

General Council for Islamic
Banks and Financial Institutions



المجلس العام للبنوك
والمؤسسات المالية الإسلامية

15th ANNIVERSARY 2001 - 2016

Technology, Innovation and artificial intelligence for the growth of Islamic Finance Industry

9th Meeting of the COMCEC
Financial Cooperation Working Group
26th October 2017 | Ankara, Turkey

GENERAL COUNCIL FOR ISLAMIC BANKS AND FINANCIAL INSTITUTIONS

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About CIBAFI

- **General Council for Islamic Banks and Financial Institutions (CIBAFI)** is an international infrastructure institution, CIBAFI is a non-profit institution that constitutes the official umbrella for Islamic financial institutions in the world.
- CIBAFI was founded by the *Islamic Development Bank* and 30 members, following its 16 years of operations CIBAFI membership, has increased to over 120 members from 32 jurisdictions, representing *Islamic Banks, market players, international intergovernmental organizations and professional firms, and industry associations, CIBAFI is recognized as a key piece in the international architecture of Islamic finance.*



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Overview of CIBAFI Strategic Objectives

1. Policy, Regulatory Advocacy

CIBAFI submits comments to international organisation and standard setters including:

- CIBAFI comments on [IMF](#) Working Paper on Islamic finance, consumer protection and financial stability
- CIBAFI submits its Recommendations to [B-20 Turkey](#) on SME financing and to improve global regulation of markets.
- CIBAFI Submits its Comments to the [BCBS](#) on Standardised Measurement Approach for Operational Risk, and on Simplified alternative to the standardised approach to market risk capital requirements.
- CIBAFI Submits its Comments to the [IFSB](#) on Retakaful (ED-18), Liquidity Risk Management (ED- 6) and Sukuk (ED-19).
- CIBAFI Submits its Comments to the [AAOIFI](#) on Accounting Standard No. 29. Sukuk Issuance, No. 30. Impairment and Credit Losses, No.31. Investment Agency. Auditing Standard No. 6. External Shariah Audit.

2. Research and Publications

- Global Islamic Bankers' Survey 2015 and 2016
- CIBAFI – World Bank Corporate Governance Publication
- CIBAFI-IRTI data base.
- InFocus
- CIBAFI Briefings

