



FINANCIAL COOPERATION

OIC/COMCEC /



COMCEC

CCO BRIEF
ON
FINANCIAL
COOPERATION

COMCEC COORDINATION OFFICE
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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**

Islamic financial sector has continued to grow in 2018 but at a steady pace (Table 1). According to latest data, the total asset size of the Islamic finance sector has slightly increased from USD 2.05 trillion [2017] to USD 2.2 trillion in 2018. This relatively low growth performance can be attributed to the depreciation in the local currencies of some emerging economies against the US dollars. Apart from the effect of the weak local currencies, economic and geopolitical developments have led to this slight growth performance of the industry.¹

Table 1: Breakdown of IFSI by Sector and by Region, US\$ Billion²

Region	Islamic Banking			Outstanding Sukuk			Islamic Funds Assets			Takaful Contributions			Total		
	2017	2018	YoY	2017	2018	YoY	2017	2018	YoY	2017	2018	YoY	2017	2018	YoY
Asia	232.0	266.1	15%	239.5	323.2	35%	24.8	24.2	-2%	3.3	4.1	24%	499.6	617.6	24%
GCC	683.0	704.8	3%	139.2	187.9	35%	26.8	22.7	-15%	12.6	11.7	-7%	861.6	927.1	8%
MENA (ex-GCC)	569.0	540.2	-5%	17.8	0.3	-98%	0.1	0.1	0%	9.5	10.3	8%	596.4	550.9	-8%
Africa (ex-North)	27.1	13.2	-51%	2.0	2.5	25%	1.6	1.5	-6%	0.7	0.0	-99%	31.4	17.2	-45%
Others	46.4	47.1	2%	1.5	16.5	1000%	13.3	13.1	-2%	0.0	0.0	0%	61.3	76.7	25%
Total	1,557.5	1,571.3	1%	399.9	530.4	33%	66.7	61.5	-8%	26.1	27.7	6%	2,050.2	2,190.0	7%

Source: Compiled from IFSB 2019 and IFSB 2018.

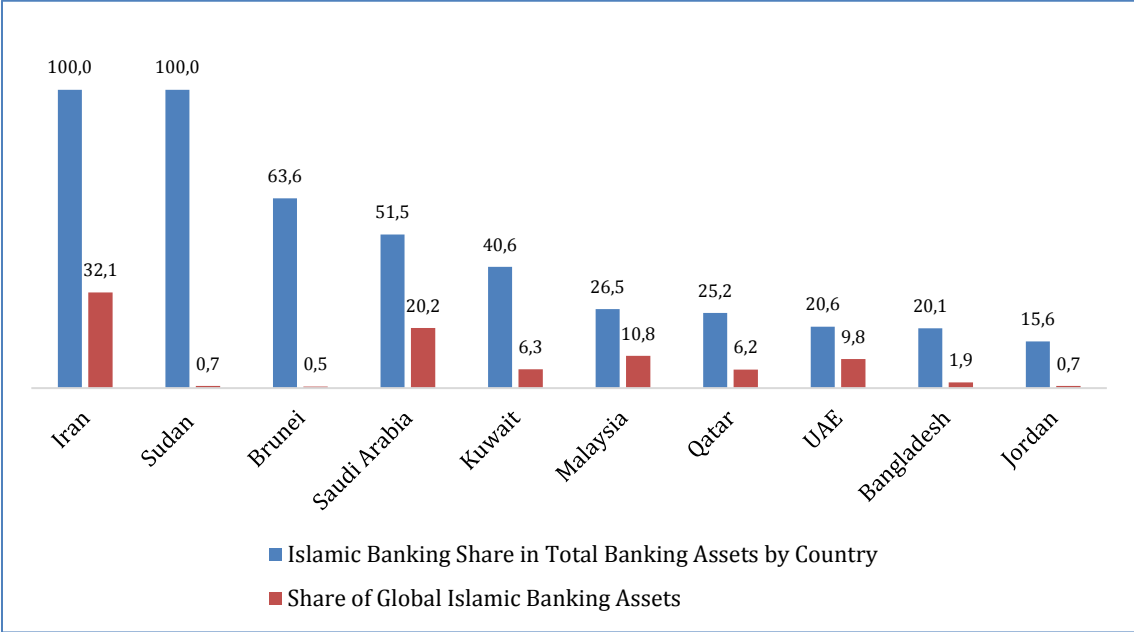
The concentration of Islamic finance in terms of region has changed in 2018. Total Islamic finance worth of the GCC region increased by 8% and reached USD 927.1 million [2017: USD 861.6] in 2018 that figures kept the region as being the largest domicile for Islamic finance assets. In line with the improved assets, the market share of the GCC modestly increased from 42.0% in 2017 to 44.9% in 2018.

