

# 21ST ISLAMIC FINANCIAL STABILITY FORUM

THE ISLAMIC FINANCIAL  
SERVICES INDUSTRY:  
NAVIGATING CHALLENGING  
GLOBAL FINANCIAL  
CONDITIONS

KEY TAKEAWAYS  
15 AUGUST 2023, RIYADH, KSA

# 21ST ISLAMIC FINANCIAL STABILITY FORUM

## THE ISLAMIC FINANCIAL SERVICES INDUSTRY: NAVIGATING CHALLENGING GLOBAL FINANCIAL CONDITIONS

The 21st Islamic Financial Stability Forum, held in Riyadh, Kingdom of Saudi Arabia, unfolded with a profound focus on **"The Islamic Financial Services Industry: Navigating Challenging Global Financial Conditions."** Commencing the event were the highlights of the IFSB Stability Report 2023, coupled with the official launch of this flagship report.

The inaugural session, meticulously crafted under the theme "IFSI: Prospects and Vulnerabilities Amid Tighter Global Financial Conditions," convened distinguished participants in insightful deliberations. These discussions centred around the nuanced evaluation of the Islamic Financial Services Industry (IFSI), dissecting both its potential for growth and the formidable challenges encountered in the wake of increasingly stringent global financial conditions.

The subsequent session, designated "Key IFSI Segments: An Assessment of their Soundness, Resilience, and Intersectoral Linkages," provided a platform for in-depth scrutiny of pivotal segments within the Islamic Financial Services Industry. Participants engaged in a meticulous evaluation, focusing on the soundness, resilience, and intricate intersectoral linkages inherent within these segments.

The 21st Islamic Financial Stability Forum stood as a pivotal platform for stakeholders in the Islamic financial sector, this esteemed gathering facilitated erudite discussions, fostering collaborative endeavours, and offering valuable insights essential for navigating the intricacies of the contemporary financial landscape within the Islamic finance domain.

The event's success is underscored by its ability to provide a formal yet engaging space for stakeholders to share perspectives, address challenges, and collectively contribute to the fortification of a stable and resilient Islamic financial ecosystem.



## SPECIAL ADDRESS BY DR. AWANG ADEK HUSSIN, CHAIRMAN, SECURITIES COMMISSION MALAYSIA



“ While the world is now embarking on the new sustainability journey, our ICM initiatives have always been deeply rooted in ethical, socially responsible, and sustainable practices, as required by Shariah. Perhaps it is now time to move to Shariah plus where everything should be aligned as close as possible to the intent and objective of Shariah or Maqasid al-Shariah ”

### **MALAYSIA'S ISLAMIC CAPITAL MARKET JOURNEY: CHALLENGES, OPPORTUNITIES AND WAY FORWARD**

Your Excellencies, Honourable Members of the IFSB Council,  
Dr. Bello Lawal Danbatta, Secretary General of the Islamic Financial Services Board (IFSB),

Distinguished guests,  
Ladies and gentlemen.

Assalamualaikum warrahmatullahi wabarakatuh.

1. First and foremost, I would like to thank the Islamic Financial Services Board (IFSB), for inviting me to speak at the 21st Islamic Financial Stability Forum in conjunction with the IFSB's 20th Anniversary.
2. My gratitude to Saudi Central Bank (SAMA) for the warm welcome and excellent organisation of this important occasion.
3. On behalf of Securities Commission Malaysia (SC), I would like to extend our heartfelt congratulations to the IFSB on reaching another major milestone, 20 years of successful and impactful existence. Given that IFSB has been a catalyst for greater innovation, standardisation, and resilience within the realm of Islamic finance, this commemoration is fitting as it represents for the IFSB two decades of commendable work and excellent achievements.



4. The SC too has been fortunate to have collaborated closely with IFSB as a full member since 2006. We have actively participated in various IFSB initiatives including serving on its Technical Committee. It is also a privilege for the SC team to have been able to contribute towards the development of 23 standards, 4 technical notes, and 6 guidance notes, issued by the IFSB to guide regulatory and supervisory authorities in the development of Islamic finance globally.

