



FINANCIAL COOPERATION

OIC/COMCEC-FC/34-18/D(.)



COMCEC

CCO BRIEF ON FINANCIAL COOPERATION

COMCEC COORDINATION OFFICE

April 2018

CCO BRIEF ON FINANCIAL COOPERATION

Financial Cooperation among the Member Countries is of particular importance for facilitating capital mobility, increasing financial literacy, managing financial risks, supervising financial institutions, increasing product diversity and broadening and deepening financial markets.

SELECTED FINANCIAL FIGURES

- **Islamic Finance**

According to the Global Islamic Finance Report 2017, the potential size of the Islamic financial services industry has grown from \$4 trillion in 2009 to \$7.8 trillion in 2016; yet the actual size of the industry was \$2.3 trillion in 2016. The average growth rate during 2009-2016 was 13.9%. The actual size of the industry is still 30% of its potential, and the gap in 2016 widened compared with the potential-actual size gap of 2015. The sector is led by the Islamic banking sector with a 73% percent share and followed by the global Sukuk market (16%), other IFIs (6%), Islamic funds (4%) and Takaful (2%).¹

Table 1: Potential and Actual Size of the Islamic Financial Services Industry

	2009	2010	2011	2012	2013	2014	2015	2016
Potential size of the global Islamic financial services industry (\$ trillion)	4.0	4.4	4.8	5.3	5.9	6.5	7.1	7.8
Actual size of the global Islamic financial services industry (\$ trillion)	1.036	1.139	1.357	1.631	1.813	1.981	2.143	2.293
Size gap (\$ trillion)	2.964	3.261	3.483	3.693	4.043	4.47	4.953	5.513
Growth in actual size of the global Islamic financial services industry (%)	26	9.9	19.1	20.2	12.3	9.3	7.3	5.513
Average growth rate between 2009 and 2016 (%)								13.89
Catch-up period - based on 10% growth in potential size and 13.89% growth in actual size (years)								35.2

Source: Edbiz Consulting, GIFR 2017

Considering the share in the total Islamic finance assets in 2016, the top three countries are Iran, Saudi Arabia and Malaysia respectively.²

As the largest segment of the global Islamic finance industry, the total asset of the Islamic Banking sector was approximately \$1.7 trillion in 2016.³ In twelve of the member countries, the Islamic banking sector has reached systemic importance⁴ in the Financial Sector.

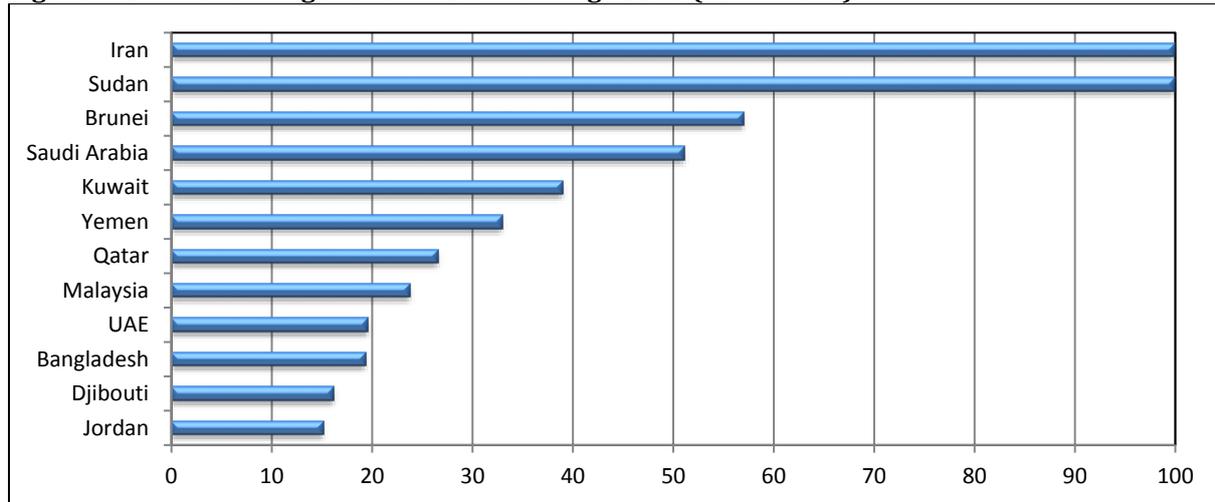
¹ ICD-Thomson Reuters, Islamic Finance Development Report 2017

