

Islamic Financial Architecture in the OIC Member Countries: Current Status, Main Challenges, Recommendations and Prospects

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Agenda

- Introduction
- Islamic Financial Architecture—Current Status and Main Challenges
- Islamic Financial Architecture—Recommendations and Prospects
 - National
 - International

Introduction

- Islamic financial sector has expanded globally
 - Assets in 2015--\$1.88 trillion
 - Average growth rate 2009-2013 was 17%
- In some countries, it is becoming systematically important
- Future growth of a robust and stable Islamic finance industry will require a sound financial architecture
- The research studied the financial architecture in 12 OIC member countries and five global financial centers
 - To assess the status of Islamic financial architecture
 - Provide policy recommendations at both national and international levels

Scope & Methodology of Study

- Case Studies of 12 OIC Member Countries and 5 International Financial Centers
- Qualitative data Islamic financial architectural institutions
- Sources of data and information
 - Policy documents from international organizations and standard setting bodies
 - Publications on financial architectural institutions (including World Bank's *Doing Business, Legal and Regulatory Database, Global Survey on Consumer Protection and Financial Literacy*)
 - Country specific documents such as *Financial Sector Assessment Reports*, laws, regulations and standards related to the financial sector
 - National level legal and regulatory documents and standards
 - Information from relevant personnel in respective jurisdictions

OIC Member Countries in the Sample

Country	Region	Legal System Family	Size of IF sector: % National Banking Assets	Size of IF sector: Global share of IF assets
Bangladesh	Asia	Common Law	17	1.34
Egypt	Arab	Civil Law	4	1.17
Indonesia	Asia	Civil Law	4.6	1.39
Malaysia	Asia	Common Law	21.9	9.56
Nigeria	Africa	Common Law	N.A.	N.A.
Oman	Arab	Civil Law	4.4	N.A.
Pakistan	Asia	Common Law	9.8	0.75
Saudi Arabia	Arab	Islamic law	51.3	18.57
Senegal	Africa	Civil Law	N.A.	N.A.
Sudan	Arab	Islamic Law	100	1.00
Turkey	Asia	Civil Law	5.7	3.2
UAE	Arab	Civil Law	17.4	7.36

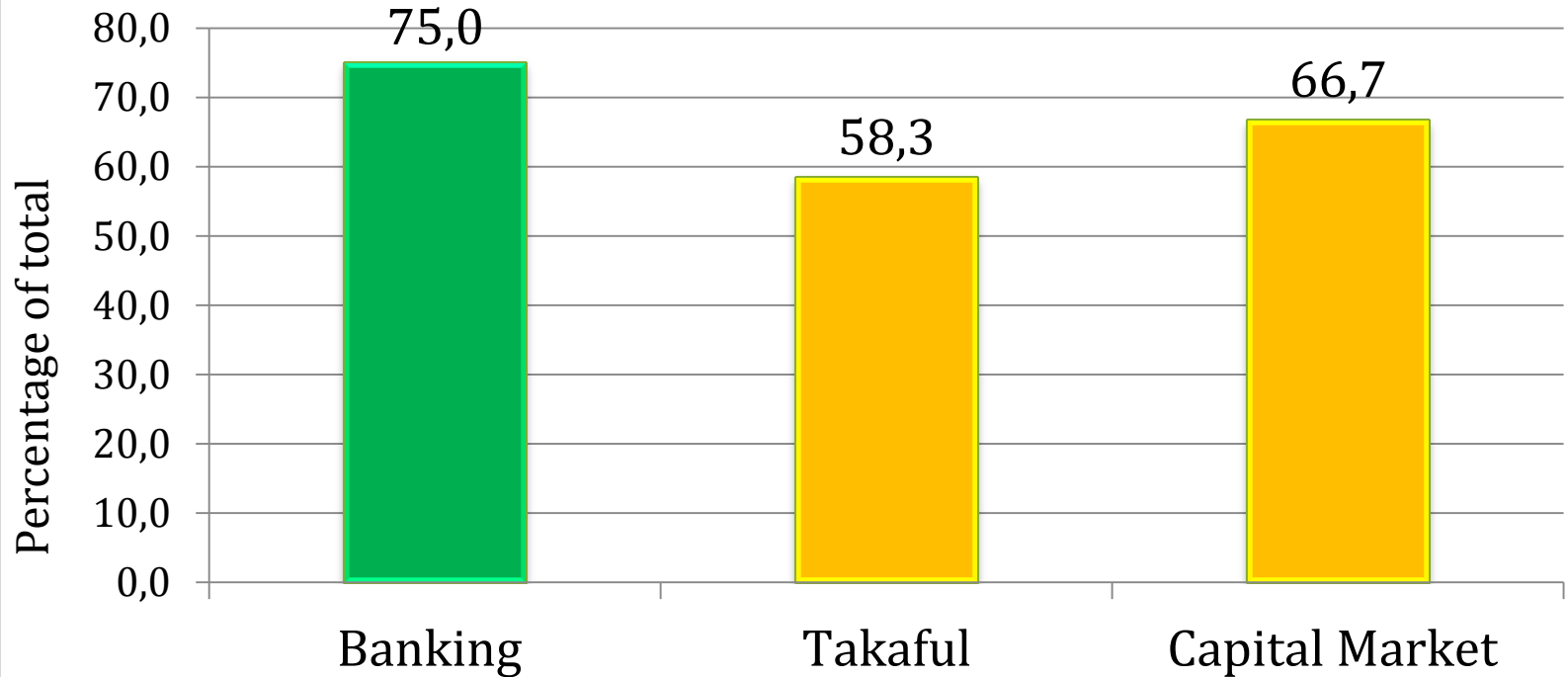
Islamic Financial Architecture Components

1. Legal Infrastructure
2. Regulation and Supervision Framework
3. Shariah Governance Framework
4. Liquidity Infrastructure
5. Information Infrastructure and Transparency
6. Consumer Protection Architecture
7. Human Capital & Knowledge Development Framework

