General Council for Islamic Banks and Financial Institutions

المجلس العام للبنوك والمؤسسات المالية الإسلامية

CIBAFI

Global Islamic Bankers' Survey 2019

Sustainability, Growth Drivers, and the Regulatory Challenge

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CIBAFI

ABOUT THE GENERAL COUNCIL FOR ISLAMIC BANKS AND FINANCIAL INSTITUTIONS (CIBAFI)

CIBAFI is an international non-profit organisation founded in 2001 by the Islamic Development Bank (IDB) and a number of leading Islamic financial institutions. CIBAFI is affiliated with the Organisation of Islamic Cooperation (OIC).

CIBAFI represents the Islamic financial services industry globally, defending and promoting its role, consolidating co-operation among its members, and with other institutions with similar interests and objectives.

With over 130 members from more than 34 jurisdictions from all around the world, CIBAFI is recognised as a key piece in the international architecture of Islamic finance.

Its mission is to support the Islamic financial services industry as the leading industry voice in advocating regulatory, financial and economic policies that are in the broad interest of its members and that foster the development of the Islamic financial services industry and sound industry practice.

CIBAFI is guided by its Strategic Objectives, which are 1) Advocacy of Islamic Finance Values and related Policies & Regulations; 2) Research and Innovation; and 3) Training and Professional Empowerment.

CONTENTS

ACRONYMS

1.	AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
2.	AI	Artificial Intelligence
3.	AML	Anti-Money Laundering
4.	BCBS	Basel Committee on Banking Supervision
5.	BI	Business Intelligence
6.	CBR	Correspondent Banking Relationships
7.	CEO	Chief Executive Officer
8.	CFT	Counter Financing of Terrorism
9.	FATF	Financial Action Task Force
10.	Fintech	Financial Technology
11.	G20	Group of Twenty
12.	GAAP	Generally Accepted Accounting Principles
13.	GCC	Gulf Cooperation Council
14.	GFC	Global Financial Crisis
15.	IBS	Internet Banking
16.	IFRS	International Financial Reporting Standards
17.	IFSB	Islamic Financial Services Board
18.	ISO	International Organization for Standardization
19.	IT	Information Technology
20	LCR	Liquidity Coverage Ratio
21.	MIS	Management Information System
22.	NSFR	Net Stable Funding Ratio
23.	OIC	Organisation of Islamic Cooperation
24.	SCDIS	Shariah-Compliant Deposit Insurance System
25.	SDGs	Sustainable Development Goals
26.	SLOLR	Shariah-Compliant Lender-of-Last-Resort
27	SME	Small and Medium-Sized Enterprise
28.	UN	United Nations
29.	US	United States of America
30.	USD	United States Dollar
31.	VBI	Value Based Intermediation

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STATEMENT BY THE SECRETARY GENERAL

Welcome to the fourth annual CIBAFI survey. We hope this survey will serve as an industry tool to provide both the background context for the Islamic financial industry and the framework to progress in the coming years.

The theme for this year's survey is "Sustainability, Growth Drivers, and the Regulatory Challenge." It addresses the issues facing financial institutions in the coming years, the necessary factors for business growth and the regulatory restraints that constrain them. The data collected by the survey create a clear picture of the Islamic financial industry's current state, region-to-region.

This year it also addresses particularly the contribution that Islamic banking is making to sustainable development as embodied in the United Nations Sustainable Development Goals (UN SDGs). The report features a special article by the UN outlining the current financing gap of the UN agenda and the role of Islamic finance as an alternative mode of financing. This reinforces CIBAFI's interest in further enhancing collaboration with the UN and other stakeholders to promote the role of Islamic finance as a viable tool for the financing of sustainable development and the attainment of economic growth.

This year's survey had the largest response yet, with 106 responses from Islamic banks in 33 different countries. Because of the wide range of countries responding, the survey includes a geographic breakdown in order for the reader to see how certain regions are faring compared to others and the unique issues that certain regions are facing that will affect their business.

It is more important now more than ever for banks to adapt to new challenges and use the tools at their disposal. Technology remains a vital asset to the finance industry, and the banks who use it will reap the benefits: increased geographical reach, expansion of the offering of products and services and the ability to streamline the bank's processes. However, it comes with its share of threats including cybersecurity breaches. Adaptation to the digital age is the key to banks' survival.

For Islamic banks in particular, it is important to display the values that make Islamic finance distinctive and place it at the service of human society. This includes thinking about how sustainability and human development can be embedded in all they do.

These issues and many more, are addressed in the survey by the top banking officials who shared their opinions in detailed written responses. We extend our warm thanks to the banking officials who took the time to share their views.

We hope the information within will help paint a clearer picture of the Islamic finance industry as we forge ahead into the coming years.

Abdelilah Belatik

Secretary General

ACKNOWLEDGMENTS

The Secretariat would like to offer its sincere thanks to its member and non-member banks and financial institutions who took part in the survey and provided their valuable inputs.

Additionally, we would like to express our gratitude to the individuals who have contributed in making the publication a success. We would like to appreciate Khadir Mohamed, May Arshi, and Rachid Ettaai from CIBAFI Secretariat; and Hannah Jones and Peter Casey, CIBAFI consultants for their contribution and efforts in different phases of production of this report. We are also thankful to Dr. Abdurrahman Yazici, Social Sciences University of Ankara, Prof. Dr. Ahcene Lahsasna, Salihin Shariah Advisory Services Sdn Bhd, Prof. Dr. Ahmet Faruk Aysan, Istanbul Sehir University, Dr. Dalal Aassouli, Hamad bin Khalifa University, Md. Siddiqur Rahman, Islami Bank Bangladesh Limited, Mehmet Fehmi Eken, Islamic Development Bank, Dr. Mohammed Arbouna, Al Salam Bank Bahrain, and Peter Szalay for providing valuable feedback and comments to the survey over the course of its preparation.

We would like to also express our special thanks to the United Nations Bahrain, H.E. Amin El Sharkawi, UN Resident Coordinator in Bahrain, and Dr. John Fahy, UN Coordination and Research Analyst, for their contribution in the report.

CIBAFI would also like to express its appreciation to Abu Dhabi Islamic Bank (ADIB), Bank Muamalat Malaysia Berhad (BMMB), Faisal Islamic Bank of Egypt, Ithmaar Bank B.S.C, and Jordan Islamic Bank (JIB) for their financial support in developing this report.

We trust that this publication will provide valuable insights to the Islamic Bankers around the globe in measuring the pulse of the Islamic financial industry, taking it towards the path of success.

Abdelilah Belatik

Secretary General

UNITED NATIONS BAHRAIN

Jordan Islamic Bank
A member of Al Baraka Banking Group

بنك فيصل الإسلامي المصري
FAISAL ISLAMIC BANK OF EGYPT

بنك الإثمار
Ithmaar Bank

ADIB مصرف أبوظبي الإسلامي

بنك معاملات
Bank Muamalat

EXECUTIVE SUMMARY

Although 2018 began on an optimistic note, buoyed by global manufacturing and trade success, the market hit a downturn in the later months of the year. The implementation of tariffs, such as those levied by the United States, and retaliatory measures undertaken by economic powerhouses such as China caused widespread uncertainty in the minds of economists and a subsequent slowing of investments. Despite this, the US Federal Reserve raised its policy interest rate by 3%, although 10-year bond rates increased by more modest proportions.

This strengthening of the US dollar put a strain on some of the world's more vulnerable economies and coupled with the political issues occurring both globally and locally, it remains a concern for many Islamic banking institutions. Inflation concerns are ever-present for the upcoming year. The prospect for 2019's macroeconomic environment is uncertain, but as new developments unfold, leaders of banks in the Islamic financing sector seem confident to meet these challenges head on.

Our survey for this year fittingly is titled, "Sustainability, Growth Drivers, and the Regulatory Challenge." Growth drivers are an issue we have covered before, and it is interesting to see how much – or how little – banks' views of them have changed. However, this year we looked also at the contribution that Islamic banking can make, and is making, to wider objectives, particularly those embodied in the SDGs. The results are heartening, though there is still more to be done. We also looked at the regulatory challenges that the industry is facing, especially those that are unique to the Islamic financing sector.

Industry leaders from all regions have projected the same air of confidence as in 2018 for the years to come, expressing sustained confidence in both the future of Islamic finance in their jurisdictions, as well as the banking and finance sectors in general. The optimism is a cautious one, but it is optimism, nonetheless.

They also shared with us their top concerns for the near future. It is understandable that the respondents cited concern for meeting shareholders' expectations. Islamic banking officials who responded demonstrated that they are not only positive, but also prepared; many banks were ready to share the plans they had implemented during the downturn of 2018 and had identified the obstacles they will likely face in coming years. Furthermore, they seemed equipped to address issues of shareholder expectations and capital adequacy in the face of possible economic stagnation. Banks are now facing competition from not only conventional and other Islamic banks, but also from the emergence of unconventional, technology-enabled business models. The publication of this survey will allow banks to compare their strategies with their peers' and glean new information that could prove to be helpful for their situations.

Survey respondents are likewise cognizant of the risks they will face in the next few years. The advent of new technology is naturally followed by increased cybersecurity risks such as malware and hacking, and Islamic banking officials are well aware of these risks. In addition, liquidity risk is a feature risk that banks are taking into account in the near future. The pages that follow outline the proposed strategies of the top banking officials that will weather these possible risks.

Growth drivers are key to financial institutions' success as we move ahead. The Islamic Banking Key Growth Drivers' Monitor asked banking officials to identify the factors they perceived to be important for facilitating growth. Respondents across all regions identified product innovation and market penetration as drivers for advancement. Banks are eager to improve systems already in place, as well as innovate new products that will give them an edge. Also acknowledged is the fact that business growth needs not to be just physical – in the new digital age, "expansion" could also mean pushing one's electronic presence.

Islamic institutions not only have to manoeuvre around these risks while keeping in mind how to promote growth, but they also must deal with regulatory challenges. Some banks adhere to jurisdictional standards, but the bigger picture of international standards should be taken into account as well. While there are clear international standards from the BCBS, AAOIFI, IFSB and FATF, which are implemented in many jurisdictions, some areas of bank business conduct are handled with minimal regulatory guidance. Additionally, banks must operate in accordance with Shariah, often in jurisdictions with no Shariah frameworks of their own and, indeed, often within regulations which do not reflect the distinctiveness of Islamic banking. Some banks, because of their size, have limited ability to influence regulatory bodies, whether local or international, and this survey underlines the responsibility that falls on representative bodies like CIBAFI to engage actively in the regulatory dialogue.

There is increasing concern internationally that banking should contribute to wider developmental aims. We found a heartening level of engagement with the SDGs, not only in the obvious areas of economic growth and industry but also in education and the elimination of poverty. However, while some banks saw this engagement as something that should pervade their whole business, others focused it within more limited areas of charitable giving.

The banks' growth, tampered by the need for compliance to Shariah, adherence to regulatory boundaries, and the risks they will face in the years to come, appears to be a hefty task in some jurisdictions. However, this survey allows all banks to reflect on procedures that have worked in the past, while facilitating collaborative strategic efforts looking to the future. It allows a comparison to bring the different struggles and approaches of the various jurisdictions into perspective. More importantly, it puts data results into the context not only of the global image, but time as well: where we were, what we are dealing with now, and where we want to go.

CIBAFI's Global Islamic Bankers' Survey

INTRODUCTION

We are pleased to present CIBAFI's fourth Global Islamic Bankers' Survey, compiling information about the state of Islamic banking from multiple dimensions and allowing us to examine how the data has evolved over the years.

The theme of the survey this year is "Sustainability, Growth Drivers, and the Regulatory Challenge." This follows previous years' themes of "Evaluating Future Impacts: Strategic Thinking, Branding and Financial Technologies", "Responsible Business Practices", and "Risk Perception, Growth Drivers and Beyond."

> We are pleased to report a record number of responses this year – 106 responses from Islamic banks in 33 different countries.

A Comprehensive Survey

The CIBAFI surveys began in 2015, and we are pleased to report a record number of responses this year – 106 responses from Islamic banks in 33 different countries. This is a remarkable improvement from the responses received in the first year, 2015, with 83 responses from 35 countries. The data amassed this year, in addition to the data gathered in 2018, 2016, and 2015, helps provide a comprehensive scope of both the progress made and the challenges being faced by Islamic banks. We aim to shed light on emerging trends in Islamic finance to better prepare for the years ahead.

This year, the survey comprised four main areas:

- The CIBAFI Islamic Banking Confidence Index
- The CIBAFI Islamic Banking Risk Dashboard
- The CIBAFI Islamic Banking Key Growth Drivers' Monitor
- Regulatory Framework and Main Challenges

CIBAFI hopes that the results of the survey will provide Islamic financial institutions with a comprehensive picture of the ever-changing landscape, as well as insight from the heads of Islamic banks on how to navigate regulatory challenges and promote growth and sustainability.

Table 1. Respondents by Regions and Countries

Group	Region	Countries from which banks responded	Number of banks in this group that responded
Group 1	GCC	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE	27
Group 2	Middle East ex-GCC	Egypt, Iraq, Jordan, Palestine, Syria	20
Group 3	Southeast Asia	Malaysia, Philippines	5
Group 4	West, Central, and South Asia	Afghanistan, Bangladesh, Kazakhstan, Pakistan, Sri Lanka	10
Group 5	North Africa	Algeria, Libya, Morocco, Sudan	28
Group 6	Sub-Saharan Africa	Djibouti, Guinea, Kenya, Mauritania, Nigeria, Somalia, South Africa	10
Group 7	Europe	Bosnia Herzegovina, Germany, Turkey, UK	6
Total number of countries and banks		33 Countries	106 Islamic Banks

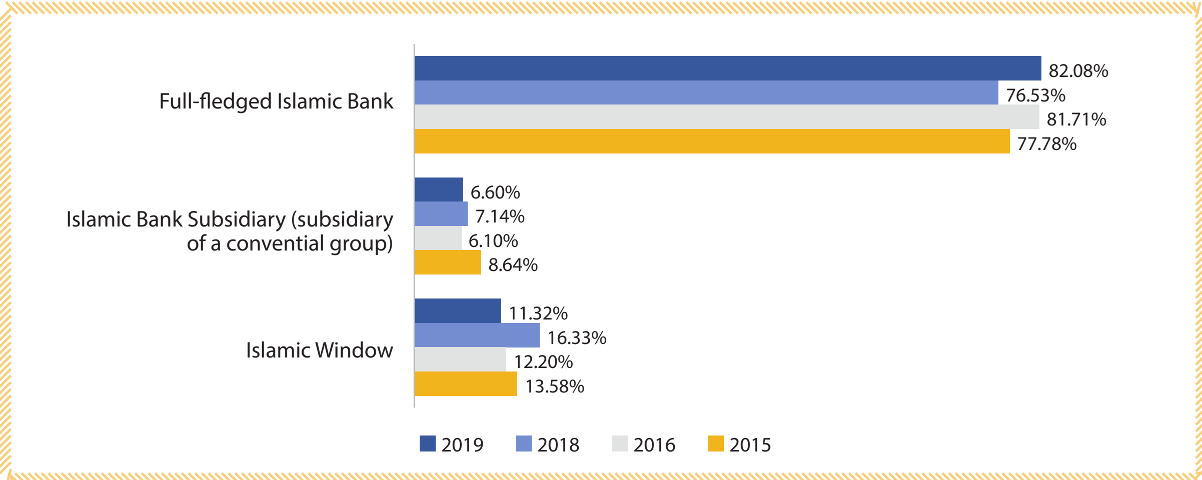
Survey Methodology

The CIBAFI Secretariat sent the questionnaires to the CEO offices of CIBAFI's member and non-member Islamic banks, with the final responses received in January of 2019. The survey, therefore, reflects the views of the Islamic banking community towards the end of 2018 and the start of 2019.

As in previous years, questions were asked related to confidence, concerns and perceived risk, allowing readers to see how attitudes have changed and developed over time. All parts of the survey comprised both "closed" and "open-ended" questions. The open-ended questions allowed industry leaders to share their insights using more in-depth and detailed written responses.

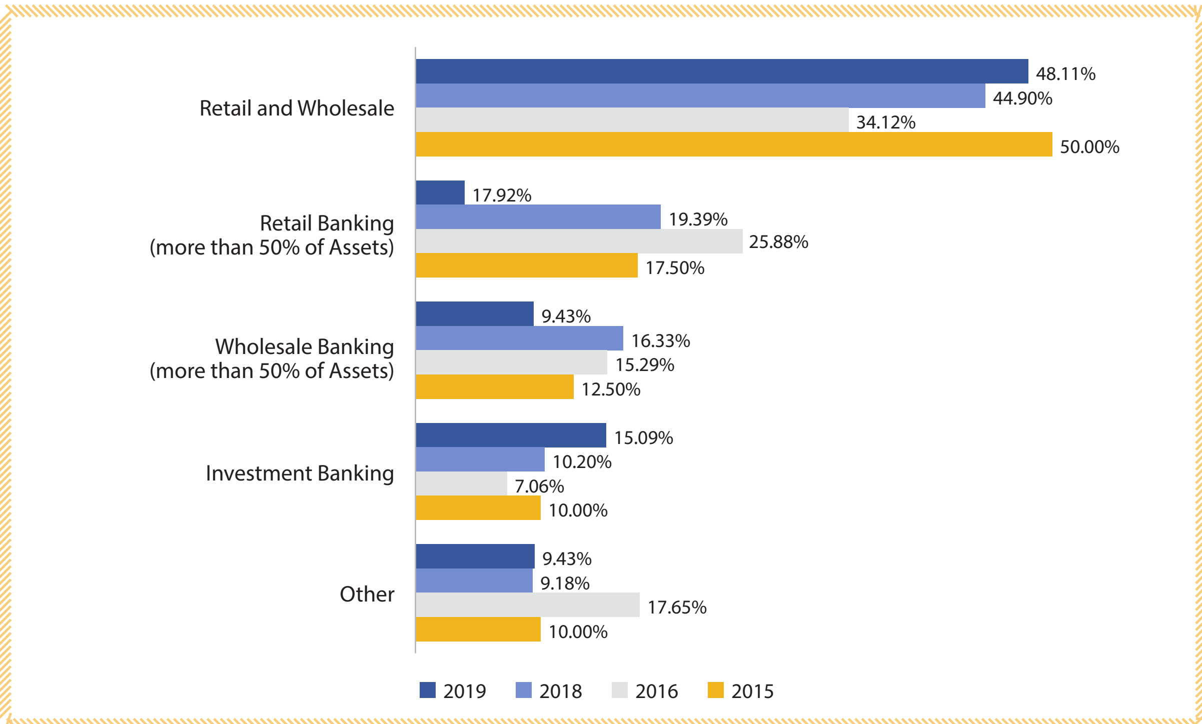
This year, around 82% of the respondents to the survey were full-fledged Islamic banks, about 7% were Islamic bank subsidiaries, with the remaining respondents, around 11% made up of Islamic banking windows of conventional banks.

Figure 1. Global Banking Operation



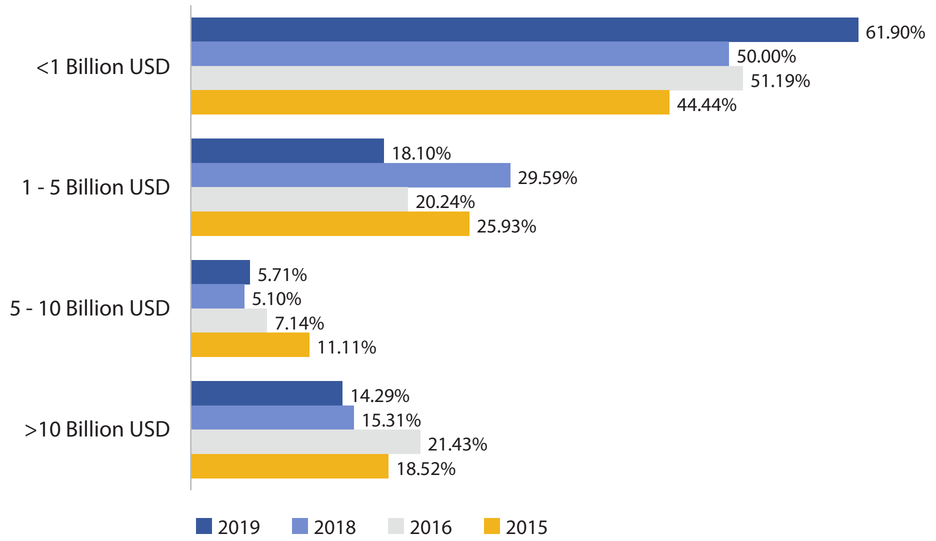
Nearly half of respondents (around 48%) indicated that the bulk of their activity is both retail and wholesale, while about 18% indicated that more than 50% of their assets lie in retail banking. Around 9% mainly deal with wholesale banking, while about 15% of respondents indicated that investment banking comprises their core business. The remaining respondents, about 9%, deal in other types of business.

Figure 2. Global Core Business



The majority of respondents, about 62% are working with Islamic assets totalling less than one billion USD, compared to last year's response of 50%. Meanwhile, about 18% of respondents said their assets are between one and five billion USD, and almost 6% of respondents have assets totalling between five and ten billion USD. The remaining respondents, about 14%, are working with assets over ten billion USD.

Figure 3. Size of Total Islamic Assets



At some points in this report, we comment on differences in the responses between larger banks (with assets of five billion USD or over) and smaller banks (with assets of up to five billion USD). However, there are marked regional differences in the sizes of the banks. For example, all the banks in North Africa would be classed as "smaller", while 80% of those in Southeast Asia and 37% of those in the GCC would be classed as larger. Indeed, almost half of the larger banks were in the GCC. Hence, some of the comparisons between smaller and larger banks may reflect the regions they come from and, conversely, some of the regional comparisons may reflect the differing sizes of the banks in those regions.

Part I

CIBAFI Islamic Banking Confidence Index

PART I. CIBAFI ISLAMIC BANKING CONFIDENCE INDEX

The Trend of Positivity Continues

This survey is the fourth survey which CIBAFI has undertaken to produce its CIBAFI Islamic Banking Confidence Index. This index has proven vital in showing financial institutions' confidence in the Islamic banking sector, both globally and within the contexts of different jurisdictions in varied geographical locations. Over time, confidence has generally risen, and in most cases has reached new heights in this year's survey. The overall confident air of 2018 has held steady for bankers' visions for the new year.

Bolstered by a pickup in global manufacturing and trade from 2017, the 2018 economy provided a solid basis for optimism in the banking sector as a whole. However, survey results indicated that, on many fronts, there was also a particular increased confidence in the Islamic banking sector. This is likely due to the growth the Islamic banking sector has enjoyed this year, to be discussed in further detail in Part III. In keeping with last year's trend, however, bankers' optimism was more restrained with regards to how that would translate into revenue growth for their institutions.

To put these results in context, a score of 1.00 is classed as "extremely pessimistic", 2.00 is classed as "pessimistic", 3.00 is classed as "fairly optimistic", 4.00 ranks as "very optimistic", and 5.00 ranks as "extremely optimistic".

> Confidence has generally risen, and in most cases has reached new heights in this year's survey.

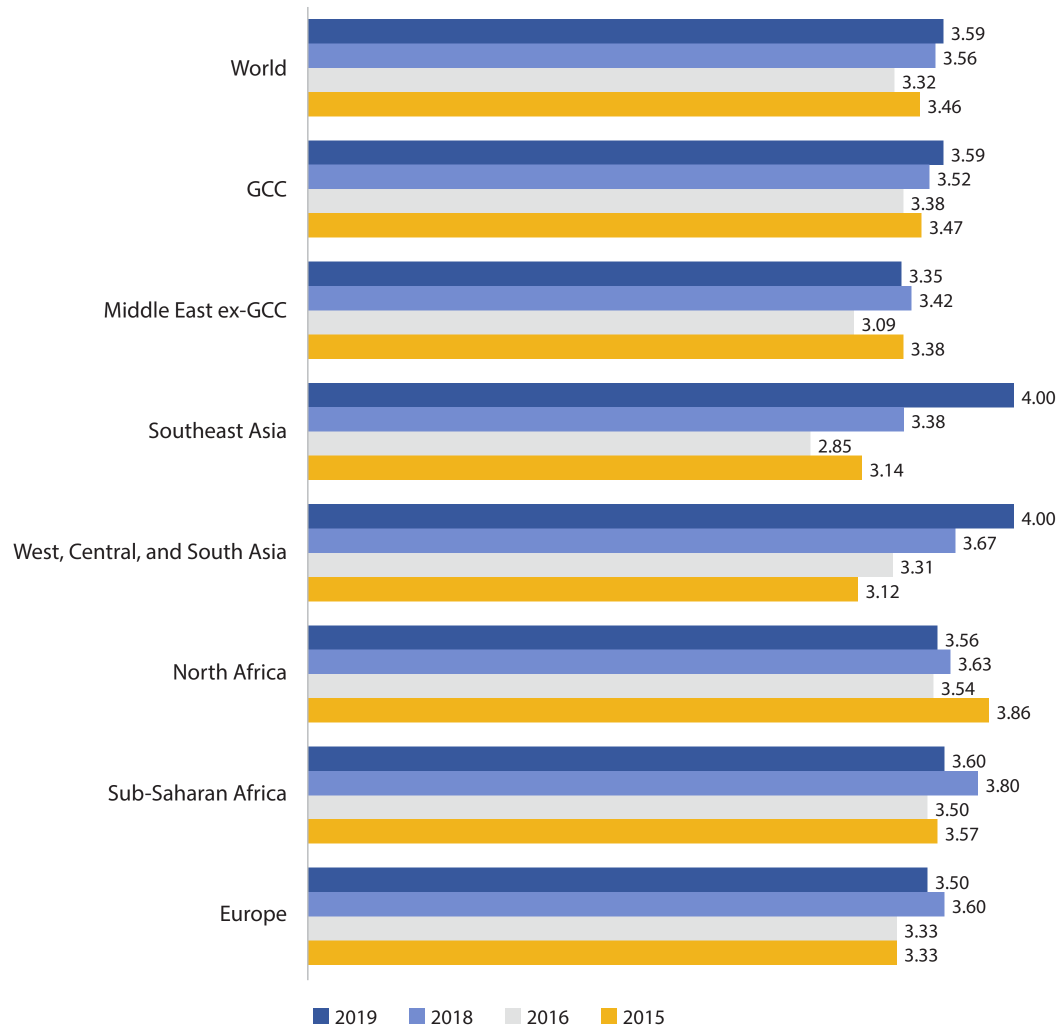
Institutions' Outlooks on the Future of the Financial Sector as a Whole

When asked the question, "How optimistic are you about the future of banking in your jurisdiction in 2019?" the overall trend of the institutions' responses was positive. Globally, the responses averaged 3.59, a slight uptick from 2018's score of 3.56. This is a positive upward trend from the 2016 and 2015 results of 3.32 and 3.46, respectively.

The countries with the most notable increases in optimism were Asian countries. Southeast Asia started with a score of 3.14 in 2015, dropped to a low of 2.85 in 2016 and rose to 3.38 in 2018. This year, the region had a surprising jump to a very positive score of 4.00. Likewise for West, Central, and South Asia showing a rise to 4.00 for 2019. This indicates a remarkably bright view of the future of banking in these regions.

Only one region, Sub-Saharan Africa, had a decrease of over ten points; it was the most confident region at 3.80 in 2018. The other countries surveyed had decreasing scores, although they were slight (Middle East ex-GCC, North Africa and Europe).

Figure 4. Overall Industry Optimism Level



1: Extremely Pessimistic; 2: Pessimistic; 3: Fairly Optimistic; 4: Very Optimistic; 5: Extremely Optimistic

Continued Positive Attitudes Towards the Future of Islamic Banking

The next question we asked was to determine the banks' optimism level towards the future of Islamic banking in particular. Our 2018 survey results showed a sharp rise in the confidence in Islamic banking compared to previous years; however, in 2019, some of that confidence faltered in certain regions. Some regions reported even more optimism than last year, while others reported more negatively.

Globally, the level of optimism remains largely the same, from 3.78 in 2018 to this year's score of 3.76, but optimism levels have increased from 2015 and 2016. The picture becomes clearer when we examine the levels of optimism by region.