5. Anniversary milestones such as this one reminds us to look back, celebrate and plan forward. In line with that, I am pleased to share that this year also marks the 30th anniversary of the Securities Commission Malaysia (SC). So, my presentation today is based on our own reflections of our Islamic capital market journey in the past decades, its opportunities, challenges, and some indications of the way forward.

Ladies and gentlemen,

#### ISLAMIC FINANCE REMAINS RESILIENT IN THE FACE OF GLOBAL CRISES

6. At the start of this century, Islamic finance assets were estimated to be around USD200 billion. Despite multiple regional and global financial crises, this figure has grown by leaps and bounds, with Islamic Finance assets worth an estimated USD3.06 trillion in 2021.

7. The strength of Islamic finance as an industry to weather regional and global shocks can be attributed to its strong foundations rendered by adherence to Shariah principles which promote financing and equity participation to sustain real economy, as well as mutual risk-sharing. During the 2008 Global Financial Crisis, the Islamic banking sector was still able to achieve an annual expansion rate of 16% from 2008 to 2012<sup>3</sup>. By 2013, its collective value was about USD 1.4 trillion<sup>4</sup>.

8. Similarly, between 2008 to 2012, the volume of global Sukuk issuances recorded resounding growth, at a compounded annual growth rate (CAGR) of 41.4%.

9. The strong growth and resilience of Islamic finance continued even after the global economy was brought to a virtual standstill by the COVID-19 pandemic. The global IFSI expanded by 10.7% in 2020<sup>6</sup> and 11.3% in 2021<sup>7</sup>. That brings us to an industry that was valued over USD3 trillion in 2021.

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- Deutsche Bank, 2011, "Global Islamic Banking Report", November, London, UK.
- IFSB Islamic Financial Services Industry Stability Report 2022.
- World Islamic Banking Competitiveness Report in 2014 by EY, page 14.
- IFSB Islamic Financial Services Industry Stability Report 2022, page 15.
- 2008 – 2012 CAGR calculated based on figures from IIFM Sukuk Report 2019, page 21.
- IFSB Islamic Financial Services Industry Stability Report 2021, page 3.
- IFSB Islamic Financial Services Industry Stability Report 2022, page 3.
- IFSB Islamic Financial Services Industry Stability Report 2022, page 3.
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Ladies and gentlemen,

### THE MALAYSIAN ISLAMIC CAPITAL MARKET JOURNEY

10. In Malaysia, the total size of the Islamic capital market (ICM) amounted to USD billion. This represents 64.5% of the entire capital market in the country. Within the Islamic capital market, 46% of the total represents market capitalisation of Shariah-compliant securities and 54% comes in the form of Sukuk outstanding.

11. For the past 25 years, the size of the Islamic capital market has been larger than the conventional component. In 1997, the ICM component was USD45 billion, and the conventional counterpart amounted to USD35 billion. By 2022, the ICM amount was USD500 billion and the conventional was USD130 billion. The widening gap in favour of the ICM is reflected in the compounded annual growth rate of 9.8% for ICM and 7.1% for the conventional during the last 25 years.

12. This strong positioning of the ICM in Malaysia is quite remarkable given that Malaysia inherited a colonial economy and financial ecosystem from the British when the country became independent in 1957. The move to introduce Islamic finance, though stated earlier, gained wider traction in the 1990s, spearheaded by Bank Negara Malaysia in the area of Islamic banking and Takaful, and the SC in the Islamic capital market.

13. Interestingly, in ICM the 'take off' seems to occur at the end of the global financial crisis 2007 – 2008. In Malaysia, this 'take off' was spearheaded by the rapid expansion of sukuk issuances. The Malaysia Ringgit Sukuk Market is indeed the largest sukuk market in the world. It is a proven high-quality investment asset class where the default rate and credit losses have been minimal, throughout multiple economic cycles including the Asian financial crisis (1997- 1998), the global financial crisis (2007-2008), and the European sovereign and banking crisis 2012.