Total assets of the Islamic banking have also slightly increased from USD 1.557 trillion to USD in 2017 to 1.571 trillion in 2018. Accordingly, the share of the Islamic banking accounted for 71.7% of the Islamic finance industry in 2018.

¹ Islamic Financial Services Industry Stability Report 2019

² For purposes of regional classification, Iran is included in "MENA (ex. GCC)", while Turkey is included in "Others"

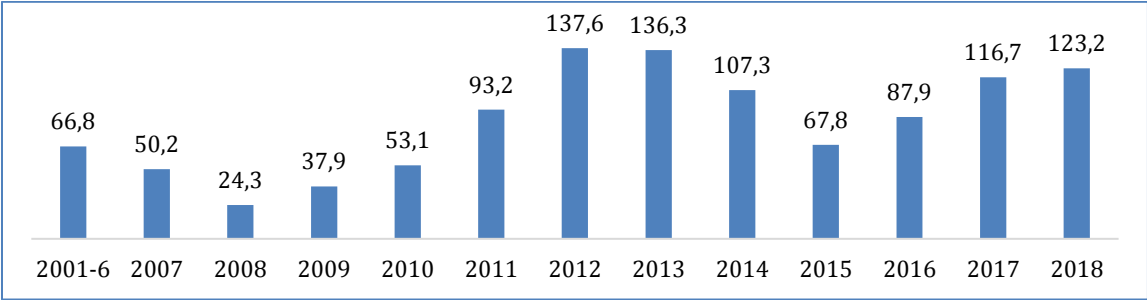
Figure1: Islamic Banking Share in Total Domestic Banking and Global Islamic Banking Assets (%)



Source: IFSB Islamic Financial Stability Report 2018

The share of Islamic banking in the entire domestic banking sector ranges from 100% to 0.1% across the member countries. In 2018, 12 countries, where Islamic banking comprises more than 15% of total domestic banking sector assets, accounted for 91% of the global Islamic banking assets. Furthermore, sukuk remained attractive to issuers and sukuk market observed double-digit growth rates in 2017. On the other hand, the total global sukuk issuance increased from USD 116.7 billion in 2017 to USD 123.2 billion in 2018.

Figure2: Global Sukuk Issuances (2001-2018, USD million)