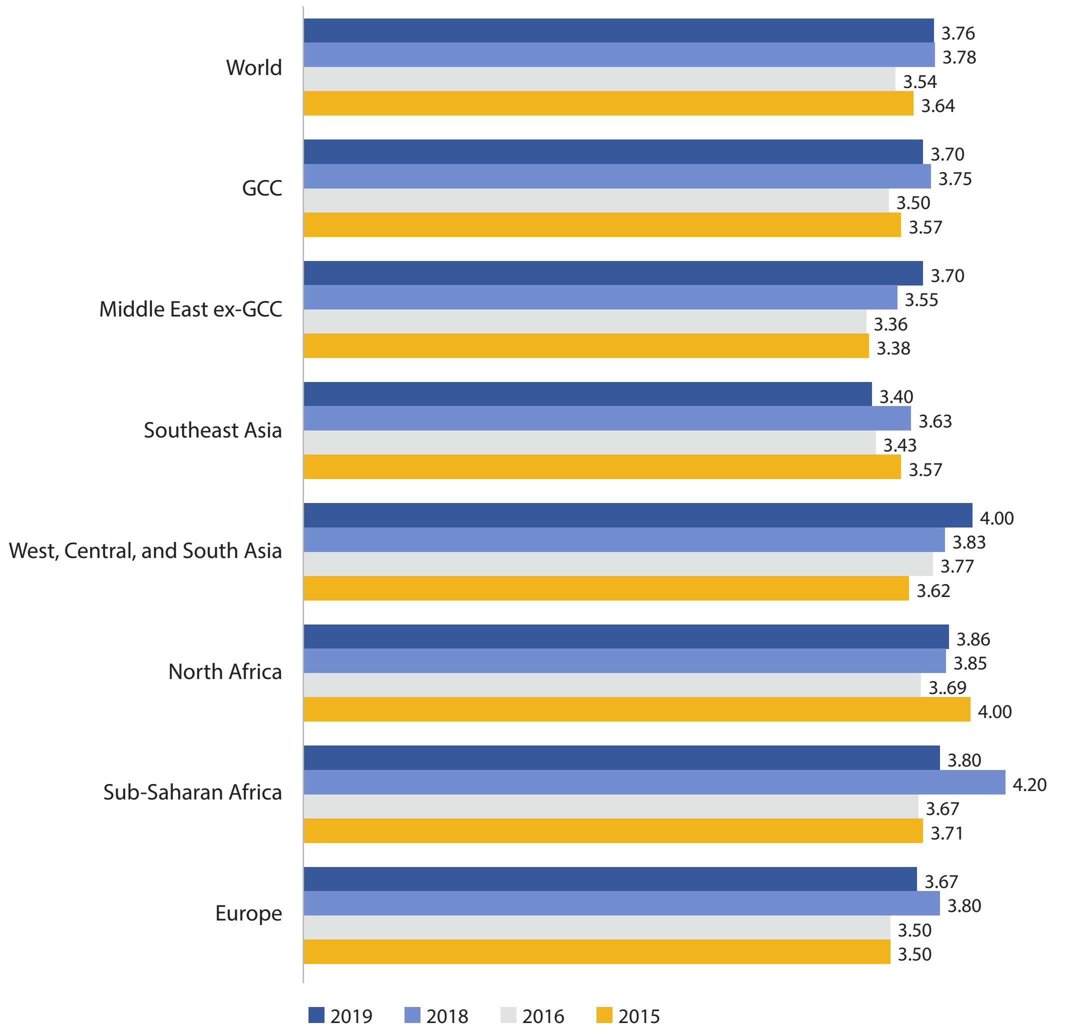
> New countries were added to the list of respondents this year, including: Guinea, Somalia, and Kenya.

Some regions' confidence was boosted: The Middle East ex-GCC; West, Central, and South Asia; and North Africa. The Middle East ex-GCC had a 15-point boost from 3.55 in 2018 to 3.70 in 2019; West, Central, and South Asia had an increase to a very positive score of 4.00 compared to 3.83 in 2018, while North Africa's results were not significantly different with only a 1-point increase from 3.85 last year to 3.86 this year. This is a significant improvement from their lower confidence in 2016 (3.69), but it is still lower than their first score of 4.00 in 2015.

As for declines, they were experienced by various regions including the GCC; Southeast Asia; and Europe. Sub-Saharan Africa reported the most dramatic fall in optimism from last year's surprisingly high score of 4.20 to this year's more modest score of 3.80, yet this is still higher than the scores of previous years. It's also important to note that three new countries (Guinea, Somalia, and Kenya) were added to the list of respondents this year, which alters the results for this region.

These results, although in some cases appearing less optimistic than the confidence 2018's promising economy ushered in, still paint an overall optimistic picture of Islamic banks' confidence in the industry. In most regions, institutions' confidence in the future of Islamic banking has been in a definitive upswing since 2015.

Figure 5. Islamic Banking Industry Optimism Level



1: Extremely Pessimistic; 2: Pessimistic; 3: Fairly Optimistic; 4: Very Optimistic; 5: Extremely Optimistic

Continued Cautious Optimism for Revenue Growth

The final dimension of the confidence index is a question asking the institutions how confident they feel about their institution's revenue growth in comparison to their banking competitors in the region. Overall, the trends were modestly positive with the exception of the GCC that reported a slight decline from last year, and Europe, showing no change since last year.

In 2018, we observed that while banks were overall optimistic about the future of banking and Islamic banking in particular, they were more restrained about how that could translate into revenue growth. While the global economy was doing well in 2018, other factors such as the drop in oil prices worry Middle Eastern businesses, and political turmoil continues to pervade multiple regions. High inflation and low growth rates persist in several regions. In addition, events such as Brexit, the US-China trade war, and the possible continued decline of oil prices are putting economists on edge for the coming years. Given the macroeconomic climate, as well as the political issues at hand which are out of the banks' control, it is no surprise that the optimism going into 2019 is restrained – and, in many cases, backed up with contingency plans.

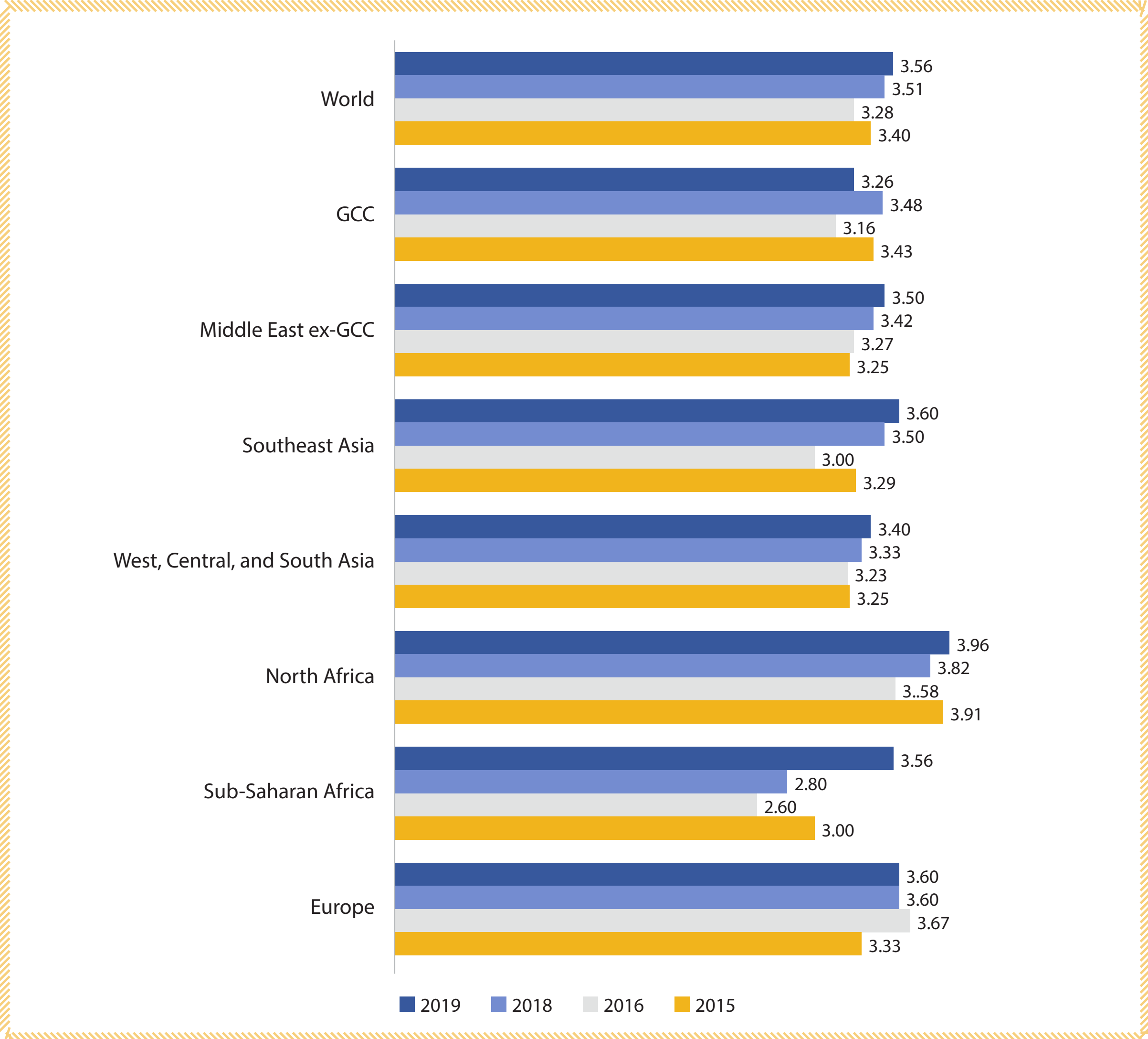
Globally, there was a tiny increase from a score of 3.51 in 2018 to a score of 3.56 for 2019. This is an improvement on the scores from previous years. The region with the most drastic increase was Sub-Saharan Africa with a score of 3.56 this year (compared to scores looming around 2.60 and 3.00 in previous years). While trends for Sub-Saharan Africa's confidence index over the years have been quite volatile, this jump in optimism for revenue growth (while simultaneously displaying a bit less confidence for the future of both banking in general and Islamic banking in the region) makes it the most surprising result.

Other regions with increases showed more restrained optimism. The Middle East ex-GCC reported a score of 3.50 (a slowly increasing trend from 3.42 last year). Southeast Asia is slightly more optimistic this year at 3.60 compared to 3.50 last year. West, Central, and South Asia crept up a few points from 3.33 last year to 3.40 this year, while North Africa has been on an upward crawl since 2016 to 3.82 last year and 3.96 this year.

Europe, the only region that did not experience a dip in revenue growth confidence in 2016 (the score at the time being 3.67 – very high compared to all other regions that year), had a score of 3.60 for both last year and this year.

> The revenue growth optimism going into 2019 is restrained and, in many cases, backed up with contingency plans, given the macroeconomic climate and political context.

Figure 6. Revenue Growth Expectation



1: Extremely Underperform; 2: Underperform; 3: Fairly Similar; 4: Outperform; 5: Extremely Outperform

Islamic Banking Concerns for Upcoming Years

The next section of the confidence index deals with what banking executives are most concerned about in the coming year: what new challenges will arise and which issues will gain priority based on past experiences from previous years. Islamic banking leaders were given a list of 23 possible challenges and asked to assign a score of severity to the concerns they felt would be facing their institution in the next 1 – 3 years. The scores range from 1.00 to 5.00, with scores towards the 1.00 end considered “not at all important” issues to consider, while scores towards 5.00 would be considered “extremely important”.

In a positive turn of events, the severity and urgency of concerns have diminished significantly compared to previous years. Several scores that were in the high 4.20’s and 4.10’s in 2018 have dropped by around ten points or more. This serves as a positive indication that the banks are aware of the areas of concern but are also feeling more confident about their ability to deal with these issues in the coming years.

> This year, the severity and urgency of concerns have diminished significantly reflecting more confidence in the banks' ability to deal with these issues in the coming years.

Concerns over Shareholders' Value and Expectations

Like last year, concern for shareholders was the foremost concern on most bank leaders' minds. With every boost of economic growth come increased expectations from shareholders, and we have seen banks' concerns over meeting these demands manifest themselves last year. However, the score has dropped in severity from 4.35 last year to 4.17 for 2019, showing that while it is top of the agenda, it is a more manageable concern for the coming year.

The reason for these numbers may also stem from the fact that the banks' concern over competition from other institutions has decreased significantly in the past year; concern over competition from other conventional banks was already a low-ranking concern in 2018 with a score of 3.36, falling this year to only 2.96. Likewise, there is a dip in concern over other Islamic banks competing for consumers, from 3.65 in 2018 to the current score of 3.48. Decreased competition from other banks will likely result in increased expectations of positive outcomes from shareholders, which explains the concern about shareholders' value and expectations.

Judging from the macro-environmental context, the concern for shareholders' value makes sense; while 2018 was a year of economic prosperity for many regions, some institutions (especially those in the Middle East regions and Africa) expressed concern in the open-ended response portion of the survey that the promising economy of 2018 could eventually end in stagnation for the coming years, or even a downturn. Many banks mentioned capital adequacy struggles due to macro-environmental and political factors in their regions, as well as increased regulatory requirements. A bank in North Africa spoke on this issue and mentioned how they were dealing with the problem: "Insufficient capital and resource scarcity have been challenging, but the management has encouraged and urged shareholders and owners to raise capital to strengthen the bank's financial position. We have also focused on attracting resources from deposits, expand operations within the country, and improve the quality of provided services." These fears, coupled with shareholders' high expectations carried over from 2018, would doubtlessly cause stress when envisioning how to handle these expectations in the future.

Customer Issues Take Precedence

> "Our bank is focusing its attention on winning the satisfaction of the customer through the process of innovation and creativity, which are the determinants of success in a bank's environment that is overcome by competition.",
>
> - a bank in North Africa stated.

Compared to last year, concerns about customer attraction, relation, and retention have increased in priority, although not in severity. Last year, concerns about the institutions' interaction with customers were at a level of 4.26, but in overall rank, it was only the fifth most pressing concern. However, in 2019, the banks are focusing more on the customer relations side of their institutions; it is now ranked the second most important concern, though (following the trend of decreased concern severity) with a score of 4.13.

We can also see a focus on customers with the high ranking of "product offering and innovation" and "service quality" metrics. Product offering and innovation is ranked fifth, with a score of 4.08; while service quality is not far behind, ranked seventh with a score of 4.04. This follows the trend in the open-ended responses where most banks cited products and services as the answer to their concerns of customer attraction and retention. A bank in North Africa put it succinctly: "Our bank is focusing its attention on winning the satisfaction of the customer through the process of innovation and creativity, which are the determinants of success in a bank's environment that is overcome by competition."

Hearteningly, the banks seem much less concerned about the dangers posed with regard to consumer protection, which is ranked only 15th and scores at 3.77.

More Confidence in Handling Technology Concerns

In the 2018 CIBAFI survey, institutions ranked information technology as the second most pressing concern. Moving into 2019, information technology has fallen into third place, showing that banks are feeling more confident in dealing with IT issues in the coming year: the score has fallen 20 points from 4.31 last year to 4.11 this year. The transfer to digitalisation will doubtlessly be more seamless for some countries than for others, but banks in less technologically-driven regions seem determined to forge ahead into the new technological territory. A bank in the Middle East ex-GCC group said, "Business technology is still a new experience in the [country's] market, but it is very important because the unprecedented rapid development in the world will be reflected in the near future. The Bank has included several projects within its strategic plan to implement modern systems such as IBS (Internet banking), BI (Business intelligence) and others."

A Promising Outlook, from Macro to Micro

One of the most striking changes in the results from last year is the banks' attitudes towards the political uncertainty in their region. Last year, political uncertainty was rated with quite a high score of 3.97, whereas 2019 has allayed those fears down to a much lower priority of 3.63. However, despite the decreased severity, we can nevertheless observe from the open-ended responses that it is still a pressing issue across all regions.

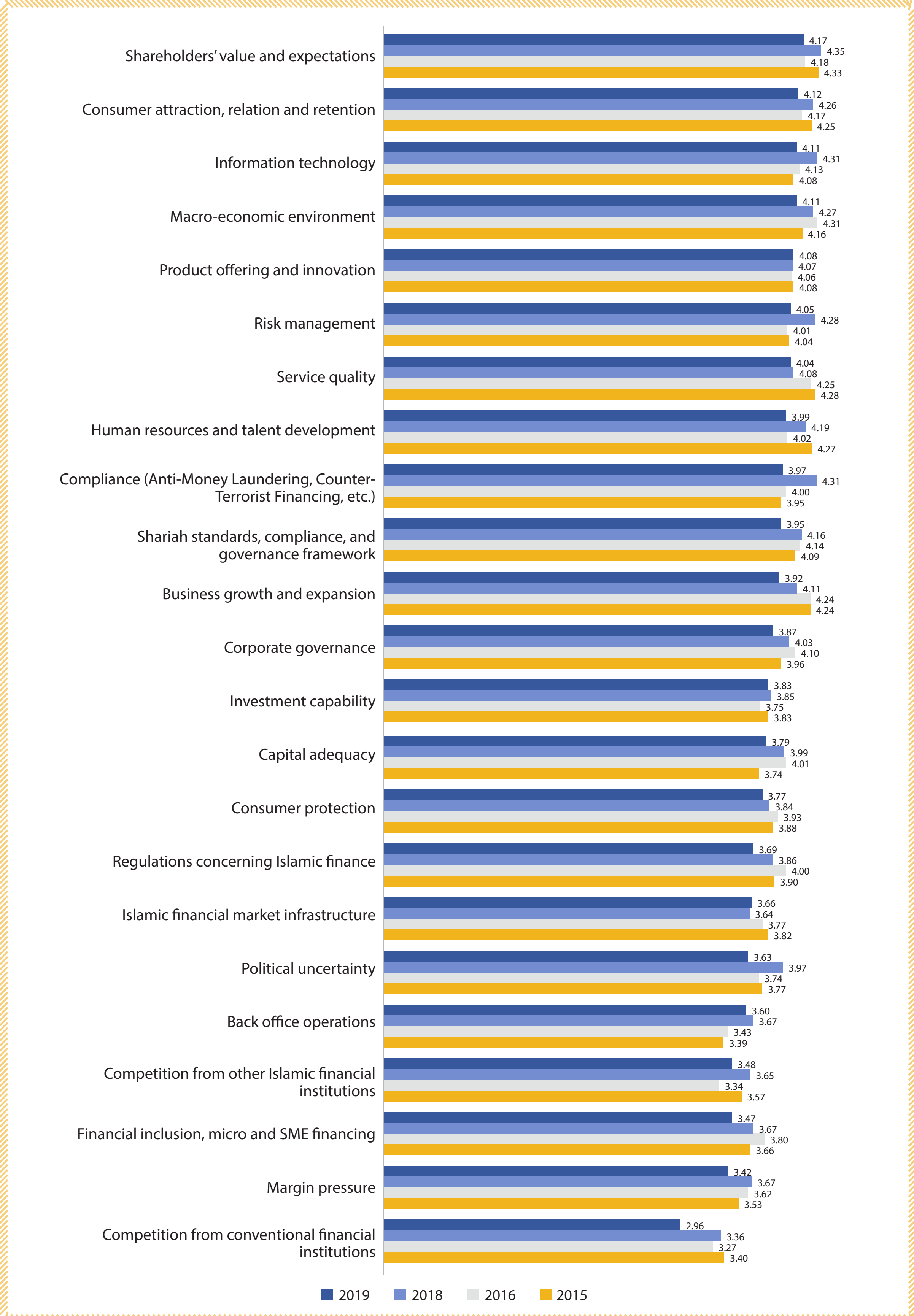
Compared to last year, concerns over the bank's ability to govern themselves and conduct business have also decreased in severity. Concerns about compliance (Anti-Money Laundering, Counter-Terrorist Financing) are notably down from last year's concern level of 4.31 to a milder 3.97. Risk management has also dropped from 4.28 last year to 4.05 this year. From the open-ended responses, we can see that many banks have undertaken strategies to reduce their AML/CFT risk, such as scrutinizing their collaborative relationships, holding steady to due dates, and being more careful about financing certain sectors. In many countries, when it comes to AML/CFT and public perception, reputation is everything. A bank in North Africa noted, "In addition to Money laundering and financing of terrorism risks, the existence of [the country] in the list of countries sponsoring terrorism represents a real challenge and weaken banks' ability to deal with correspondents." Many banks are working to combat that reputational risk: a bank in the Middle East ex-GCC group said, "[The strategy we've taken is a] careful follow-up on the payment of funds on due dates and taking appropriate measures to do so. Also, the bank is less open to granting funding to certain sectors such as tourism and tourism transportation, as well as diversifying the financing of economic sectors and trying to develop new products and services."

Concerns about human resources and talent development, as well as corporate governance, have also dropped by several points. Overall, however, the dimensions fit together to form an image of the banks' utmost confidence in their ability to function successfully both internally and within their region's macro environment as a whole in the coming year.

There are only two metrics in which concern severity stayed steady rather than decreasing, and those were "product offering and innovation" (which has consistently hovered at the 4.06 – 4.08 range) and "Islamic financial market infrastructure" (which increased by two points this year, from 3.64 to 3.66, but is still a low-level concern).

Many banks have undertaken strategies to reduce their AML/CFT risk, such as scrutinizing their collaborative relationships, holding steady to due dates, and being more careful about financing certain sectors.

Figure 7. Global Islamic Banking Top Concerns



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Figure 8. Global Islamic Banking Top Concerns (2019)

1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

> All regions were concerned about the macroeconomic environment, albeit for different reasons.

Regional Concern Variations

As with many dimensions of the survey, we can get a clearer idea of which areas voiced these concerns the strongest when we look at a regional breakdown. Many institutions had some top concerns in common with the banks in other regions, while some top concerns were unique to one region.

All regions were concerned about the macroeconomic environment, albeit for different reasons. Three regions, in particular, were chiefly concerned that the macro-economic or larger political environment as a whole could have an effect on their business. The GCC and North Africa both had macro-economic concerns, at 4.19 and 4.50 respectively, with North Africa marking it as the most immediate concern. In the Middle East ex-GCC, political uncertainty was ranked as the number one concern, with a score of 4.21. A bank in the GCC showed concerns about the price of oil dropping saying: "The deposit growth of the banking sector in [the country] has visibly slowed down last year on the back of lower oil prices, and this has instigated a decline in the overall liquidity conditions in the sector." Some banks were concerned with how political uncertainty was affecting their ability to do business. A bank in the West, Central, and South Asia region said, "One of the most important challenges facing the bank is the political uncertainty: sharp political volatility and instability has a great impact on planning for the future, maintaining customers trust and responding to the expectations of shareholders and stakeholders."

Banks in the GCC, Southeast Asia, and West, Central, and South Asia were most worried about shareholders' value and expectations in the coming 1 – 3 years, with scores of 4.35, 4.40, and 4.00, respectively. This was the number one concern for the GCC and Southeast Asia. Considering the widespread fear of the upcoming macroeconomic climate, it follows that banks would have concern for what they can deliver to shareholders and stakeholders.

Many of the regions had consumers, services, and products on their minds when they rated their most pressing concerns. The Middle East ex-GCC, Southeast Asian, and North African regions rated service quality as a pressing issue with scores of 4.15, 4.20, and 4.43, respectively. These high ratings underscore the importance of delivering useful and relevant services to consumers in the coming years. Similarly, Southeast Asia, North Africa, and Sub-Saharan Africa rated consumer attraction, relation, and retention as high priorities, with scores of 4.20, 4.46, and 4.38 respectively. Sub-Saharan Africa ranked it as their number-one concern to address in the coming years. On a related note, many institutions focused on human relations and talent development for the future; two regions, Southeast Asia and West, Central, and South Asia, rated this concern highly with scores of 4.20 and 4.00, respectively. One region, the GCC, rated product offering highly with a score of 3.96.

Some institutions have worries about the inner workings of the bank's business. Southeast Asia cited capital adequacy and corporate governance as top concerns for this year, with tied scores of 4.20. The GCC rated business growth and expansion quite highly (with a score of 3.96), while the Middle East ex-GCC has risk management (with a score of 4.15) on their radar for the coming years.

There were some worries about the Islamic mechanisms of banking in particular. West, Central, and South Asia rated Islamic financial market infrastructure as a top concern (with a score of 4.00), while both Sub-Saharan Africa and Europe mentioned Shariah compliance as a challenge in years to come (with scores of 4.13 and 4.60, respectively). For Europe, this was tied for their top-prioritised concern.

Among other important issues mentioned were technology and compliance, with Europe rating Anti-Money Laundering / Counter-Terrorist Financing as a prominent concern (4.40), and Sub-Saharan Africa and Europe both citing that IT was at the forefront of their probable challenges in the coming years (with Sub-Saharan Africa rating it 4.14, and Europe tying it for their number-one concern at 4.60).

Table 2. Major Concerns of Islamic Banks across Regions

Geographical breakdown of the top concerns*		
	Top Concerns	Score
Group 1 GCC	▶ Shareholders' value and expectations	4.35
	▶ Macro-economic environment	4.19
	▶ Product offering and innovation	3.96
	▶ Business growth and expansion	3.96
Group 2 Middle East ex-GCC	▶ Political uncertainty	4.21
	▶ Service quality	4.15
	▶ Risk management	4.15
Group 3 Southeast Asia	▶ Shareholders' value and expectations	4.40
	▶ Capital adequacy	4.20
	▶ Service quality	4.20
	▶ Corporate governance	4.20
	▶ Human resources and talent development	4.20
	▶ Consumer attraction, relation and retention	4.20
Group 4 West, Central, and South Asia	▶ Islamic financial market infrastructure	4.00
	▶ Human resources and talent development	4.00
	▶ Shareholders' value and expectations	4.00
Group 5 North Africa	▶ Macro-economic environment	4.50
	▶ Consumer attraction, relation and retention	4.46
	▶ Service quality	4.43
Group 6 Sub-Saharan Africa	▶ Consumer attraction, relation and retention	4.38
	▶ Information technology	4.14
	▶ Shariah standards, compliance, and governance framework	4.13
Group 7 Europe	▶ Shariah standards, compliance, and governance framework	4.60
	▶ Information technology	4.60
	▶ Compliance (Anti-Money Laundering, Counter-Terrorist Financing, etc.)	4.40
Global	▶ Shareholders' value and expectations	4.17
	▶ Consumer attraction, relation and retention	4.13
	▶ Information technology	4.11
	▶ Macro-economic environment	4.11

*For every group, the top three concerns are identified, including all concerns with the same score, even if that means that more than three are listed in total.

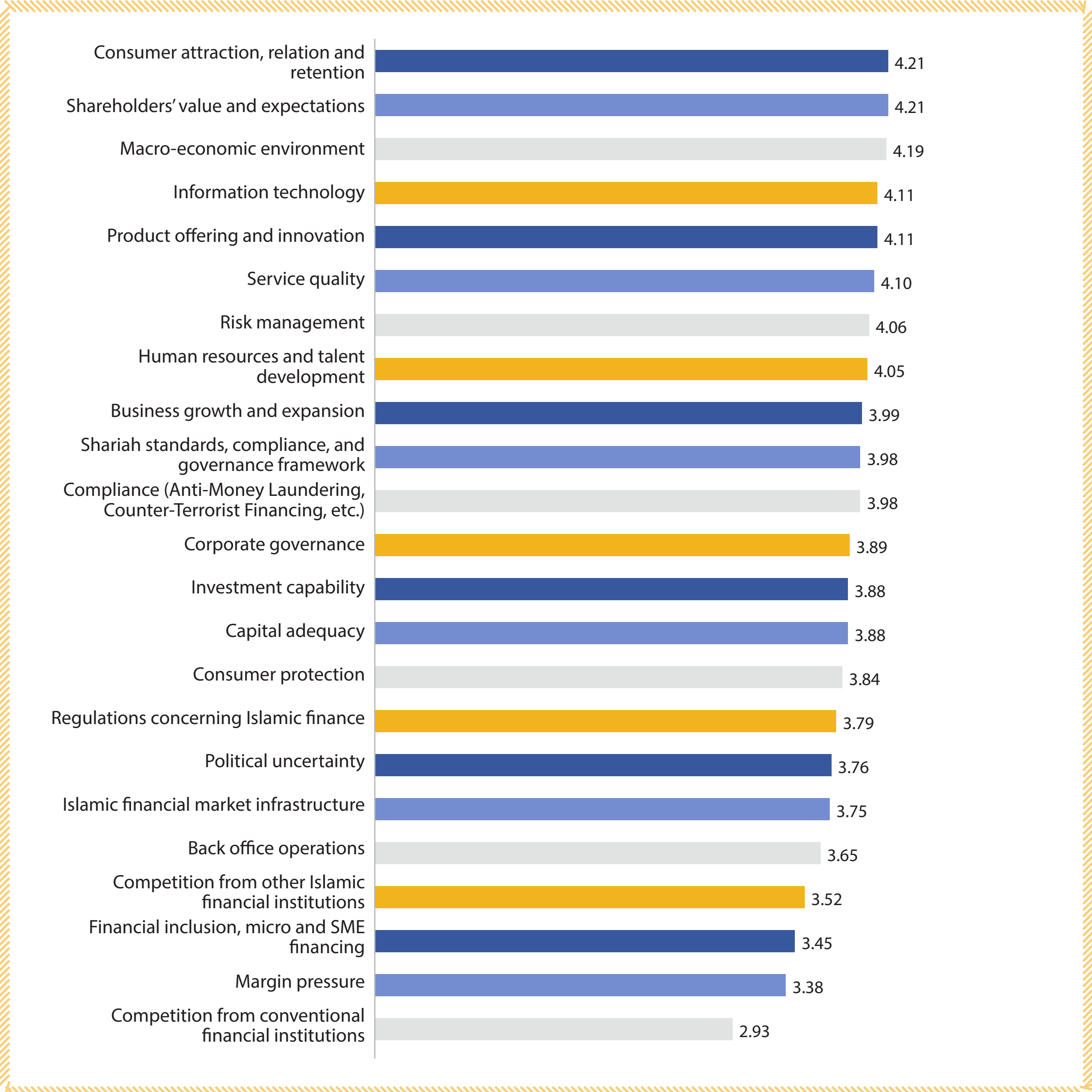
1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Differences by Bank Size

When we examine how the size of a bank plays a role in top banking concerns, we see mostly the same cluster of issues, except for one – smaller banks rated consumer attraction, relation, and retention more heavily than the larger banks. For smaller banks, it was tied for the top concern with a score of 4.21. However, the larger banks considered consumer issues to be less consequential, ranking it sixth with a score of 3.90. This makes sense, considering that smaller banks may struggle for legitimacy in their regions. For them, attracting and retaining new customers using quality products and services is a more daunting task.