14. This consequently resulted in a much more robust and resilient Malaysian financial system as the nation's financing and credit risks are not concentrated entirely in the banking system, but diversified to both banking and Ringgit bond and sukuk markets. The split is quite balanced with about USD500 billion in total loans extended by the banking system and USD424 billion raised through Ringgit bonds and sukuk. At the same time, it has eliminated the reliance on foreign currency funding by domestic players which proved to be catastrophic during the Asian financial crisis, largely responsible for the collapse of many companies and sharp economic downturns in the affected countries.

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- Total ICM size (i.e. listed shariah stocks plus outstanding sukuk) as at 31 Dec 2022
  - Malaysia continues to spearhead the international sukuk market, commanding 40.3% market share of global Sukuk outstanding in 2022. Source: <https://www.mifc.com/documents/6319173/6346752/GLOBAL-SUKUK-2022-v2+%282%29.pdf/cbb0fb68-2407-81d4-a6dd-69ced45d3f05?t=1685515176229>
  - Total Outstanding Loans & Financing to businesses (SMEs & non-SMEs) and households as at 31 Dec 2022. (Bank Negara Malaysia Quarterly Bulletin Q42022, page 41)
  - Total Outstanding Bond and Sukuk (Government & Corporate) as at 31 Dec 2022. (SC ICM Statistics)

15. The Malaysian Ringgit bond and sukuk markets have been highly successful so much so that institutional demand continues to exceed supply or issuances. Among the major reasons are the presence of large pension and retirement funds as well as insurance and takaful companies with huge demand for long-term securities for their long-term investments. Secondly, it is due to the robust regulatory framework put in place by the SC in terms of trust deed and information memorandum requirements, which protect the interest of investors, and almost always get upheld by the Malaysian courts in times of disputes. This has created investors' confidence and avoided defaults.

16. Another important factor was the establishment of Bonds and Sukuk Information Exchange by the SC to democratise and level the playing field for retail and non-institutional investors to also have access to the bond and Sukuk markets. The Exchange serves as a public utility to provide a centralised information platform where any information regarding any Ringgit bond and sukuk can be obtained free of charge, without hefty subscription fees as normally charged by other providers. Users can also use the search and price discovery engine for the Ringgitbonds and Sukuk, which will ensure price transparency to guide their investment decisions.

Ladies and gentlemen,

17. I have touched on some of the developments in the Islamic capital market in Malaysia, and the reasons behind these developments. Let me mention a few more important milestones on Malaysia's journey to develop the Islamic capital market.

18. The most important milestone is of course the establishment of the Securities Commission Malaysia (SC) in 1993 to focus exclusively on the development of the capital market with extensive regulatory powers to ensure fair and orderly markets, to protect investors and to punish offenders. At that time, the stock market was overly bullish and highly speculative, driven not only by irrational exuberance but also in many cases market manipulations and illegal trading activities. The SC in the early days had to take many unpopular measures to rein in speculative activities, bring offenders to book, and bring down the market to more sustainable levels.

19. But the more important role of the SC which is directly relevant to our discussion today is its mandate to develop the capital market. With that mandate, the SC set out to support Malaysia's aspirations then to develop a dual financial system, comprising Islamic as well as conventional. To do that, the SC established the Shariah Advisory Council (SAC) in 1996 as the nation's highest reference authority on ICM, at the same time providing much-needed guidance to investors on capital market products and services that comply with Shariah principles.

20. Indeed, the setting up of SAC represented another major milestone which provided a key building block for a harmonised, full-fledged ICM in Malaysia. To date, the SAC has produced more than 120 resolutions on practical and contemporary Shariah issues in ICM. These have helped immensely in broadening and deepening the ICM in Malaysia.

