



WORLD BANK GROUP

Finance & Markets

Global Islamic Finance Development Center

Recent Developments in Global Financial Architecture and Implications for Islamic Finance

Ankara
October 20, 2016

Fatih Kazan

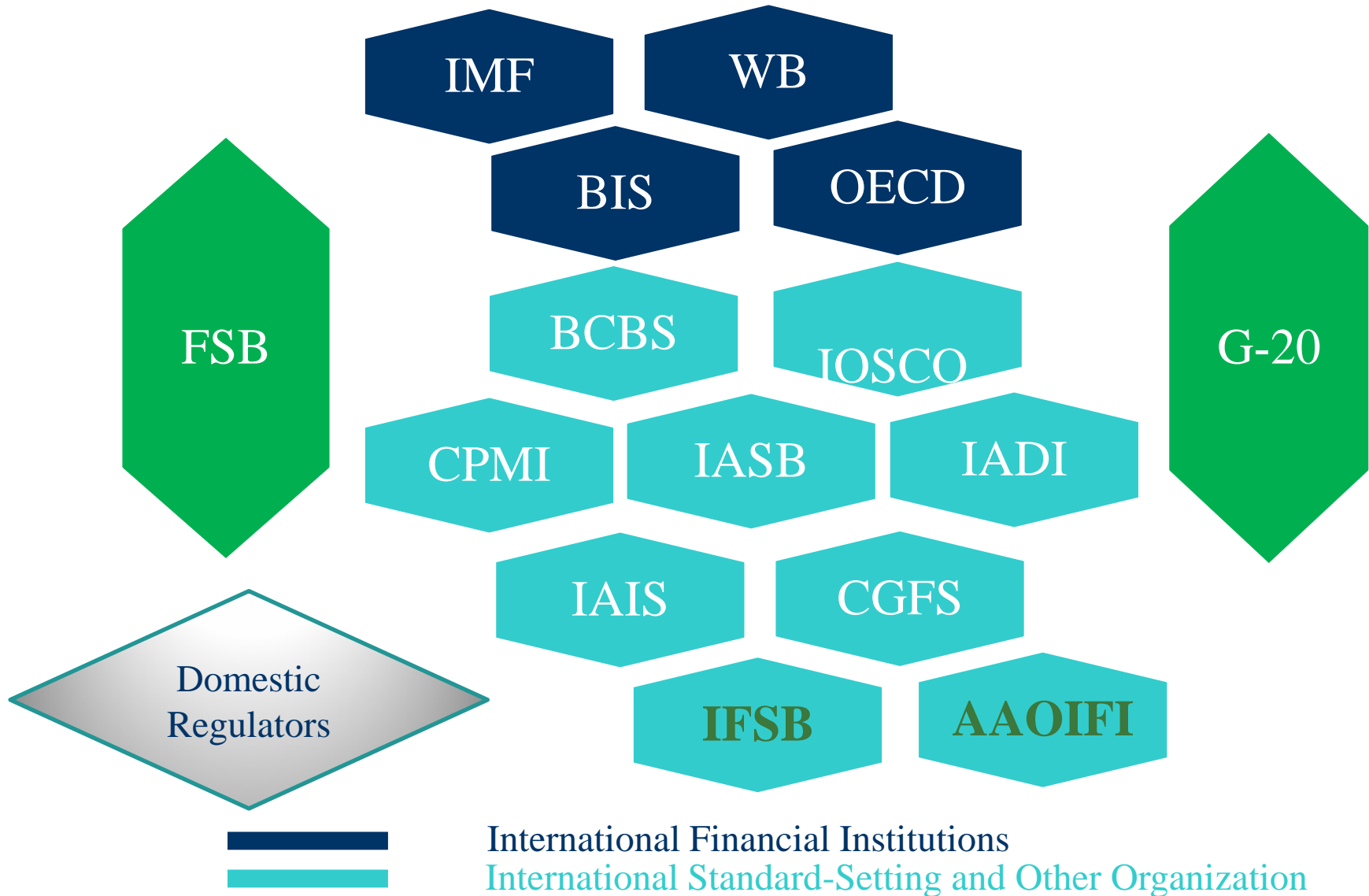
The World Bank Global Islamic Finance Development Center
Istanbul, Turkey