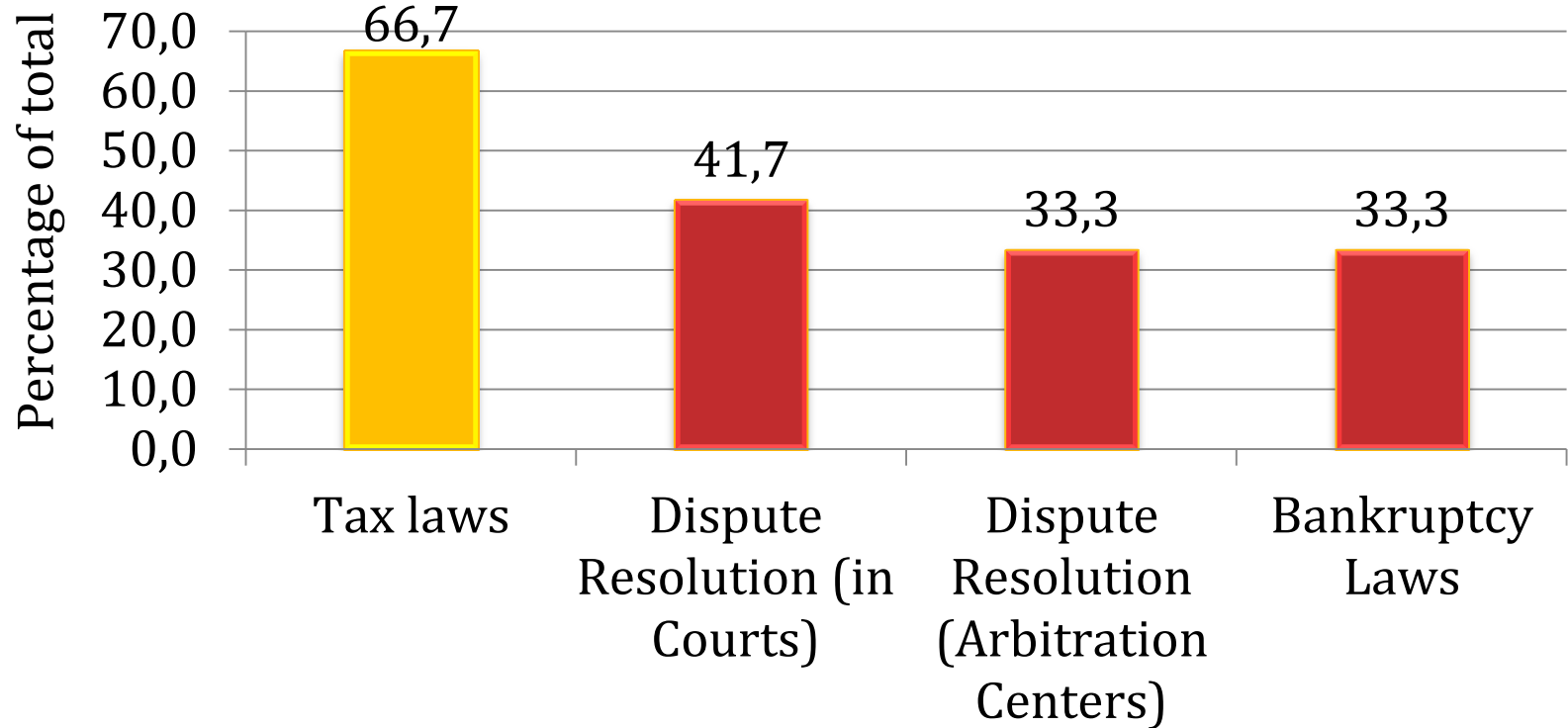
Assessment Scheme

Architectural Element Exists (Percentage of Countries)	Status	Colour
More than 75%	Developed	Green
Between 50% to 75%	Developing	Yellow
Less than 50%	Undeveloped	Red

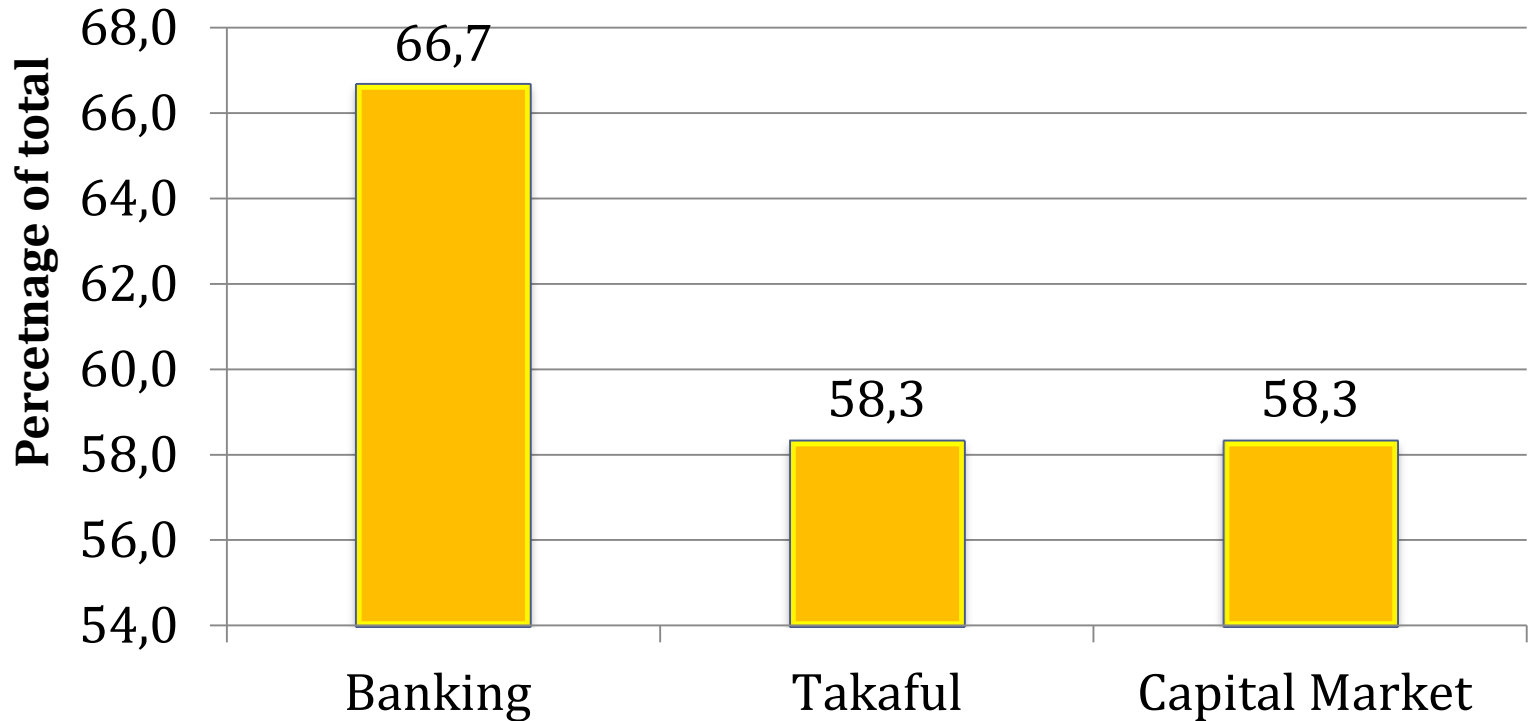
1. Legal Infrastructure—Countries with Islamic Financial Laws (% of total)