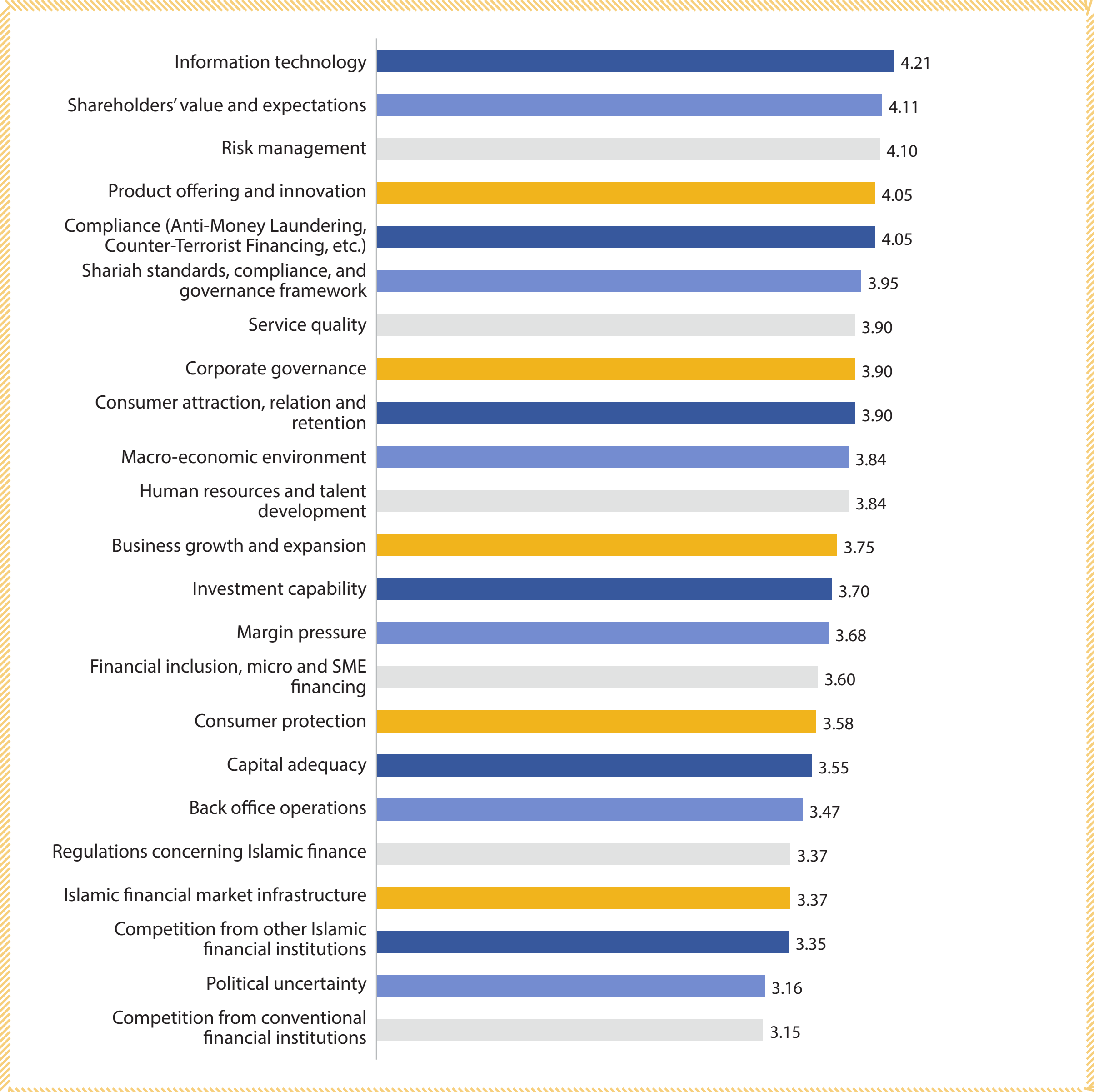
While the smaller banks had greater levels of concern about competition from other Islamic financial institutions (3.52) compared to larger banks (3.35), it is encouraging to see that competition from other banks in general, whether Islamic or financial, is a low-level concern for not only larger banks, but smaller banks as well.

Figure 9. Islamic Banking Top Concerns – Small Banks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Figure 10. Islamic Banking Top Concerns – Large Banks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Suggested Strategies to Overcome IFIs' Top Concerns

In order to gather the most comprehensive report possible, the CIBAFI survey also asked top leaders in the Islamic banking sector which two issues they foresaw as most important for their bank to focus on and which strategies, if any, would be helpful in addressing potential problems. To be expected, many of the issues expressed can be better viewed through a regional lens.

Pervasive in every region's responses were fears about the macroeconomic environment, and what this would mean for shareholders, capital adequacy, and the future of the institutions in general. However, other fears tended to be more region-specific, and every region had different ideas for how to tackle these potential problems in the years to come.

Macro Concerns Feature Prominently

Macroeconomic concern was one of the top three concerns for the GCC and North Africa, but it was referenced by every region in their open-ended responses. The GCC, Middle East ex-GCC, North Africa, and Sub-Saharan Africa were all worried about how political uncertainty in these regions would affect the macroeconomic environment. That fear was prevalent in their top concerns, and in the GCC's case, it no doubt contributes to the worries about being able to adequately satisfy shareholders in the coming years. Several countries, especially Iraq, Syria, Palestine, and Egypt cited political uncertainty as a pressing concern that affects their ability to forge relationships with banks outside their respective countries. In addition, some responses, from Qatari and Kuwaiti institutions in particular, voiced that the drop in oil prices is negatively affecting their business and likely will continue to do so. A few banks mentioned that they have new pricing structures and/or contingency plans in place for these circumstances, but most banking leaders' responses regarding their plans to combat these possible negative outcomes focused more on consumer relations and providing innovative banking tools.

A bank in the GCC said, "Given the global economic environment, market growth has been relatively subdued. This obviously creates significant competition for business opportunities. Whilst the [country's] growth forecasts are expected to see a northbound trend for the coming years, soliciting new business and acquiring new customers will remain a challenge in this highly competitive space." This largely represents the sentiment of most of the responses from GCC banks on this issue. Many banks believe that innovation in product development and improved customer relationship skills could lead to more positive returns for consumers and shareholders.

Some banks also raised the notion of smart investment being important in the coming years, especially when the macroeconomic environment is uncertain. As an institution in Sub-Saharan Africa points out, not all investments may be worth risking in this political climate: "As an active fund manager, our superior stock selection capabilities enable us to identify attractive opportunities. However, due to uncertainty caused by political challenges, there is a risk of clients not remaining consistent with their long-term investment goals, and therefore reacting to market news and prematurely redeeming their funds."

> Several countries cited political uncertainty as a pressing concern that affects their ability to forge relationships with banks outside their respective countries.

Continued Focus on Fintech and Cybersecurity

A common theme gathered from these responses is that information technology is going to be a necessity in the coming 1 – 3 years. Many of the issues the regions have in common, such as customer relation and retention, competition with conventional banks, business growth and expansion, and customer confidence in the safety of the products boils down to the use of Islamic finance tools. Having a knowledgeable customer service staff able to explain the product and assist in their use will increase confidence in the institutions, attract more customers, expand geographical reach via digitalisation, and increase cybersecurity. In addition, the banks seem keen to develop existing technologies to meet their cybersecurity needs.

> Most banks agreed that digitalisation is the way forward, both from the business and security standpoint.

Most banks agreed that digitalisation is the way forward, both from the business and security standpoint. A bank in North Africa stated, "The most significant things that the Bank did to draw its vision for the future is integrating digitalisation into its strategic short and medium-term challenges to accelerate the transition to digital business platforms, as well as acquiring the tools of the new generation of innovative technology, with constant attention to the protection of electronic payment programs from all means of fraud and online attacks."

Several banks echoed this sentiment in their responses. Some in the GCC also stated that keeping up with new technology and cybersecurity were important issues for them, especially because this enhances trust and thus results in better consumer relationships. One bank said, "Information technology in the modern era of banking plays a key role in enhancing the customer experience, and therefore we will continue to upgrade our IT infrastructure by introducing state-of-the-art IT facilities." Other banks were in agreement. Though the move to digitisation is a daunting one, it is also a move that many banks acknowledge could increase their geographical spread and improve their services to clients.

Legitimacy and Consumer Attraction: A Concern for Some Regions

Trust was also an issue that some banks addressed in their open-ended responses: trust from the public that the bank was able to function successfully despite the political turmoil in their countries (as expressed by the GCC and Middle East ex-GCC regions) or trust that Islamic banking is an attractive alternative to conventional banking (as expressed by Asia and Europe).

Banks in Africa were in agreement that the best way to address these issues would be to offer their unique products within a legal framework that respected the requirements of Shariah compliance and with collaboration from other Islamic institutions to promote legitimacy. As a bank in Sub-Saharan Africa put it, "The bank, within its overall strategy, is working on making the bank's activities characterised by great flexibility and have a growing diversity in its income. The bank also works in cooperation with the Islamic credit institutions located in the local market, to raise awareness of Islamic banking and the need for legal frameworks that go with the characteristics of Islamic banking."

European respondents were the most focused on recognition and being seen as legitimate in their region. While some banks in the African and Middle Eastern regions were concerned about being seen as trustworthy due to political uncertainty, European banks are battling with the fact that Islamic banks are simply not well-known or well-recognised in their region. Hence, customer attraction and competition from conventional financial institutions were more pressing concerns for them. Many banks in Europe are up against big-name banks with recognisable brands, which can be problematic. A bank in Europe said, "Many of our competitors are daughter companies of large European banks. Their mother companies provide them with the latest technologies (e.g. digital technologies in payments, digital branches etc.), that we still cannot afford to buy and that are unavailable to us. This could be a big issue in the future for us." Other European banks agree that digitalisation and information technology are useful aids to this problem.

Part of the issue may be that consumers are not familiar with the products offered, which is why a bank in Europe stated it is focusing more on product offering and innovation, as well as explaining the benefits of those products to clients: "Islamic banking is an area that requires intense explanation and face-to-face client consultancy. This is why we also focus on the expansion of our branch network where clients are personally advised on Islamic banking advantages and products. We are also continually developing our product and services portfolio to attract a broad range of target groups."

A bank in Europe stated:
"Islamic banking is an area that requires intense explanation and face-to-face client consultancy. This is why we also focus on the expansion of our branch network where clients are personally advised on Islamic banking advantages and products."

Issues Specific to Islamic Banking

Some banks had concerns about Shariah compliance and Islamic banking tools in particular. West, Central, and South Asia had similar concerns and suggestions to those of Southeast Asia, but also expressed concern about Shariah compliance and risks specific to Islamic banking (and how this could hurt them in comparison to conventional banks in their region). This is reflected in this region's high score of concern for Islamic financial market infrastructure. A bank in West, Central, and South Asia worded it as follows: "Since Islamic Banking, credit in particular, deals in assets, considering Islamic Banking risks to be on par with conventional banking is an unfair concept. The risks of each and every product, specifically financing products, are unique and require a specialised risk mitigation approach." Other banks likewise noted crumbling credit-deposit ratios. Most banks across all regions seemed on board with the idea of increased human resources skilled in dealing with Islamic banking practices.

Africa Focuses on Consumers

The African regions seemed particularly focused on consumer relations in their open-ended responses compared to other groups. The answer, banking officials in those regions said, is in providing excellent products and services. As one bank in North Africa mentioned: "[We are addressing the concern of consumer attraction, relation, and retention by] providing attractive novel banking products and expanding in points of sale to reduce cash circulation between customers. Also, we try to encourage the public to use electronic banking services."

Several banks noted that they had worked to roll out new Shariah-compliant Islamic banking products to combat their macroeconomic fears, and some institutions said they are focusing on business growth and expansion by increasing their geographical reach. Sudanese banks, in particular, said they are being proactive by looking towards opening new branch locations and increasing digitalisation to expand their networks.

Conventional Bank Competition is a Minor Concern

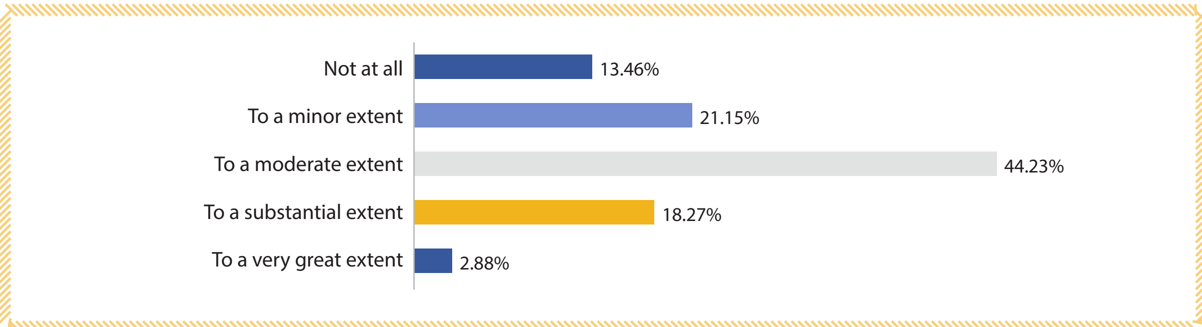
A promising result from this portion of the survey is that banks appear to worry very little overall about competition from conventional banks. While from the short responses, it is clear that many banks are aware of the need to keep abreast of conventional banks in terms of product offering and consumer relations, the low score of only 2.96 shows that, overall, banks are nevertheless confident in their abilities to navigate those areas and stay successful. This is a heartening boost of confidence compared to last year's relatively high concern level of 3.36.

Competition from New Business Models

In this year's survey, we also asked banks, "To what extent does your institution face competition from novel, technology-enabled, business models, whether employed by established businesses or start-ups?" The question was to get a clearer picture of how the rise of start-ups and new technologies has affected banks' business.

The global responses are presented in Figure 11. The majority of the respondents (around 44%) reported being affected to a "moderate" extent by competition from novel, technology-enabled, business models, while around 21% have either been affected a "substantial" or "very great" amount.

Figure 11. Competition from Novel, Technology-enabled Business Models



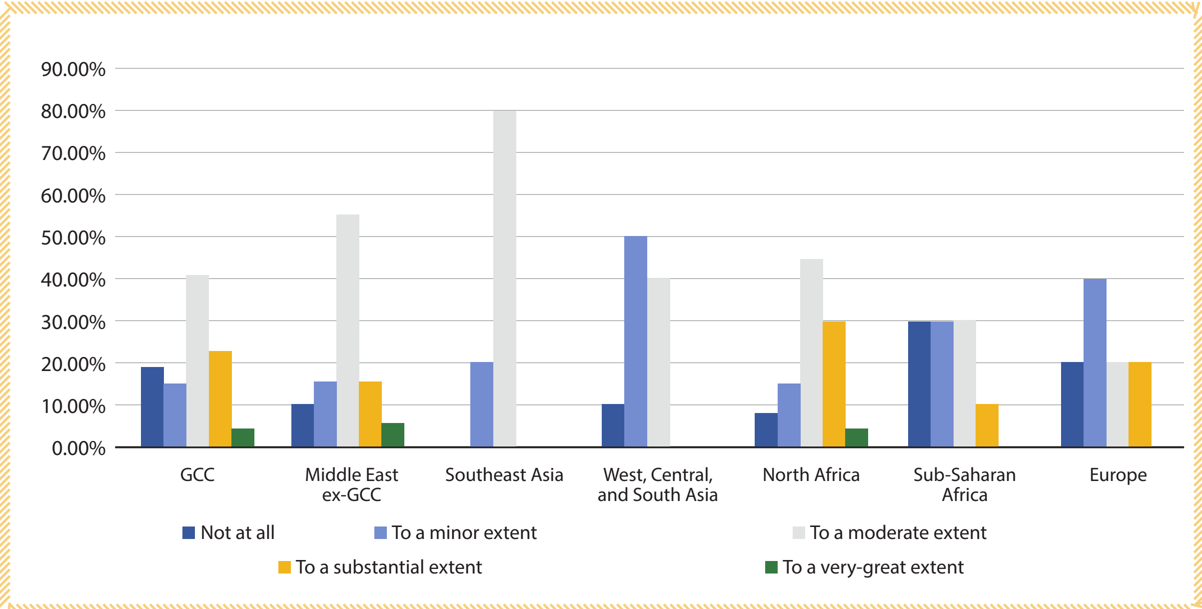
Regionally, overall, Southeast Asia, the Middle East ex-GCC, North Africa, and the GCC were the most affected. In these regions, the respondents reporting that they were affected to at least a "moderate" extent included Southeast Asia (80%), the Middle East ex-GCC (55%), North Africa (around 44%) and the GCC (around 41%). However, the regions that reported they have either been affected a "substantial" or "very great" amount were North Africa (around 33%), the GCC (around 26%), Europe (20%), and the Middle East ex-GCC (20%).

The global economic environment indicates that the market is subdued, creating more competition between banks. Conventional banks often comprise the majority of the market share in these regions, and Islamic institutions in some regions are hit harder than others. Conventional banks aren't the only competition; in many regions, the number of Islamic financial institutions is increasing, resulting in increased strain on the market. In addition, competition has evolved past traditional players and has expanded to involve technology giants and Fintech groups.

The solution to many banks lies in digitalisation rather than solely brick-and-mortar expansion. A bank in the Middle East ex-GCC group said, "The bank has recently adopted a strategy of electronic and digital transformation in its banking services and will be limiting its geographical expansion in the coming years." Several banks mentioned their increased focus on encouraging consumers to use electronic services and credit cards.

> Competition has evolved past traditional players and has expanded to involve technology giants and Fintech groups.

Figure 12. Competition from Novel, Technology-enabled Business Models – Regional Breakdown



It's worth noting the disparity between how these new business models affect smaller banks versus larger banks. While only about 14% of larger banks stated that they were affected to a "substantial" or "very great extent" by these unconventional business models, by contrast about 23% of the smaller banks stated that they were affected either to a "substantial" or "very great" extent.

Figure 13. Competition from Novel, Technology-enabled Business Models – Small Banks

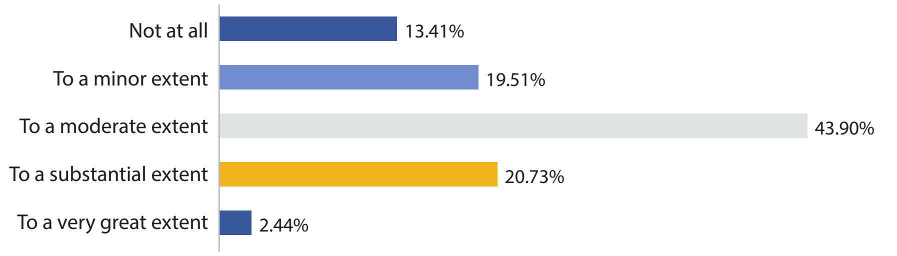
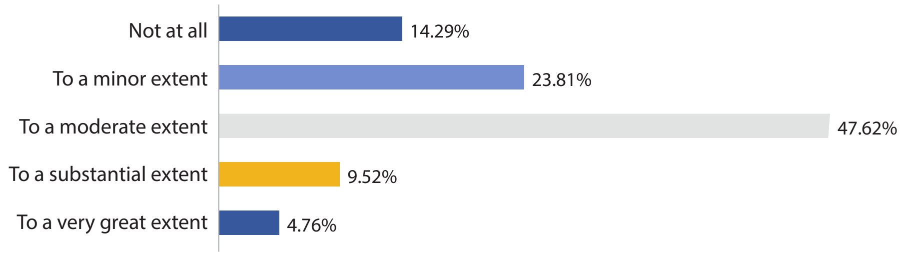


Figure 14. Competition from Novel, Technology-enabled Business Models – Large Banks



Part II

CIBAFI Islamic Banking Risk Dashboard

PART II. CIBAFI ISLAMIC BANKING RISK DASHBOARD

The CIBAFI Islamic Banking Risk Dashboard, conducted since 2015, is a useful tool to see the challenges on the banks' radars for their regions, as well as how the perspectives of these challenges evolve over time.

In our survey, we have included the risks that Islamic financial institutions feel they are most likely to mitigate in the coming 1 – 3 years. This gives us a detailed perspective of what the banks are facing, as well as how institutions' viewpoints of prospective risks change over the years. Each institution was asked to assign a value to each of the 19 categories, ranging from 1.00 (no risk at all) to 5.00 (extremely risky).

While the Global Islamic Banking Top Concerns dashboard in Part I covers global concerns that banks have while operating within the scope of their respective environments, as well as big-picture items such as concerns about Islamic banking mechanisms in general, the Islamic Banking Risk Dashboard is intended to reflect the risks associated with the functioning of the banks themselves. To this end, political, macroeconomic, and other risks are foregone in pursuit of an understanding of which risks the bank expects to affect its day-to-day operations in the next few years.

To keep the survey up-to-date and comfortable to answer, the dimensions of risk are tailored each year. For example, last year we added a new risk dimension, de-risking risk, which deals with the possibility of being cut off in correspondent banking relationships due to the perception of having too high a risk profile. This year, we have omitted the dimension of "credit portfolio" for ease of answering, since this could fall under other categories, including credit risk.

For similar reasons, in the new survey, we felt the need to separate "technology risk" and "cybersecurity risk", as the causes and possible solutions for such risks can present quite differently. Thus, Figure 15 demonstrates the combined category of "technology risk", while Figure 16 distinguishes between the two.

> This year, "technology risk" and "cybersecurity risk" were separated to reflect the causes and possible solutions for each risk.

Technology Concerns Still Front and Centre

Technology-related risks are still a frontrunner when it comes to banks' perceived risks. Information technology risk was the top risk last year, and this year we can see it maintains the 2nd slot in Figure 15 with a score of 3.36. This holds steady with the pattern seen since 2016. However, when we separated technology risk from cybersecurity risk in Figure 16, it becomes clearer: cybersecurity risk is actually the number one risk, with a slightly higher score of 3.41, whereas other technology risks are tied for third place with a score of 3.31.

> Cybersecurity risk is the number one risk, whereas other technology risks are tied for third place.

It makes sense that, in a time when banks are working their hardest to attract and retain consumers, cyber security risk would be a pressing concern. While banks are able to learn, train, and implement new technologies on their own terms, the looming threat of a cyber-attack is much more unpredictable and could result in disaster for consumer relations and the bank's overall trustworthiness they have worked hard to earn.

Technology risk has been steadily increasing since 2015, which makes sense given that technology affects the functioning of a bank on nearly every level. However, until now, we did not have a measurable way of determining how much was a fear of cybersecurity risk.

AML/CFT Concerns Remain on the Radar

Other notable risks perceived of high severity were Money Laundering / Financing of Terrorism and De-risking risk. Money Laundering / Financing of Terrorism fears scored at 3.11, down very slightly from last year, but raised in terms of relative concern from sixth on last year's risk dashboard to fifth on the dashboard for 2019. This can probably be explained as fears carried over from what we saw in the concerns survey – banks globally rated Compliance (Anti-Money Laundering / Counter-Terrorist Financing) as 3.97, so it follows that Money Laundering would score relatively high on the risk dashboard as well. Every bank that mentioned AML/CFT fears in their written responses said they are implementing the latest regulatory standards to protect their institutions from that possibility, and many banks mentioned that they utilise special staff training protocols. A bank in the GCC mentioned using technology to aid them in this endeavour: "We have the relevant system and processes in place to highlight any such names, and transactions on activity right from acquisition. Whilst the technology is driving the potential identity risks, we are also conducting online and other courses and knowledge sharing events across the organisation, to ensure a thorough understanding vis-à-vis AML."

Banks in Africa and the Middle East ex-GCC group were most concerned about the possible effects on their reputations, while some banks were concerned with building their reputations back up. A bank in the Middle East ex-GCC group noted its policy of transparency with corresponding banks to aid this: "[Our bank] is trying to deal with the current situation by assuring correspondent banks that the events in [our country] don't affect its full compliance with international standards and the requirements of combating money laundering and financing of terrorism. [We] have adopted the principle of absolute transparency in all dealings and answering all questions and inquiries sent by correspondent banks."

With concern for customer attraction and retention, as well as the reputation of the bank being on the line, these elements of risk should be kept in focus for the coming years. Money laundering and compliance issues are elements that could lead to the negative outcome of severed banking ties with correspondent banks.

A Slight Rise in Perceived Liquidity Risk

As can be expected from the open-ended responses examined in Part I, many banks considered liquidity risk to be a concern in the coming years. Last year, liquidity risk was rated at a level of 3.29, and this year that number rose to 3.38.

This focus on liquidity risk corresponds to the concern for credit risk, which has had high ratings of perceived risk since 2015 as well. This year, credit risk is still one of the top five perceived risks with a score of 3.30 (down slightly from 3.37 last year). In addition, foreign exchange risk (with a score of 3.31, up from last year's score of 3.22), is another dimension that could affect bank liquidity.

A bank in the GCC mentioned that another concern is "adherence to long-term liquidity standards," stating that, "the big challenge is to get long-term deposits at affordable prices." Another possible reason is the issue of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) which banks are expected to comply with starting in January 2019 under Basel III.

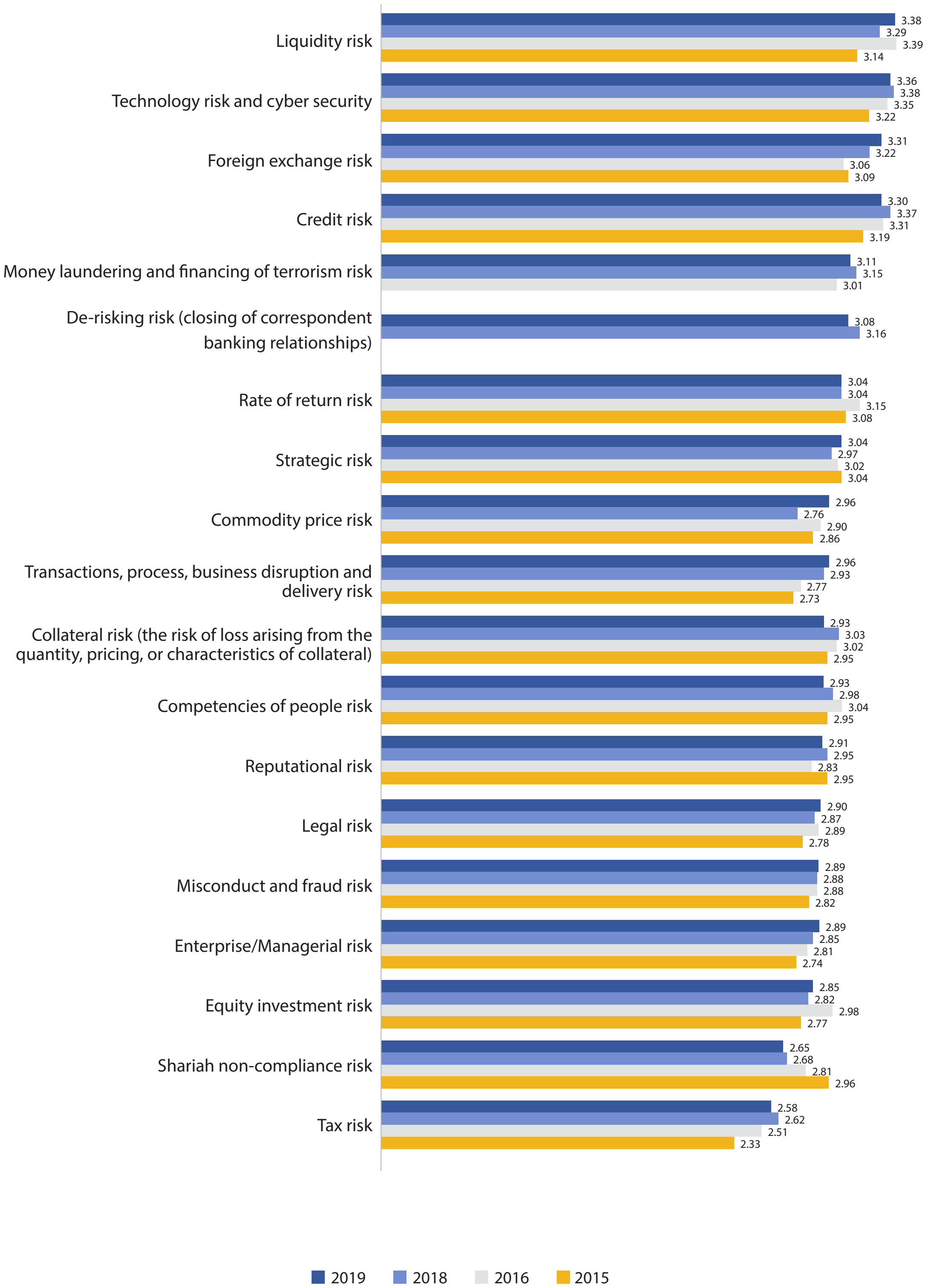
Shariah Non-Compliance Risk at an All-Time Low

An encouraging result from the dashboard is that institutions remain relatively unconcerned with the Shariah non-compliance risk. This indicates that banks feel comfortable with their Shariah boards and operating in accordance with Shariah within their jurisdictions. There has been a downward movement of Shariah Non-Compliance risk in terms of importance, currently at a low of 2.65.