Road Map

- I. Global Financial Architecture
- II. Recent Developments in Global Financial Architecture
- III. Implications for Islamic Finance

I. Global Financial Architecture

Players of Global Financial Architecture



Role of World Bank in Global Financial Architecture



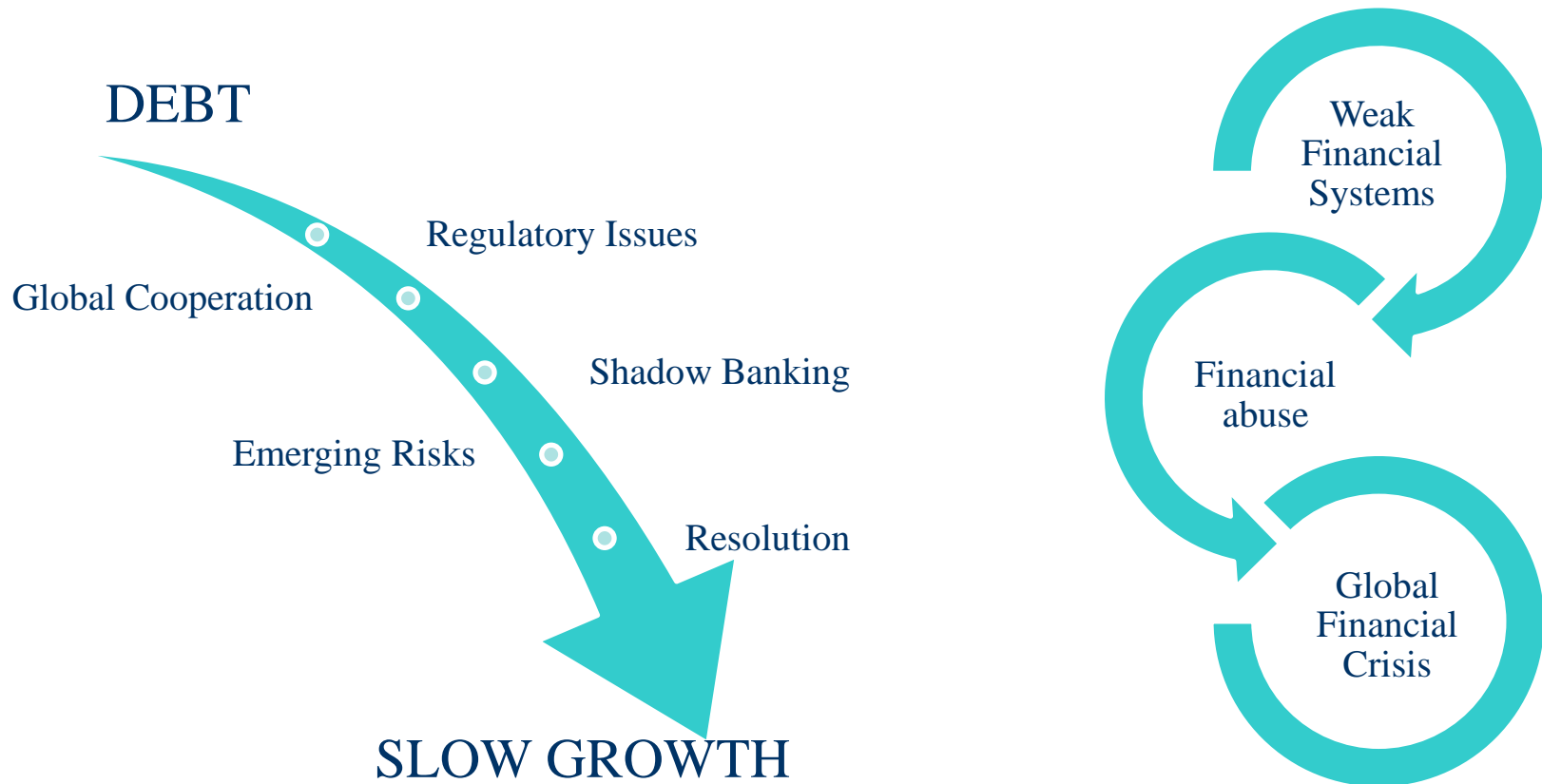
WORLD BANK GROUP

- **Ending extreme poverty**
- **Boosting shared prosperity**



I. Recent Developments in Global Financial Architecture

Global Financial Architecture – Current Issues



Macro-Prudential Regulation

■ Macro-Prudential Framework

- Deals with systemic risk “the risk of widespread disruptions to the provision of financial services”
- Time dimension (pro-cyclicality) and cross-sectional dimension (concentration and interconnectedness)
- Basel III

■ Main challenges

- Institutional and governance arrangements: need for clearly defined mandate, powers and accountability. Two trends:
 - Integrated regulatory framework (macro and micro under central bank)
 - Inter-agency financial stability committee (e.g., ESRB, FSOC)
- Designation and calibration of instruments (policy toolkit): many instruments already exist but re-oriented
- Shadow banking risks
- Potential cross-border effects

Micro-prudential Regulation (Basel III)

■ Strengthened global capital framework

- Definition of capital
 - Redefined criteria for inclusion in regulatory capital; phase out of innovative hybrid instruments; capital deductions strengthened; all capital instruments absorb losses
- New capital requirements
 - Common equity tier 1 of 4.5% of RWA (from 2%) and minimum Tier 1 of 6% of RWA (from 4%)
 - Improved counterparty credit exposures on derivatives, repo and securities activities (beyond Basel II.5) and review of trading book to improve market risk exposure (reduce arbitrage, VAR/tail risk, etc.)
 - Capital conservation buffer from 0.625% up to 2.5% in 2019
 - Leverage ratio (initially set at 3%) and countercyclical capital buffer

■ New global liquidity framework

- Liquidity coverage ratio (LCR)
- Net Stable Funding Ratio (NSFR)

■ New studies: Simple and comparable models (IRB)

Innovative Financial Inclusion

- G20 Initiative and WB Goal
- Fintech
- De-risking
 - Risk of De-risking
 - WB studies
- Financial Literacy & Consumer Protection