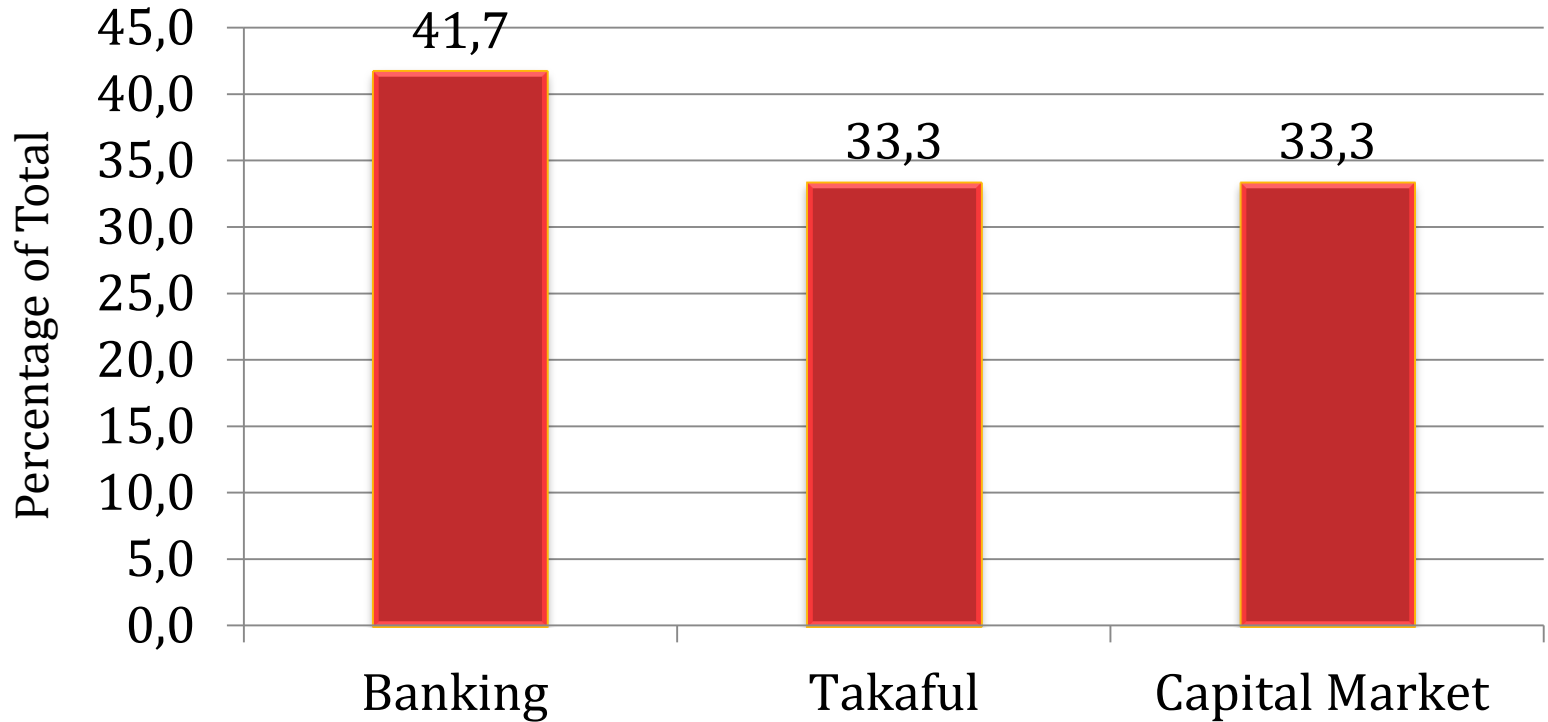
1. Countries with Islamic Legal Infrastructure (% of total)



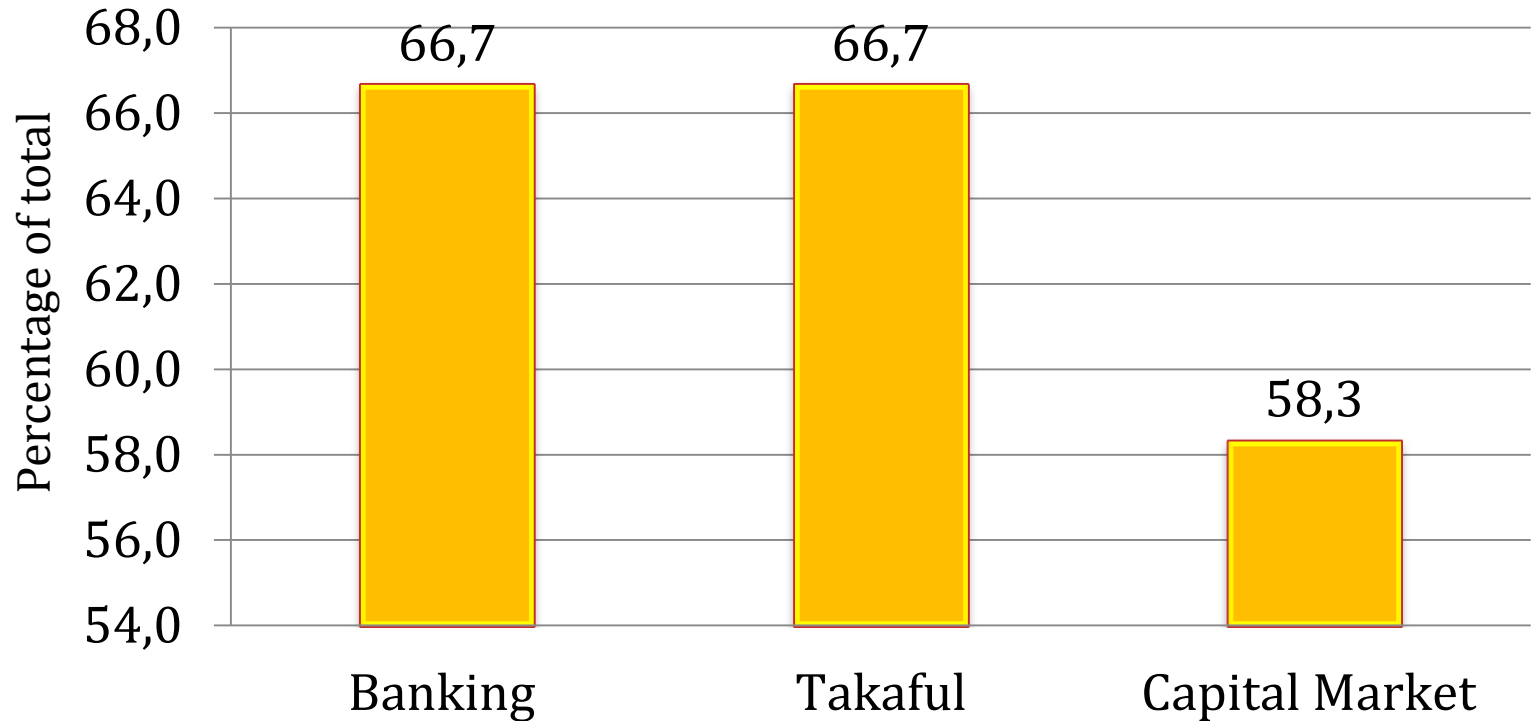
2. Regulatory Framework Islamic Financial Sector