² ibid

³ Edbiz Consulting, GIFR 2017

⁴ Share of Islamic Banking Sector in Total Banking sector >15%

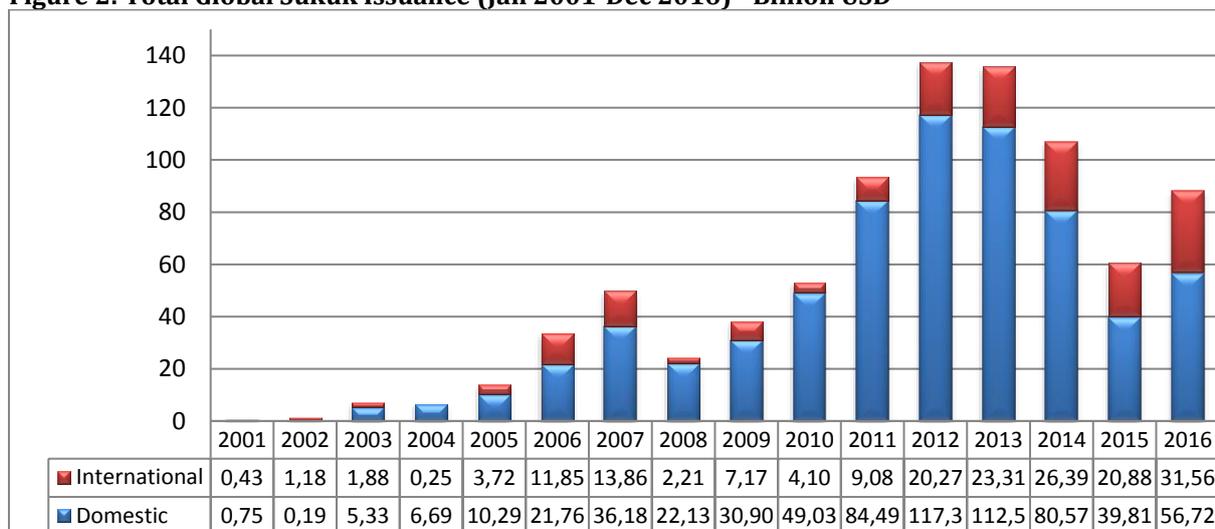
Figure1: Islamic Banking Share in Total Banking Assets (%- 1H2016)



Source: IFSB, Islamic Financial Stability Report 2017

The total Global Sukuk issuances amounted to \$88.3 billion in 2016 with an increase of 45.5% compared with 2015. According to International Islamic Financial Markets (IIFM), the increase in the volume of Sukuk issuances during 2016 was due to steady issuances from Asia, the GCC, Africa and certain other jurisdictions and while Malaysia continues to dominate the Sukuk market, the share of countries like Indonesia and Turkey increased as well.

Figure 2: Total Global Sukuk Issuance (Jan 2001-Dec 2016) - Billion USD



Source: IIFM Sukuk Report 6th Edition

Global takaful assets reached \$43 billion⁵ in 2016 and were mainly driven by the top three countries: Saudi Arabia, Iran and Malaysia. These three countries are holding 81% of the total takaful assets. Saudi Arabia is the biggest takaful market as its insurance market is based entirely on a cooperative insurance model. Besides Saudi Arabia, Iran and Malaysia are the prominent countries in the takaful industry. The Iranian and Malaysian takaful sectors stand at \$11.3 billion and \$8.4 billion in 2016, respectively.⁶

⁵ ICD-Thomson Reuters, Islamic Finance Development Report 2017

⁶ ibid

According to the Islamic Finance Development Report 2017, the total Islamic Funds AuM outstanding in 2016 was \$91 billion. Top three countries in Islamic Funds AuM outstanding are Iran (\$37.7 billion), Saudi Arabia (\$20.6 billion) and Malaysia (\$20.1 billion). The mentioned report also indicated that fastest growing countries in the Islamic Funds AuM Outstanding in 2016 were Iran, Pakistan and Turkey.