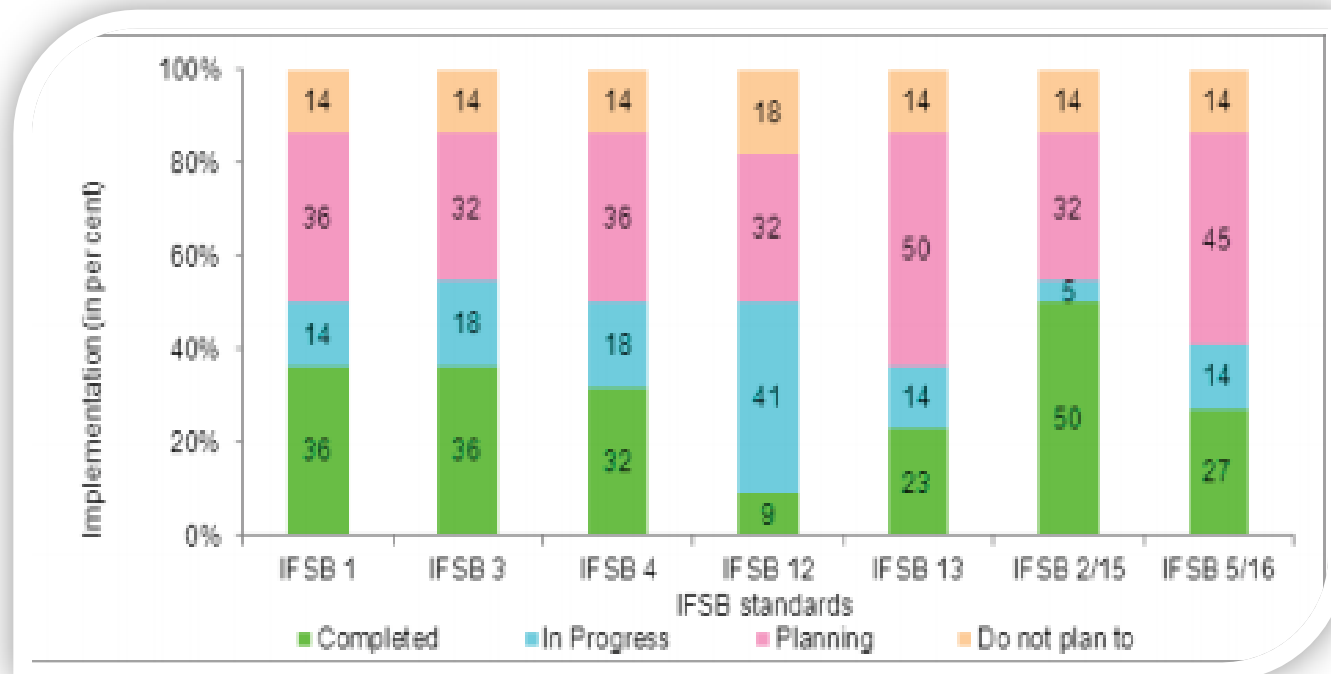
III. Implications for Islamic Finance

Implications for Islamic Finance

- Adoption and Implementation of the Standards
- Supervisory governance and reforms
- Shadow Banking
- Basel III Implications
- Collaboration
- Inclusion

Adoption of IFSB Standards

- Number of Countries which adopted IFSB Standards



Source: Comparative Study on the Implementation of Selected IFSB Standards,
IFSB Working Paper Series, WP-04/10/2015, October 2015