Although tax risk was rated as the least concerning, the responses with regard to regulatory challenges (covered in more depth in Part IV) indicate that there are some tax issues, especially with banks who are new to Islamic finance.

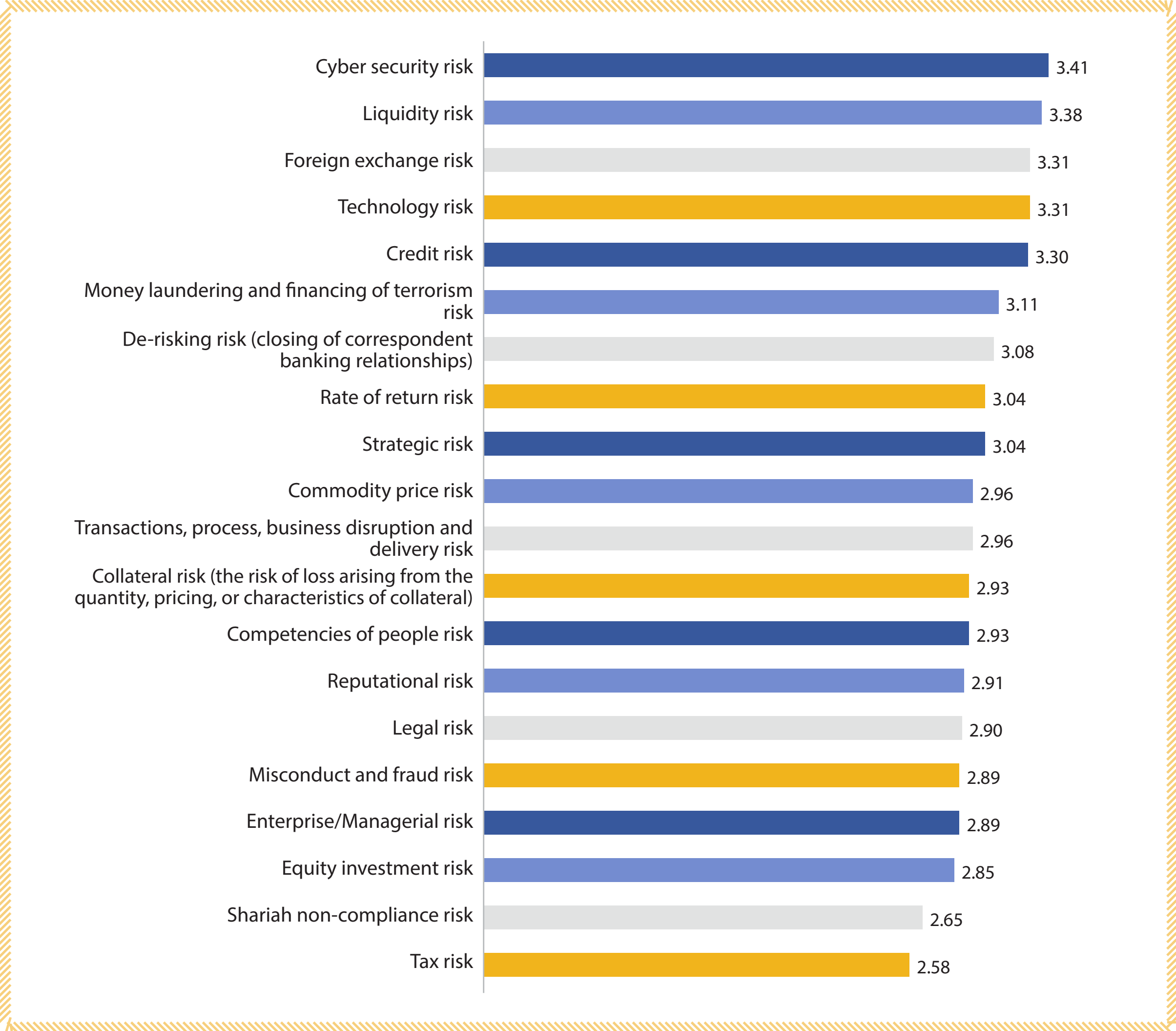
> Institutions remain relatively unconcerned with the Shariah non-compliance risk indicating that they are feeling comfortable with their Shariah boards and operating in accordance with Shariah within their jurisdictions.

Figure 15. Global Islamic Banking Risk Dashboard



1: No Risk at All; 2: Low Risk; 3: Medium Risk; 4: High Risk; 5: Extreme Risk

Figure 16. Global Islamic Banking Risk Dashboard (2019)



1: No Risk at All; 2: Low Risk; 3: Medium Risk; 4: High Risk; 5: Extreme Risk

Unique Differences by Geographical Region

Of course, the profile of global risk comes together more clearly if we examine the top risks cited by each region. For this data, "technology risk" and "cyber security risk" were listed separately.

Cyber Security Risks: a Crucial Concern

The GCC, Middle East ex-GCC, Southeast Asia, and Europe also rated cyber security as a chief risk they will face in the next few years. On this concern, a bank in the GCC stated, "As cyber-threats grow in complexity and severity, financial institutions in [the country] are working hard toward identifying and mitigating cyber-threats employed by criminal actors who try to directly disrupt business. Banks are continually investing in the latest software and hardware infrastructure available to make sure that those types of risks are mitigated."

In general, the banks' responses agree that the key to technological safety on this front is in continual system upgrades and staff training to be aware of the potential threats. Another bank in the GCC said, "Cyber security risk is a growing global threat and a major cause of concern from banks around the world. As part of regular upgrades, IT security is key, and we aim to remain at the cutting edge of the latest solutions to ensure protection from such events. We are also continuously stress testing existing and new systems to pre-emptively highlight/identify any potential possibilities of breach or weakness and take measures to eliminate the same. Just as digitalisation is based around agility, so does agility form an integral part of our IT security."

> Banks agree that the key to technological safety is in continual system upgrades and staff training to be aware of the potential threats.

Keen Focus on Liquidity Risk

Liquidity risk is another featured top risk for several regions, not far behind cyber security as a top concern globally. Southeast Asia and North Africa cited liquidity risk as their most important risk for the coming years, with Southeast Asia rating it 3.20 and North Africa noting a quite high score of 4.11. Sub-Saharan Africa and Europe, while not listing it as their most concerning risk, nevertheless gave it high scores of importance: 3.38 and 3.40, respectively.

A bank in North Africa said they were trying two different approaches to mitigate this risk: "The bank's strategic initiative to meet the liquidity risks: (i) Expansion of electronic services and automated payment systems, and (ii) Banking spread to enhance financial inclusion." Several other banks echoed the sentiment of liquidity risk using electronic payment and bank cards. One banking group was considering issuing Sukuk to raise liquidity, while others were more concerned with finding instruments for investment. Some banks have established committees or portfolio management companies to be proactive on the issue.

Technology Risk and Foreign Exchange Risk Major Factors

Technology risk also registered as important for many regions. It was tied for the GCC's top priority at 3.19, and the Middle East ex-GCC region gave it a quite high score of 3.53. Southeast Asia rated it at 3.00, and Europe rated it as 3.60. A bank in Europe said they are addressing this risk by "…developing new digital platforms, recruiting more IT personnel, cooperating with and providing incubation to fin-techs, building digitalisation strategies for almost all units," ideas also implemented by other banks who cited worries over technology risk.

Foreign exchange risk was also a prominent risk in North Africa, Asia, and Europe. North Africa placed it very highly at 3.96. West, Central, and South Asia rated it as their most prominent concern with a score of 3.70, and for Europe it was tied for third at 3.40. Some banks responding on this issue said they plan to deal with foreign exchange risks using hedging strategies.

Credit Risk Affects Most Regions

Credit risk, although not a top global concern, scored quite highly on the risk dashboard. Regions scoring credit risk as of high importance included the GCC (3.19); the Middle East ex-GCC (3.32); Southeast Asia (3.00); West, Central, and South Asia (3.40); Sub-Saharan Africa (3.57); and Europe (3.80). For the GCC, Sub-Saharan Africa, and Europe, it was the number one most important risk. The only region that did not feature credit risk among its top risks, in fact, was North Africa. Therefore, while we can see that cyber security is globally the highest rated, credit risk's importance is commonly noted over nearly all regions.

A bank in the Middle East ex-GCC group said, "Due to the instability of the general circumstances and special circumstances that may face the clients, the institution is exposed to the defaulting of clients. Thus, to mitigate this risk, the institution avoids entering into projects with a very high risk and accepts projects and services that it can bear their risk as well as it seeks to implement a policy to reduce these risks." Several banks in Sub-Saharan Africa said they are practicing sector-conscious lending to combat credit risks, while banks in North Africa and Asia stated that they rely on external applications and technologies to help them identify credit risks.

Prominent De-Risking Risk Fears in North Africa

Of note is the fact that North Africa considers de-risking risk to be of critical importance in the coming 1 – 3 years. This region rated de-risking risk as 3.82, and it was their third major risk mentioned. This will make more sense when we explore North Africa's decline in correspondent banking relationships in the next section.

On this topic, a bank in North Africa noted, "[We] must have the ability to define objectives, policies, strategies and sound procedures to avoid the risks of closing correspondent banking relations, which means the return of all foreign financial transactions, whether issued or received by us from the banking institution outside [the country]".

> North Africa considers de-risking risk to be of critical importance in the coming 1 – 3 years.

Table 3. Major Risks of Islamic Banks across Regions

Geographical breakdown of the top risks*		
	Top Risks	Score
Group 1 GCC	▶ Credit risk	3.19
	▶ Technology risk	3.19
	▶ Cyber security risk	3.15
Group 2 Middle East ex-GCC	▶ Cyber security risk	3.63
	▶ Technology risk	3.53
	▶ Credit risk	3.32
Group 3 Southeast Asia	▶ Liquidity risk	3.20
	▶ Credit risk	3.00
	▶ Rate of return risk	3.00
	▶ Technology risk	3.00
	▶ Cyber security risk	3.00
Group 4 West, Central, and South Asia	▶ Foreign exchange risk	3.70
	▶ Credit risk	3.40
	▶ Transactions, process, business disruption and delivery risk	3.20
	▶ Legal risk	3.20
	▶ Strategic risk	3.20
	▶ Reputational risk	3.20
	▶ Money laundering and financing of terrorism risk	3.20
Group 5 North Africa	▶ Liquidity risk	4.11
	▶ Foreign exchange risk	3.96
	▶ De-risking risk	3.82
Group 6 Sub-Saharan Africa	▶ Credit risk	3.57
	▶ Collateral risk	3.38
	▶ Liquidity risk	3.38
Group 7 Europe	▶ Credit risk	3.80
	▶ Technology risk	3.60
	▶ Collateral risk	3.40
	▶ Foreign exchange risk	3.40
	▶ Liquidity risk	3.40
	▶ Cyber security risk	3.40
Global	▶ Cyber security risk	3.41
	▶ Liquidity risk	3.38
	▶ Foreign exchange risk	3.31
	▶ Technology risk	3.31

*For every group, the top three risks are identified, including all risks with the same score, even if that means that more than three are listed in total.

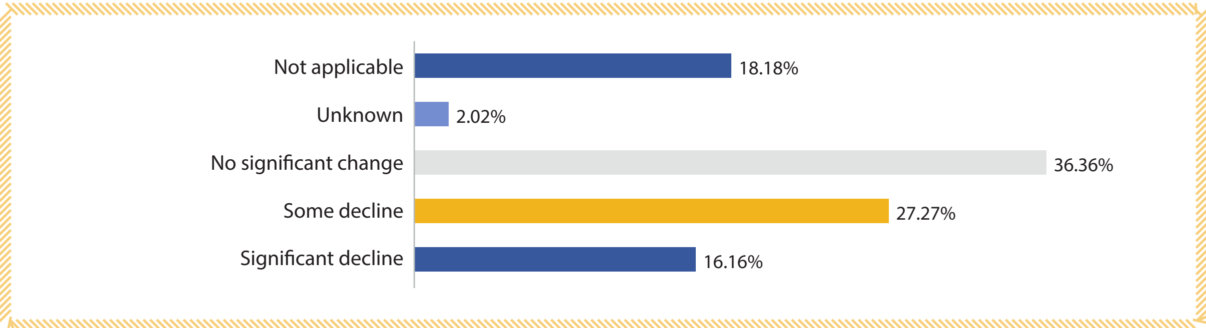
1: No Risk at All; 2: Low Risk; 3: Medium Risk; 4: High Risk; 5: Extreme Risk

De-Risking Effects in Perspective

De-risking risk deals with the possibility of being cut off in correspondent banking relationships due to the perception of having too high a risk profile. Last year, de-risking risk was scored at 3.16, and this year the score slipped only slightly to a still-significant score of 3.08.

This year, we made sure to collect data to give us some background information about de-risking. To further understand the effects of de-risking strategies in the past year, we asked banks, "To what extent did your institution experience a decline in correspondent banking relationships (CBR) as a result of 'de-risking' over the last year?" While 20.2% stated that the question was either not applicable or the answer was unknown, and 36.36% reported "no significant change", 27.27% reported "some decline" and 16.16% reported "significant decline" in their banking relationships as a result of de-risking measures that had been taken.

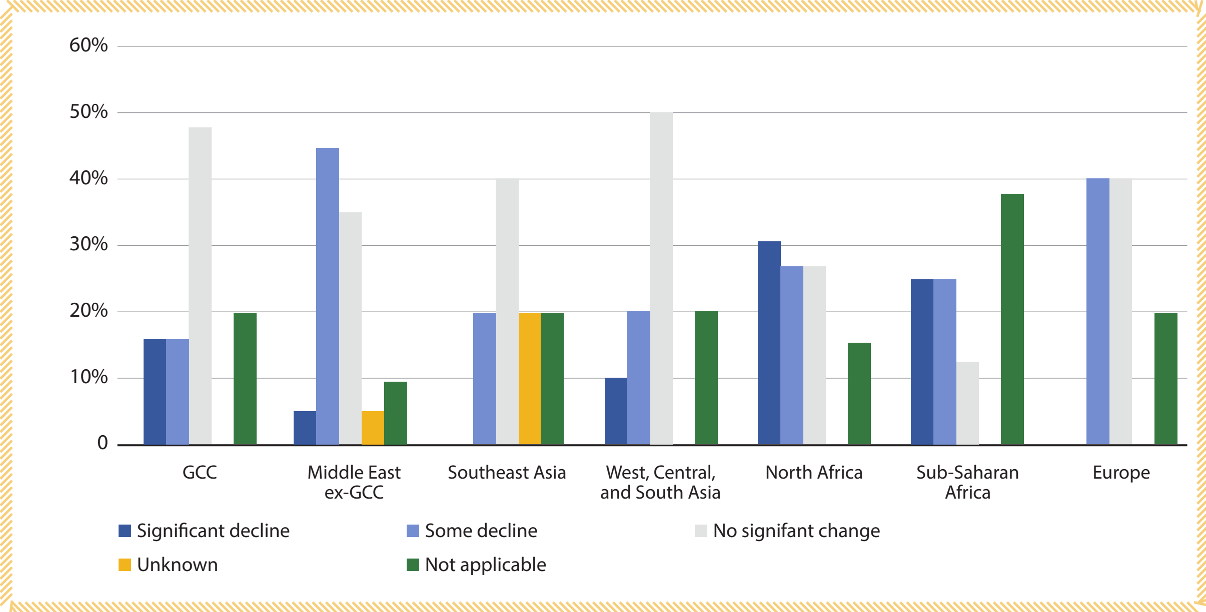
Figure 17. Decline in CBR Due to De-Risking



Regional Breakdown of De-Risking Effects on CBR

Of the banks who reported "some decline" or "significant decline", the region most affected was North Africa. 26.92% of North African banks reported significant decline, while 30.77% reported some decline. This means that over half of North African respondents have seen negative effects from de-risking measures. Sub-Saharan Africa was not far behind with 50% of respondents reporting decline (25% answering "some decline" and 25% answering "significant decline"). The GCC reported 16% for both "some" and "significant" decline, meaning 32% of banks in the GCC have experienced negative effects on their CBR. Also notable is that the Middle East ex-GCC region reported decline for 50% of their banks (45% "some decline" and 5% "significant decline"); West, Central, and South Asia reported decline for 30% of their banks (20% "some decline" and 10% "significant decline"); and Europe reported "some decline" for 40% of their banks.

Figure 18. Decline in CBR Due to De-Risking – Regional Breakdown



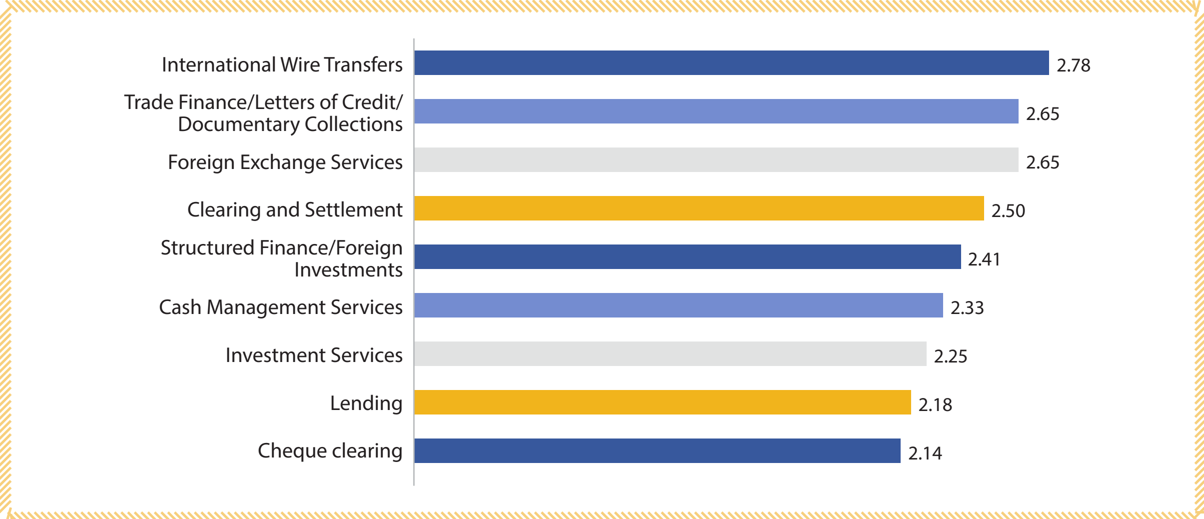
De-Risking Effects on Products and Services

Banks were then asked, "To what extent were the following products and services affected in your institution as a result of de-risking (closing of correspondent banking relationships)?" with values ranging from 1.00 (not affected at all) to 5.00 (significantly affected).

The service most affected was international wire transfers, with a score of 2.78, followed by trade letters of credit / documentary collections and foreign exchange services tied for the second most affected (scored at 2.65), with third place being clearing and settlement (at 2.50).

> International wire transfers, and trade letters of credit / documentary collections and foreign exchange services were the mostly affected services as a result of de-risking.

Figure 19. De-risking Effects on Products and Services



1: No Affect at All; 2: Somewhat Affected; 3: Neutral; 4: Affected; 5: Significantly Affected

Regional Breakdown of De-Risking Effects on Products and Services

Viewing how different products and services are affected by region helps to provide a clearer idea of de-risking's effects. In the Middle East ex-GCC it had a significantly more prominent effect from international wire transfers than any other product or service. In Southeast Asia, North Africa, and Sub-Saharan Africa, trade finance / letters of credit / documentary collections and foreign exchange services were affected more than anything else. All regions scored international wire transfers as being significantly affected.

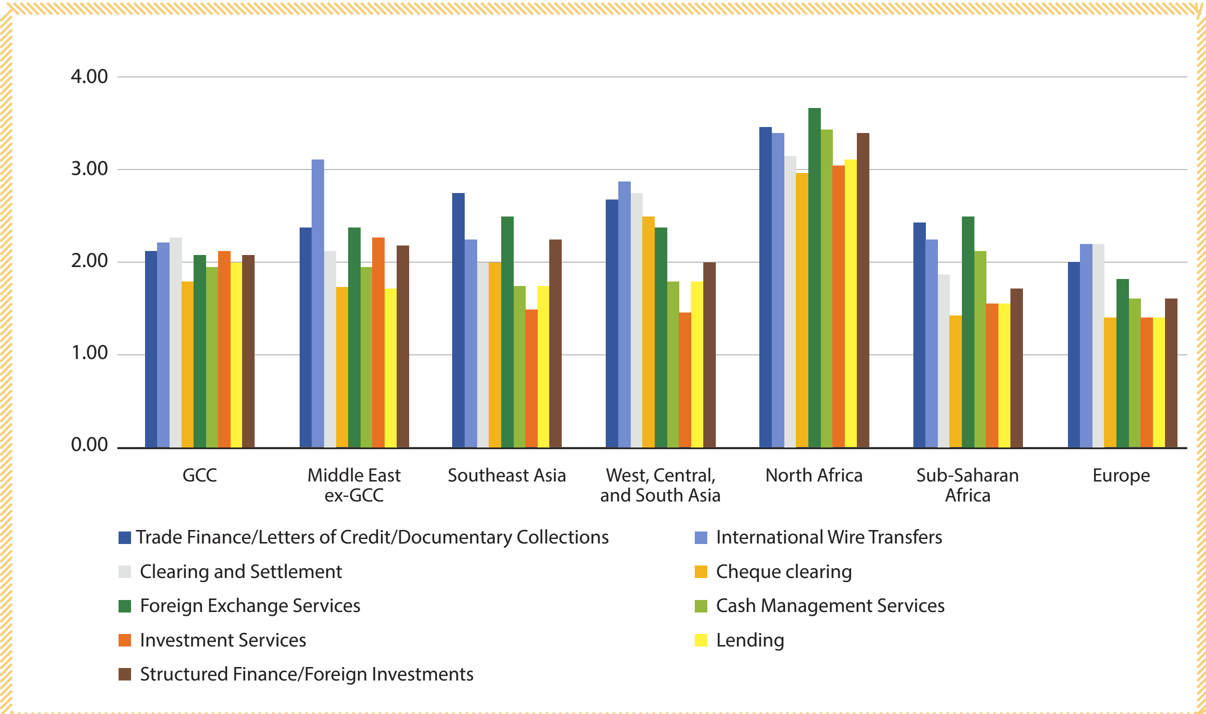
North Africa reported that their products and services were more drastically affected than the products and services in other regions, holding the pattern seen with other data before; North Africa has rated their de-risking risk as severe, and we can see that borne out in their negatively affected CBR and products and services. It is something that should be a key focus in the region for the next few years.

Several banks have already undertaken measures to mitigate the risk. A bank in the Middle East ex-GCC group noted that on the issue of de-risking, "In order to mitigate these risks, our Bank has closed its accounts with a correspondent in a specific country and during the year has hired new correspondents." A bank in West, Central, and South Asia is approaching the problem this way: "For mitigating de-risking effects, our institution has appointed [an organisation] to improve the AML & CFT environment up to the global standard and they have been working since 2015."

> Several banks noted the importance of expanding their networks to deal with the de-risking issue.

Several banks noted the importance of expanding their networks to deal with this issue, with a bank in North Africa responding, "…One of the most important principles of [our de-risking strategy] is opening to the outside and attracting new foreign markets. Correspondent banks have been nominated in countries outside [the country]. The network of correspondents has been expanded in promising and active markets."

Figure 20. De-risking Effects on Products and Services – Regional Breakdown



1: No Affect at All; 2: Somewhat Affected; 3: Neutral; 4: Affected; 5: Significantly Affected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Part III

CIBAFI Islamic Banking Key Growth Drivers' Monitor

PART III. CIBAFI ISLAMIC BANKING KEY GROWTH DRIVERS' MONITOR

The Growth Monitor presents the views of Islamic banks on what they see as the key drivers needed to achieve sustainable growth in the years ahead.

The Growth Monitor questions are not asked in every survey. The previous survey in which they appeared was published in 2015, and some comparisons with that year are presented. However, the questions asked were not identical between the two years (partly reflecting the increased importance of financial technologies over time). The current survey also had an increased number of respondents, notably from North Africa and the Middle East ex-GCC. This year's global figures will therefore represent more strongly the views and concerns of those regions.

Islamic Finance Continues its Growth Worldwide

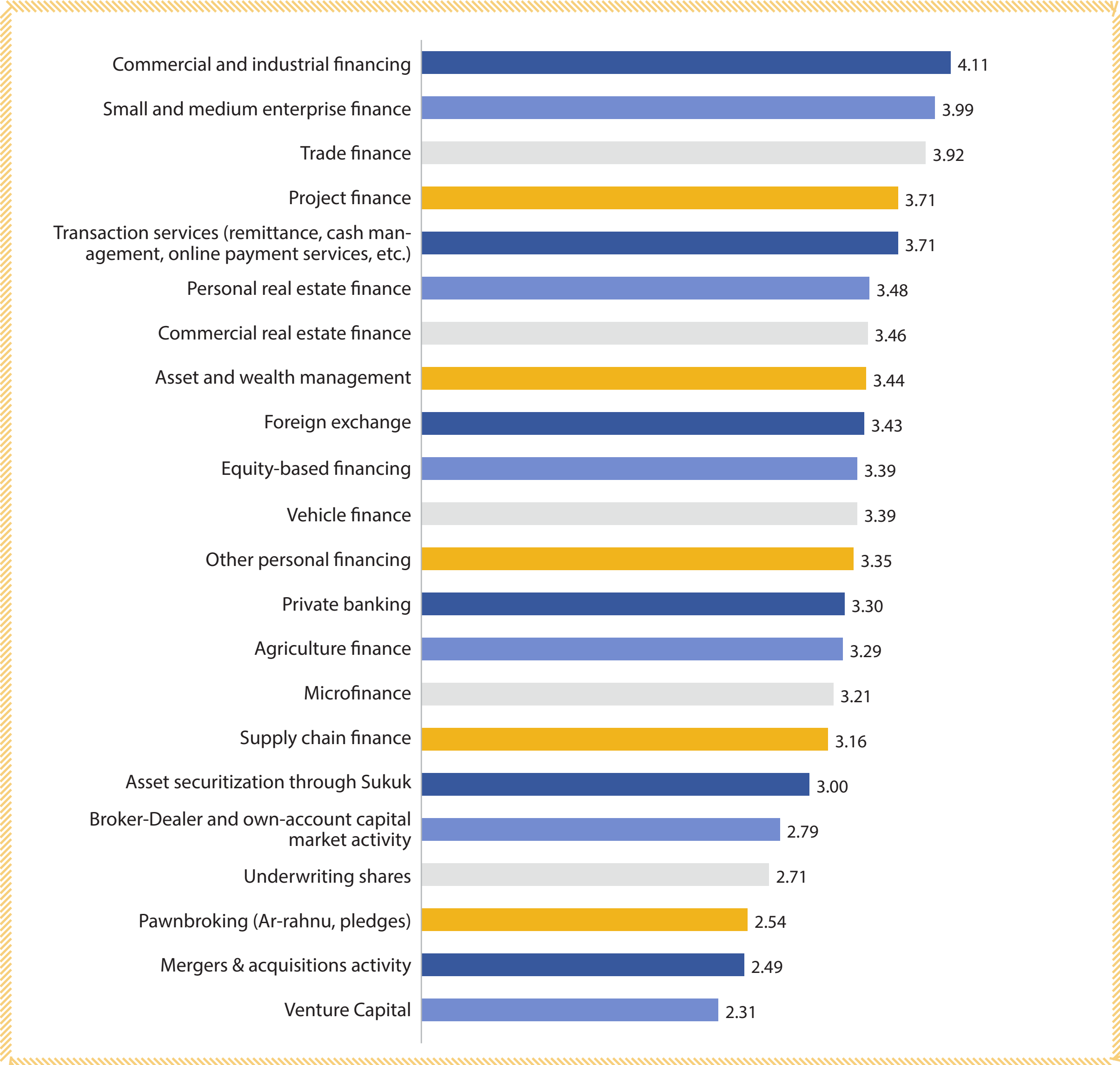
The views of the Islamic banks need to be seen against a background of continued strong growth worldwide. The global Islamic finance industry passed the US$ 2 trillion mark in 2018. Islamic banking continues to increase across all major regions achieving a systemic significance within the industry. Nevertheless, Islamic banking continues to face macroeconomic challenges in many of the countries in which it operates with difficult economic conditions, reduced government revenues and, in some places, a need for economic diversification. It also continues to face a more demanding regulatory requirement as the changes introduced in the wake of the global financial crisis take effect.