21. To meet the rising demand for Shariah-compliant investments, screening methodologies for equities were developed, and the first official Shariah-compliant list was issued in 1997. Back then, we had just 371 companies on the first official list of Shariah-approved securities. The SAC adopts a two-tier qualitative and quantitative approach, which applies the business activity and the financial ratio benchmarks, in determining the Shariah status of the listed securities. Today, this list includes 804 Shariah-compliant securities out of the total 982 listed companies in Malaysia. This represents 65.1% of the total Malaysia's market capitalisation of listed securities.

22. Another important developmental role of the SC was to come out with a 10-year Capital Market Masterplans with the first one issued in 2001. Following the Asian financial crisis 1997-1998, it became clear the capital market needed to be more developed in order to diversify credit risks away from the traditional banking system, as explained earlier in my speech. So far, three Masterplans have been put into implementation to carefully develop the capital market in general, as well the Islamic capital market, in particular.

23. The first capital market Masterplan (2001-2010) focused on building stronger foundations in the capital market following the weaknesses experienced during the Asian financial crisis. Market consolidation took place, particularly among the stockbroking companies to merge and become bigger. The numerous exchanges that existed were consolidated under a single exchange known as Bursa Malaysia. The stock exchange was also demutualised to avoid conflict of interest and be more efficient. In addition, liberalisation in terms of foreign ownership in stockbroking and fund management industries were undertaken as well as removing branching restrictions to allow greater access to the wider population. The first Masterplan also focussed on positioning Malaysia as a global ICM centre.



24. The second Capital Market Masterplan (2011 – 2020) strengthened the fundamentals and building blocks from the first Masterplan to expand ICM by facilitating foreign participation in the sukuk market as well as the Islamic fund management industry. Through the Malaysian International Islamic Financial Centre initiative (MIFC) spearheaded by Bank Negara Malaysia, foreign participation in the domestic Islamic capital market was encouraged through various measures, among them was flexible foreign exchange administration which allowed freer flows of capital in and out of Malaysia. The second Masterplan therefore focused on the internationalisation agenda to expand and scale ICM to global markets. It further emphasized on expanding the Islamic wealth management industry to include products like Islamic REITs, Exchange Traded Funds, Waqf funds and unit trust funds.

25. Over the years, there were sukuk issued by foreign issuers tapping into our ringgit market, which included foreign currency-denominated ICM instruments such as the International Development Bank's USD3.5 billion trust certificate issuance programme in 2010. Another product innovation included the world's first green sukuk worth USD59 million by Tadau Energy to finance a rural solar project in 2017.

Ladies and gentlemen,

26. We needed to constantly be agile and diversified. The release of the Islamic Fund and Wealth Management Blueprint in 2017 and the Sustainable and Responsible Investment or SRI Roadmap in 2019, strengthened Malaysia's position to be a hub for Islamic funds and facilitated provision of Shariah-compliant SRI solutions, respectively.

27. Unlike the first two Masterplans which spanned a period of 10 years each, the Third Masterplan covers the period of 5 years, 2021 – 2025. It sets the direction for the way forward with emphasis on the importance of leveraging on technology and digitalisation to advance the capital market. At the same time, it focuses on building stakeholder economy where ICM and SRI segments were identified as significant enablers for this purpose.

28. The stakeholder economy also requires focus on digital modalities and fintech as key enablers in the expansion of Islamic capital market. These enablers are expected to broaden the pool of investors, especially among young investors and smaller businesses to fundraise. In 2022, peer-to-peer financing and equity crowdfunding platforms in Malaysia raised about USD997 million in funds. The beneficiaries were more than 7,000 small businesses.