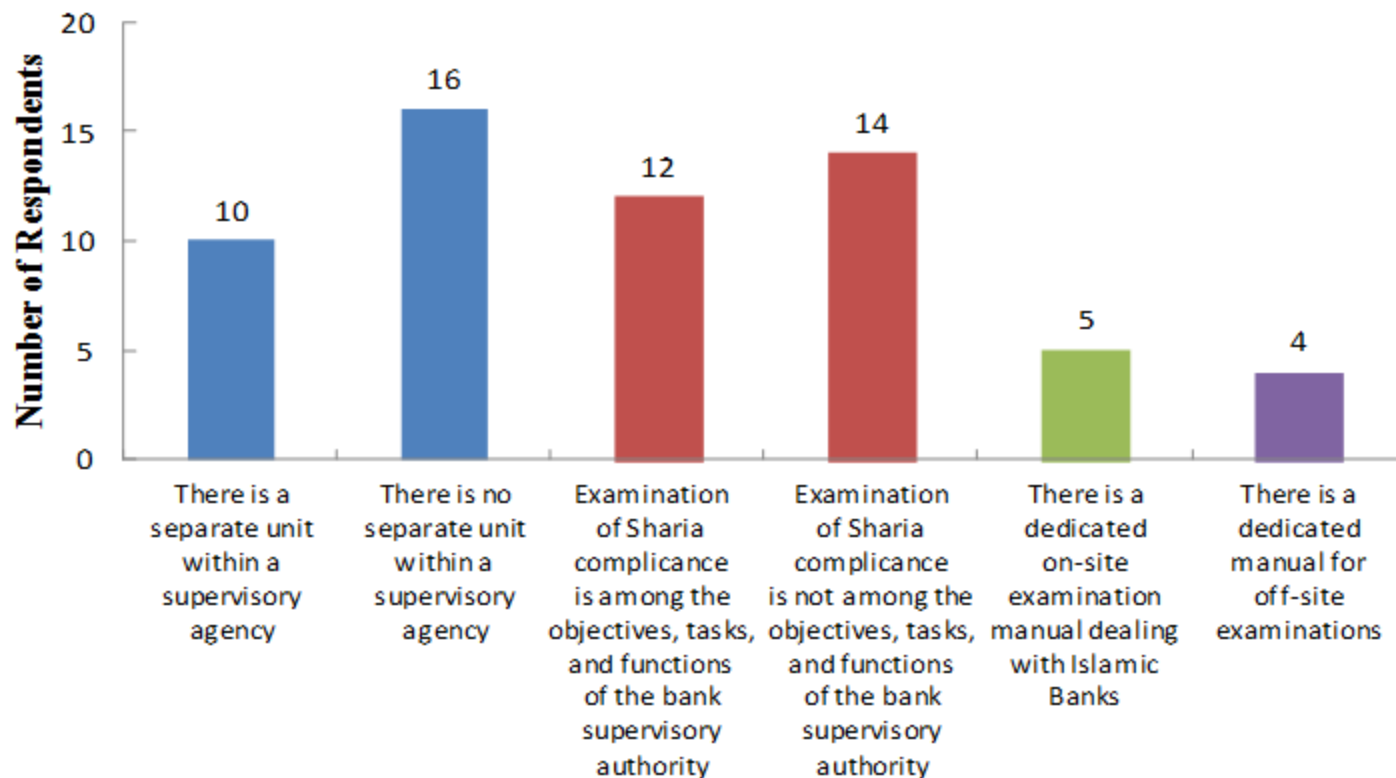
Adoption of AAOIFI Standards

Mandatory regulatory requirement in jurisdictions		As basis of of national accounting standards in jurisdictions	
<i>Shari'ah Standards</i>	<i>Accounting Standards</i>	<i>Shari'ah Standards</i>	<i>Accounting Standards</i>
Bahrain	Bahrain	Indonesia	Indonesia
Oman	Jordan	Malaysia	Pakistan
Pakistan	Oman		
Sudan	Qatar		
Syria	Qatar Financial Centre		
Islamic Development Bank	Sudan		
	Syria		
	Islamic Development Bank		

In other jurisdictions including Brunei, Dubai International Financial Centre, France, Egypt, Jordan, Kuwait, Lebanon, Saudi Arabia, Qatar, Qatar Financial Centre, South Africa, United Arab Emirates and United Kingdom as well as in Africa, Central Asia and North America, AAOIFI Shari'ah standards and/or AAOIFI accounting standards have been used voluntarily as basis of internal guidelines by leading Islamic financial institutions.

AAOIFI auditing, governance and ethics standards are not part of mandatory regulatory requirement for Islamic finance. Instead, these standards are used voluntarily by leading Islamic financial institutions across all major Islamic finance jurisdictions.