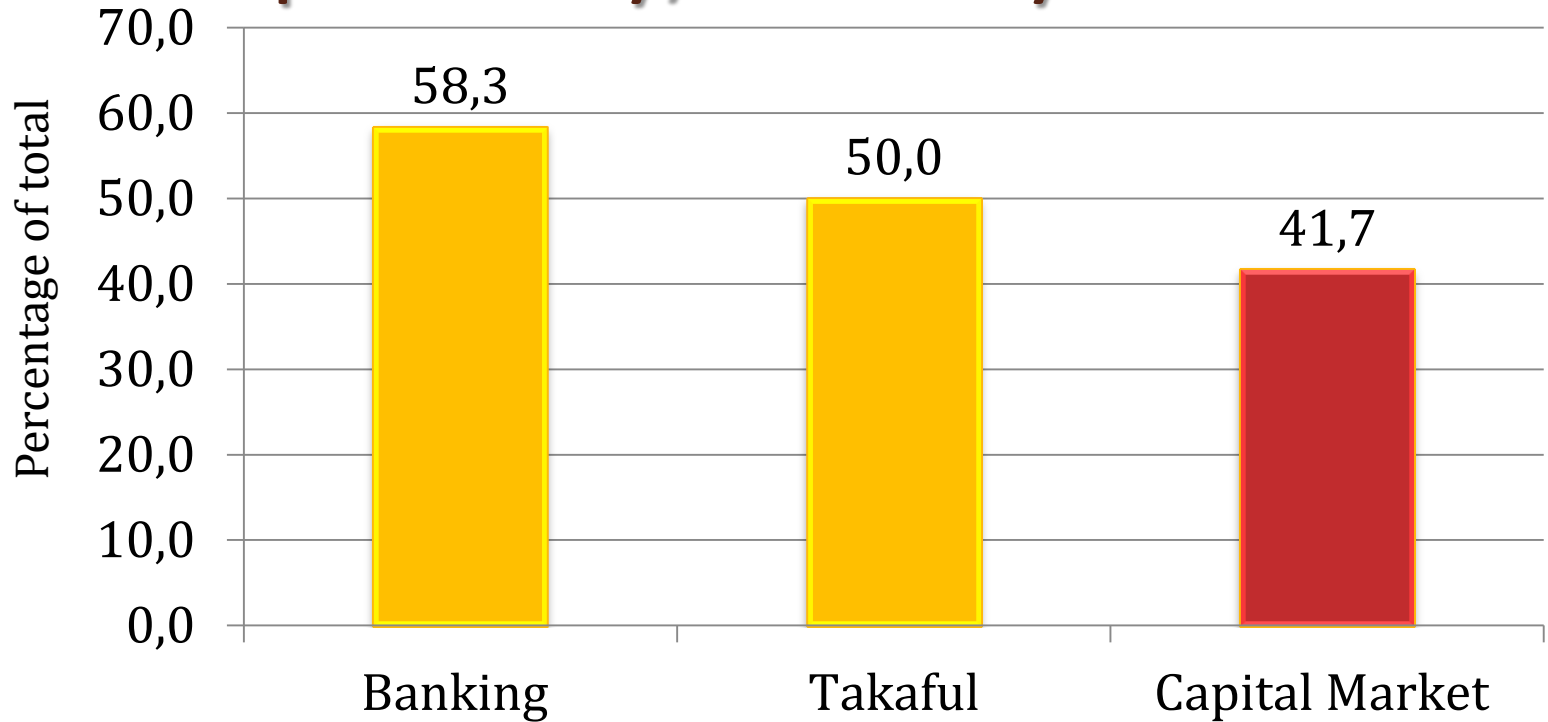
2. Regulation & Supervision of Islamic Finance (Separate Dept./Unit)