3. Awareness and Information Sharing

- CIBAFI Global Forum
- International Topical Seminars
- CIBAFI Award

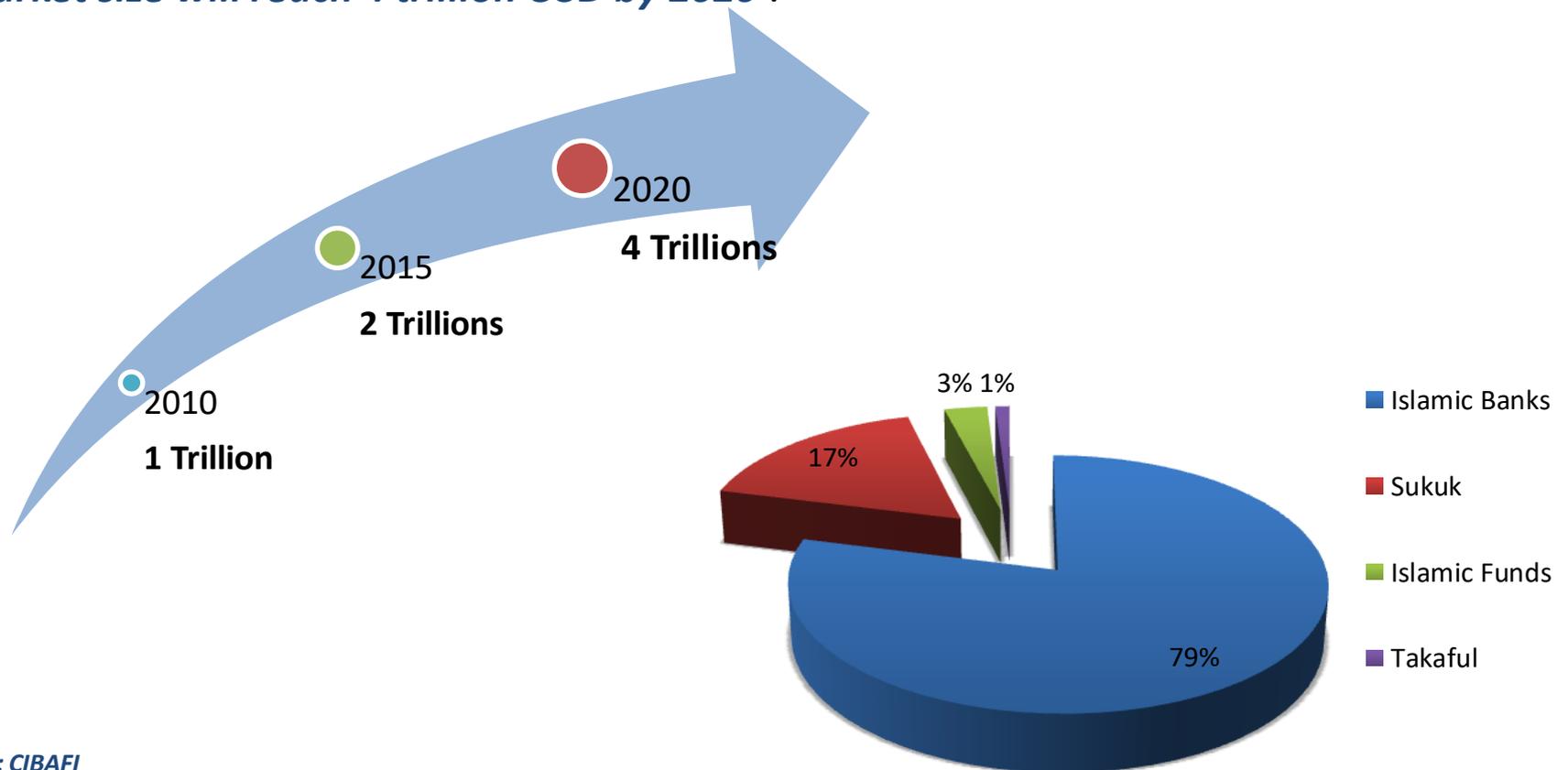
4. Professional Development

- Executive Programme
- Technical Workshops
- Training & Certifications



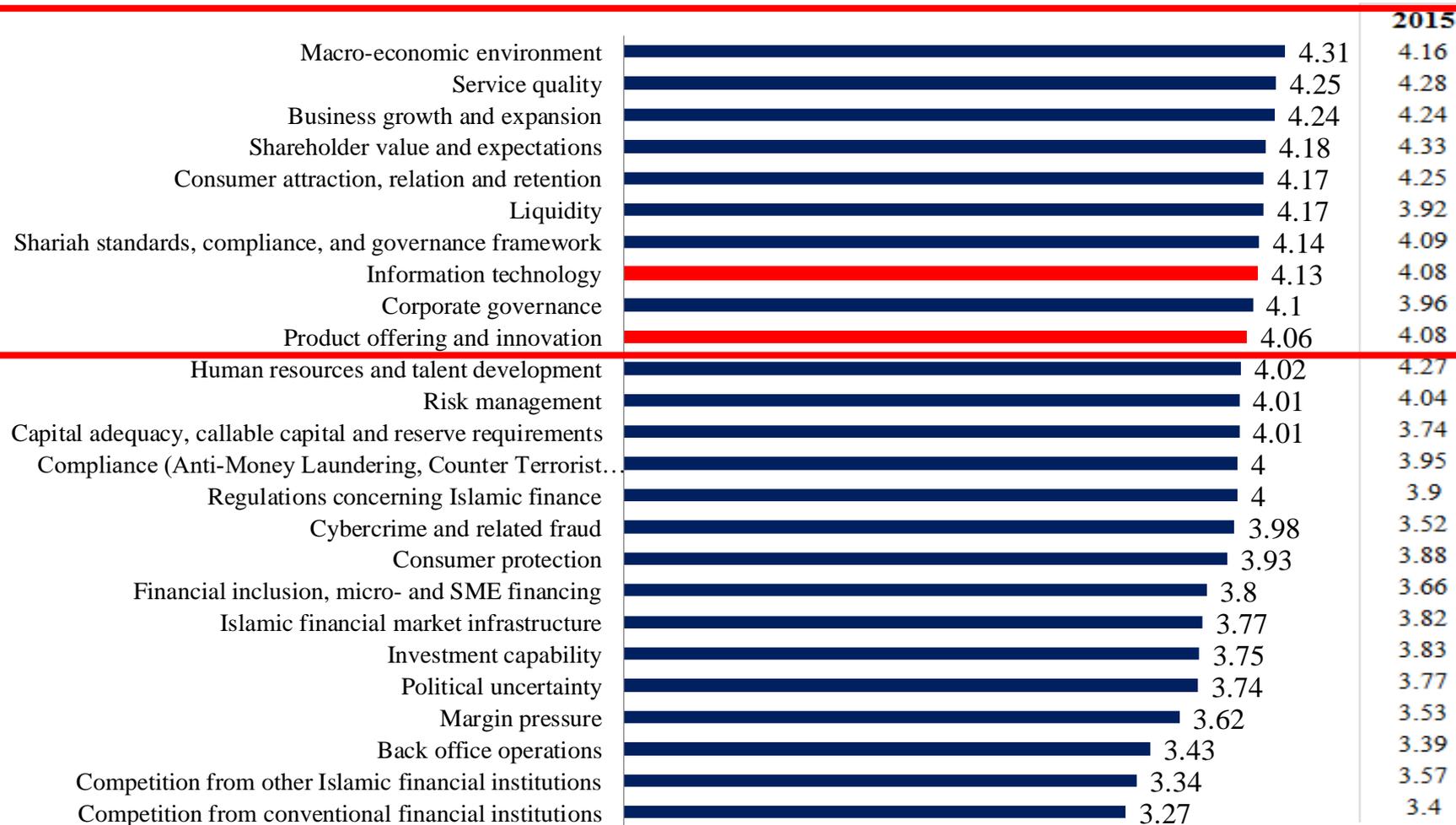
Overview of Islamic Financial markets

- ❖ *Islamic finance industry doubles in size every 5 years and CIBAFI expects that the market size will reach 4 trillion USD by 2020 .*



Source: CIBAFI

Global Islamic Banking Top Concerns- GIBS 2016



Not important at all
(1)