Islamic banking continues to face a more demanding regulatory requirement as the changes introduced in the wake of the global financial crisis take effect.

Banks remain Focused on Certain Segments for Driving Revenue Growth

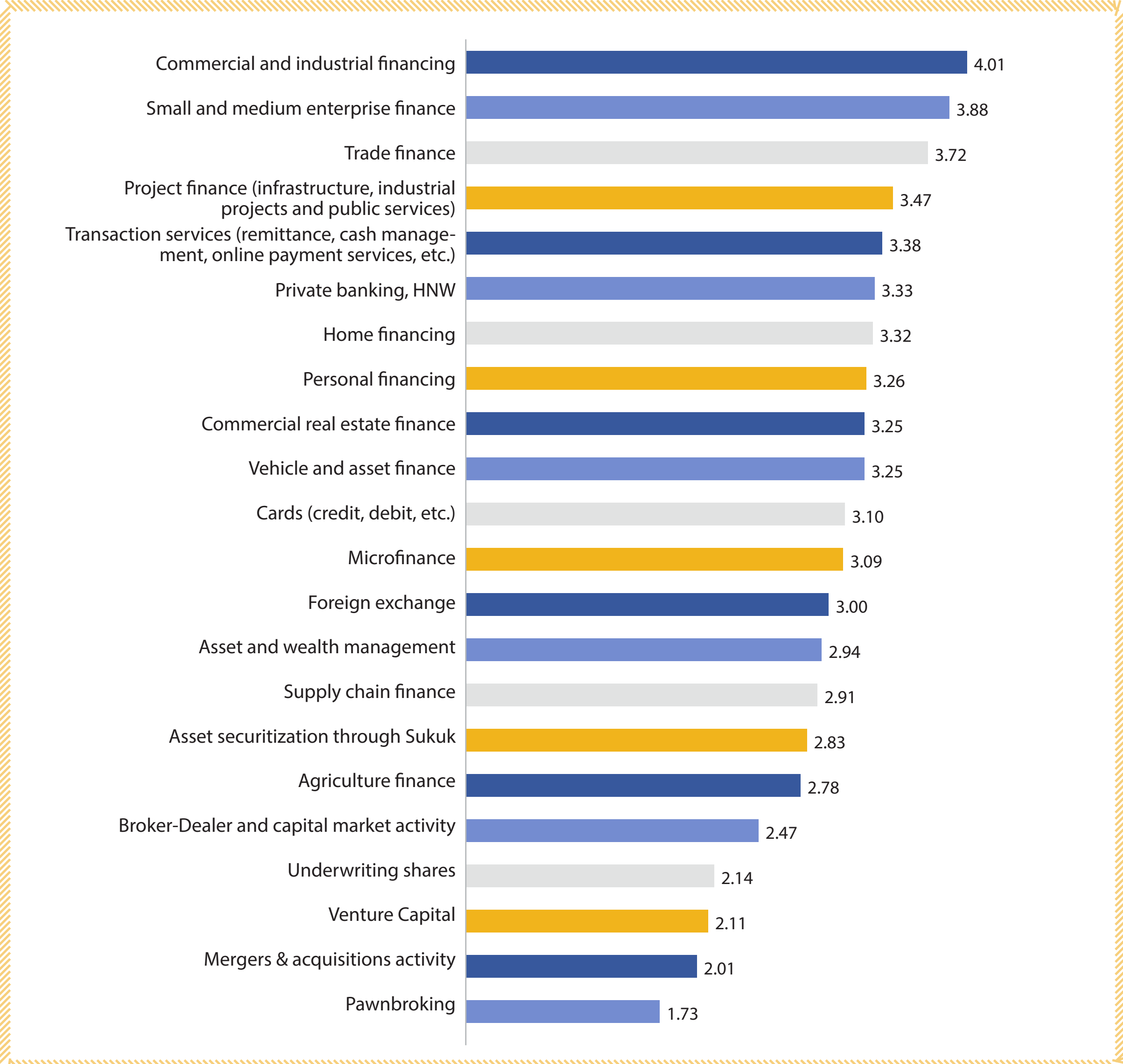
Banks were asked about the extent to which they considered particular segments important in driving revenue growth. The top five segments as shown in Figure 21 were exactly the same as in the 2015 survey (Figure 22), with commercial and industrial financing at the top of the list. There were some changes lower down, with real estate financing moving up the list and private banking moving down.

Figure 21. Segments Driving Revenue Growth – 2019



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Figure 22. Segments Driving Revenue Growth – 2015

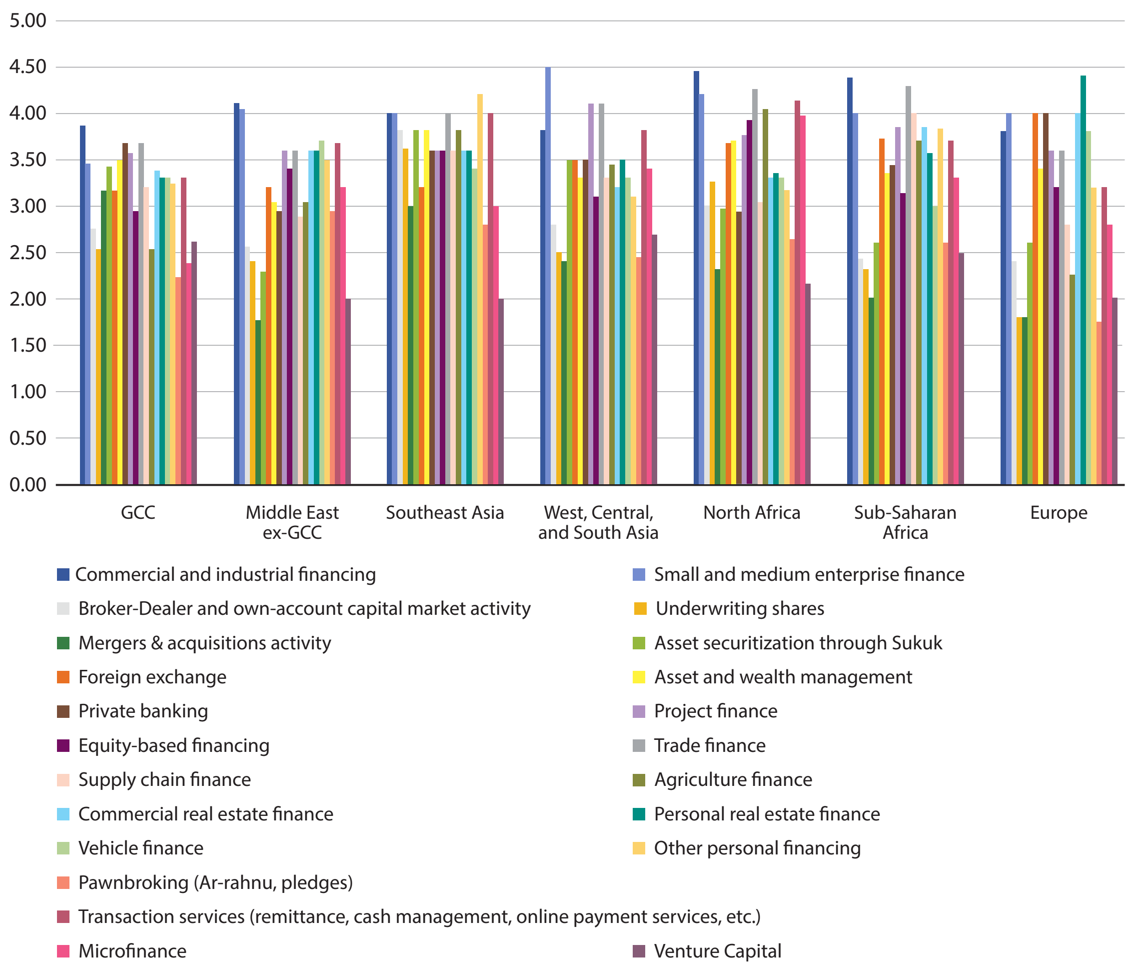


1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

The regional picture, however, shows some interesting variations (Figure 23). "Other personal financing" scored strongly in Southeast Asia and Sub-Saharan Africa, while personal and commercial real estate financing and private banking are all strong in Europe. This may support the view that Islamic banks in Europe often focus on helping wealthy overseas customers invest in their country, rather than serving local retail customers. Another interesting feature is that mergers and acquisitions activity, which ranks very low in most regions, holds a mid-table position in the GCC. This may reflect the fact that consolidation of the banking sector through mergers is very much on the agenda for several GCC countries, where there is a perception that too many banks are chasing too little business and, as a result, are struggling to sustain their capital and liquidity positions. One bank in the GCC also specifically noted the importance of Government mega-projects to its business, and more constrained government budgets may be one factor driving consolidation.

"Other personal financing" scored strongly in Southeast Asia and Sub-Saharan Africa as segments driving revenue growth, while personal and commercial real estate financing and private banking are all strong in Europe.

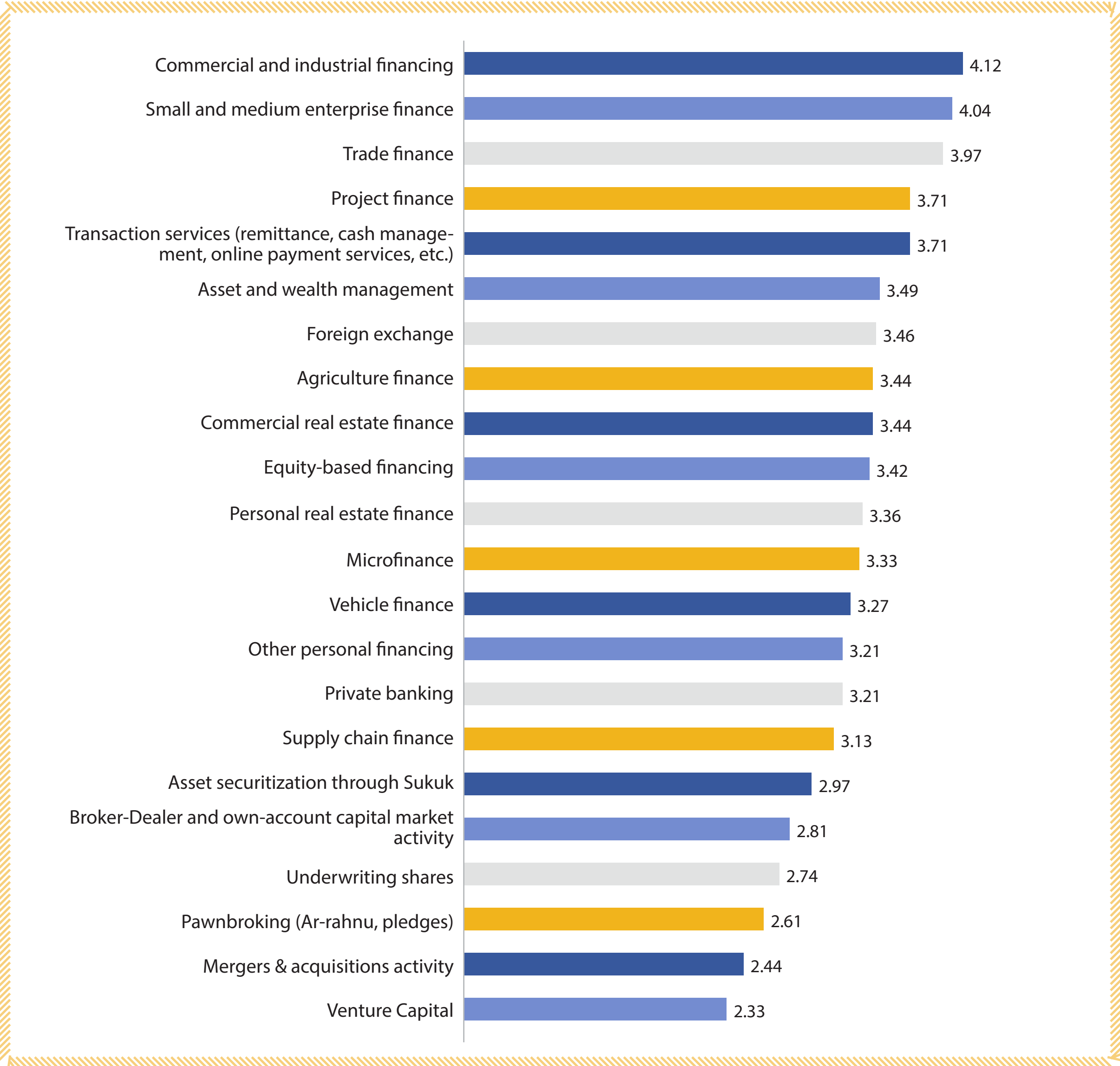
Figure 23. Segments Driving Revenue Growth – Regional Breakdown (2019)



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

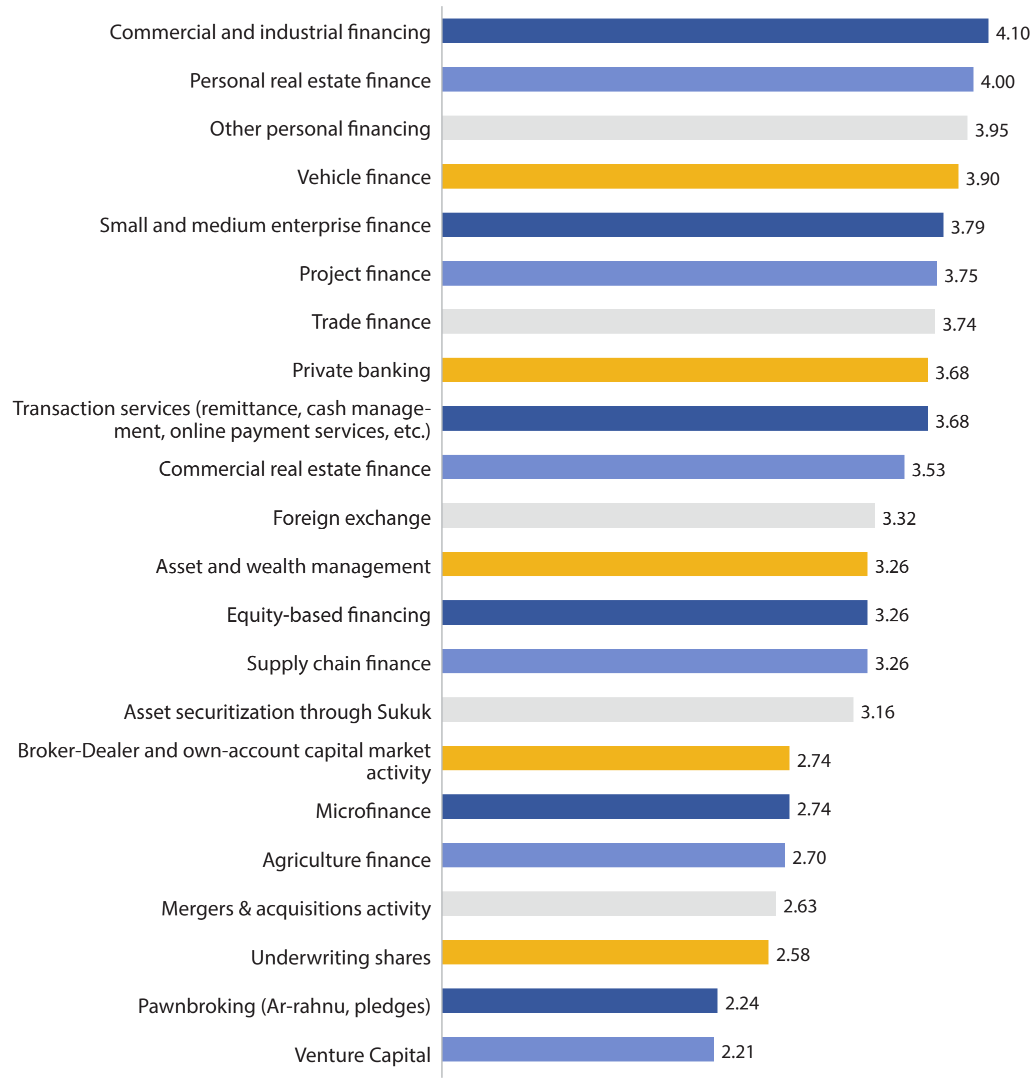
There were significant differences between the larger and smaller banks, with the smaller banks giving notably higher priority to SME financing, trade finance, project finance and transaction services compared to their larger counterparts, and lower priority to vehicle finance and private banking. They also gave higher priority to agricultural finance and microfinance, suggesting a more rural bias.

Figure 24. Segments Driving Revenue Growth – Small Banks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Figure 25. Segments Driving Revenue Growth – Large Banks



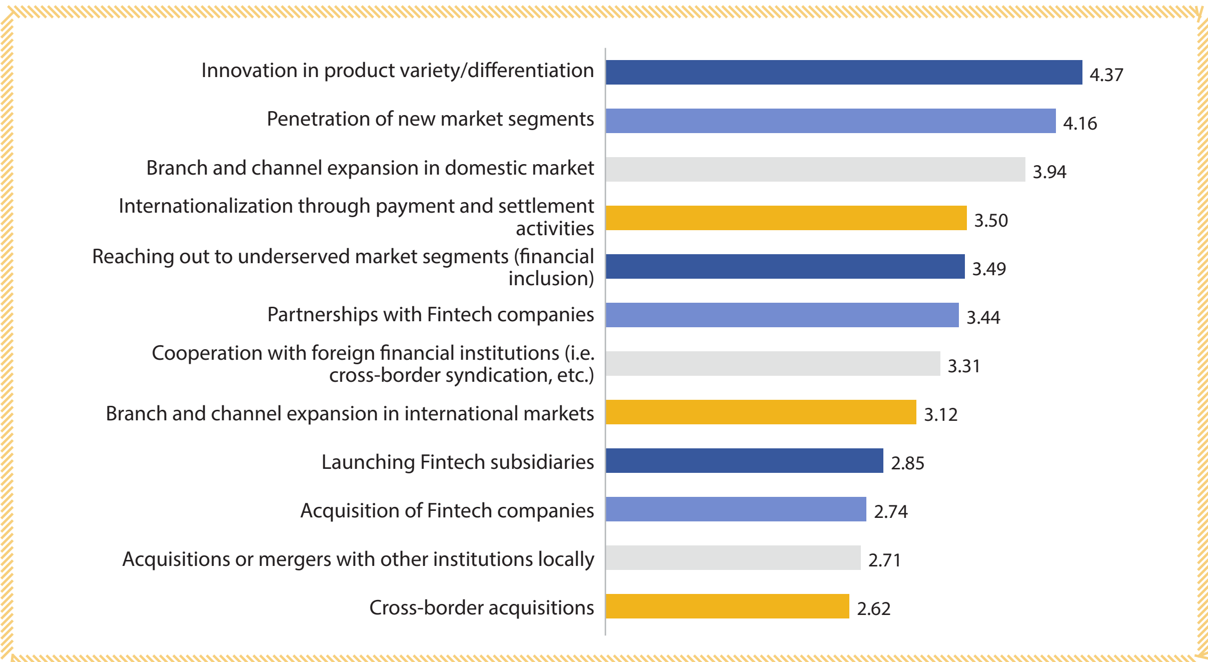
1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Banks Focus on Domestic Expansion as an Area for Business Growth, with Product Innovation as a Key Driver

The next question asked which areas of business expansion are important to achieve competitive positioning. The categories here were a little different from those in the 2015 survey (Figure 27), reflecting the increased current prominence of Fintech. However, the top priorities are very similar, with product innovation and differentiation top of the list, followed by penetration of new market segments and branch and channel expansion in the domestic market. Acquisitions and mergers, whether domestic or cross-border, remain at the bottom of the table. For this question, there is relatively little difference between the larger and smaller banks, indicating that the priorities are stable across the sector as well as over time[1].

> Product innovation and differentiation were ranked top of the list as areas of business expansion, followed by penetration of new market segments and branch and channel expansion in the domestic market.

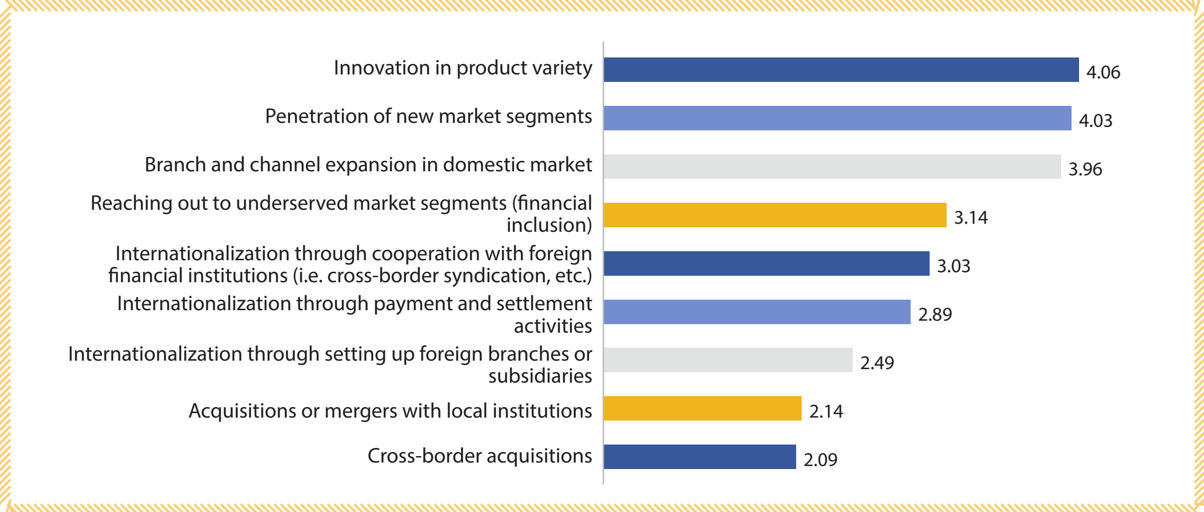
Figure 26. Areas of Business Expansion to achieve Competitive Positioning – 2019



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

[1] Detailed data on small and large banks is available in Appendix 3

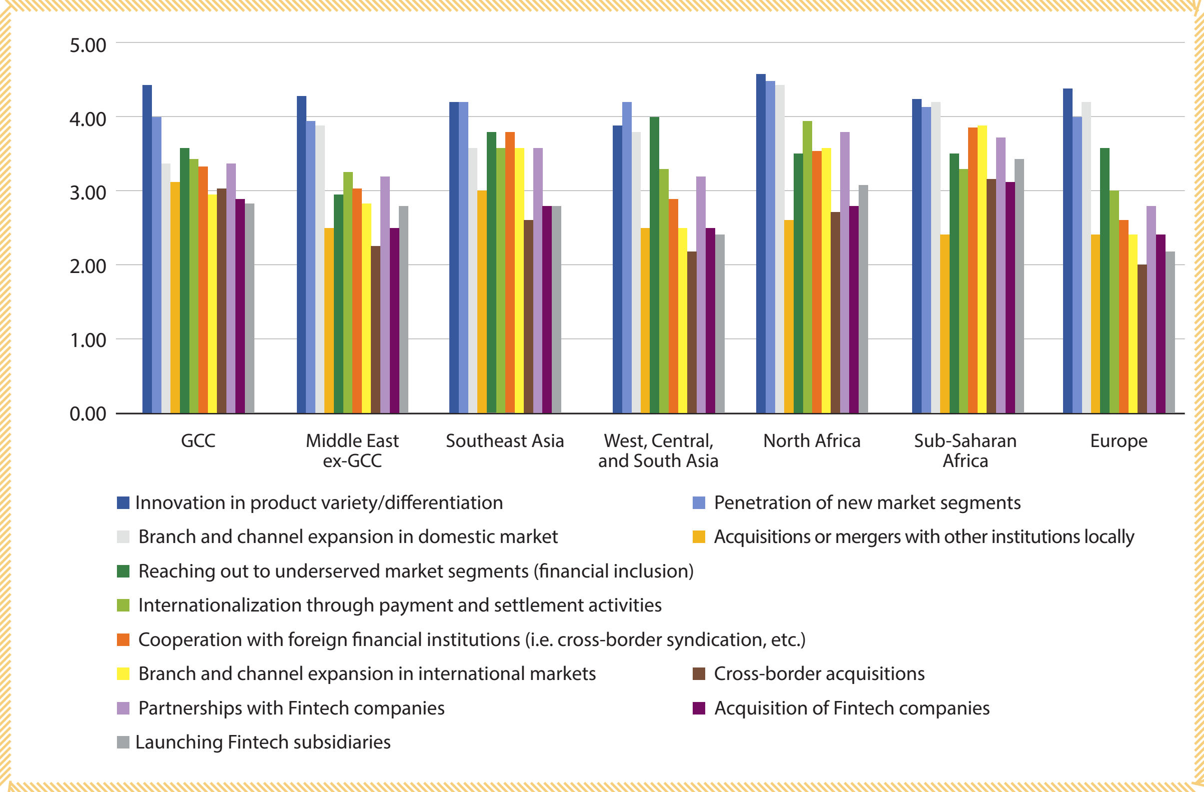
Figure 27. Areas of Business Expansion to achieve Competitive Positioning – 2015



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Again, there are some regional differences, although these can be hard to interpret and may be influenced by the small sample size in some regions. Product innovation and penetration of new market segments remain high in all regions. However, it does appear that financial inclusion is an even higher priority for West, Central and South Asia, Southeast Asia and the GCC compared to other regions. International expansion, through cooperation with foreign institutions or branch and channel expansion, seems to rank relatively higher in Southeast Asia and Sub-Saharan Africa, in the latter instance perhaps reflecting the limited size of some local markets. Consistent with the priorities reported for the previous question, domestic acquisitions and mergers rank somewhat higher in the GCC, North Africa and Europe compared to other regions, although still in the lower half of the table.

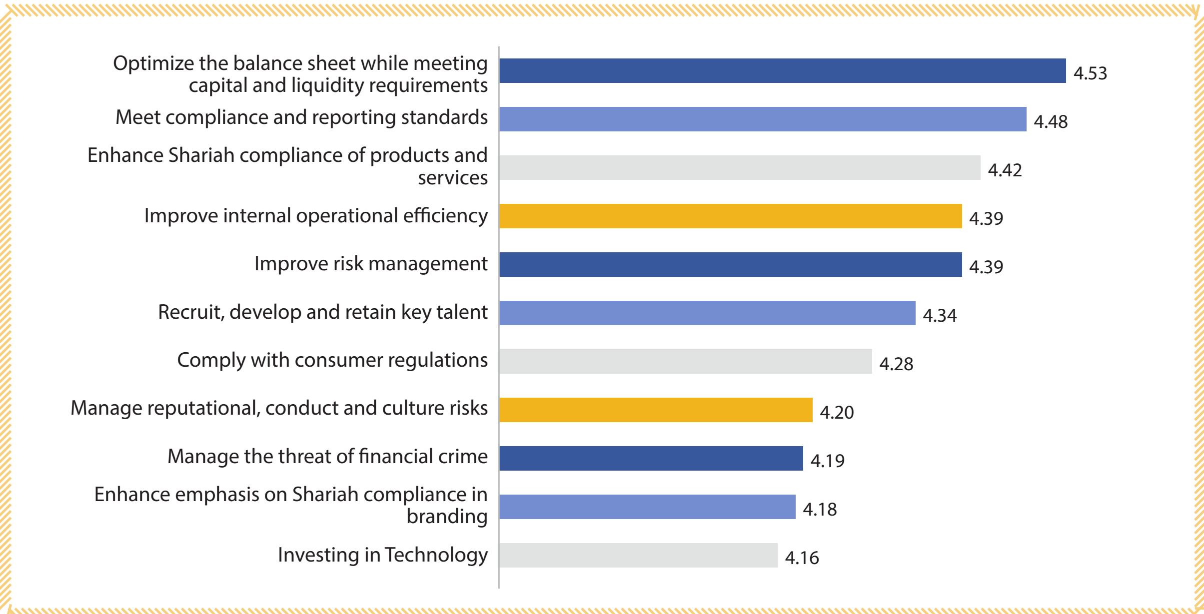
Figure 28. Areas of Business Expansion to achieve Competitive Positioning – Regional Breakdown (2019)



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

The next two questions asked about business priorities in more managerial terms. It is clear that Islamic banks are, as one might expect, highly focused on the balance sheet and on capital and liquidity requirements, together with compliance and reporting standards and Shariah compliance. However, all the possible priorities suggested scored highly, and the differences at the global level are very much a matter of shading.