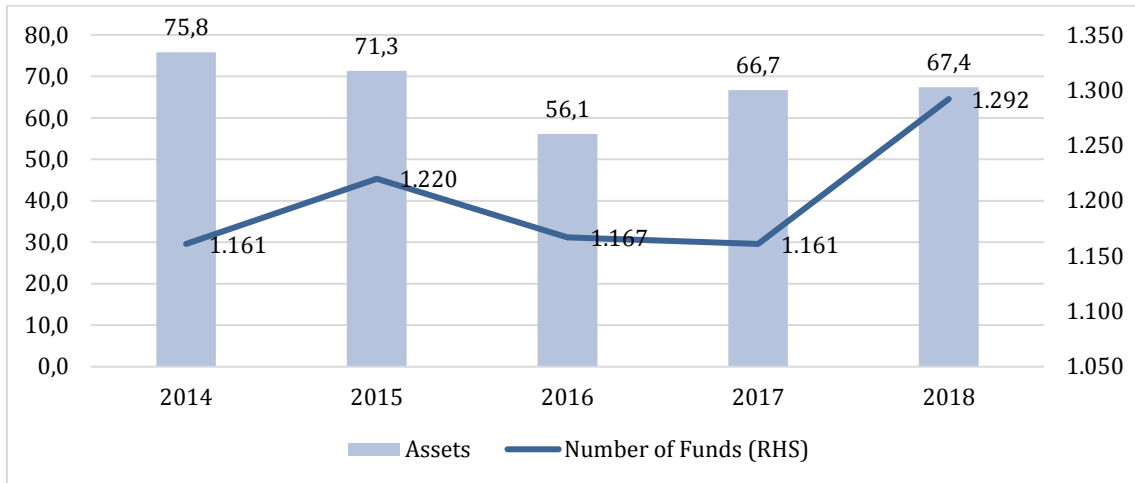
Source: IIFM

Despite the significant increase in the number of Islamic funds in 2018 [1,292], assets under management (AuM) almost kept steady and reached USD 67.4 billion³. The top five jurisdictions, three of which are non-OIC countries, accounted for %85 [2017: 88%] of the industry’s AuM as of 2018, i.e. Saudi Arabia 34% [2017: 37.10%], Malaysia 32% [2017: 31.66%], Ireland 9.0% [2017: 8.62%], the US 5% [5.25%] and Luxembourg 5% [2017: 4.76%]. This indicates that the operations of Islamic funds are still limited as key Islamic finance

³ Ibid.

jurisdictions have deep-rooted Islamic banking sectors (e.g., the UAE, Pakistan, Indonesia, Kuwait, and Qatar). The remaining 15% [2017: 12%] of AUM, with a USD 8.4 billion value, is distributed across 29 other jurisdictions (including offshore domiciles)⁴.

Figure 3: Assets under Management and Number of Islamic Funds (USD billion)



Source: IFSB 2019

⁴ IFSB, 2019.

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 Exchanges Forum, the COMCEC Capital Markets' Regulators Forum and OIC-COMCEC Central Banks Forum.

- Improving Takaful Sector in the Islamic Countries (Thirteenth Meeting of COMCEC FCWG)

The insurance industry has become a necessary part of business and financial system. The insurance business is conducted mostly by non-bank financial institutions. Both the banking and non-banking financial institutions have to conform to the insurance regulatory requirements and guidelines to provide their services. The growing Islamic Finance industry has provided a room for the development of alternative insurance mechanisms. Accordingly, takaful has emerged as an important component of Islamic Finance to meet the demands for Shari'ah compliant insurance products. .

Given the importance of the subject, COMCEC Financial Cooperation Working Group has elaborated on Takaful sector as an important component of the Islamic Finance in its 13th meeting. According to the research report prepared for this meeting, in the Takaful industry's total assets grew up to USD46 billion in 2017. The industry had 324 Takaful operating companies comprising more than 112 general Takaful Operators (TOs) as well as 76 life TOs around the world in 2017.

The working Group has highlighted the main challenges faced by member countries as the following:

- Inadequate Awareness
- Limited Re-Takaful Capacity
- Limited Investment Options
- Inadequate Skilled Human Resources
- Weak Regulatory Framework
- Inadequate Distribution Capacity
- Minimal Efforts in Research and Development

In order to address these challenges and enhance the utilization of Islamic Finance in infrastructure investments, the Working Group has come up with the following policy recommendations:

- 1- Developing a comprehensive legal and regulatory framework for the Takaful industry to facilitate the operations, transparency, and governance in this sector.
- 2- Promoting product customization in Takaful Sector and introducing new products in accordance with the changing needs of the market.
- 3- Encouraging the talent development through training and professional certification programs and increasing the awareness of stakeholders in Takaful sector.

- 4- To provide incentives to the Takaful industry to enhance its competitiveness and business sustainability, thereby creating the level-playing field for the industry.