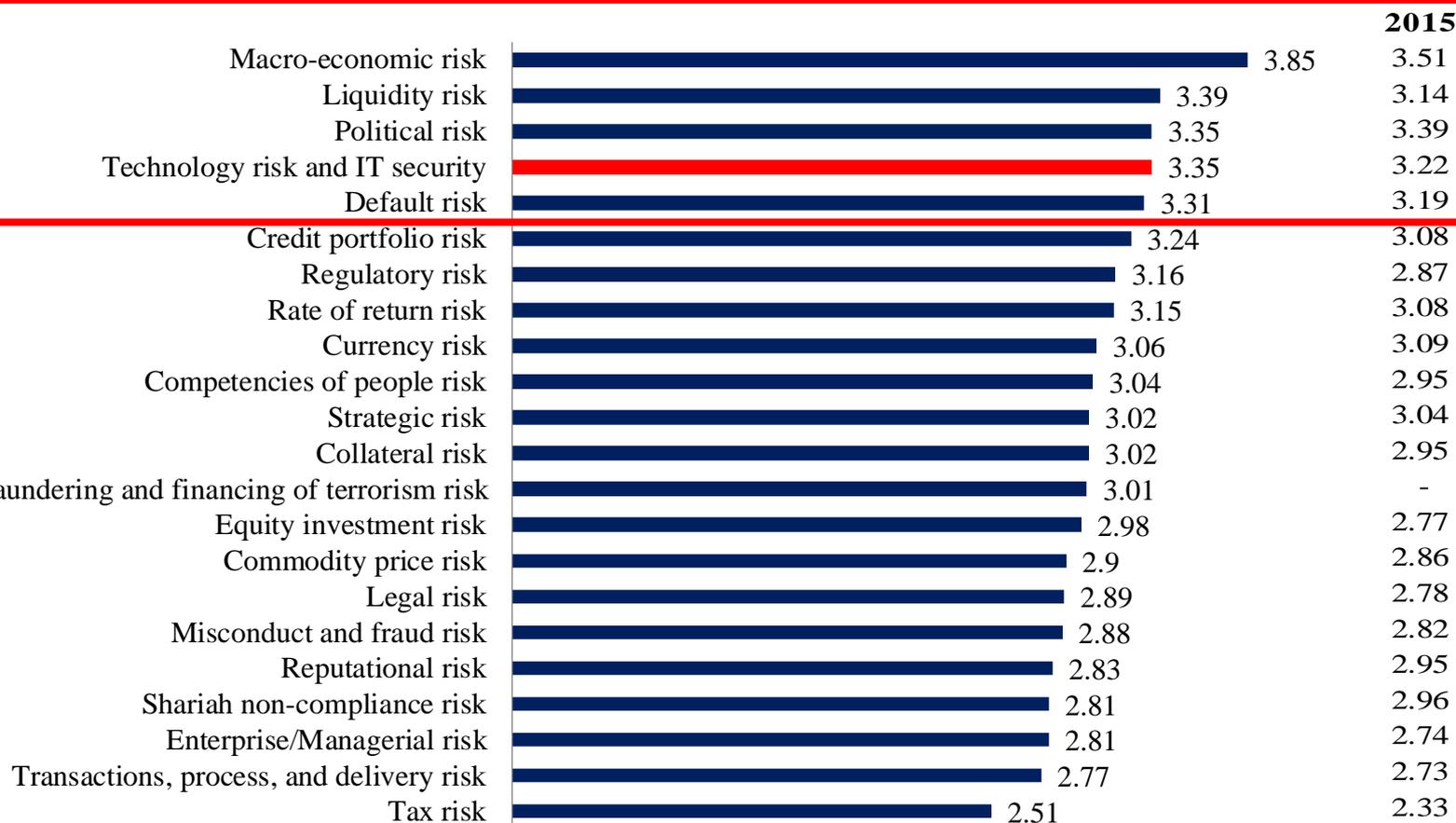
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Fairly Important
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Very Important
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Extremely important
(5)

Global Islamic Banking Risk Dashboard – GIBS 2016



Not important at all
(1)

Not very important
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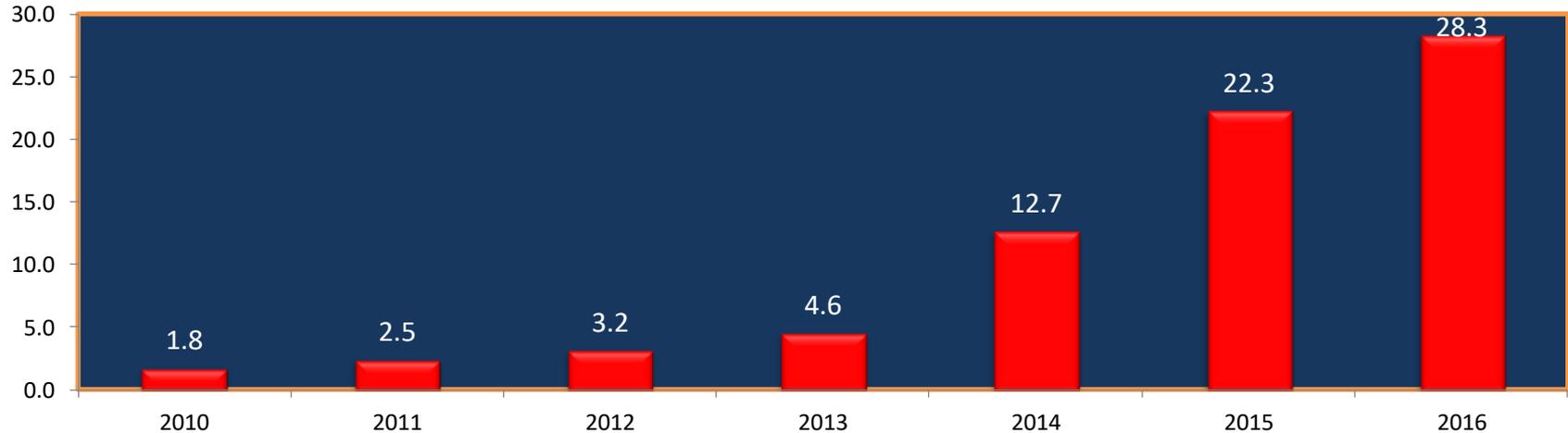
Fairly Important
(3)