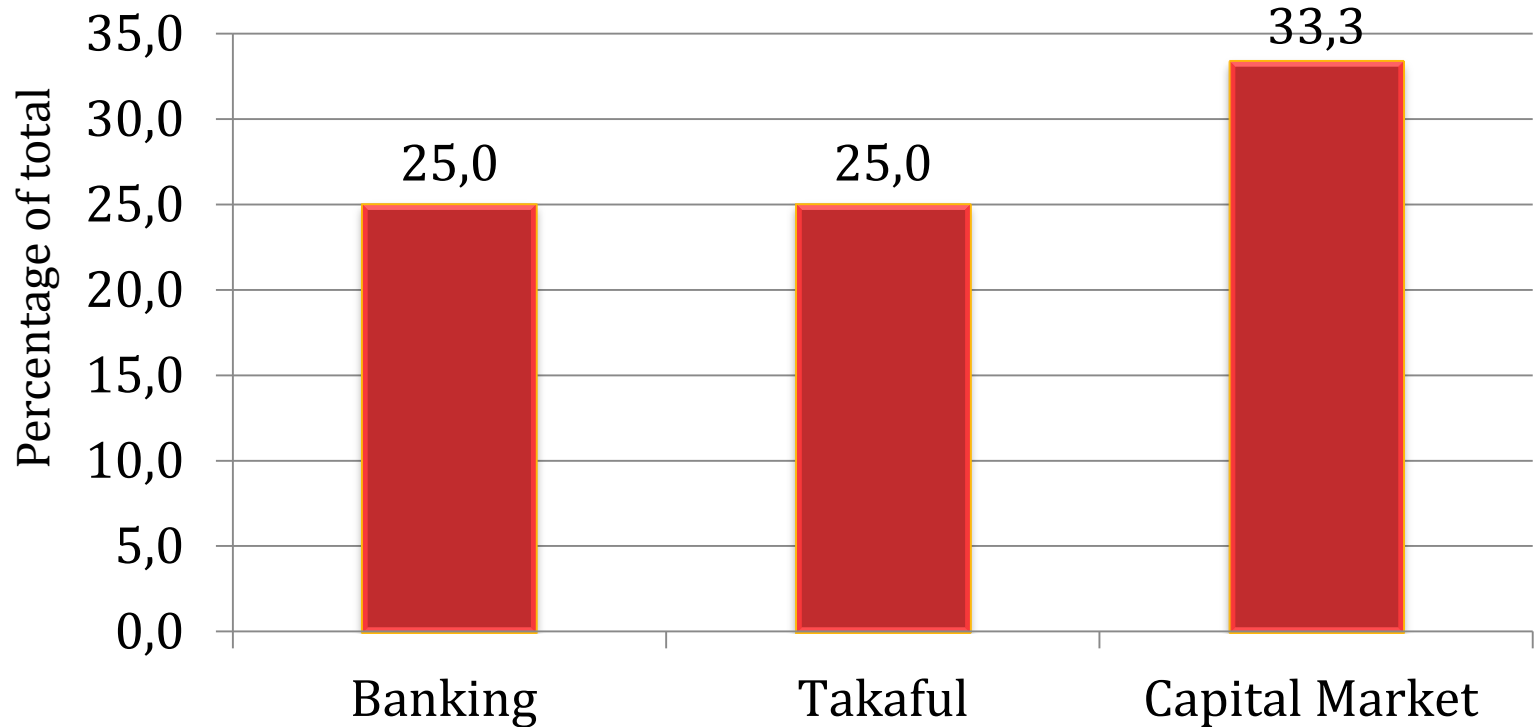
3. Legal/Regulatory Requirements for *Shariah* Governance



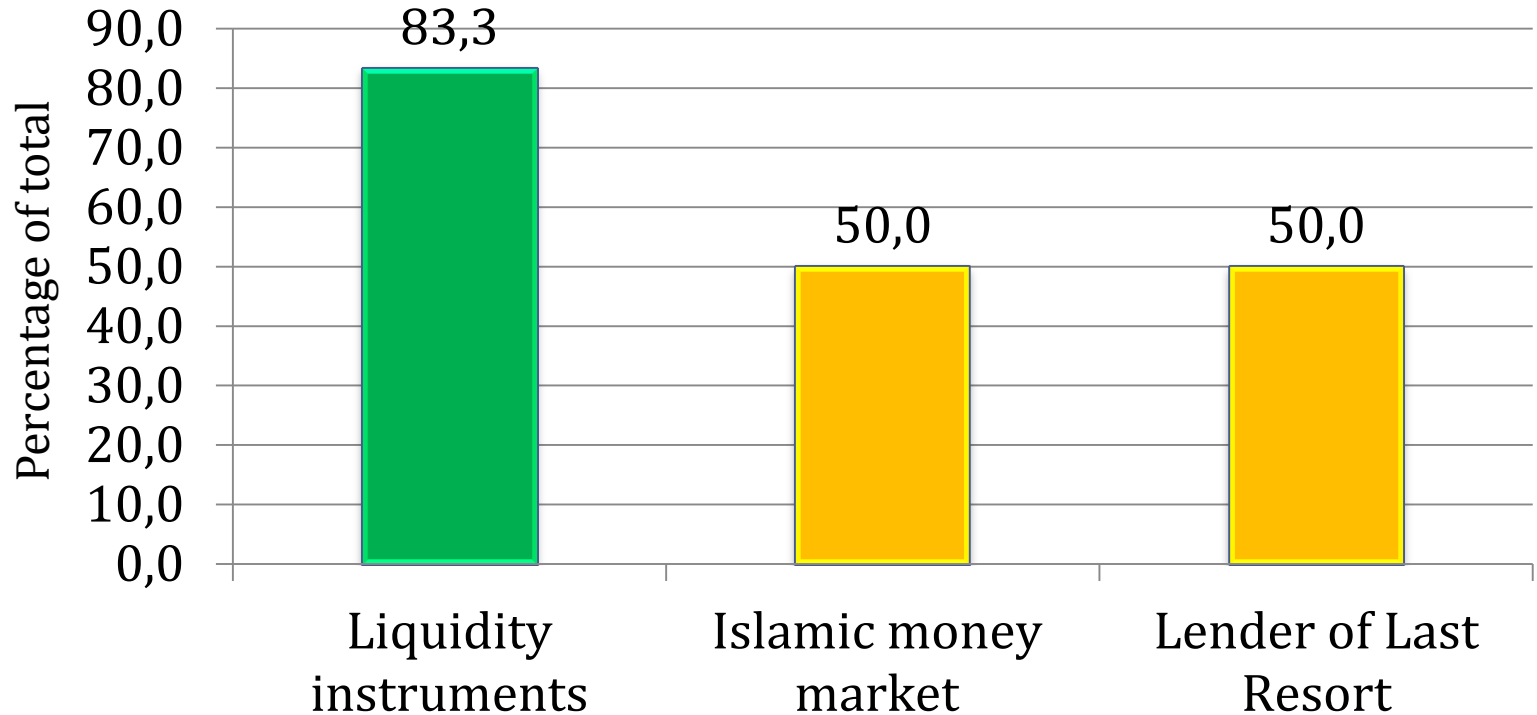
3. Central *Shariah* Supervisory/Advisory Board