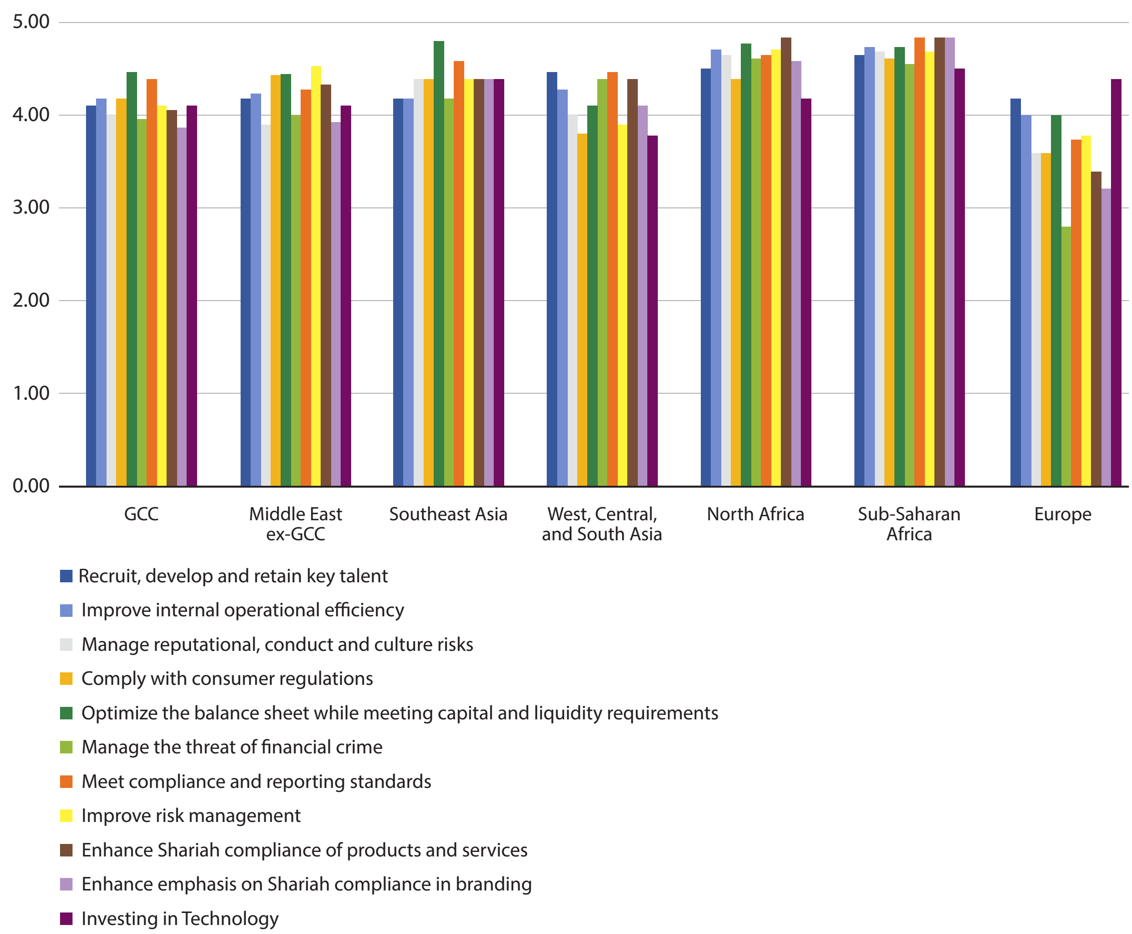
Figure 29. Business Priorities in 2019



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

The position changes somewhat when one looks at the regional data. Europe appears noticeably less concerned over issues of financial crime, and the need to emphasise Shariah compliance in branding. This again would be consistent with serving a relatively small number of largely external customers. Balance sheet, capital and liquidity concerns appear to be rather less prominent in West, Central and South Asia, although there is no clear indication of the reasons for this.

Figure 30. Business Priorities in 2019 – Regional Breakdown

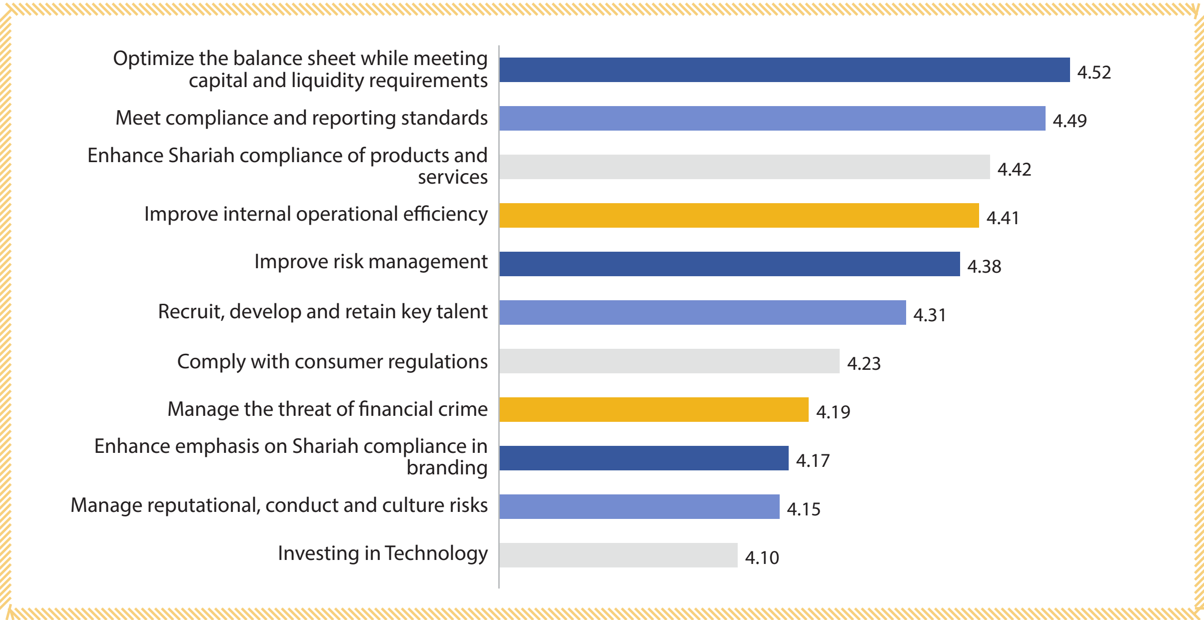


1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

> Smaller banks placed more emphasis on enhancing Shariah compliance of products and services and improving internal operational efficiency.

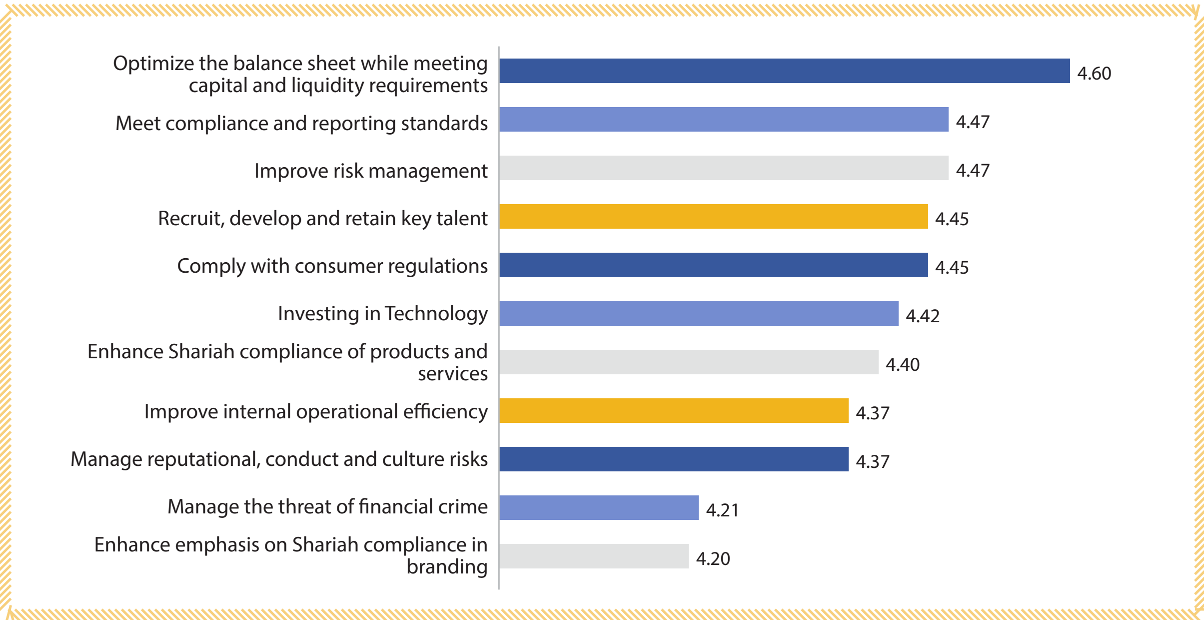
The picture is also rather different between the larger and smaller banks. Smaller banks placed more emphasis on enhancing Shariah compliance of products and services and improving internal operational efficiency than their larger counterparts and placed less emphasis on risk management and compliance with consumer regulation. The emphasis on Shariah compliance may, however, be a geographical effect, since many of the smaller banks are in jurisdictions with limited experience of Islamic finance and limited regulatory frameworks to support it.

Figure 31. Business Priorities in 2019 – Small Banks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Figure 32. Business Priorities in 2019 – Large Banks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

IT Security Remains the Top Technology Issue – with Relatively Little Interest in Blockchain and Crowdfunding

We also asked specifically about the areas that would help in applying technology as a business driver. A broadly similar question was asked in 2015, but some of the categories have changed, reflecting changes in technology. However, this year, as in 2015, IT security is the top priority. However, below that risk management technologies and MIS have become more prominent, while data quality and access issues have slipped down the list.

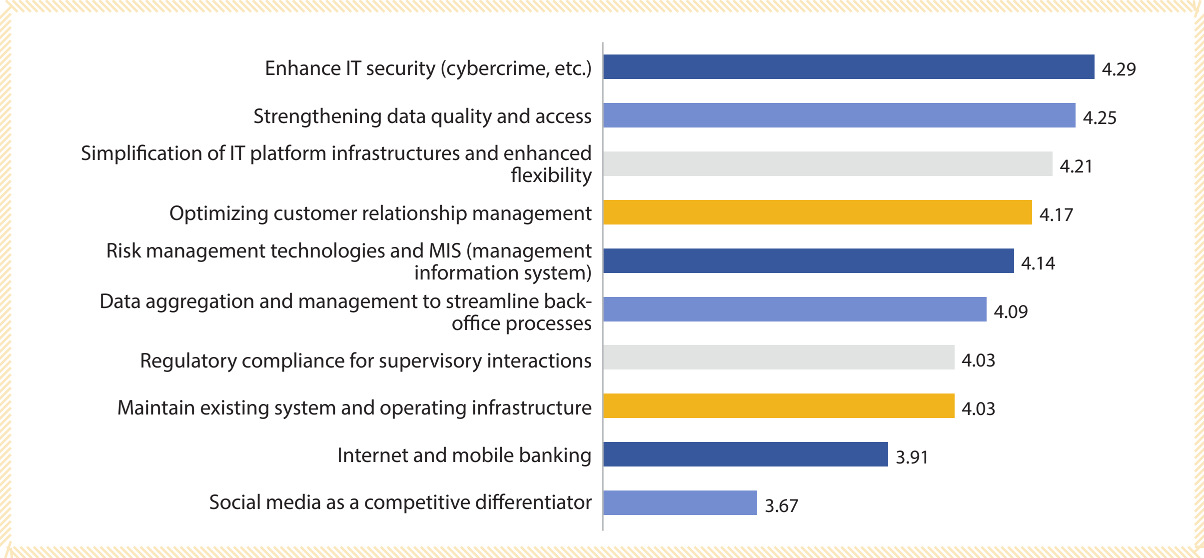
Some of the newer technologies, not featured in the 2015 survey, appear at the bottom of the list. In particular, there appears to be some scepticism about the business potential of crowdfunding/peer-to-peer lending, and about the blockchain, which has proved harder to operationalise economically than initially predicted.

> This year, IT security is the top priority for Islamic banks followed by risk management technologies and MIS.

Figure 33. Areas for applying Banking Technology as a Business Growth Driver – 2019

1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Figure 34. Areas for applying Banking Technology as a Business Growth Driver – 2015

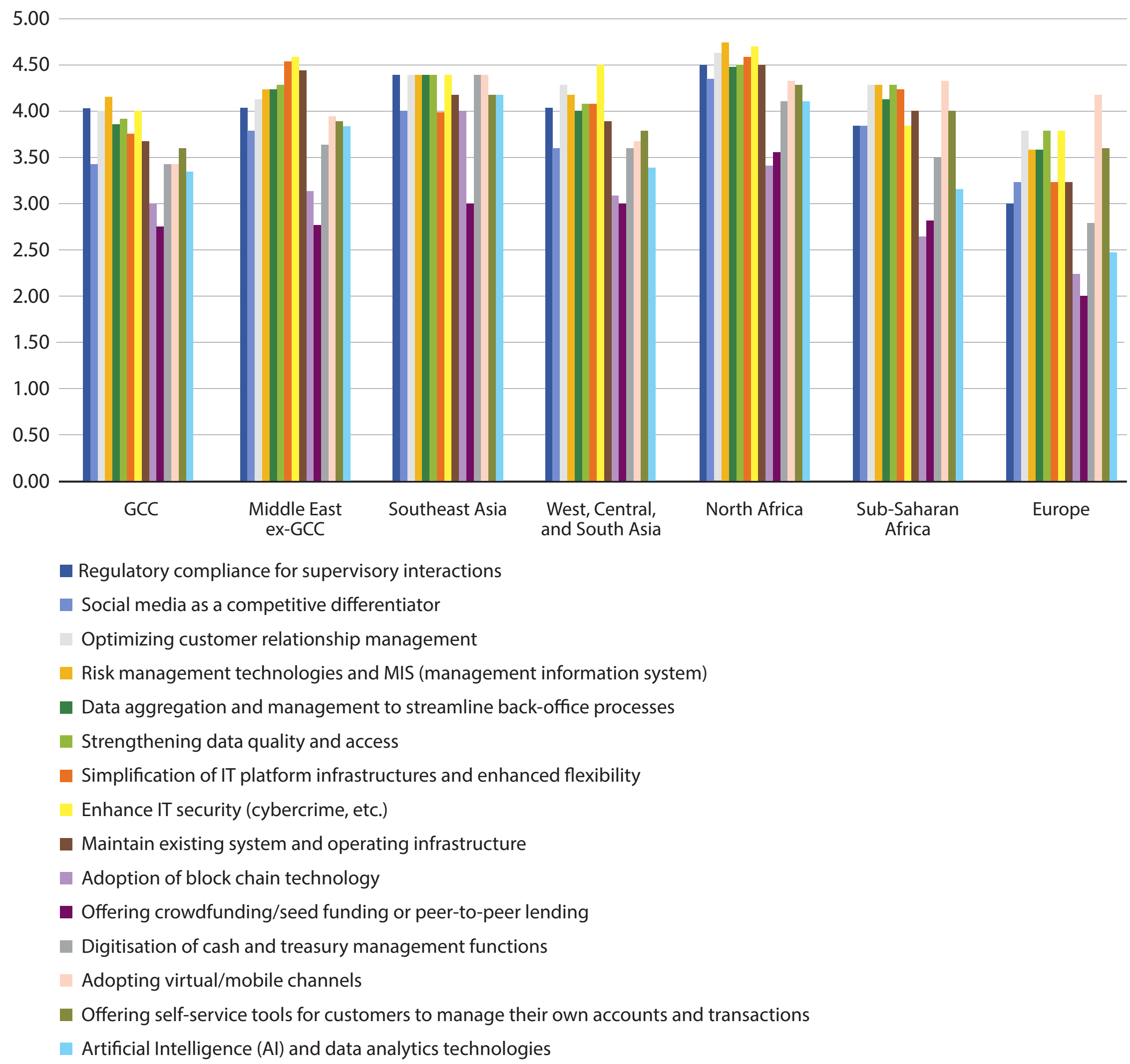


1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

> European Islamic banks are noticeably less interested in the blockchain, crowdfunding, and artificial intelligence than those in other regions.

While most of the regional differences are relatively small, it is interesting, and at first sight surprising, that European Islamic banks are noticeably less interested in the blockchain, crowdfunding, and artificial intelligence than those in other regions. This may, however, reflect a different business model aimed at small numbers of relatively wealthy clients. There are also noticeable regional differences in the emphasis on virtual/mobile channels, which score very highly relative to other factors in Europe, Southeast Asia and Sub-Saharan Africa, but much less so in the GCC and other parts of the Middle East despite high levels of mobile phone penetration in many of these countries.

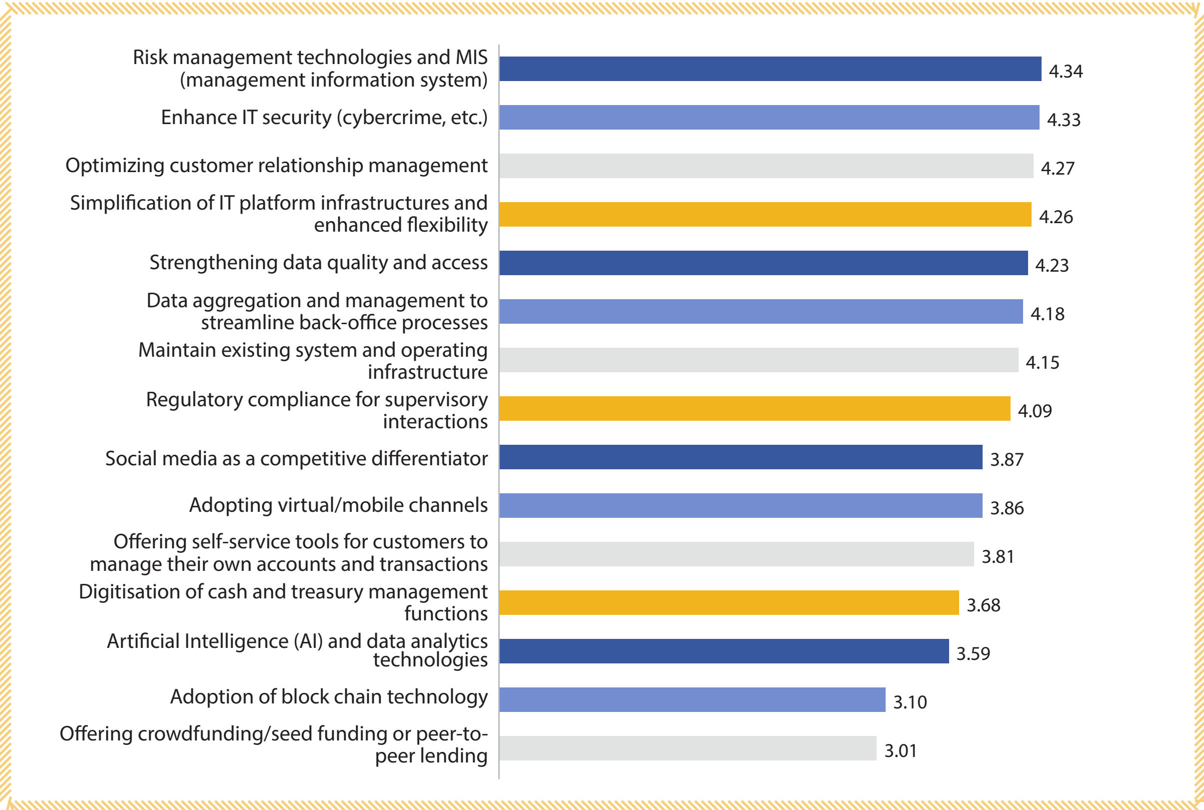
Figure 35. Areas for applying Banking Technology as a Business Growth Driver – Regional Breakdown (2019)



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

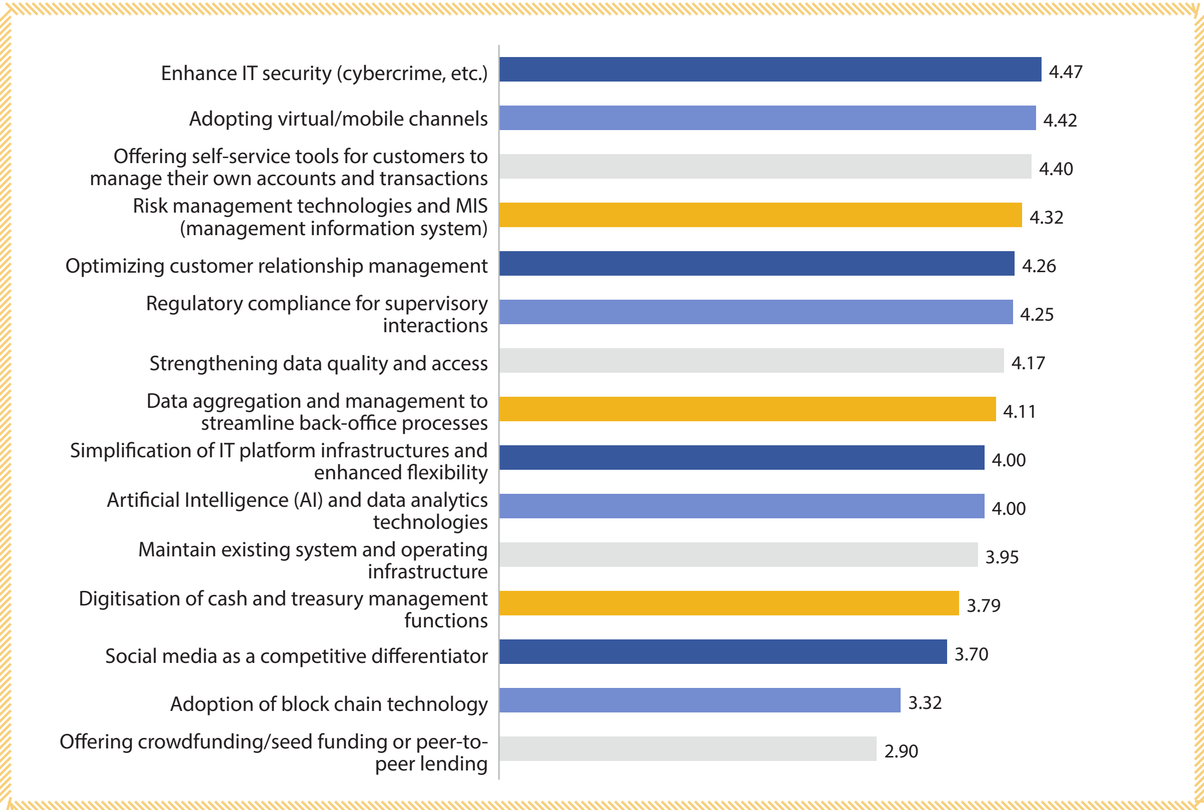
The differences between the larger and smaller banks are more significant, although perhaps not unexpected. The smaller banks displayed greater interest in risk management and MIS, and in simplification of platform architectures, but noticeably less in adopting virtual/mobile channels and in offering self-service tools for clients.

Figure 36. Areas for applying Banking Technology as a Business Growth Driver – Small Banks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Figure 37. Areas for applying Banking Technology as a Business Growth Driver – Large Banks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Sustainable Development Goals Need to be Further Integrated into Islamic Banks' Businesses

This year the survey focused particularly on societal and developmental issues. The United Nations Sustainable Development Goals (SDGs) represent an international commitment to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no-one is left behind. They underpin much other thinking about social responsibility in government and business, including the United Nations Environment Program's Principles for Responsible Banking.

Islamic Finance & the Sustainable Development Goals

Figure 38. United Nations Sustainable Development Goals

In September 2015, the United Nations General Assembly set 17 Sustainable Development Goals (or SDGs), to be achieved by 2030. The 17 SDGs are: 1) No Poverty, 2) Zero Hunger, 3) Good Health and Well-being, 4) Quality Education, 5) Gender Equality, 6) Clean Water and Sanitation, 7) Affordable and Clean Energy, 8) Decent Work and Economic Growth, 9) Industry, Innovation, and Infrastructure, 10) Reducing Inequality, 11) Sustainable Cities and Communities, 12) Responsible Consumption and Production, 13) Climate Action, 14) Life Below Water, 15) Life On Land, 16) Peace, Justice, and Strong Institutions, 17) Partnerships for the Goals. These goals are accompanied by 169 targets and 231 indicators.

Given the ambition of the 2030 Agenda, it may not be surprising that realizing the SDG targets is going to require huge financial resources. By some estimates, realizing the 2030 Agenda will cost over $2.5 trillion annually until 2030. This means that the United Nations and its partners around the world face a significant financing need. Current trends indicate that Official Developmental Assistance (ODA) is declining, and despite the continued importance of traditional philanthropic interventions, the SDG funding gap is not likely to be met.

More innovative modalities, however, are emerging when it comes to investing in charity, social impact and sustainable development. The financial services sector has pioneered a number of innovations and best practices in both financing and promoting sustainable development through corporate social responsibility initiatives. Almost every corporation today aims to operate sustainably and contribute to positive societal impacts through various corporate social responsibility initiatives. However, the public and private sectors are often seen as having incompatible goals. The 2030 Agenda—with its ambitious and universal scope— provides an opportunity to engage and form new, multi-stakeholder partnerships.

From the 2002 Monterrey Consensus to the 2008 Doha Declaration, and to more recent landmark gatherings such as the Third International Conference on Financing for Development (Addis Ababa Action Agenda) in 2015, a lot of energy has been invested in better understanding how the United Nations' developmental agenda might be financed. Last year alone, the High-level SDG Financing Lab (in April) and the Sustainable Finance Forum in Luxembourg (in May) continued this important conversation.

Noticeably absent from these high-profile gatherings, however, were alternative modes of financing, such as Islamic Finance. Rather than finding a place in global gatherings such as those outlined above, conversations about Islamic Finance often tend to be confined to regional conferences held in OIC countries; for example, Malaysia (2017), Indonesia (2018), and Turkey (2018). This means that although Islamic Finance is contributing significantly to the achievement of the Sustainable Development Goals and its targets, it is still considered a niche solution.

There are several reasons for this. According to a UNDP and the Islamic Development Bank's joint report "Blending Islamic Finance and Impact Investing for the Global Goals (2017)", there lacks a viable infrastructure within which the United Nations can fully take advantage of this important alternative mode of financing. While Islamic finance is offering a range of innovative financial solutions to the most pressing developmental challenges in places such as Palestine, Turkey, or Indonesia, traditional development finance has remained the main tool for financing development in the vast majority of developing countries. However, with resources allocated to development by donor countries remaining insufficient, coupled with financial and economic crises affecting many countries worldwide, it is important to explore alternative and complementary financial mechanisms such as Islamic finance.

Innovative Islamic financial instruments, especially for infrastructure development such as Sukuk, can be used to mobilize resources to finance water and sanitation projects (SDG-6), promote sustainable and affordable energy (SDG-7), and build resilient infrastructure (SDG-9) and shelter (SDG-11). Among the major areas of contribution of Islamic finance, ethical finance, financial inclusion and shared prosperity can be instrumental in the successful implementation of policies on ending poverty (SDG-1), achieving food security (SDG-2), ensuring healthy lives (SDG-3), achieving gender equality (SDG-5), and promoting peaceful and inclusive society (SDG-16).

Recognizing the unique potential of Islamic finance to contribute to the 2030 Agenda, several major Islamic institutions, such as the Islamic Development Bank and Al Baraka Islamic Bank, are pioneering investment in the SDGs. However, more awareness of the pressing global need to support the SDGs is needed. This is where the United Nations' partnership with CIBAFI and its global partners becomes so crucial to the realization of the 2030 Agenda.