Very Important
(4)

Extremely important
(5)

Overview of Digital Innovation and Fintech

❖ *Global investments in Fintech grew by 27% reaching \$28.3bn in 2016 (22.3 in 2015)*



Source: CIBAFI, Accenture, World Bank Group

❖ *Digital Innovation across different areas of the financial sector are as follow:*

Deposits, Lending and Capital Raising

- Crowd-sourcing ideas and funding them through crowdfunding
- Peer 2 peer lending
- Internet-only banks

Investment Management

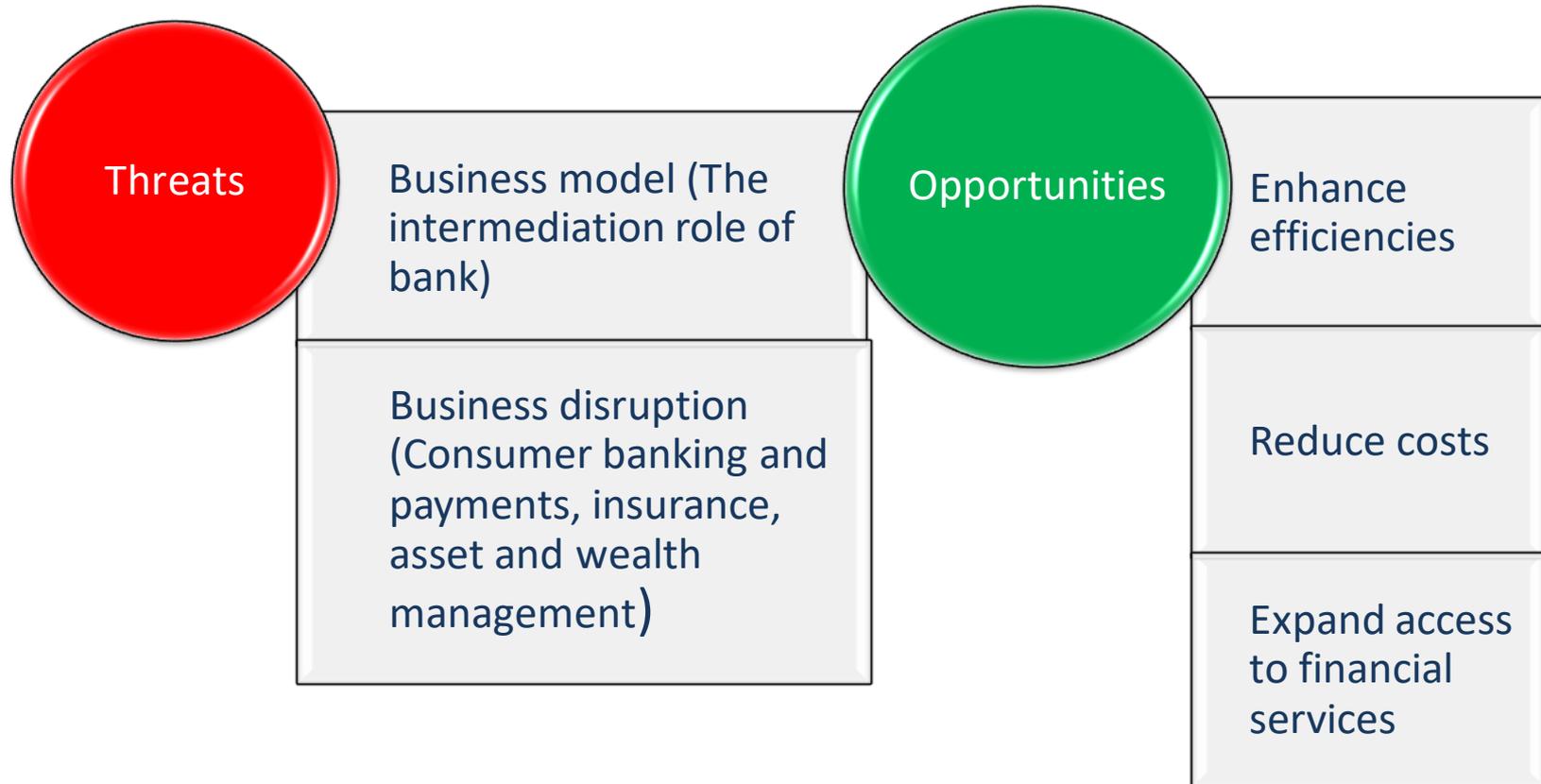
- Automated processing and dissemination of investment advice
- Artificial Intelligence