COOPERATION EFFORTS UNDER THE COMCEC: THE COMCEC STRATEGY AND FINANCIAL COOPERATION

The efforts for enhancing financial cooperation under the COMCEC are carried out under the COMCEC Financial Cooperation Working Group and the COMCEC Project Funding Mechanism, as well as the OIC Member States' Stock Exchanges Forum, the COMCEC Capital Markets' Regulators Forum and cooperation among the Central Banks and Monetary Authorities.

- The Role of Sukuk in Islamic Capital Markets (Tenth Meeting of COMCEC FCWG)

Among other segments of Islamic finance, sukuk market has emerged as the most public and high-profile face of the sector. The sukuk market is seen as a key driver behind the growth of the Islamic finance industry and the state of the sukuk market is invariably considered as a barometer for the health of the wider Islamic finance market. The international sukuk market has grown rapidly since the first international US\$ 150 million issuances by a Malaysian Company named Kumpulan Guthrie Bhd in 2001. Since then the sector has recorded significant growth rates and the global sukuk outstanding reached USD367 billion in 2016(*IIFM Sukuk Report 6th Edition*).

Since Islamic securitization requires a higher connectivity to the underlying asset and operating business, the Sukuk market is an important platform to support the Shariah-compliant long-term financing. Furthermore, the Sukuk provides a platform to manage liquidity, asset and infrastructure financing in the real economy. Therefore, it may also contribute significantly to the economic development of a country.

Given the importance of this issue, the Tenth Meeting of the COMCEC Financial Cooperation Working Group was held on March 29, 2018, in Ankara with the theme of *"The Role of Sukuk in Islamic Capital Markets."*

The research report submitted to the Working Group highlighted that essential building blocks for sustainable growth of a sukuk market are (i) a robust legal and regulatory framework including Shariah governance, (ii) a tax framework that promotes a level playing field between bonds and sukuk (i.e. tax neutrality and tax incentives), (iii) market infrastructure and technology (e.g. Islamic money market, electronic trading platform), (iv) regulation and supervision, and (v) cornerstone institutional investors that create the demand for sukuk issuances.

Some of the main challenges faced by member countries highlighted by the report are given below:

- Lack of necessary legislative framework
- Lack of tax framework to support development in the Sukuk market
- Lack of the Shari'ah governance framework
- Inadequate investor base

The policy advice highlighted by the Working Group can be summarized as follows:

- *Developing an Enabling Legal and Regulatory Framework for the Islamic Capital Markets and Promoting Solid Collaboration among the Key Market Stakeholders to improve the ecosystem for Sukuk issuance.*
- *Improving Market Infrastructure and, where needed, the Existing Tax Framework for Enhancing Sukuk Issuance.*
- *Developing a Sustainable Liquidity Base to Support Demand for the Shariah-Compliant Assets, and Facilitating Diversification of Market Players on the Demand Side of the Sukuk Market.*

- *Promoting a Sustainable Supply of Sukuk Issuance from the Private Sector in order to Foster Diversification of the Industry Participants on the Supply Side and Expand the Benchmark Yield Curve.*
- *Developing a Seamless Shariah Governance Process for Facilitating Faster Turnaround Time for the Sukuk Issuance, Improving Clarity of the Sukuk Structures, Promoting Product Innovation, Building Market Confidence and Increasing Market Awareness among the Industry Practitioners.*

All the reports submitted to the Meetings and the presentations made during the Meetings are available on the COMCEC web page (www.comcec.org).

- Islamic Fund Management (Eleventh Meeting of the COMCEC FCWG)

The Eleventh Meeting of the Financial Cooperation Working Group will be held on October 25th, 2018 in Ankara with the theme of “Islamic Fund Management”. During the Meeting, the participants will be expected to elaborate the Islamic fund management practices in the member countries and to suggest policy recommendations on improving Islamic fund management.

