

PROPOSING TAWARRUQ AS A TOOL TO MANAGE THE LIQUIDITY RISK OF ISLAMIC FINANCIAL INSTITUTIONS IN SRI LANKA (BASED ON AMANA BANK PLC)

RESEARCHER

Ms. M.I.F. RIFATHA
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SUPERVISOR

Dr. M.I.M. JAZEEL
SENIOR LECTURER G-I &
Mr. A.H. RIFAS
LECTURER (PROB.)
DEPT. OF ISLAMIC STUDIES
FIA/ SEUSL

Abstract: Tawarruq has been identified as an important tool for liquidity management of Islamic financial institutions (IFIs) as it is practiced internationally. However, the term Tawarruq seems as unfamiliar in the context of IFIs. Therefore, this study carried out to examine the practice of Tawarruq in Sri Lanka whereby the researcher intended to find the current practice, types of liquidity problems faced by the IFIs and the suitability of Tawarruq for the liquidity management of IFIs. Amana bank of Sri Lanka which is the pioneer and the only a full-fledged Islamic bank has been selected as sample for this study. The data were collected through primary and secondary. Interview, annual reports, website information were employed as the tools for the data collection. The target population includes departmental heads of Amana Bank PLC in Sri Lanka, Shari'ah advisors and experts in Islamic banking and financial instruments. The findings of the study show that Tawarruq is an instrument still not used in Sri Lanka. Hence, Sri Lankan IFI market has a possibility to imply practice of Tawarruq manage the liquidity. However, there are some impediments in implementing of Tawarruq like shortage of assets, taxation, price risk, accounting, exchange control, Shari'ah risk, and counterparty risk. The study offers suggestions to address the challenges for the successful implementation of Tawarruq in Sri Lanka; such as government may propose an adequate system to reduce the transaction cost by introducing Shari'ah compliant products such as shares, may bring special rules and regulations by SEC, may create asset trading house, legal binding. Further, the regulatory authority may establish a common body that can monitor the counterparty, maintain Shari'ah supervision very effectively and efficiency and Industry must be reliable or real time.

Keywords: Tawarruq, Liquidity risk, Islamic Financial Institutions, Sri Lanka