

A COMPARATIVE STUDY ON RISK MANAGEMENT BETWEEN IJARAH FINANCING AND CONVENTIONAL LEASING: A STUDY BASED ON SELECTED REGION IN AMPARA DISTRICT

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Abstract: The concept of leasing is widely known as a highly profitable contract amongst the overall financial services. As well as, leasing is the contract, which faces the utmost risks. However, the concept of leasing is typically based on rental payments, whereby a lessor leases an asset for a certain period to a lessee, and charges a certain amount of rental payments for the utilization of the asset. Since, the lease contract implies several risks, it is significant that every financial institution to adopt proper framework in order to alleviate risks. In that sense, risk management is vital for the financial institution in order to mitigate the sudden disasters, and to focus on attaining the corporate objectives effectively. Meanwhile, it is considerable that studies pertaining to risk management are still lacks in Sri Lankan context. Therefore, this study primarily intended to carry out on the topic of "A comparative study on risk management between Ijarah Financing and Conventional Leasing", whereby the study is based on selected region in Ampara district, Sri Lanka. The primary objective of this study is to identify the challenges whilst practicing risk management in lease financing. The study comprises of both primary and secondary data. The primary data were gathered mainly from interviewing the higher officials of Commercial Leasing and Finance PLC, and Amana Bank PLC. The secondary data sources were previous researches, annual reports of sample financial institutions, journal articles, books, newsletters, and websites that are related with this study. The key findings of this study indicate that challenges such as climate change, adjustments in the government policies, absence of the counterparty, and non-involvement of penalty are some of the significant challenges faced by the lease financing institutions whilst performing risk management. Therefore, this study recommends that the institutions must focus on improving the corporate risk management practices, and further researches concerning risk management are necessary for the development of the financial institutions.

Keywords: leasing, risk management, conventional and Islamic lease financing