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• SC ICM Statistics <https://www.sc.com.my/resources/speeches/international-shariah-investment-convention-2010>  
• IFN - Tadau Energy to issue Sukuk ([islamicfinancenews.com](http://islamicfinancenews.com))  
• In total, ECF and P2P financing have facilitated 7,218MSMEs to raise more than RM4.4 billion (USD997 million, BNM Exchange Rate 31 Dec 2022). Source: SC Annual Report 2022, page 58

29. Indeed, the way forward for ICM in Malaysia is not only to be more inclusive, but also to be better aligned with ESG requirements. The Sustainable Responsible Investment (SRI) framework through SRI Sukuk and SRI-Linked Sukuk, is very much effort in that direction. SRI-Linked Sukuk enabled financing for companies in transition along their sustainability journey, for example from brown to green. Another dimension is the implementation of social finance through Waqf-Featured Fund Framework which allows investors to give dividends from unit trusts and wholesale funds to charity. It might even be possible to also consider introducing an Islamic Social Exchange in the near future to strengthen ESG programmes, especially to support the poor and the needy.

Ladies and gentlemen,

30. While the world is now embarking on the new sustainability journey, our ICM initiatives have always been deeply rooted in ethical, socially responsible, and sustainable practices, as required by Shariah. Perhaps it is now time to move to Shariah plus where everything should be aligned as close as possible to the intent and objective of Shariah or Maqasid al-Shariah. We in Malaysia are planning to issue a guidance on principle-based Maqasid al-Shariah compliance before the end of this year to meet the need of investors looking for an even higher order of compliance. Some products may be Shariah-compliant but if these are not good for health reasons and can even undermine life in the long run, then these products may not be in line with the principles of Maqasid al-Shariah.

31. On that note, I like to once again express our appreciation and gratitude to the organisers for giving the SC Malaysia the opportunity to hear our views and share our journey.

32. Thank you, and I wish you all a productive forum and a safe trip home.

Assalamualaikum warrahmatullahi wabarakatuh.

## SESSION 1

# IFSI: PROSPECTS & VULNERABILITIES AMID TIGHTER GLOBAL FINANCIAL CONDITIONS

### Moderator:

**Dr. Shahin Shayan**, Global Investment & Risk Management Advisor

### Panelists:

- **H.E. Dr. Feras Abed Al-Rahim Hamdan Milhem**, Governor of Palestine Monetary Authority
- **H.E. Dr. Fahad Ibrahim Alshathri**, Deputy Governor for Research & International, Saudi Central Bank
- **Mr. Peter Kruschel**, Director of Banking Supervision, Federal Financial Supervisory Authority of Germany
- **Mr. Chibuzo Anthony Efobi**, Director of Central Bank of Nigeria





## SESSION 1- KEY TAKEAWAY:

- The Global Financial Markets are going through a metamorphosis. There are two key drivers affecting the future of Global Financial Institutions, including IFSIs. The first driver is due to a rise in oil, energy, food, and commodity prices, and disruptions in the global supply chain caused by the war in Ukraine, leading to global economic slowdown and higher inflation rates. The second driver is due to the technological revolution and incorporation of Fintech, Artificial Intelligence, and new, decentralised open financial architectures (open Finance) providing ample opportunities for market developments and inclusive financial services to new, unbanked, and the bottom of the pyramid customers.
- With these two drivers at work, the global IFSIs are showing soundness, resilience, and antifragility behaviour with a USD3.25 trillion market size. This is based on the limited direct exposure of many Islamic finance jurisdictions to the impact of the Russia–Ukraine conflict, gradual recovery, an accelerated digital transformation process, and improved financial soundness.
- On the issue of differences in the impact of monetary policy on Islamic Financial Institutions and the demand for Islamic financial products, such as Sukuk compared to conventional institutions, the following views were expressed by the panelists:
  - There are no differences in the policy impacts. The impact depends on the type of the institution and the maturity and rate structure of the balance sheet of the institutions including the IFSIs.
  - The rate policies plus the economic activities will influence the product demands both for Islamic and conventional products. Islamic products have their special demand dynamics.
  - Germany has 5 million Muslims which has created a special demand for Shari'ah-compliant products. The Regulatory Authority is paying special attention to Islamic Financial Systems. Currently, they do not differentiate the monetary policies for IFSIs due to the small size of the market. The only European country with a special policy for Islamic Financial products is the UK (for Sukuk).
  - Paying special attention to the utilisation of proper monetary tools for policy impact is important, but market size and demand are the determining factors.