SUSTAINABLE DEVELOPMENT GOALS

UNITED NATIONS
BAHRAIN

17 GOALS TO TRANSFORM OUR WORLD

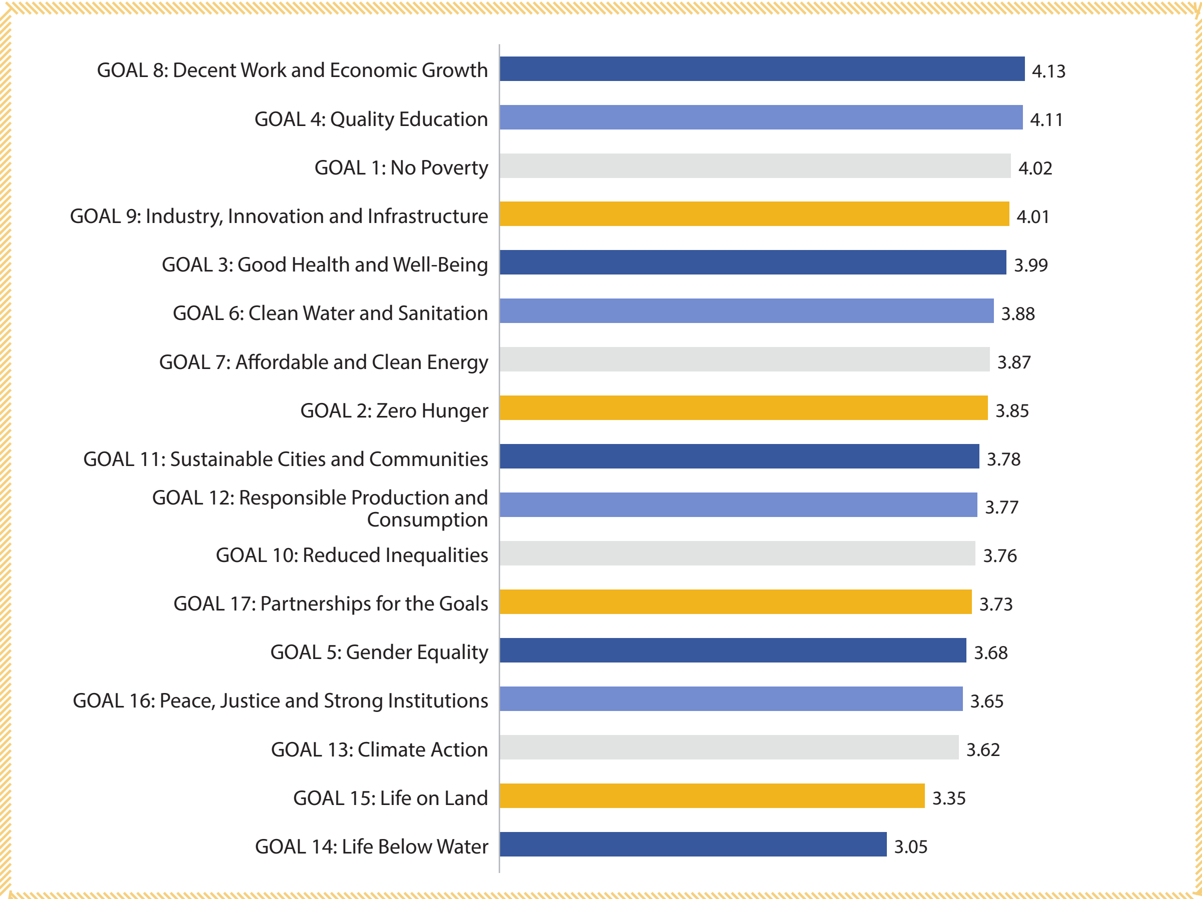
The Sustainable Development Goals are a call for action by all countries – poor, rich and middle-income – to promote prosperity while protecting the planet. They recognize that ending poverty must go hand-in-hand with strategies that build economic growth and addresses a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection.

1. End poverty in all its forms everywhere
2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3. Ensure healthy lives and promote well-being for all at all ages
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
5. Achieve gender equality and empower all women and girls
6. Ensure availability and sustainable management of water and sanitation for all
7. Ensure access to affordable, reliable, sustainable and modern energy for all
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
10. Reduce inequality within and among countries
11. Make cities and human settlements inclusive, safe, resilient and sustainable
12. Ensure sustainable consumption and production patterns
13. Take urgent action to combat climate change and its impacts
14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
17. Strengthen the means of implementation and revitalize the global partnership for sustainable development

We asked Islamic banks to rate the importance of each of the 17 goals as part of their business growth plans. The results are perhaps not surprising overall, with the goals most clearly linked to economic growth and development near the top of the list, and those dealing with climate, the natural environment and biodiversity near the bottom. This might be a natural reflection of the areas over which the banks judged they could have the most influence. However, the prominence of education, as the second highest-ranking SDG, was perhaps surprising, and also encouraging. Education ranked particularly highly in the Middle East ex- GCC and in West, Central and South Asia, but scored relatively highly in all regions.

> Education features as the second highest-ranking SDG that Islamic banks regard as important to promote as part of their business growth plan.

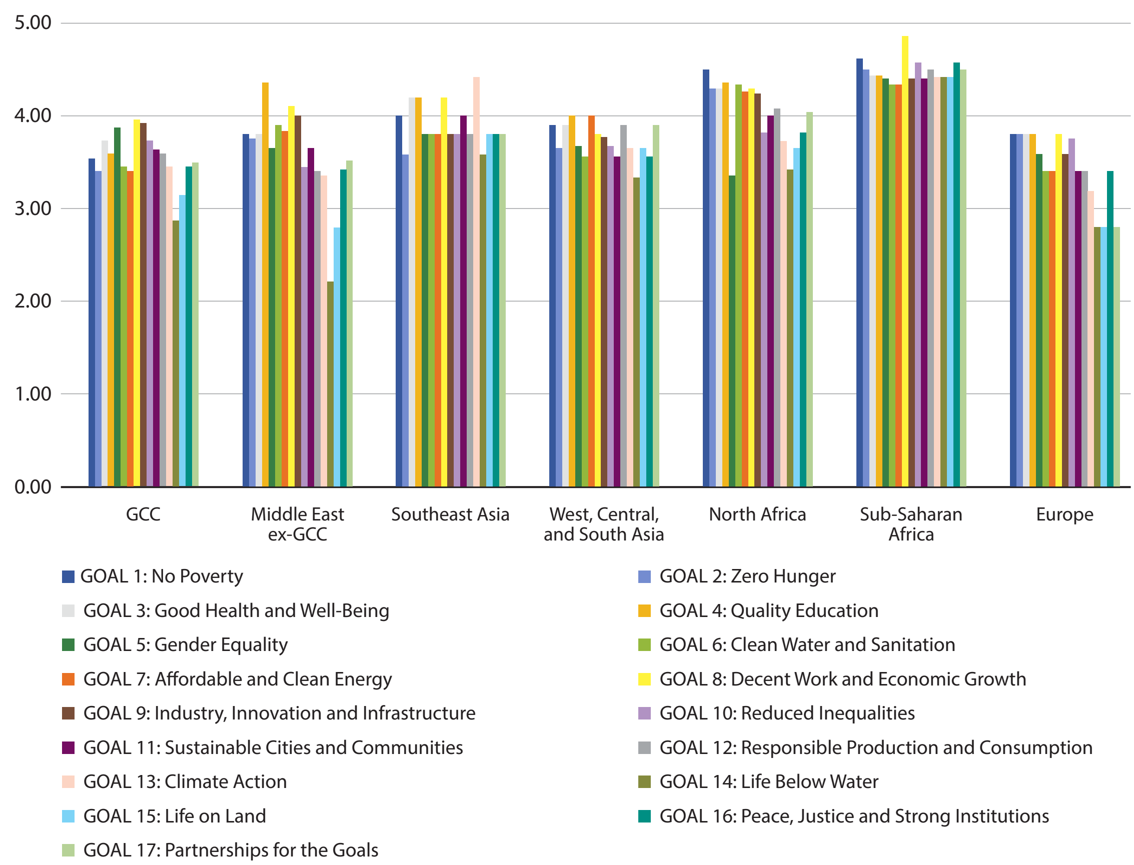
Figure 39. UN SDGs institutions plan to promote as part of their Business Growth Plan



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Regional priorities were quite diverse, as seen by looking at the highest priorities in each region (Figure 40). For example, Climate Action, which overall was near the bottom of the list, scored highest in Southeast Asia. Gender Equality, which also came near the bottom overall, was the third highest priority for Islamic banks in the GCC.

Figure 40. UN SDGs institutions plan to promote as part of their Business Growth Plan – Regional Breakdown



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

The main difference between the larger and smaller banks was less the order in which they ranked the SDGs than their absolute scores, which were consistently lower for the smaller banks. This may suggest that smaller banks have other business priorities and regard the SDGs as something of a luxury[2].

To gain deeper insight into these priorities, we asked Islamic banks to indicate which SDGs were in their top agendas. This also gave them the opportunity to offer comments. In the GCC, the answers were very much as might have been expected from the answers to the

[2] Detailed data on small and large banks is available in Appendix 3

Some banks saw participation in the SDGs as something to be achieved by the use of zakat funds or through other social responsibility programmes, rather than as part of their core banking business.

previous question. However, the write-in comments indicated that some banks saw participation in the SDGs as something to be achieved by the use of zakat funds or through other social responsibility programmes, rather than as part of their core banking business. On the other hand, one bank said, "We consider ourselves responsible for participating with the government in all areas of development through the financings we offer which has an impact on employment, food security, etc."

Comments from the Middle East ex-GCC again in some instances focused on zakat and social responsibility programmes, where education was a particularly prominent theme. One bank noted that it "provides fully paid scholarships for postgraduate programmes, in addition to signing agreements with various [national] universities. The bank also distributes free school bags for primary school students at the beginning of each school year," and broadly similar comments were made by others. On the other hand, another bank seemed to be thinking more in terms of its core activities when it wrote, "At the top of the bank's concerns is the contribution to the revitalisation of the economic cycle, the securing of decent work and the elimination of unemployment, as well as the pursuit of innovative solutions to create income resources."

In Southeast Asia, one bank referred specifically to Bank Negara Malaysia's Value Based Intermediation (VBI) strategy, which aims to deliver positive and sustainable impact to the economy, community and environment, and which the respondent bank recognised as connecting well with the SDGs. It also mentioned that it adheres to the standards of the Global Alliance for Banking on Values, a voluntary grouping of banks attempting to pursue sustainable development. Another bank referred to its engagement in climate action and renewable energy, and its work towards the launch of its country's first green sukuk.

Islamic banks in North Africa made particularly full comments. One, on the theme of "No Poverty", referred to its role in providing microfinancing to encourage and support productive families and craftsmen, while another referred to the construction of modern cities and the settlement of nomads.

Another bank recognised the significance of both internal and external communities when it commented: "Believing in the importance of the role that the bank plays in the society and its keenness to fulfil its role in social and environmental responsibility, the bank has set priorities for these areas within the framework of an action plan aimed at both internal and external communities. Internal community: through the continuity of providing funding for employees, health insurance, sports activities, recreational and humanitarian assistance. External Community: Through its social and financial contributions to serve the community and charitable work, this being through: financing small and medium enterprises to support community reconstruction; donations to charities, scientific and religious centres, and supporting families in need; sponsoring many financial and banking events and conferences; employing a number of students who are in the final stages of their university studies or fresh graduates in order to enhance their qualifications and refine their knowledge; strengthening the programme of financial inclusion and consumer protection; protecting the environment by recycling paper waste, rationalizing water and energy consumption and contributing to reducing environmental pollution." This seems to represent a particularly considered and integrated program.

In Sub-Saharan Africa, one bank said, "We take the policy of poverty eradication as a priority that we have begun to implement, by granting concessional loans, and by recruiting as many workers as possible, along with other measures consistent with that policy."


REGULATIONS

Part IV

Regulatory Framework and Main Challenges

PART IV. REGULATORY FRAMEWORK AND MAIN CHALLENGES

The objective in this part of the survey was to understand the regulatory frameworks within which Islamic banks operate and the main challenges they see at both the national and international level.

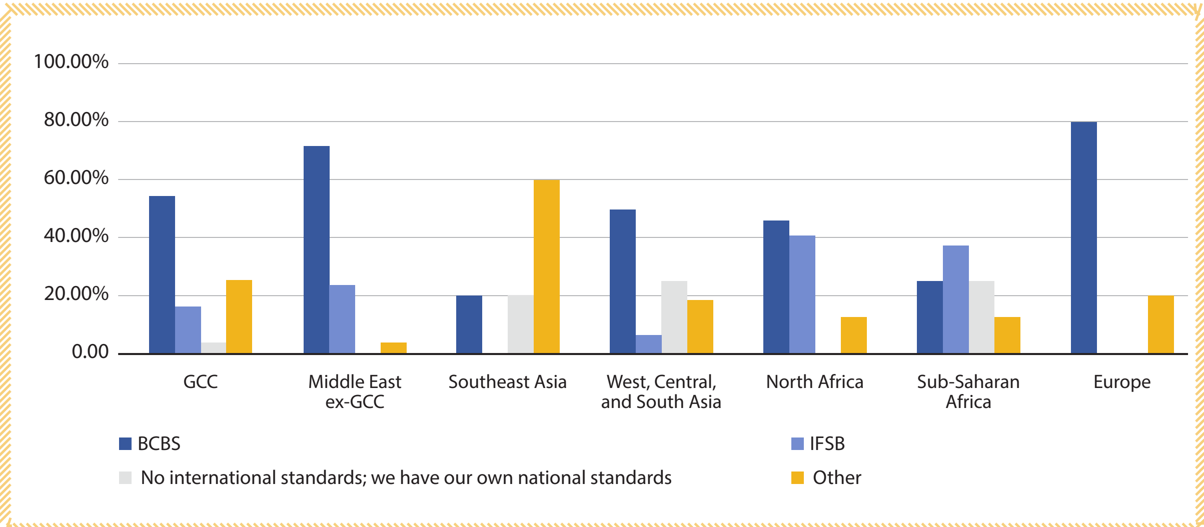
To understand the context, we began by asking about the general approach to the regulation of Islamic banking in the jurisdiction. We asked whether the framework was identical to that for conventional banks, had material differences, or whether there was a framework only for Islamic banks (as would be the case in a country like Sudan which does not have conventional banking). However, the results appeared to be inconsistent, and in some cases at variance with known facts. For example, in one country that has both conventional and Islamic banking, and in which the regulator has separate modules for them within its rulebook, five banks said that the regulatory frameworks for the two were identical and six indicated they were materially different. Similarly, inconsistent responses were found in other jurisdictions. This strongly suggests either that the question was unclear or those completing the survey were not familiar with regulation in their jurisdiction, or a mixture of the two.

The Sources of Regulation

We also asked about the main sources of national regulation (i.e. the international standards on which the national regulator bases its regime) in a number of areas. The responses are shown by region, and again it is difficult to draw clear conclusions from them.

There are no obvious "other" sources of capital and liquidity standards besides the BCBS and IFSB, so the number of respondents in this category is mystifying. The mystery deepens when one looks at the figures for Southeast Asia, where the majority of respondents are from Malaysia, a country known to base its regime on IFSB standards (themselves based on BCBS standards). Unfortunately, those responding "other", with one exception, did not use the available write-in box to clarify the source.

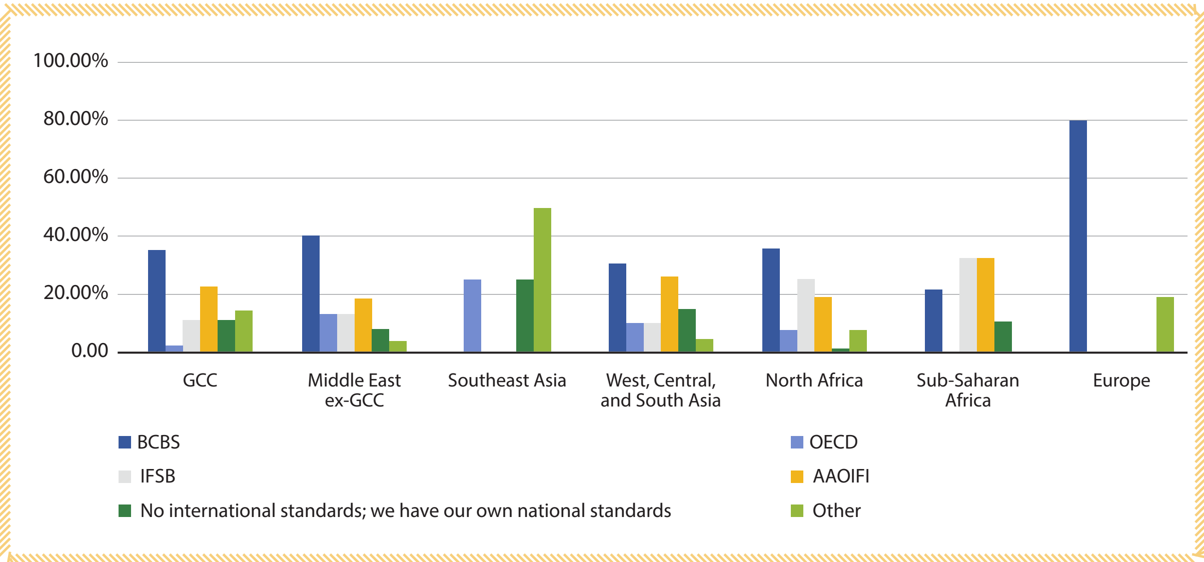
Figure 41. Principal Source of Capital Adequacy and Liquidity Regulations – Regional Breakdown



For corporate governance, a wider range of answers was available, and the write-in answers for those responding "other" were more helpful. Several respondents gave the name of their own national banking regulator; but since the question was on what, if any, standards that regulator based its regime, it is clear that these respondents at least must have misunderstood the question. What does emerge, however, is that the most important single source of standards internationally is the BCBS, followed by AAOIFI and IFSB, but regulators use a diversity of sources.

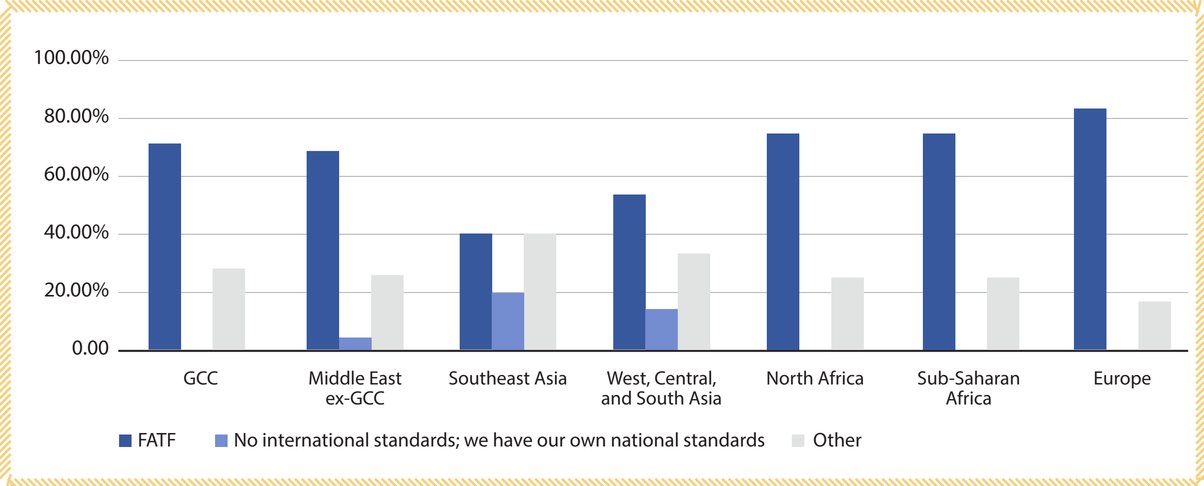
> The most important single source of corporate governance standards internationally is the BCBS, followed by AAOIFI and IFSB, but regulators use a diversity of sources.

Figure 42. Principal Source of Corporate Governance Regulations – Regional Breakdown



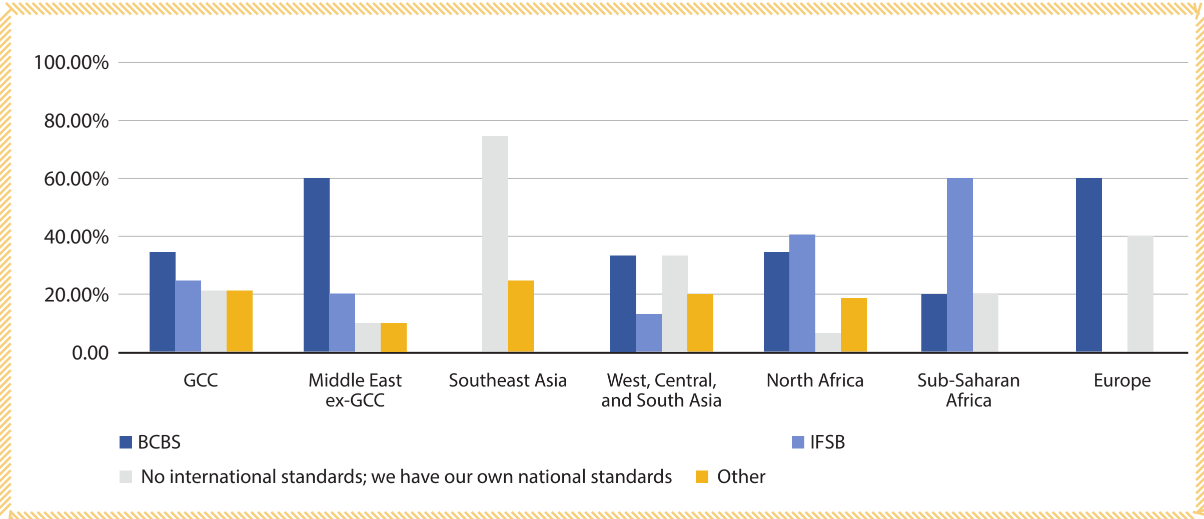
For Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), the standards of the Financial Action Task Force (FATF) were, as one might expect, dominant. Responses in the "other" category again suggested a misunderstanding of the question, since many referred to their own national regulator, when the question, as before, was intended to be about how that regulator derived its regime. Other sources cited in this category included the BCBS, a professional association, and an accountancy firm. One interesting point here is that there appear to be some purely national regimes in the Middle East ex -GCC, Southeast Asia and West, Central, and South Asia.

Figure 43. Principal Source of AML/CFT Regulations – Regional Breakdown



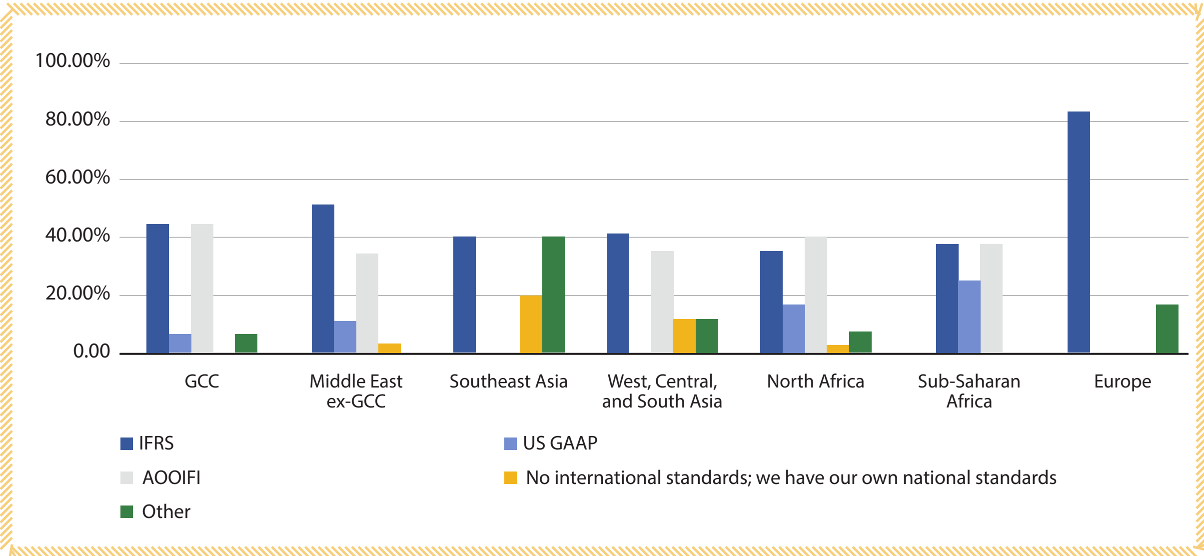
In the area of business conduct, for example when dealing with customers, international standards have in general been less well-developed than in prudential areas. It is thus not surprising to find a greater diversity of sources, including a significant number of purely national frameworks. The "other" sources cited again included a number of national regulators, but also the Microfinance Network of Arab Countries, the AAOIFI and a payment systems company.

Figure 44. Principal Source of other Behavioural Standards – Regional Breakdown



In accounting standards, the three principal sources internationally, where Islamic finance is concerned, are the IFRS, US GAAP and AAOIFI. Many national frameworks are closely based on one of these, although some jurisdictions still have their own distinct national frameworks. This picture is broadly reflected in the answers, subject to the fact that many answers in the "other" category refer again to the national regulator. Some also refer to national GAAPs, even where these are known to be fully aligned with the IFRS, and one to the IFSB, which does not produce accounting standards.

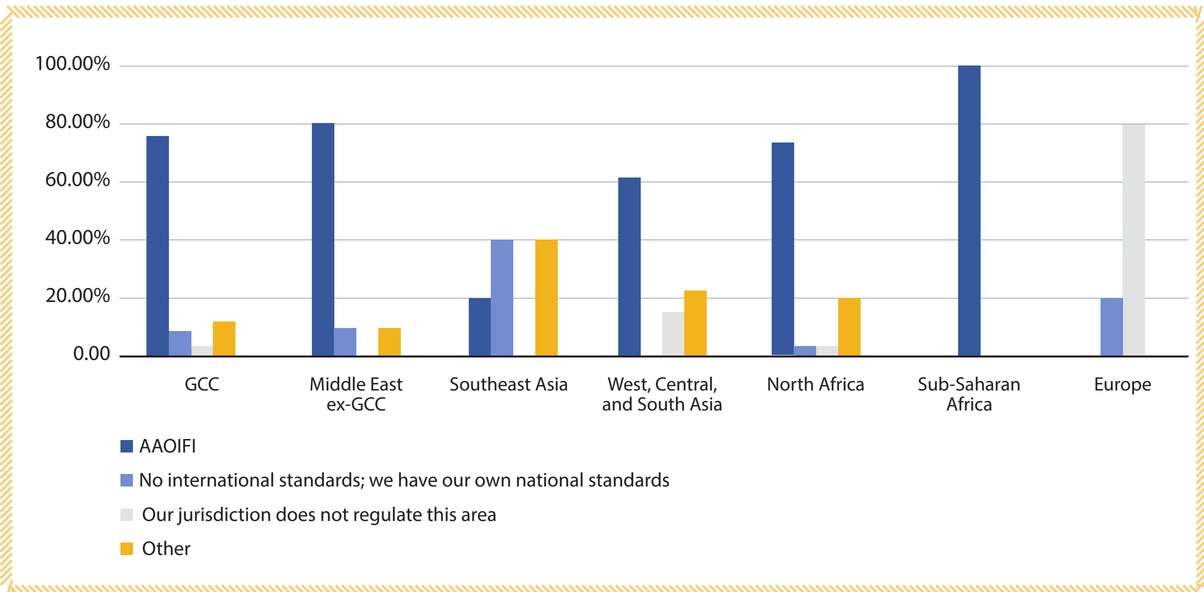
Figure 45. Principal Source of Accounting Standards – Regional Breakdown



For Shariah standards, where regulated nationally, the AAOIFI standards are, as one might expect, the dominant source, though with a significant number of jurisdictions developing their own standards, the more so since some of the "other" responses actually refer to a national Shariah board.

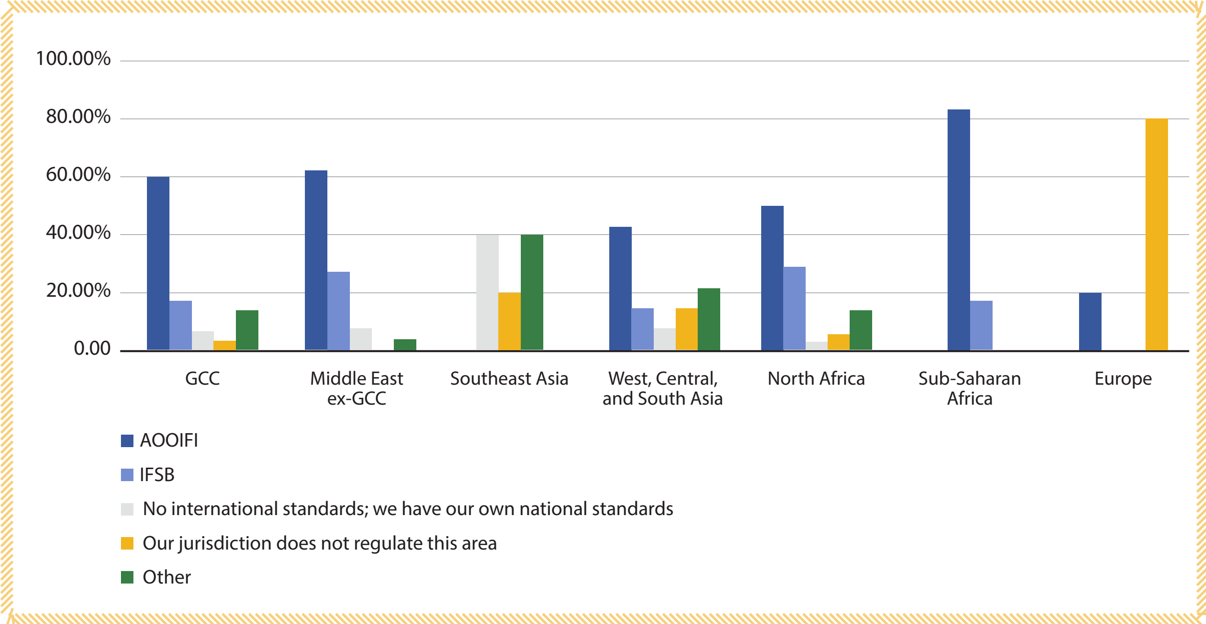
> The AAOIFI standards are the dominant source for Shariah standards, though with a significant number of jurisdictions developing their own standards.