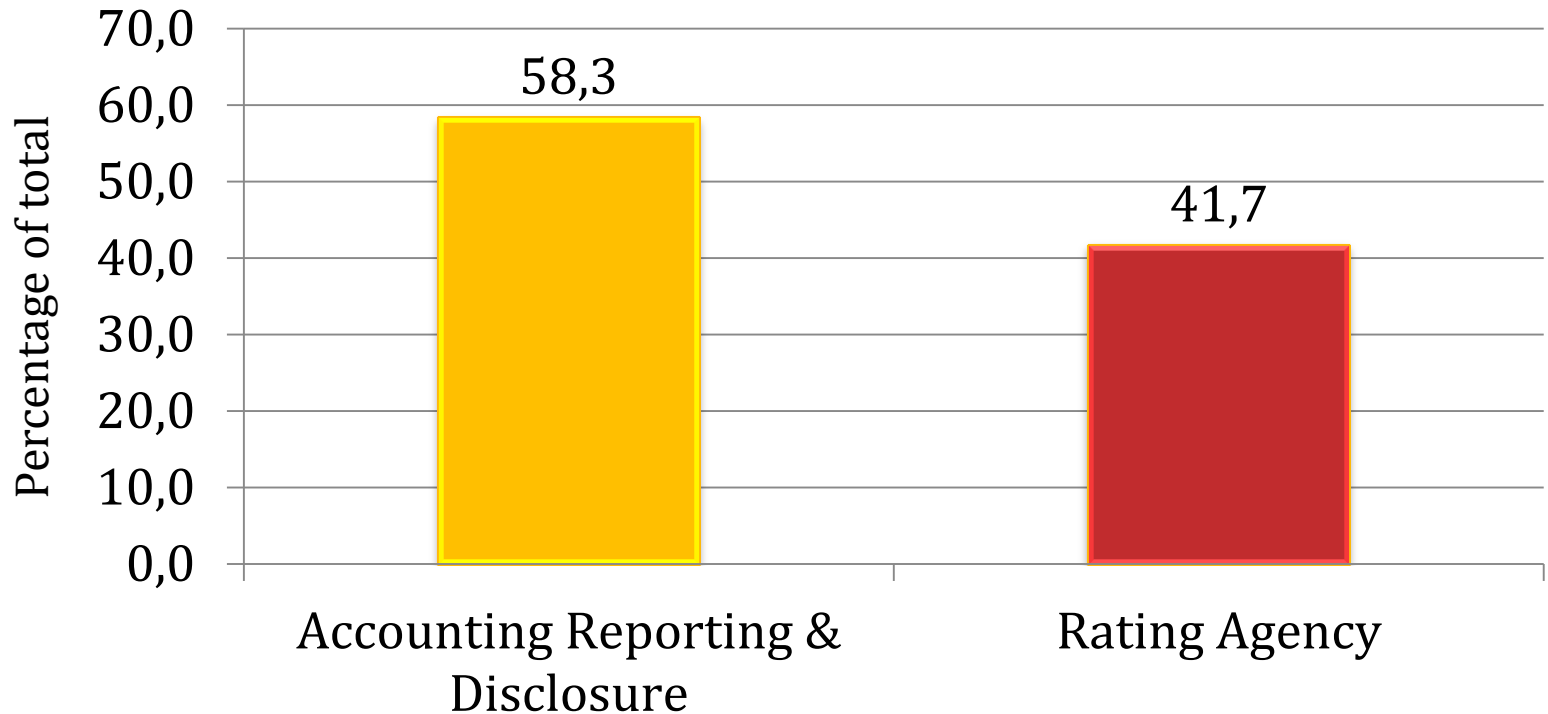
3. *Shariah* Standards/Parameters



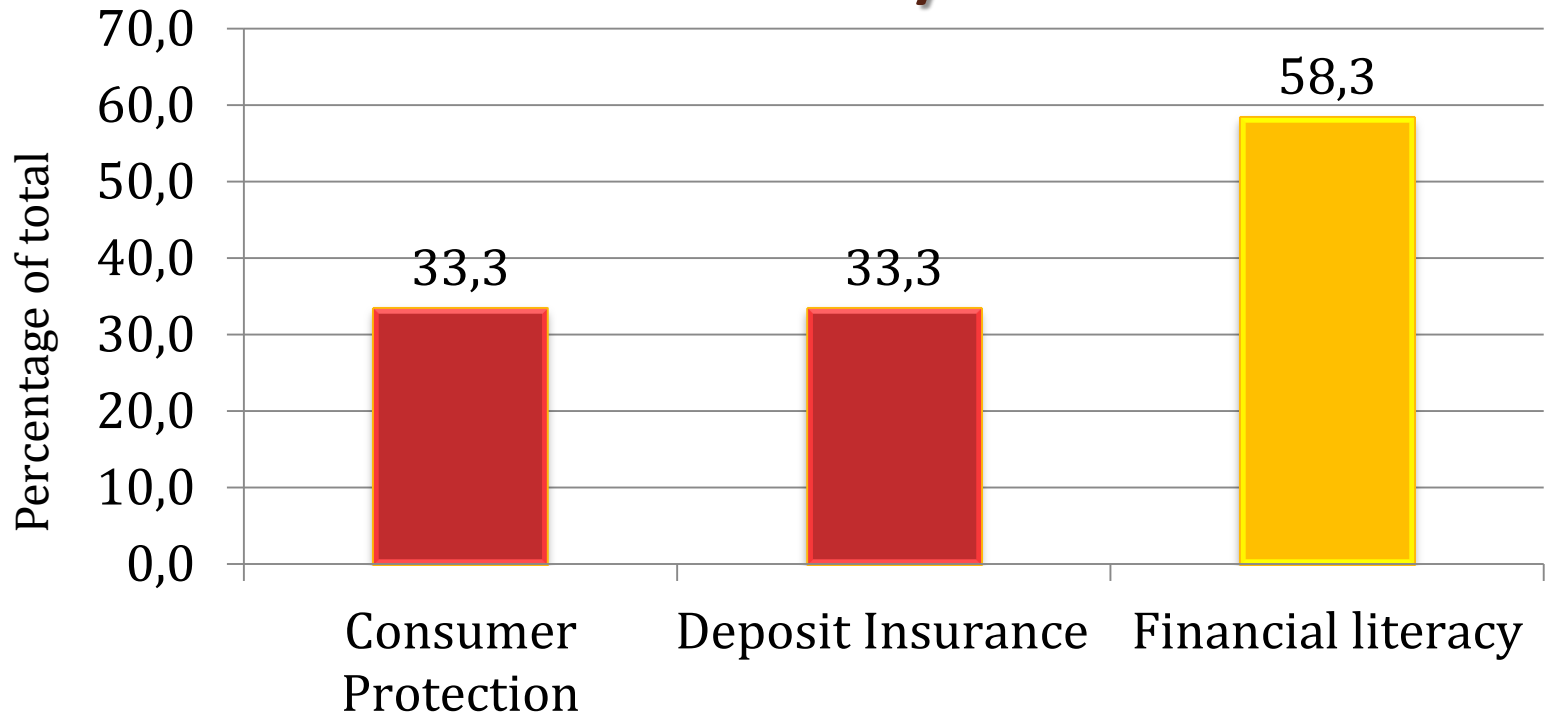
4. Liquidity Infrastructure



