

Policy Recommendations adopted by 31st Session of the COMCEC

- **A credit risk data collection strategy for the OIC Member States needs to be developed for reducing risks during episodes of economic turbulence and the risk assessment capacity of the OIC Member States should also be developed in line with the international best practices.**

Rationale: For most OIC member states, credit risk appears to be the most important risk factor for the banking sector. Even though OIC member states reserved a significant amount of capital buffer against potential credit risk, they generally use standard risk weights which might understate the actual credit risks during episodes of economic turbulence. There is a need to develop a systematic credit rating methodology specifically designed for OIC Member Countries, since credit rating methodologies developed and implemented in Europe and in the US may not be well-suited given the peculiar aspects of the OIC economies.

Therefore, to achieve a unified credit rating methodology, a unified credit risk data collection strategy needs to be developed among OIC member states. Both consumer and commercial credit risk data (both good and bad customer data) can be collected with a unified data collection framework. Furthermore, Member Countries and Institutions need to improve their credit risk assessment capacity in line with the international best practices.

- **An Effective Deposit Insurance Scheme for the Banking Sector needs to be developed for achieving a higher degree of financial stability and financial inclusion.**

Rationale: The recent crises in US and EU banking sectors have shown the importance of an effective deposit insurance scheme and paved the way for radical changes in deposit insurance practices. Deposit insurance is critical to ensure depositors' confidence and enhance depositor base, which is a necessary step to achieve a higher degree of financial stability and financial inclusion. Most OIC member states do not provide an explicit deposit insurance for customers. Member countries need to take necessary steps to establish and implement an effective deposit insurance scheme. Deposit insurance will improve soundness of banking system, as trust on the system by preventing bank-runs in the times of stress beside minimizing the amplification of shocks.

- **A Regulatory and supervisory Framework needs to be developed specifically for Islamic Banking in order to benefit from the significant growth potential of Islamic Banking System**

Rationale: Islamic banking plays an important role in the banking sector of the OIC member states and exhibits a significant growth potential. Currently, Islamic banking is regulated and supervised under the regulatory and supervisory frameworks designed for the conventional banking system as there is no separate regulation scheme for Islamic banking. As functioning of conventional and Islamic banking are significantly different, and considering the prominent growth prospects of Islamic banking, a regulatory and supervisory framework designed specifically for Islamic banking unfolds as a necessity. OIC member states should take the necessary actions to make regulation and supervision practices comply with the peculiarities in Islamic banking.

- **Increasing awareness of the benefits of modern retail payment systems through providing education on basic financial controls and prudence as well as increasing transparency in order to protect consumer rights**

Rationale: Low financial literacy and lack of awareness in many Member Countries are major challenges that diminish the potential benefits of financial inclusion. Financial literacy is the main element that creates knowledge and demand for payment instruments. Especially for the low-paid and others who are unbanked, certain retail payment systems such as mobile and pre-paid card systems provide significant benefits. These benefits include greater security and convenience than cash payments, easier control over personal accounts, and greater mobility options. Retail payment systems can also be coordinated with credit/loan schemes, providing capital access to those who cannot avail themselves of banking services. This can bring significant benefits to small businesses and help improve living standards by enhancing financial inclusion.

Any programme to promote awareness of the benefits of modern retail payment systems need to provide education about basic financial controls and prudence. They should also instruct on the use of instruments such as checking/savings accounts, automatic teller machines (ATM), etc. Moreover, public education should include basic numeracy skills, record-keeping techniques and awareness about risks associated with overspending and debt. Moreover, all these measures and instruments increase transparency in order to help consumer rights and ease of access for the efficient use of channels.

- **Exploring ways to further decrease the cost of retail payments and seeking ways for interoperability**

Rationale: Expenses incurred by consumers discourage people from using some retail payment systems when they travel among OIC Member States. Better interoperability can reduce costs to operators as well as consumers and encourage wider use to promote financial inclusion and reduce payment risks. Good practices can be found in some Member States, such as Gambia's Gamswitch system that is country wide, web based and coordinated with the West African region. This kind of good practices can be disseminated among the member countries.

- **Establishing/maintaining OIC payment systems data collection and reporting framework**

Rationale: An integrated database system should be established to provide transparency of credit data. Governments need to focus on the fragmented, stand-alone, or non-existent credit bureaus. Standards and practices in credit data management must be developed. Credit worthiness should also be examined and, at a national level, there must be payment data available to credit bureau services.

A common reporting system is useful both for the establishment of interoperability and to assist in future policy formation. A basic framework, such as that used in the analytical study prepared for this Meeting would be the starting point to a standardized monitoring system.