The COMCEC Project Funding Mechanism

Through its Project Funding Mechanism, the CCO provides grants to the selected projects proposed by the relevant OIC institutions and the Member States that have already registered with the Financial Cooperation Working Group.

In 2018, two financial cooperation projects will be supported under the COMCEC Project Funding. The owner of the first project titled “Training and Guidelines on SUKUK Issuance” is Nigeria and their partners are Malaysia and Mozambique. Within the scope of the project, a training program and a workshop will be organized in Nigeria. During the training program, key people from agencies related to the SUKUK will be trained on effective issuance of a SUKUK from the issuance to its resale on the secondary market. Also, in the workshop, which held in Abuja with the participation of the representatives from issuing agencies, financial regulators, participants will discuss effective issuance of the SUKUK. After the completion of the project activities, project team will prepare a project report, in which findings of the workshop and training program will be presented.

The project titled “Improving Financial Consumer Protection in the OIC Countries” will implemented by Turkey with the participation of 18 member countries. The project aims at achieving a better functioning financial consumer protection for the OIC countries by evaluating and standardizing best practices, administrative experiences and rising trends in financial consumer protection policy field. In this regard, an international workshop with the participation of the project partners will be held in İstanbul, Turkey. During the workshop, participants will focus on determining a comprehensive financial consumer protection strategy by evaluating and standardizing best practices, cross-border trade and dispute resolution, administrative experiences, joint/coordinated actions, and the other rising trends in consumer protection policy field. Also, a project completion report including the results of the workshop will be prepared by the project team.

- Other Ongoing Efforts under the COMCEC:

OIC Member States’ Stock Exchanges Forum: Cooperation among the Stock Exchanges was launched in 2005 in line with the decision taken by the 20th Session of the COMCEC. The Forum has held 11 meetings so far. The 11th Meeting of the Forum was held on October 31st, 2017 in Istanbul.

Along with the efforts to increase cooperation between stock exchanges, the Forum has realized important projects such as the OIC/COMCEC Index and works on important projects. Within this context, the Forum has been working on “Gold Exchange Initiative for the OIC Member Countries.” The 33rd Session of the COMCEC took note of the report of the 11th Meeting of the OIC Member States’ Stock Exchange Forum on the various options towards the realization of the highly adaptable web-based gold trading and clearing platform with the ultimate aim of establishing a gold

exchange/platform among the volunteering member countries and requested the Forum's Secretariat to finalize the necessary work and report the progress to the 34th Meeting of the Follow-up Committee and the 34th COMCEC Session.

The detailed information regarding the activities of the Forum is available on www.oicexchanges.org.

- **The COMCEC Capital Market Regulatory Forum:** The COMCEC Capital Market Regulatory Forum was established in 2011 in line with the relevant resolutions of the 27th Session of the COMCEC. The Forum has held six meetings so far. The 6th Meeting of the COMCEC Capital Market Regulators Forum was held on October 31st, 2017 in Istanbul.

Besides the working on enhancing cooperation among the capital market regulatory authorities of the Member countries, the Forum has been undertaking the necessary studies towards establishing a Real Estate Exchange among the OIC Member Countries. The 33rd Session requested the Forum/the Forum's Secretariat to finalize necessary legal, administrative and technological preparations for the establishment of the COMCEC Real Estate electronic platform before the 34th Session of the COMCEC and submit an interim report to the 34th Meeting of the Follow-up Committee on the progress achieved.

The details regarding the Forum activities are available on the Forum website. (www.comceccmr.org)

- **Cooperation among the Central Banks and Monetary Authorities:** The 15th Meeting of the Central Banks and Monetary Authorities of the OIC Member States was held on September 21-22, 2017 in Muğla, Turkey. Two Working Groups was established to prepare technical background papers in the following areas: Financial Inclusion, and the OIC Economic Outlook. The said papers will be reported to the Next Meeting of the Central Banks and Monetary Authorities. The Central Bank of Turkey has organized first working group meetings of the "Financial Inclusion Working Group" on April 9, 2018 and "the OIC Economic Outlook Working Group" on April 10, 2018, in İstanbul.