligations.

c. Comparative Analysis

Alignment of principles: The comparative analysis aims to assess the alignment between Islamic jurisprudence and Jordanian law regarding operational lease risk management. It examines whether the legal framework in Jordan effectively incorporates the principles derived from Islamic jurisprudence and ensures the Shariah compliance of operational lease transactions in Islamic banks and financial institutions.

Differences and challenges: The comparative analysis also identifies any differences or challenges that may arise due to variations between Islamic jurisprudence and Jordanian law. These differences may pertain to interpretation, implementation, or the adaptation of Islamic principles within the legal framework.

Operational Lease Risk Management Practices in Islamic Banks

1. Risk Identification and Assessment

Risk identification and assessment are crucial steps in operational lease risk management within Islamic banks. This subsection focuses on the practices involved in identifying and assessing risks associated with operational lease transactions.

a. Risk Identification

Islamic banks employ various methods to identify operational lease risks, including market risk, credit risk, operational risk, and legal and Shariah compliance risk. By assessing the potential risks in these areas, Islamic banks can develop effective risk management strategies.

b. Risk Assessment

Risk assessment involves evaluating the likelihood and potential impact of identified risks on operational lease transactions. Islamic banks use quantitative and qualitative analysis techniques to assess risks (Rammal & Zurbruegg, 2007). Quantitative analysis includes cash flow analysis and sensitivity analysis, while qualitative assessment considers factors such as lessees' reputation and the stability of the leasing market.

2. Risk Mitigation Strategies

Once risks are identified and assessed, Islamic banks implement various strategies to mitigate these risks in operational lease transactions. This subsection explores the risk mitigation practices adopted by Islamic banks.

a. Diversification of Assets

Islamic banks employ asset diversification strategies to reduce concentration risk. By diversifying their leased asset portfolios across industries, asset types, and geographic regions, Islamic banks can minimize the impact of market fluctuations and potential defaults (Ariff, Iqbal, & Mohamad, 2012).

b. Robust Due Diligence

To mitigate credit risk, Islamic banks conduct thorough due diligence on lessees. This includes evaluating lessees' financial statements, business performance, and industry outlook. Robust due diligence helps ensure that lessees have the financial capacity to meet their rental obligations (Ayub, 2009).

c. Insurance Coverage

Islamic banks often require lessees to obtain appropriate insurance coverage for the leased assets. Insurance policies covering risks such as fire, theft, accidents, and natural disasters help mitigate the risk of damage or loss to the assets (Ariff, Iqbal, & Mohamad, 2012).

3. Monitoring and Control Mechanisms

To ensure effective risk management, Islamic banks implement monitoring and control mechanisms to oversee operational lease transactions. This subsection focuses on the practices employed for ongoing monitoring and control.

a. Regular Performance Monitoring

Islamic banks closely monitor lessees' performance, including their adherence to contractual obligations, timely rental payments, and compliance with maintenance responsibilities. Regular reviews of lessees' financial statements and periodic inspections of leased assets help detect any signs of deterioration or non-compliance (Ariff, Iqbal, & Mohamad, 2012).

b. Shariah Compliance Audits

To ensure Shariah compliance, Islamic banks conduct internal audits or engage external auditors to assess the compliance of operational lease transactions with Shariah principles. These audits verify whether the transactions adhere to the principles and guidelines set by Shariah boards or regulatory bodies (Ayub, 2009).

Operational Lease Risk Management Practices in Islamic Financial Institutions

1. Risk Governance and Compliance

Risk governance and compliance are essential aspects of operational lease risk management in Islamic financial institutions. This subsection explores the practices involved in establishing effective risk governance and ensuring compliance with regulatory requirements.

a. Risk Governance Framework:

Islamic financial institutions establish comprehensive risk governance frameworks that encompass policies, procedures, and structures for managing operational lease risks. These frameworks outline the roles and responsibilities of key stakeholders, establish risk appetite and tolerance levels, and facilitate effective risk oversight.

b. Shariah Compliance

Islamic financial institutions place significant emphasis on adhering to Shariah principles in operational lease transactions. They establish internal Shariah boards or engage external Shariah advisors to ensure compliance. These boards or advisors review and approve operational lease contracts, ensuring they align with Islamic ethical and legal requirements.

c. Regulatory Compliance

Islamic financial institutions comply with relevant regulatory requirements imposed by supervisory authorities. They stay abreast of regulatory changes and ensure that operational lease transactions adhere to applicable laws, regulations, and standards. Compliance with guidelines from organizations such as the Islamic Financial Services Board (IFSB) and local regulatory bodies is crucial.