- On how do global trends in sustainable finance and ESG factors influence the Islamic Finance Industry and how are the industry players responding to this growing demand, the following views were expressed by the panellists:
  - These trends create opportunities for the finance industry in particular the Islamic Finance Industry. The environmental and sustainability issues are consistent with the ethical underpinnings of Sharia principles.
  - Sukuk financing can be utilised very effectively for this purpose.
  - There is a need to create a common definition for what is sustainable and environmentally responsible functions to prevent fraudulent behaviours.
- On how the increasing demand for Shari'ah-compliant financial products driven by the global Muslim population presents a long-term growth opportunity for the Islamic finance industry, particularly in Muslim-majority countries and regions, the following views were expressed by the panellists:
  - To satisfy the increasing demand we must harmonise and coordinate the standardisation of Shari'ah-compliant products.
  - Currently, the German market has seen a huge demand for Shari'ah-compliant products and they expect this demand to grow due to new immigrant flows from the Muslim countries. The real driver will be the proper pricing of these products.
- On what impact that can limit harmonisation, lack of standardisation, and varying regulatory environments have on the ability of Islamic finance to navigate tighter global financial conditions and integrate effectively with the broader financial system, the following views were expressed by the panellists:
  - The issue of how much regulation has always been debated. The best mode is for minimum regulation through proper monitoring.
  - Standardisation, harmonisation, simplification, and proper governance of the regulatory frameworks are critical for the growth of the Islamic Finance Industry. The Shari'ah-compliant component of standardisation, harmonisation, and proper governance efforts can be done in a centralised or decentralised manner. In Saudi Arabia, the decentralised approach has been utilised. Allowing differences in the Sharia interpretations of the standards and regulatory frameworks provides diversity and innovative concepts to evolve. This can help the Islamic Finance market to grow. A centralised approach to Shari'ah-compliant products can cause the cost of change very high and slow down innovation and growth. A decentralised approach will allow flexibility and lower the cost of change for new developments and growth.

- IFSB is the institution involved in the IFSI global regulatory standardisation and harmonisation process and does not get involved in the local Shari'ah-compliant debates.
- Working together through IFSB for more standardisation and harmonisation will help the agreements across jurisdictions and the possibility of cross-border market and product growth and interactions. To do so we need to be flexible in our Shari'ah interpretations.
- For the past 12 years in Nigeria, a newly Islamic finance system has been created, where there has been an emphasis on clear and transparent standards for operations and regulatory frameworks. A financial regulation Advisory Council of Experts has been created that is composed of the best available Sharia Scholars who are responsible for Shari'ah standardisation, harmonisation, and guidance for all Islamic finance activities. In Nigeria they let demand drive regulation and growth.
- It was stated by the audience that IFSB was initially established to create standards across all jurisdictions for Shari'ah-based interpretations and rulings. AAOIFI was also created to do the same thing for Accounting and Auditing Standards. Having a decentralised approach toward Shari'ah interpretations and rulings would not help the global growth, integration, and unification of the IFSIs. This is more prevalent in the current Sukuk market development. The panel members responded by stating that through centralised standardisation of Shari'ah interpretations and rulings, one loses the diversity of products and their availability to the customers. The customer demand will not be satisfied properly. Centralised Shari'ah ruling standardisation will be at the expense of innovation and growth through diversity. On the other side, the standardisation of product structures and services would help cross-border and international integration.