Islamic Banking Regulation and Supervision

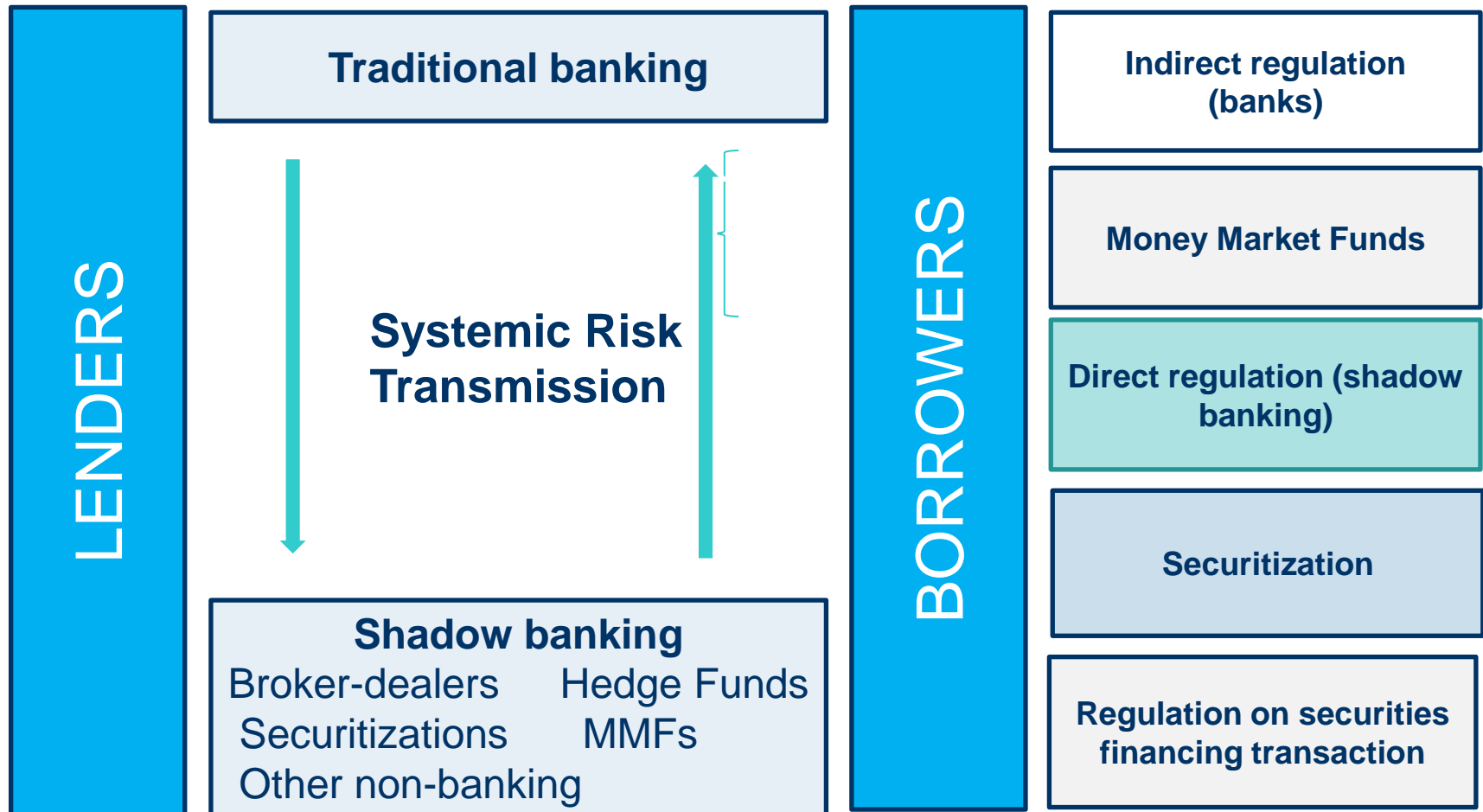


Source: Song, Inwon and Carel Oosthuizen 2014, “Islamic Banking Regulation and Supervision – Survey Results and Challenges,” IMF Working Paper No. 14/220 (Washington: International Monetary Fund).

Basel III implications on IFIs

- The supervisory authorities` discretionary role
- Capital
- Liquidity
- Leverage
- Risk and Cost
 - Increased exposure to operational risks
 - Increased operational cost for monitoring and reporting
 - New approach to the risk management and internal control
- Growth