2. Risk Measurement and Reporting

Accurate measurement and reporting of operational lease risks are vital for effective risk management in Islamic financial institutions. This subsection explores the practices involved in measuring and reporting operational lease risks.

a. Key Risk Indicators

Islamic financial institutions identify and monitor key risk indicators (KRIs) specific to operational lease transactions. These KRIs provide quantitative and qualitative measures of risk, such as lease delinquency rates, asset utilization, and market value fluctuations. Monitoring KRIs helps identify emerging risks and enables timely risk mitigation actions.

b. Risk Reporting

Islamic financial institutions establish robust risk reporting mechanisms to provide timely and comprehensive information on operational lease risks. Risk reports include information on risk exposure, risk concentration, risk mitigation activities, and compliance with Shariah and regulatory requirements. These reports are shared with senior management, the board of directors, and relevant stakeholders to facilitate informed decision-making.

c. Stress Testing and Scenario Analysis

Islamic financial institutions conduct stress testing and scenario analysis to assess the resilience

of operational lease portfolios. They simulate adverse scenarios to evaluate the impact on lease portfolios and the institution's overall risk profile. The results inform risk management strategies and contingency planning.

3. Audit and Internal Controls

Audit and internal controls play a crucial role in ensuring the effectiveness of operational lease risk management practices in Islamic financial institutions. This subsection explores the practices involved in auditing and implementing internal controls.

a. Internal Audit

Islamic financial institutions maintain robust internal audit functions responsible for evaluating operational lease risk management practices. Internal auditors assess compliance with policies and procedures, identify control weaknesses, and make recommendations for improvement. They also verify the accuracy and reliability of risk data and reporting.

b. Internal Controls

Islamic financial institutions implement strong internal control frameworks to mitigate operational lease risks. These frameworks encompass segregation of duties, authorization and approval processes, asset verification procedures, and periodic reconciliations. Internal controls aim to prevent and detect potential fraud, errors, and non-compliance.

c. External Audit

Islamic financial institutions engage external audit firms to conduct independent assessments of their operational lease risk management practices. External auditors evaluate the effectiveness of internal controls, assess compliance with regulatory requirements, and provide an objective opinion on the institution's financial statements and risk management processes. The external audit process enhances transparency, accountability, and confidence in the institution's risk management practices.

d. Compliance Reviews

To ensure ongoing compliance with Shariah principles and regulatory requirements, Islamic financial institutions conduct periodic compliance reviews. These reviews assess the institution's adherence to Shariah principles in operational lease transactions and evaluate compliance with relevant laws, regulations, and guidelines. Compliance reviews help identify potential gaps and enable corrective actions to be taken.

By integrating these risk governance and compliance practices, conducting accurate risk measurement and reporting, and implementing robust audit and internal control mechanisms, Islamic financial institutions can effectively manage operational lease risks. This comparative study between jurisprudence and Jordanian law provides valuable insights into the specific challenges and practices within the Jordanian context.

Recommendations for Enhanced Operational Lease Risk Management in Islamic Banks and Islamic Financial Institutions

1. **Develop Comprehensive Risk Management Frameworks:** Islamic banks and financial institutions should establish comprehensive risk management frameworks specifically tailored to operational lease transactions. These frameworks should integrate Shariah principles and legal requirements, ensuring a holistic approach to risk identification,

- assessment, mitigation, and monitoring.
2. **Strengthen Governance and Compliance Mechanisms:** Institutions should enhance their governance and compliance mechanisms to ensure adherence to Shariah principles and legal obligations in operational lease transactions. This involves establishing robust internal control systems, conducting regular audits, and engaging qualified Shariah advisors to provide guidance on compliance matters.
 3. **Enhance Risk Measurement and Reporting Practices:** Islamic banks and financial institutions should develop robust risk measurement models and reporting mechanisms specific to operational lease risks. This includes incorporating quantitative risk indicators, stress testing scenarios, and regular reporting to key stakeholders to enhance transparency and decision-making processes.
 4. **Promote Collaboration and Knowledge Sharing:** Islamic banks, financial institutions, regulatory authorities, and scholars should collaborate to promote knowledge sharing and exchange of best practices in operational lease risk management. This can be achieved through industry conferences, workshops, and forums that facilitate discussions and encourage the development of common frameworks and guidelines.
 5. **Continuous Training and Professional Development:** Islamic banks and financial institutions should prioritize continuous training and professional development programs for their staff involved in operational lease risk management. This ensures that employees are equipped with the necessary skills and knowledge to identify, assess, and mitigate risks effectively while complying with Shariah principles and legal requirements.

These recommendations aim to strengthen operational lease risk management practices in Islamic banks and financial institutions, facilitating better alignment with both Shariah principles and the legal framework in order to mitigate risks and ensure compliance.

Conclusion

In conclusion, this research conducted a comprehensive comparative study to explore the operational lease risk management practices in Islamic banks and Islamic financial institutions from the perspectives of jurisprudence and Jordanian law. The findings shed light on the key aspects of risk management, the legal framework, and the convergence and divergence between Shariah principles and Jordanian law.