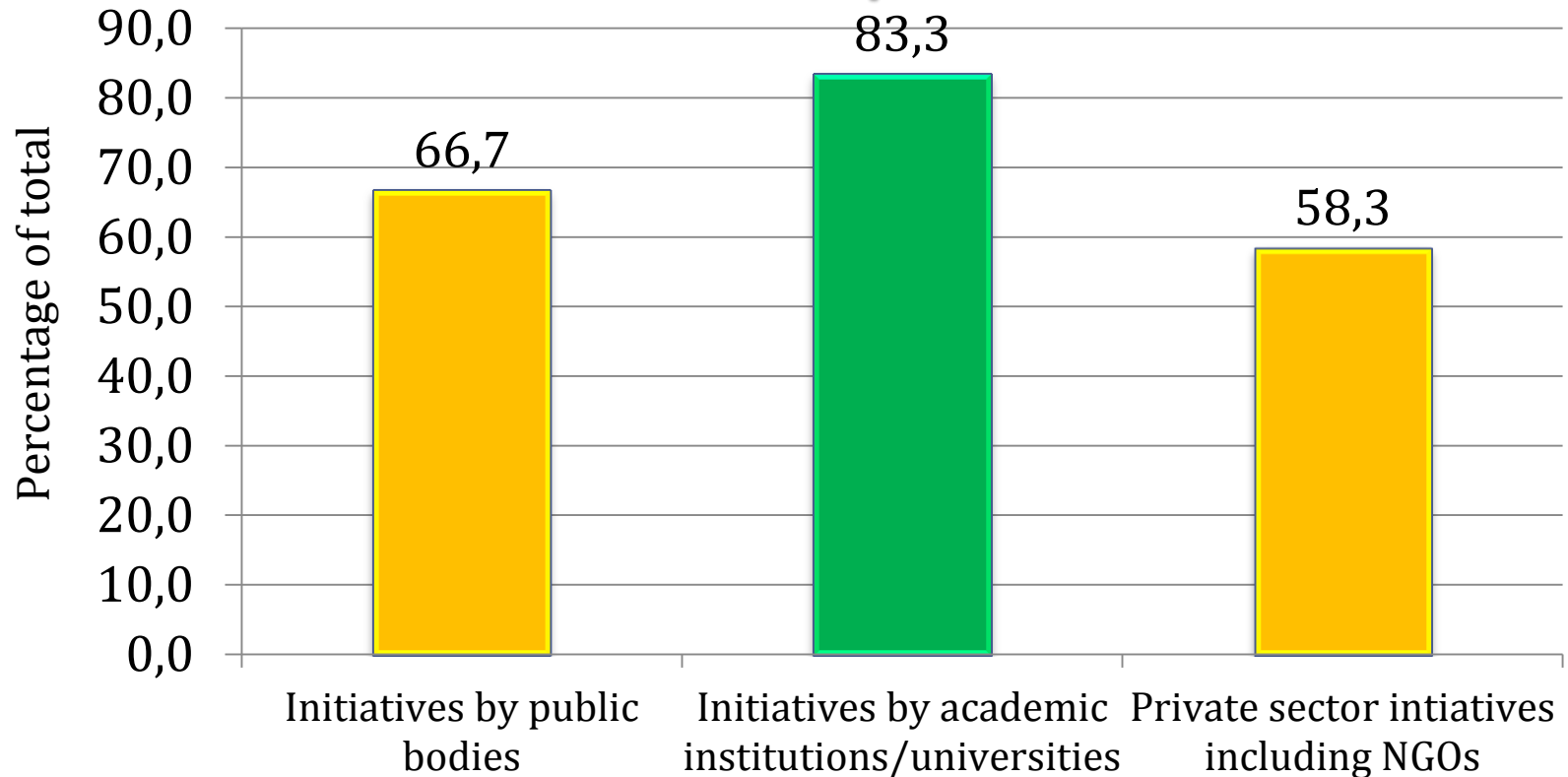
5. Information Infrastructure



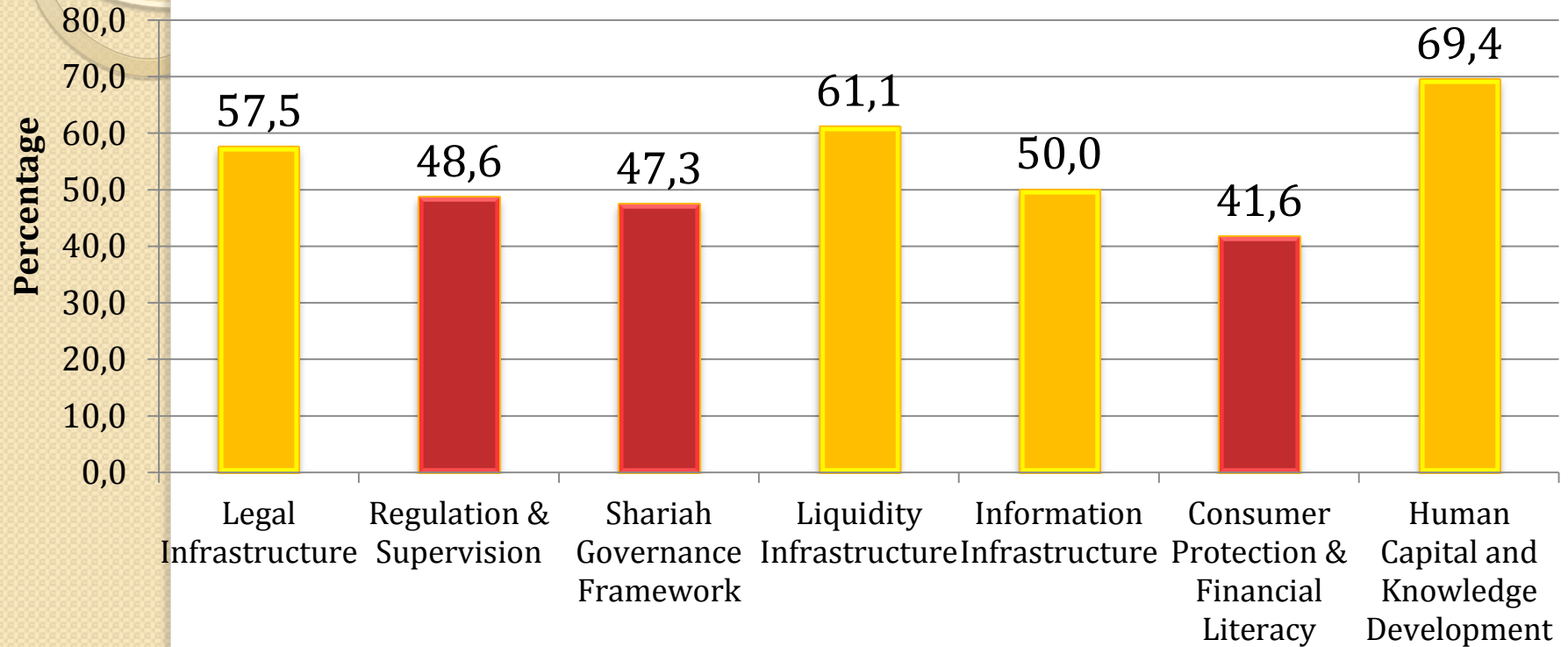
6. Consumer Protection & Financial Literacy