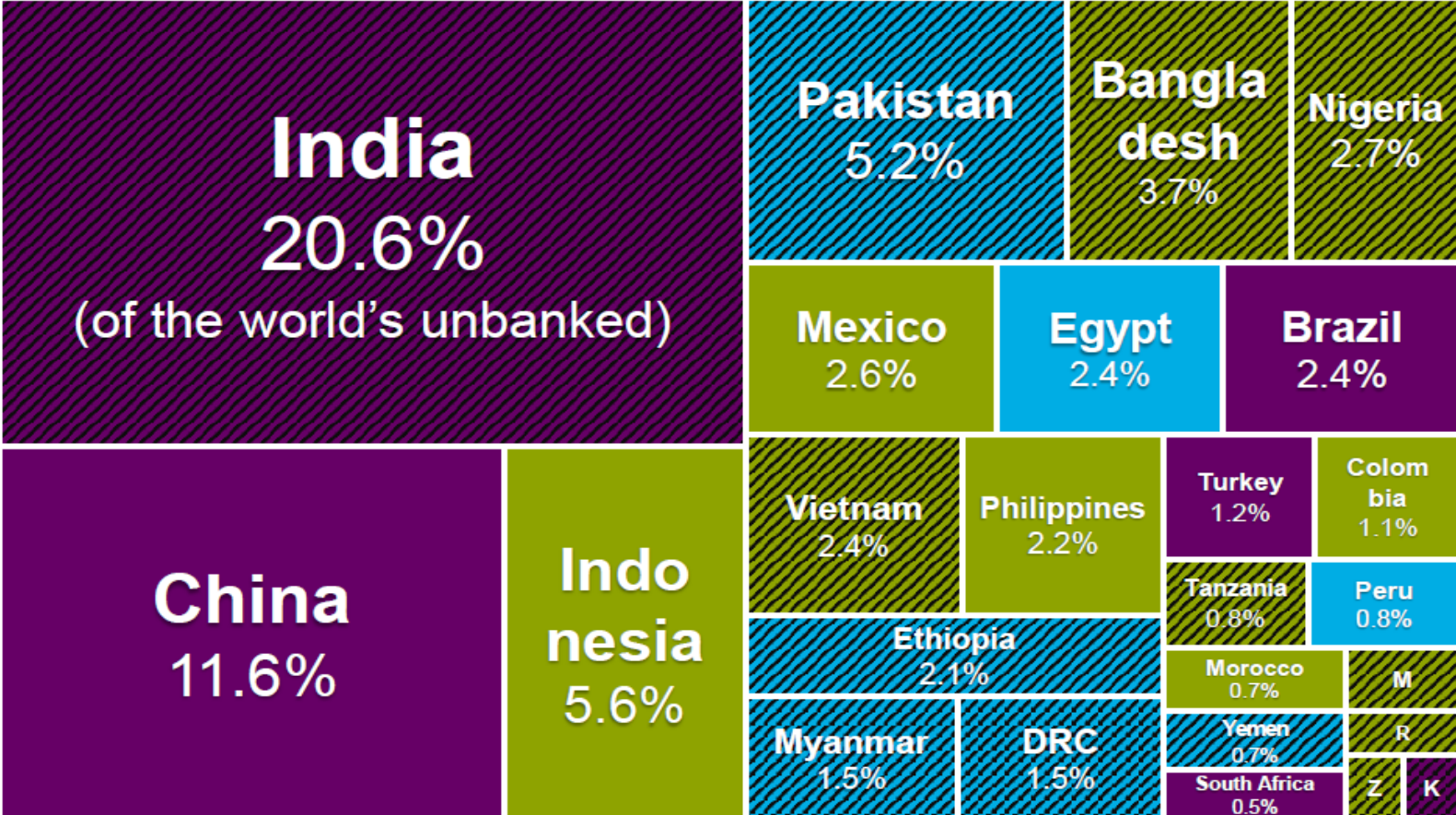
Shadow Banking: Islamic Finance



Financial Inclusion

Out of 73% of the world's unbanked, 22.2% are Muslim countries.

Countries prioritized based on share of unbanked, IDA, and FCS: 2014 FINDEX



IDA countries: % Access: 0% - 25% 26% - 50% 51% - 100%

M: Mozambique 0.4%; K: Kenya 0.3%; Z: Zambia 0.2%; R: Rwanda 0.2%
 NB Yemen will be replaced with Cote d'Ivoire due to severe insecurity.

Financial Inclusion - Fintech

- New Business model, new emerging risks
- Regulatory arbitrage
- Consumer protection

Need for close collaboration...

- Islamic Finance on G-20 agenda provides both opportunities and challenges.
- Close collaboration of IFSB and AAOIFI with international and multilateral institutions
- Increased activities in capital markets with cross-border investors and borrowers call for coordinated efforts by capital markets regulators.
- Establishment of World Islamic Infrastructure Bank (Mega Bank)

Thank You

For your further questions please contact:

Fatih Kazan

World Bank Global Islamic Finance Development Center

T: +90 212 385 3447

E-mail: fkazan@worldbank.org

Disclaimers

©2012 The International Bank for Reconstruction and Development / The World Bank 1818 H Street NW Washington DC 20433/ Telephone: 202-473-1000/ Internet: www.worldbank.org

E-mail: feedback@worldbank.org

All rights reserved.

This work is a product of the staff of the International Bank for Reconstruction and Development/The World Bank. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The International Bank for Reconstruction and Development / The World Bank encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

For permission to photocopy or reprint any part of this work, please contact the World Bank Treasury.