



ISLAMIC FINANCIAL  
SERVICES BOARD

# IFSB EXECUTIVE FORUM

**Effective Risk Management Oversight and Governance  
of Islamic Banks**

**Session1**

**Challenges, Trend, and Prospects of Risk Governance:  
IFSB Perspective**

**Dr. Abideen Adeyemi Adewale  
Member of the Secretariat,  
Technical and Research, IFSB,**

[www.ifsb.org](http://www.ifsb.org)

## Presentation Outline

---



Prevailing Practices and Challenges in the BOD and Senior Management Oversight of Risk Governance in Islamic Banking



Emerging Perspectives and Trends in BOD and Senior Management Oversight of Risk Governance in Islamic Banking



Relevant Sections of the Related IFSB Standards: IFSB-1 and IFSB-3. Banking



Enhancing Compliance with Regulatory Requirements for Risk Governance in Islamic Banking

# Definition of Risk Governance

“The concept of **risk governance** comprises a broad picture of risk: not only does it include what has been termed ‘**risk management**’ or ‘**risk analysis**’, it also looks at how **risk-related decision-making** unfolds when a range of **actors** is involved, requiring **co-ordination** and possibly **reconciliation** between a profusion of **roles, perspectives, goals and activities.**”  
(Renn 2005:11)

# Challenges....

**Regulators' zero tolerance for major control and conduct failures** (regulatory pressure to improve governance, license revocation, directors may be liable or jailed, BOD's focus on operational issue etc)

**Industry concern for increasing regulatory compliance costs and fines and penalizes for non-compliance ES**  
(incidences of improper behaviour non-financial risks e.g. legal, people, IT,)

**Investors' yearnings for improved profitability**

**Cost Control** (significant control expenses due to increasing regulatory compliance costs, short implementation time, piecemeal implementation, lack of clarity impeding governance culture and structure)

# IFSB Standards

## IFSB 1

Guiding Principles of Risk Management for Institutions (other than Insurance Institutions) offering only Islamic Financial Services (IIFS)

## IFSB 3

Guiding Principles on Corporate Governance for Institutions offering only Islamic Financial Services (Excluding Islamic Insurance (*Takâful*) Institutions and Islamic Mutual Funds)

# Trend

Generally, compliance has been encouraging based on industry reports **more is needed though**

Improvement in expertise and independence requirements

Increased responsibility in scope and oversight

Increased resource to support Board risk committee

Likely continuation of regulatory pressure expected due to effect of for instance FinTech, shadow banking etc

Cryptocurrency (**digital theft, consumer protection, fraud issues relating to ICO, AML/CFT issues etc**)

Regulatory examination and enforcement activities

# Way forward

Integrated Governance Risk Management and

Compliance

Strategic Farsightedness

Glocalised approach

Enhanced efficiency and effectiveness



ISLAMIC FINANCIAL  
SERVICES BOARD



ISLAMIC FINANCIAL  
SERVICES BOARD

“The concept of risk governance comprises a broad picture of risk: not only does it include what has been termed ‘risk management’ or ‘risk analysis’, it also looks at how risk-related decision-making unfolds when a range of actors is involved, requiring co-ordination and possibly reconciliation between a profusion of roles, perspectives, goals and activities.”  
(Renn 2005:11)

### Challenge 1

Regulators’ zero tolerance for major control and conduct failures

License Revocation

How has the risk environment evolved for Islamic banks and what are the implications for risk governance practices

What are the key considerations for risk governance in light of the regulatory environment and global Standards

### Challenge 2:

Industry concern for increasing regulatory compliance costs and fines and penalizes for non-compliance ES

What are **oversight requirements and challenges** related to **Shari’ah-governance**

Case Studies

What are the **oversight challenges and gaps** in addressing legal risks

### Challenge 3:

Investors’ yearnings for improved profitability

Role of the **Board and Risk Committee** in addressing the identified issues

Best practices in light of global **Standards on Risk Management and Corporate Governance** for Islamic Banks