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

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 2019, within the framework of the 6th project call under the COMCEC Project Funding, three projects have been selected for funding in financial cooperation area.

The first project is being implemented by Mozambique and titled “Capacity Building on Islamic Finance in Mozambique, Gambia and Nigeria”. Project partners for this project are the Gambia, Nigeria and Togo. The project aims at increasing the capacities of professionals working in the financial sector by providing them necessary literacy and qualification to develop a solid regulatory framework for the licensing and supervision of interest-free bank including Islamic financial services.

The second financial cooperation project titled “Islamic Liquidity Management Instruments for Sustainable Development of Islamic Financial Institutions” is being implemented by Nigeria with the participation of the Gambia and Malaysia. The project purpose is developing the capacity of Islamic banks and financial regulators towards effective liquidity management and monetary operations frameworks through the development of Sharia Compliant HQLA (high-quality liquid assets).

The last financial cooperation project titled “Assessment of COMCEC Real Estate Securities Markets and Regulatory Landscapes for Strengthening Capital Markets” is being implemented by Turkey with the partnership of Brunei, Gambia, Iran, Kuwait, Lebanon, Maldives, Malaysia, Senegal and Pakistan. The project aims at searching for the possibility of establishing a real estate securities trading platform among COMCEC countries by understanding types, market structures and regulatory features of real estate securities market in the member countries.

- **Other Ongoing Efforts under the COMCEC:**

- **OIC Exchanges Forum:** COMCEC initiated the cooperation among Stock Exchanges of the Member States in 2005 and "OIC Member States Stock Exchanges Forum" was established in this regard. The Forum focuses on the harmonization of the rules and regulations governing market operations, as well as opening communication channels for the stock exchanges of the OIC Member Countries and relevant institutions.
- The Forum provides a regular cooperation platform for the Stock Exchanges of the member countries to share their experiences and knowledge on harmonizing the rules and regulations governing market operations, as well as for increasing the amount of international portfolio investments flowing to the OIC Member States. The 13th Meeting of the Forum was held on September 26th, 2019 in Istanbul.
- The Forum has convened thirteen times till now and has achieved remarkable progress in deepening cooperation among the Stock Exchanges of the Member States. It has completed its work regarding the S&P OIC/COMCEC Index. The Index, launched on June 22nd, 2012, in Istanbul, was designed to measure the performance of 50 leading

companies from the 19 member states of OIC. The official launching ceremony of the Index was held during the 28th Session of the COMCEC.

- In line with the relevant resolutions of the COMCEC Sessions, the Forum has also been working on COMCEC Gold Exchange project. The detailed information regarding the activities of the Forum is available on www.oicexchanges.org.
- **The COMCEC Capital Market Regulatory Forum:** In line with the relevant resolutions of the 25th and the 26th Sessions of the COMCEC, the COMCEC Capital Markets Regulators Forum was established in 2011.
- The Forum aims at increasing coordination and cooperation in regulatory and legal infrastructure with a view to achieving more harmonized policies and regulations among the OIC Member States, supporting market development and reinforcing capabilities of regulatory authorities. The Forum has held 8 meetings so far.
- In line with the relevant resolutions of the COMCEC Sessions, the Forum has been working on COMCEC Real Estate Exchange project. The details regarding the Forum activities are available on the Forum website. (www.comceccmr.org)
- **OIC-COMCEC Central Banks Forum:** During the 16th Meeting of the Central Banks and Monetary Authorities of the OIC Member States held on September 23-25, 2018 in Antalya, Turkey, the central banks of the OIC Member States decided to continue its activities as the “OIC-COMCEC Central Banks Forum”. The 34th COMCEC Session took note of the communique of the said meeting as well as the decision on the establishment of the “OIC-COMCEC Central Banks Forum”. The first Meeting of the Forum was held on 22-24 September 2019 in Turkey. The details regarding the Forum are available on the Forum website. (www.comceccentralbanks.org)