7. Human Capital and Knowledge Development



Overall Averages of Infrastructural Institutions for Sample Countries



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1. Legal Infrastructure

No.	Recommendations	Implemented by
1.1	Adopt Islamic financial laws	• Government (Ministry of Law/ Legal Affairs)
1.2	Adopt Supporting Tax Laws for Islamic Financial sector	• Government (Ministry of Finance)
1.3	Appropriate dispute resolution framework	• Government (Ministry of Law/ Legal Affairs)
1.4	Bankruptcy Framework and Resolution of banks	• Shariah scholars/board • Government (Ministry of Law/ Legal Affairs)

2. Regulations and Supervision

No.	Recommendations	Implemented by
2.1	Adopt Islamic financial regulations	<ul style="list-style-type: none">• Banking sector regulator• Insurance/Takaful sector regulator• Capital markets regulator
2.2	Separate regulatory department dealing with Islamic finance	<ul style="list-style-type: none">• Banking sector regulator• Insurance/Takaful sector regulator• Capital markets regulator

3. *Shariah* Governance Framework

No.	Recommendations	Implemented by
3.1	Legal/Regulatory Requirement for <i>Shariah</i> Governance (SG)	<ul style="list-style-type: none">• Government (Ministry of Law/ Legal Affairs)• Regulators (banking sector, Insurance/Takaful sector, capital markets)
3.2	Central <i>Shariah</i> Advisory Board (CSAB)	<ul style="list-style-type: none">• Government (Ministry of Religious Affairs)• Regulators (banking sector, Insurance/Takaful sector, capital markets)
3.3	Developing <i>Shariah</i> parameters/ standards	<ul style="list-style-type: none">• CSAB for different sectors (banking, takaful and Islamic capital markets)

4. Liquidity Infrastructure

No.	Recommendations	Implemented by
4.1	Shariah compliant liquidity instruments	<ul style="list-style-type: none">• Government (Ministry of finance)• Central bank• Financial institutions
4.2	Islamic money market	<ul style="list-style-type: none">• Central bank• Regulator (capital markets)• Financial institutions
4.3	Lender of the last resort	<ul style="list-style-type: none">• Central bank

5. Information Infrastructure

No.	Recommendations	Implemented by
5.1	Accounting and auditing standards	<ul style="list-style-type: none">• Regulators• Domestic Accounting standards boards
5.2	Disclosure and Transparency	<ul style="list-style-type: none">• Regulators• Domestic Accounting standards boards
5.3	Credit information systems and rating agencies	<ul style="list-style-type: none">• Public and private credit information systems• Rating agencies

6. Consumer Protection & Financial Literacy

No.	Recommendations	Implemented by
6.1	Consumer protection framework for Islamic finance	<ul style="list-style-type: none">• Government• Regulators
6.2	Financial literacy programs	<ul style="list-style-type: none">• Government (Ministry of education)• Regulators• Financial institutions• Islamic finance trade associations
6.3	Deposit Insurance	<ul style="list-style-type: none">• Government• Regulators

7. Human Capital and Knowledge Development

No.	Recommendations	Implemented by
7.1	Public level initiatives	<ul style="list-style-type: none">• Governments• Regulators/central banks
7.2	Private sector initiatives	<ul style="list-style-type: none">• Private sector institutes and centers for education and research• Private sector advisory firms• Islamic finance trade associations
7.3	Academic institutions	<ul style="list-style-type: none">• Colleges and universities• Research institutions• Islamic finance trade associations

International Infrastructure Institutions

- Establish New Institutions
 - Stability Board for Islamic Finance (SBIF)
 - Can be initiated by either by OIC/COMCEC or D-8
 - To coordinate financial infrastructure related issues and carry out Islamic Financial Sector Assessment Program (IFSAP) and implementation of Standards and Codes applicable to Islamic financial sector
 - Islamic Monetary Fund (IsMF)
 - Can be initiated by IDB, IFSB, IIFM, IILM, LMC
 - To provide Shariah compliant liquidity to OIC MCs in case of need
- Strengthen Existing Institutions
 - IDB, IFSB, AAOIFI, IIFM, CIBAFI, IILM, LMC

Suggested International Infrastructure Initiatives-1

Infrastructure Institutions	Institutions for Conventional Finance	Suggested Initiatives for Islamic Finance
Legal Infrastructure	UNCITRAL, World Bank, ADB (Law & Policy Reform Program)	Stability Board for Islamic Finance SBIF IDB initiate Islamic Law & Policy Program
Regulation & Supervision Framework	BCBS, IOSCO, IAIS	Strengthen IFSB (have three Assistant Secretary Generals for Banking, Takaful and Capital Markets)

Suggested International Infrastructure Initiatives-2

Infrastructure Institutions	Institutions for Conventional Finance	Suggested Institutions and Initiatives for Islamic Finance
Shariah Governance Regimes	N.A.	SBIF coordinate the Shariah issues with AAOIFI, IsFA, IFSB and IIFM
Liquidity Infrastructure	IMF	Establish IsMF to develop liquidity management framework in coordination with IDB IFSB, IIFM, IILM and LMC
Information Infrastructure & Transparency	IFSR, Bank FSB World (FSAP),	SBIF coordinate accounting and auditing issues with AAOIFI, IFSB and IIRA

Suggested International Infrastructure Initiatives-3

Infrastructure Institutions	Institutions for Conventional Finance	Suggested Institutions and Initiatives for Islamic Finance
Consumer Protection Architecture	IADI, OECD, World Bank	SBIF coordinate consumer protection issues with IFSB, CIBAFI, IADI
Human Capital & Knowledge Development	N.A.	SBIF and IDB can coordinate with AAOIFI, CIBAFI, GIFDC, IDB, IFSB SBIF and IsMF and develop technical assistance programs to enhance knowledge and skills related to Islamic financial architecture

QUESTIONS?

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