Payment services and market infrastructures

- E-money and mobile money products
- Application program interfaces
- Use of distributed ledger technologies (Blockchain)

Threat or Opportunity?

- ❖ *Financial service industry still uncertain about fintech and innovative financial products and services, and if represent a threat or an opportunity.*



Trends and Top Areas of Fintech

❖ *CIBAFI believes:*

- ❖ *Artificial Intelligence (AI) and smart data are on top of the list to be watched for in coming 3 years.*
- ❖ *The use of Distributed Ledger Technology such as blockchain technologies will continue to increase especially in developing markets.*

Artificial Intelligence (IA) and Data Analytics

- Provide data collection, aggregation and storage services, advanced data analytics and personal finance management directly to customers.
- Banks use advanced data analytics to research customer needs, provide real-time service delivery and enhance their risk management

Distributed Ledger Technology (DLT)

- facilitating value transfer exchanges between parties without the need for intermediation, increasing the efficiency of the intermediary functions, by reducing settlement times or improving the transparency of recordkeeping and reporting. It also focus on banks' back office operations.

- ❖ *Governments increasingly developing and applying regulatory sand box , including U.K, Australia, U.S., Hong Kong, Malaysia, Singapore, Switzerland, Thailand, Bahrain and United Arab Emirates .*

Implications for Banks and Other Stakeholders

Risks on consumers

- Data privacy
- Data security
- Discontinuity of banking services
- Inappropriate marketing practices

Risks on banks

- Strategic and profitability risks
- Increased interconnectedness between financial parties
- High operational risk
- Third-party/vendor management risk
- Compliance risk including failure to protect consumers and data protection regulation
- Money laundering – terrorism financing risk
- Liquidity risk and volatility of bank funding sources

Implications for Banks and Other Stakeholders

Opportunities to consumers

- Financial inclusion
- Better and more tailored banking services
- Lower transaction costs and faster banking services

Opportunities to banks

- Improved and more efficient banking processes
- Innovative use of data for marketing and risk management purposes
- Potential positive impact on financial stability due to increased competition

CIBAFI and Fintech related activities

CIBAFI has taken number of initiatives with regards to the Fintech and Technological innovation from 2016:

- ***CIBAFI Global Forum 2016***: special session on *FinTech & Digital Financial Services*
- ***CIBAFI Global Forum 2017***: special session on *Leveraging the industry growth with technology and innovation.*
- ***CIBAFI Global Islamic Banker Survey 2018***, focused chapter on *Fintech and Digital Transformation.*
- ***CIBAFI Global Takaful Survey 2018***, focused chapter on *Insurtech.*
- ***CIBAFI Briefing Jan, 2017*** *Rethinking Values for Sustainable Growth – focus on Fintech.*
- ***CIBAFI Briefing (coming soon)***- *Blockchain and cryptocurrency.*
- ***CIBAFI comments on BCBS CD Sound Practices: Implications of fintech developments for banks and bank supervisors***“.

Key Issues and Recommendations

Fintech stakeholders (including Islamic finance industry stakeholder) may wish to consider the following points:

- ✓ *To what extent will **the regulators** encourage and facilitate such innovative products and services offerings within the context of Fintech, and how they ensure the safety and soundness of the financial system without hampering the innovation and its potential benefits?*
- ✓ *Some issues related to consumer protection and compliance with **applicable laws and regulations**, including anti-money laundering and countering financing of terrorism (AML/CFT) regulations.*
- ✓ ***Shariah scholars position** is still not clear with regards to some innovative products and services offerings within Fintech ecosystem and cryptocurrencies in particular.*
- ✓ *Readiness and ability of **human resources** to work in Fintech environment*

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