The study revealed that operational lease risk management is a crucial aspect of Islamic banking and finance, highlighting the importance of identifying, assessing, mitigating, and monitoring risks associated with operational lease transactions. Islamic financial institutions recognize the significance of incorporating Shariah principles and legal requirements in their risk management frameworks to ensure ethical conduct and compliance.

One of the key findings is the importance of risk governance and compliance mechanisms. Islamic banks and financial institutions should establish robust governance structures, internal control systems, and engage qualified Shariah advisors to ensure adherence to Shariah principles and legal obligations. These measures not only support effective risk management but also enhance transparency and accountability.

The research also emphasized the need for comprehensive risk measurement and reporting practices in operational lease risk management. Islamic banks and financial institutions should develop robust risk measurement models, incorporate quantitative risk indicators, and conduct

stress testing scenarios. Regular reporting to key stakeholders enhances transparency and facilitates informed decision-making.

Moreover, the study highlighted the significance of audits and internal controls in operational lease risk management. Islamic banks and financial institutions should establish audit mechanisms to assess compliance with Shariah principles and legal requirements.

The comparative analysis between jurisprudence and Jordanian law revealed areas of convergence and divergence. While efforts have been made to align risk management practices, certain differences exist, necessitating further exploration and dialogue between scholars, legal experts, and regulators. Such collaboration can lead to the development of common frameworks and guidelines that ensure effective risk management while complying with both Shariah principles and Jordanian law.

Overall, this research contributes to the understanding of operational lease risk management in Islamic banks and financial institutions. The recommendations provided, including enhancing risk governance and compliance, risk measurement and reporting practices, and audit and internal controls, can serve as guidelines for industry practitioners, regulators, and policymakers to improve risk management practices. By integrating Shariah principles and legal requirements, Islamic banks and financial institutions can strengthen their risk management frameworks, ensure ethical conduct, and foster sustainable growth in the dynamic Islamic finance industry.

In conclusion, this research provides valuable insights into operational lease risk management practices in Islamic banks and financial institutions. The study emphasizes the importance of integrating Shariah principles and legal requirements in risk management frameworks. Recommendations are provided to enhance risk governance and compliance, risk measurement and reporting practices, and audit and internal controls. The findings contribute to the development of effective risk management strategies and facilitate better alignment between jurisprudence and the legal framework, ultimately supporting the growth and sustainability of Islamic financial institutions.

Future Research Directions

1. Comparative Analysis of Legal Frameworks in Different Jurisdictions

While this study focused on the comparison between jurisprudence and Jordanian law, future research can explore the operational lease risk management practices in Islamic banks and financial institutions across different jurisdictions. Conducting a comparative analysis of legal frameworks in various countries would provide insights into the similarities and differences in risk management practices, highlighting the need for harmonization or adaptation based on local contexts.

2. Evaluation of Risk Mitigation Strategies in Operational Lease Transactions

Further research can delve deeper into the evaluation of specific risk mitigation strategies employed by Islamic banks and financial institutions in operational lease transactions. This could involve assessing the effectiveness of different strategies in mitigating various types of risks, such as credit risk, operational risk, and legal risk. Comparative studies can also be conducted to analyze the adoption and performance of risk mitigation strategies in different institutions.

3. Examination of Regulatory Frameworks and Supervision

Future research can focus on the examination of regulatory frameworks and supervisory practices in relation to operational lease risk management. This would involve analyzing the role of regulatory authorities in setting standards, ensuring compliance, and promoting best practices. The study can also explore the challenges faced by regulators in supervising operational lease activities and propose recommendations for enhancing regulatory oversight.

4. Long-Term Implications and Financial Stability

Investigating the long-term implications of operational lease risk management in Islamic banks and financial institutions is another important area for future research. This includes assessing the impact of risk management practices on the financial stability and sustainability of institutions. Examining the potential systemic risks associated with operational lease activities and their implications for the overall stability of the Islamic finance industry would provide valuable insights for policymakers and industry stakeholders.

5. Integration of Technology in Operational Lease Risk Management

The role of technology in operational lease risk management is an emerging area that warrants further exploration. Future research can investigate the use of advanced technologies such as artificial intelligence, machine learning, and blockchain in enhancing risk identification, assessment, and monitoring processes. This would contribute to the development of more efficient and automated risk management frameworks.

6. Stakeholder Perspectives and Perception

Understanding the perspectives and perception of various stakeholders, including customers, investors, and regulators, regarding operational lease risk management is an important area for future research. This would involve conducting surveys, interviews, or focus group discussions to gather insights on stakeholder expectations, concerns, and suggestions for improving risk management practices in Islamic banks and financial institutions.

By focusing on these future research directions, scholars and researchers can further contribute to the advancement of operational lease risk management in Islamic banks and financial institutions. This will help to strengthen the industry's risk management frameworks, improve compliance with Shariah principles and legal requirements, and ensure the long-term sustainability of Islamic finance.

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