## SESSION 2

# KEY IFSI SEGMENTS: AN ASSESSMENT OF THEIR SOUNDNESS, RESILIENCE, AND INTERSECTORAL LINKAGES

### Moderator:

**Mr. Saud Al Busaidi**, General Manager of Oversight at the Central Bank of Oman

### Panelists:

- **H.E. Sauda K. Msemu**, Deputy Governor at Bank of Tanzania
- **Mr. Arup Chatterjee**, Principal Financial Sector Specialist at the Asian Development Bank
- **Mr. Ghulam Muhammad Abbasi**, Director of the Islamic Finance Policy Department at the State Bank of Pakistan
- **Mr. Abdulhameed M. Aliyu**, Director of the Insurance & Surveillance Department at Nigeria Deposit Insurance Corporation



## SESSION 2- KEY TAKEAWAY:

- Key factors affecting IFSI growth include fintech, open banking platforms, digital transformation, financial inclusion, and customer protection.
- IFSI resiliency and stability have been tested effectively through the recent COVID-19 crisis.
- Oman's Islamic banking sector uses and monitors five indexes to calculate an aggregate Financial Stability Composite Indicator. The indexes are Capital Market Uncertainty, Banking Stability, Currency Stability, Debt Stability, and Systemic Risk. They have observed a strong performance on their Composite Indicator.
- Important Sources of Systemic Risk in the Islamic finance segment include the Domino or Contagion Effect, the Tsunami Effect or hidden instabilities and vulnerabilities, and societal or behavioural changes such as cryptocurrencies, fintech, AI, and open banking.
- To create sound and resilient intersectoral linkages in IFSIs, more systematic and coordinated efforts to understand the linkages in various Islamic financial system segments, more data gathering, and studies on understanding the impact of macroprudential policies on systemic risk must prevail.
- On the issue of how the tightening global financial environment impacts Islamic Banks and what measures should be taken to enhance their resilience, the following views were expressed by the panellists:
  - More negative impacts have been observed in Tanzania's conventional banking versus Islamic banking operations. More resilience has been observed in IFSIs due to asset-based transactions and the spreading of economic pressures through risk-sharing mechanisms involved. To improve the IFSI's resiliency, diversification of asset-based transactions towards SMEs, avoiding too much credit concentration on certain sectors, and establishing effective risk management systems incorporating environmental risk issues are emphasised.
  - Asian Development Bank (ADB) emphasises the development of green finance. Climate and environmental risk management is critical from ADB's perspective. Green Sukuk is a point of focus where ADB is trying to work with standard-setting institutions. They believe more centralised standardisation will help the growth in this area.

- Diversification of IFSIs into providing services to SMEs, the unbanked population, and the agricultural sectors can provide a stronger base for resilient operations. This must be coupled with proper risk management and governance systems in place. The Islamic Banking operation in Pakistan has been very resilient and is growing.
- Nigeria Deposit Insurance Corporation is mainly concerned with deposit stability in the banking system. They coordinate their efforts with the central bank supervision to maintain proper resiliency, financial safety net, and stability for the conventional and Islamic banking system. They do both on-site and off-site surveillance on a daily, weekly, and monthly basis and look for red flags to correct potential problems. They group banks into five main risk categories and take action accordingly.
- On the question of what measures should Islamic banks take to strengthen their Risk Management framework and ensure their financial soundness during periods of global financial volatility, the following views were expressed by the panellists:
  - Risks must be well managed in a proper risk management framework and governance. This will lead to soundness and resilience where stability will be relatively guaranteed.
  - For proper risk management framework data availability, data reliability, utilisation of proper data analytic tools, regular stress testing, and quality reporting combined with proper decision-making in a tight and inclusive risk management culture would ensure financial soundness and resilience. Liquidity risk is the major and most important issue to be monitored and controlled to maintain the stability and soundness of Islamic banks.
  - Emphasis on the common understanding of risk management framework, awareness, and literacy is critical.



# SUMMARY

The 21st Islamic Financial Stability Forum explored various important issues affecting Islamic financial stability at the local and global scale. The issues of future global economic prospects, Fintech developments, and proper monetary policies, needed for harmonisation and standardisation of the Sharia-compliant products and services in a decentralised versus centralised manner, plus proper regulatory collaborations and risk management frameworks including environmental risks, were all discussed.

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