Figure 46. Principal Source of Shariah Standards – Regional Breakdown



In respect to Shariah governance, where regulated nationally, the main source is said to be the AAOIFI, although with a significant recognition of IFSB standards as well. However, some respondents seem to have misinterpreted the question.

Figure 47. Principal Source of Shariah Governance Standards – Regional Breakdown



While this group of questions produced some interesting data on the sources of standards, one important conclusion that can be drawn is that many Islamic banks do not seem to look beyond the regime applied to them by their national regulator and have little knowledge of how this regime had been derived and its relationship to international standards. This seems to be the case even in jurisdictions known to have strong commitments to follow international standards, and whose regimes can therefore be expected to track those standards closely.

Other Standards Applied by Islamic Banks – Compulsory and Voluntary

> Many Islamic banks do not seem to look beyond the regime applied to them by their national regulator and have little knowledge of how this regime had been derived and its relationship to international standards.

We asked whether there were other standards that Islamic banks had to apply, either as a result of having operations outside their own jurisdiction or in areas of activity not previously covered, for example corporate social responsibility. Our aim was to pick up any other standards likely to be important for the CIBAFI membership.

Many respondents noted that they needed to follow banking laws and regulations in all the jurisdictions in which they operate. One referred specifically to the need to account to the IFRS, although it is based in a country that uses the AAOIFI standards.

One bank referred to technical standards for the banking industry, notably the Plastic Card Industry Data Security Standards. Another referred to ISO standards in areas such as business continuity, information security management, and IT service management, although it was unclear whether these were, in fact, mandatory since other banks in the same jurisdiction did not cite them.

We also asked about standards that the banks chose to apply voluntarily. Again, some technical standards, particularly in the IT area, were quoted as well as the ISO 9001 quality management standard. Two banks referred to the standards of the Wolfsberg Group, an association of global banks that develops frameworks and guidance for the management of financial crime risks. One cited the Global Alliance for Banking on Values, a network of banks attempting to use finance to deliver sustainable economic development.

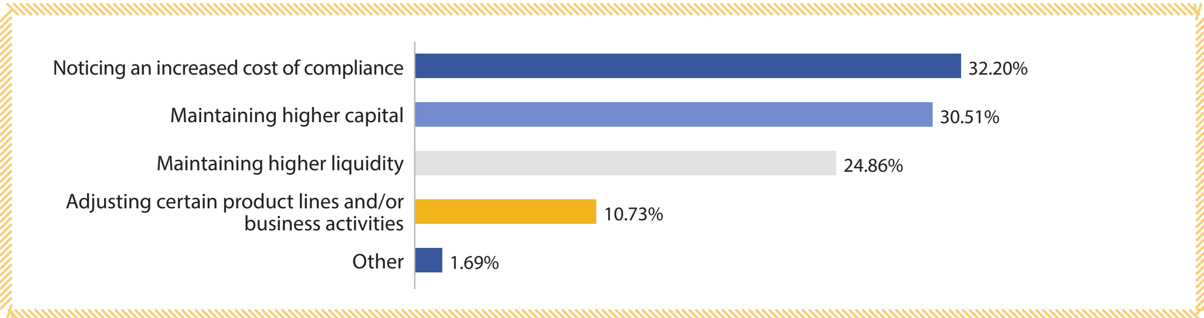
While no strong common pattern emerges from the data, there are clearly some additional standards relevant to Islamic banks, and CIBAFI will consider what this means in terms of its own representative activity in the future.

> ISO 9001 quality management standard, standards of the Wolfsberg Group, and the Global Alliance for Banking on Values were cited as other standards applied by Islamic banks.

The Impacts of Regulatory Reform on Islamic Banks

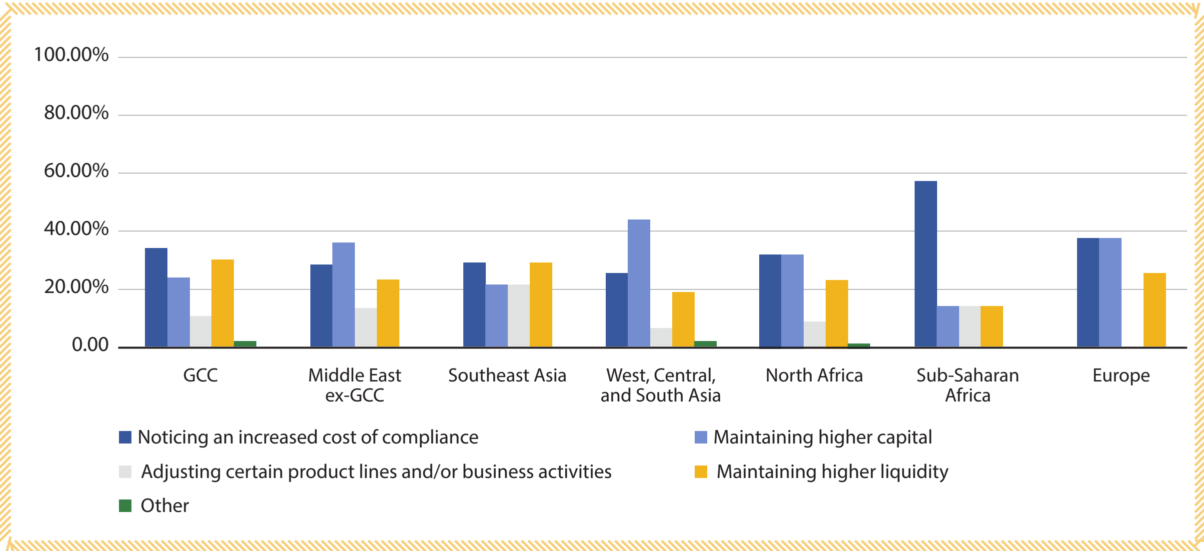
We asked what the most important impact of regulatory reform had been following the Global Financial Crisis. An increased cost of compliance came first, ahead of changes in capital and liquidity requirements, suggesting that tighter AML/CFT regulation might be the most significant issue.

Figure 48. Impacts resulting from the Implementation of the International Regulatory Reforms following the GFC



In this case, there was significant regional divergence, with compliance costs clearly dominating in Sub-Saharan Africa, perhaps reinforcing the view already expressed that regulators there may have been slower than others in implementing capital and liquidity reforms. Compliance costs also led in the GCC, but with liquidity issues a close second. On the other hand, capital issues were clearly in first place in the Middle East ex-GCC, and in West, Central and South Asia. Europe placed compliance costs and capital adequacy equal in first.

Figure 49. Impacts resulting from the Implementation of the International Regulatory Reforms following the GFC – Regional Breakdown

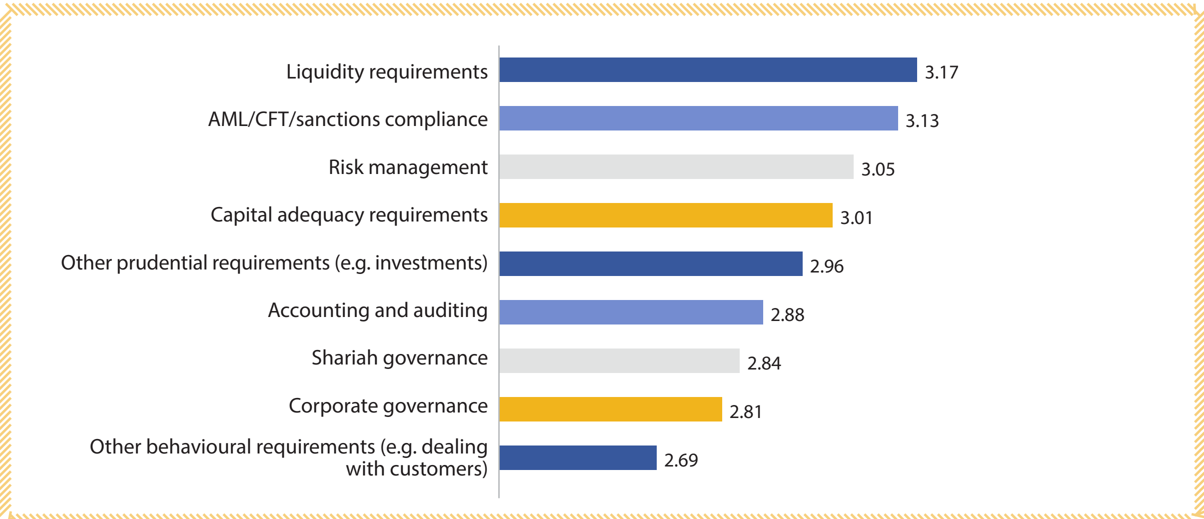


Liquidity requirements come at the top of the list as Islamic banks' most regulatory challenge.

The Regulatory Challenges: Liquidity Leads

We asked what areas of regulation Islamic banks find most challenging in terms of compliance in practice. The results are shown in Figure 50. They echo the concerns that many Islamic banks have been expressing for some time about meeting liquidity requirements, with liquidity coming top of the list. However, it is interesting that AML/CFT/sanctions of compliance and risk management both come ahead of capital adequacy.

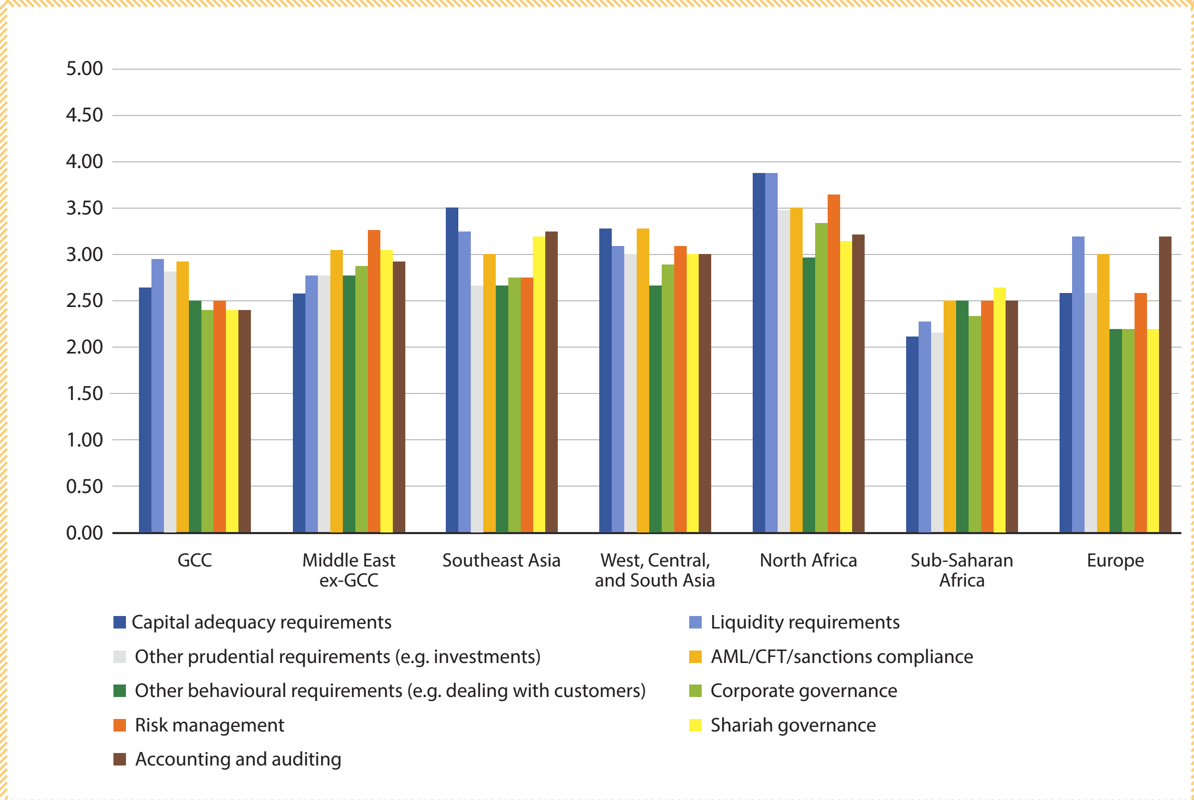
Figure 50. Most Challenging Areas of Regulation to Comply with in Practice



1: Not at all Challenging; 2: Slightly Challenging; 3: Moderately Challenging; 4: Very Challenging; 5: Extremely Challenging

This pattern, however, disguises a significant regional variance. While liquidity is a prominent issue in both Asian regions, North Africa and Europe, it is well down the list in the Middle East ex-GCC and in Sub-Saharan Africa. It is possible that this may be because regulators in these two regions have been slower to implement the LCR and NSFR that emerged from the BCBS following the Global Financial Crisis. Capital adequacy is a prominent issue in Southeast Asia and North Africa, while Shariah governance is the leading issue in Sub-Saharan Africa, perhaps reflecting the limited resources of specialist Shariah scholarship available in that region.

Figure 51. Most Challenging Areas of Regulation to Comply with in Practice – Regional Breakdown

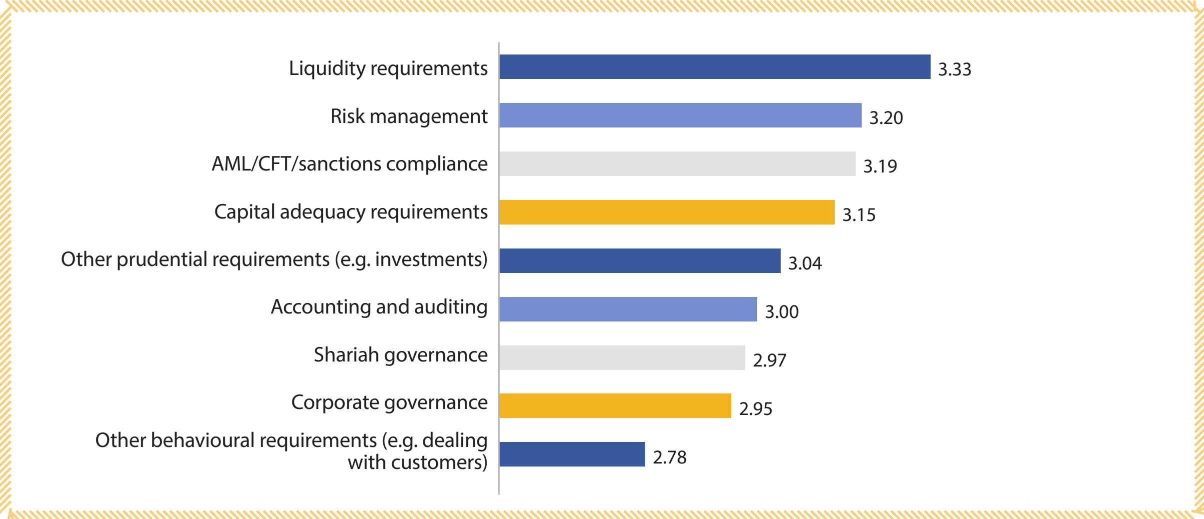


1: Not at all Challenging; 2: Slightly Challenging; 3: Moderately Challenging; 4: Very Challenging; 5: Extremely Challenging

There are also very material differences between the larger and smaller banks. The order in which the challenges come is significantly different, although it is possible that this may reflect regional variations. More notable still is that every challenge is rated more highly in absolute terms by the smaller banks, and it seems that they, in general, are struggling to meet regulatory requirements in the more demanding world post-GFC.

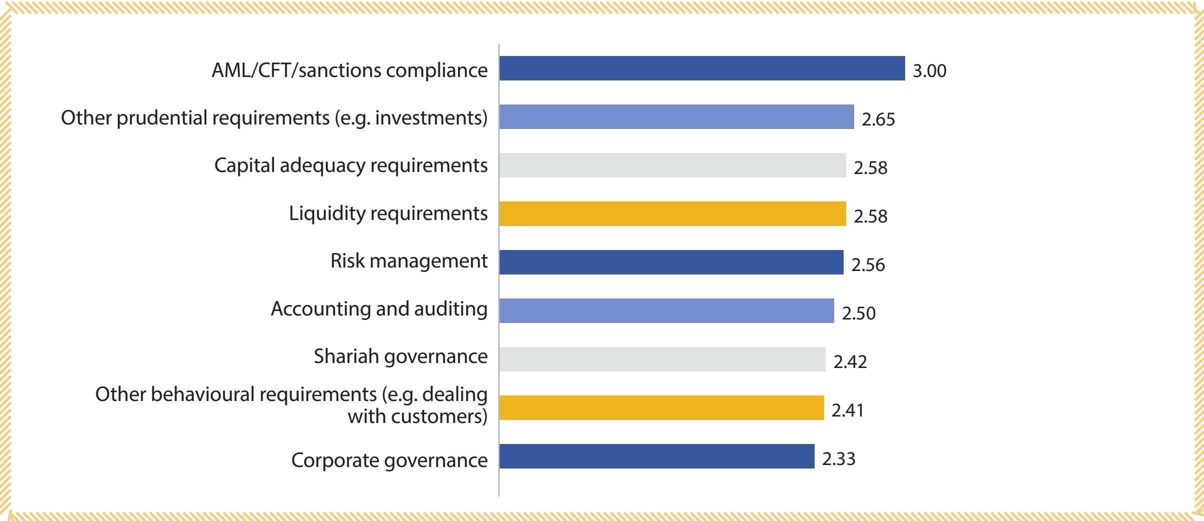
> It seems that smaller banks, in general, are struggling to meet regulatory requirements in the more demanding world post-GFC.

Figure 52. Most Challenging Areas of Regulation to Comply with in Practice – Small Banks



1: Not at all Challenging; 2: Slightly Challenging; 3: Moderately Challenging; 4: Very Challenging; 5: Extremely Challenging

Figure 53. Most Challenging Areas of Regulation to Comply with in Practice – Large Banks



1: Not at all Challenging; 2: Slightly Challenging; 3: Moderately Challenging; 4: Very Challenging; 5: Extremely Challenging

Shariah Standards: The Challenges

We asked specifically about the particular challenges banks face in applying Shariah standards in their organisations.

Taxation was a common issue, especially in jurisdictions relatively new to Islamic finance, which have not yet tackled the issues of achieving tax neutrality with conventional finance. This commonly arises where banks need to own physical assets, for example when financing through Murabahah or Ijarah contracts. Allied is the question of whether banks are actually allowed to own such physical assets, an issue that has not been tackled in some jurisdictions.

A number of banks commented on the relatively limited number of products, and their associated documentation. One comment from a bank in the GCC sums it up: "The universe for investment and product offerings is quite limited due to Shariah compliance issues. The documentation process for various Shariah financing products is lengthy and complex, which creates a challenge when trying to manage customer expectations as well as compliance with Shariah requirements." Several banks also mentioned the lack of familiarity of customers, and sometimes the staff, with Islamic banking product structures. In some cases, a regulatory regime designed for conventional banking was seen as part of the problem. One bank elsewhere in the Middle East ex-GCC group referred to "the absence of legislation concerning Islamic banks, which poses difficulties for the bank, whether to find suitable forms of financing and dealings with investors and the employment of liquidity surpluses or to find products that are competitive enough among conventional products in the market."

> Taxation was a common challenge, especially in jurisdictions relatively new to Islamic finance.

Unsurprisingly, given the earlier answers, liquidity was a recurring theme. Banks in several jurisdictions, especially those where Islamic banking is a relatively small part of the system, referred to the absence of suitable instruments to deploy liquidity in jurisdictions where the government was not issuing Shariah-compliant instruments and often with underdeveloped Islamic capital and money markets. These points, and indeed others relating, for example, to the unavailability of takaful covers, underscore the need for regulators to provide a supportive environment for Islamic finance and for the gradual development of comprehensive Islamic finance infrastructures.

One bank, in West, Central, and South Asia, sounded a particular warning for jurisdictions developing new Islamic finance regimes. It pointed out that its country's Islamic finance regulations had been modelled on those of another prominent jurisdiction, but one where the prevailing school of Shariah scholarship was different. It therefore saw problems in building customer trust in Islamic banking activities, among a rather conservative community.

The Regulatory Challenges More Generally over the Next 1 - 3 Years

We asked more generally what banks saw as the main regulatory challenges over the next 1-3 years, and about their initiatives to overcome them. Inevitably, the banks took the opportunity to express a wide range of concerns. Some of their comments suggest that banks were expressing concerns not only with regulation in the sense of the rules they have to follow, but with the whole activity of central banks or other regulators in developing the sector and its supporting infrastructure.

Many of the challenges listed were those already been discussed above, notably liquidity, the ability to hold physical assets, and customer awareness. However, two banks mentioned data protection, and one in North Africa made a strong plea for technological modernisation: "One of the most important challenges is those related to keeping up with the technological and information technology developments using modern techniques to meet the needs and desires of the clients by adopting new models of financial intermediation and modern electronic payment services. The modernisation of information systems, payments, financial and banking transactions, and ways of processing information are priorities for the authorities to address the delay in this area, and also to complete the course of banking reforms and establish the foundations of a national banking system characterised by modernity to meet the challenges and developments that the banking industry is witnessing internationally. All this cannot happen unless the central bank accelerates the promotion of the digital transformation and the development of payment systems and services, as well as appropriate ways to meet the regulatory and supervisory challenges in order to respond to the financial technology risks."

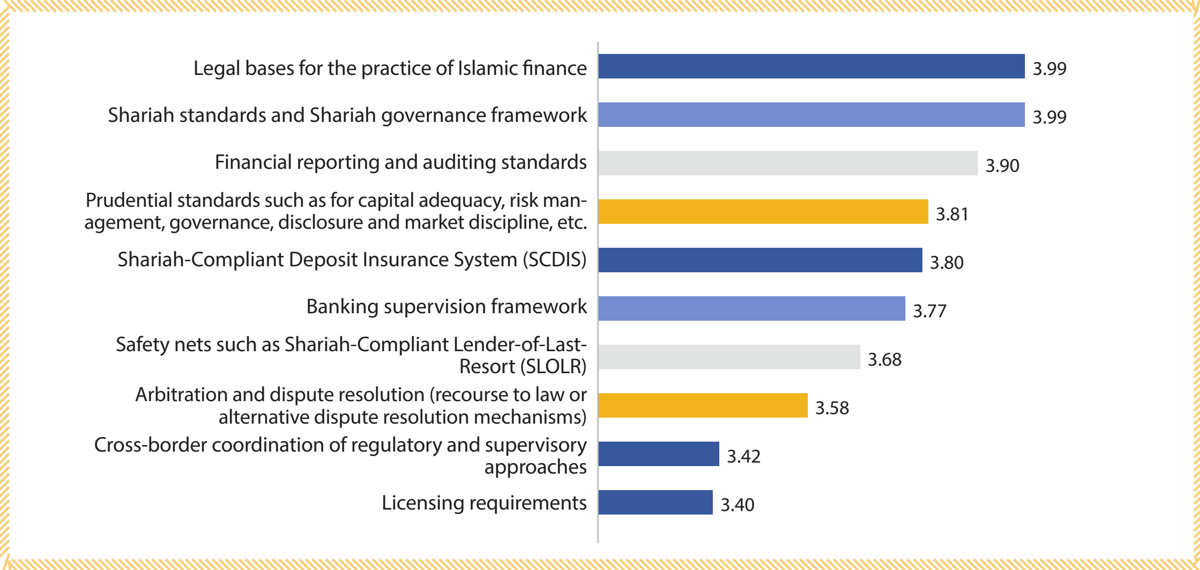
More generally, there was a recurring theme of the difficulty for Islamic banks in operating within a framework designed for conventional banks, one that does not recognise the needs and structures of Islamic banking. This is particularly the case where the regime is a prescriptive one, which regulates in detail product and transaction structures, permitted investments, etc. Regimes which are generally permissive in these areas seem less problematic.

> Some of the comments suggest that banks were expressing concerns not only with regulation in the sense of the rules they have to follow, but with the whole activity of central banks or other regulators in developing the sector and its supporting infrastructure.

Where Regulators Should Focus

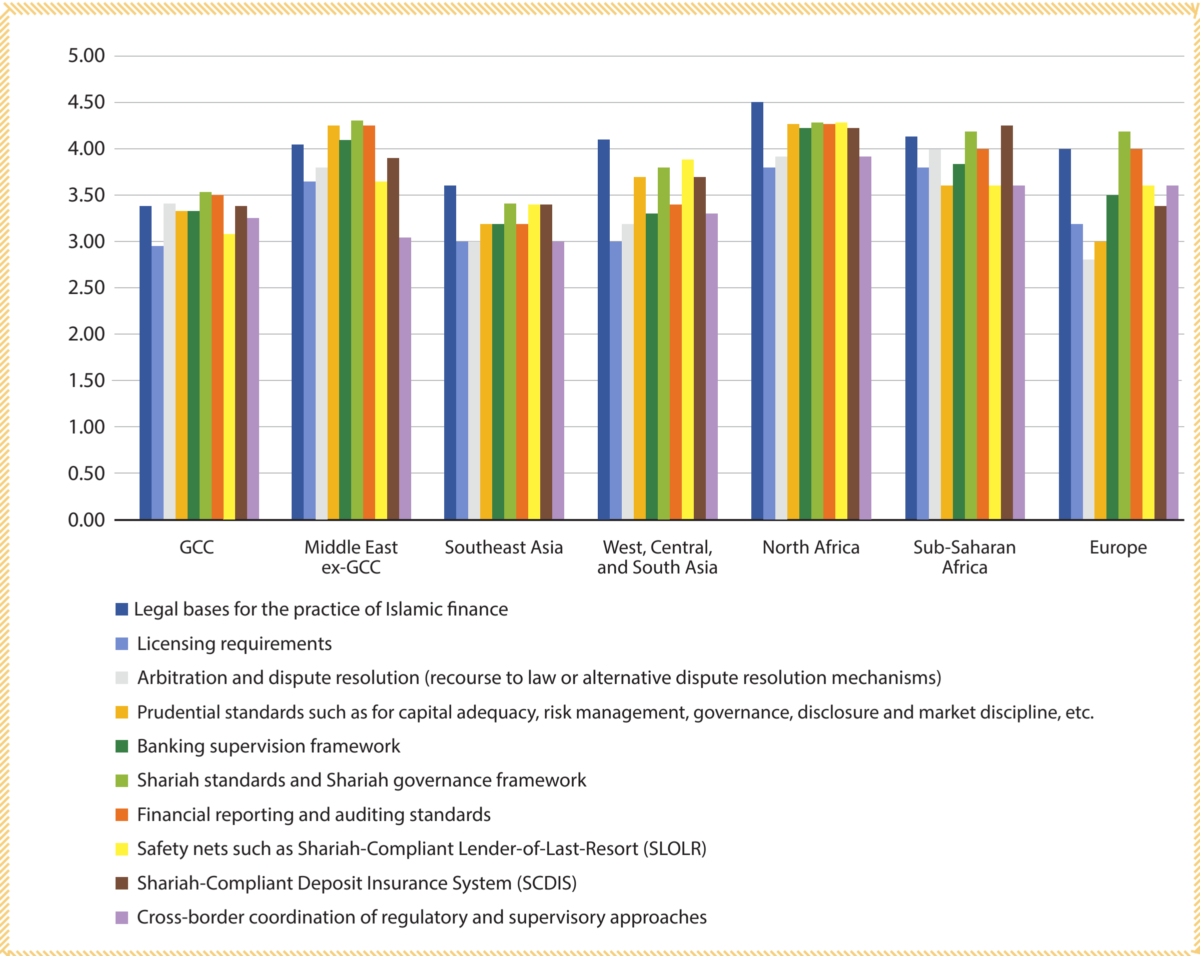
A related question pertained to areas of regulation upon which the jurisdiction's regulatory authority should focus to ensure an appropriate regulatory regime. Providing an appropriate legal basis for the practice of Islamic finance and Shariah standards and Shariah governance came first equally, although there was relatively little to choose from between the top few answers. Similarly, although the pattern varied somewhat by region, it is not clear that the differences are statistically significant.

Figure 54. Areas of Regulations in Islamic finance that Islamic Banks would like Regulators to focus on



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

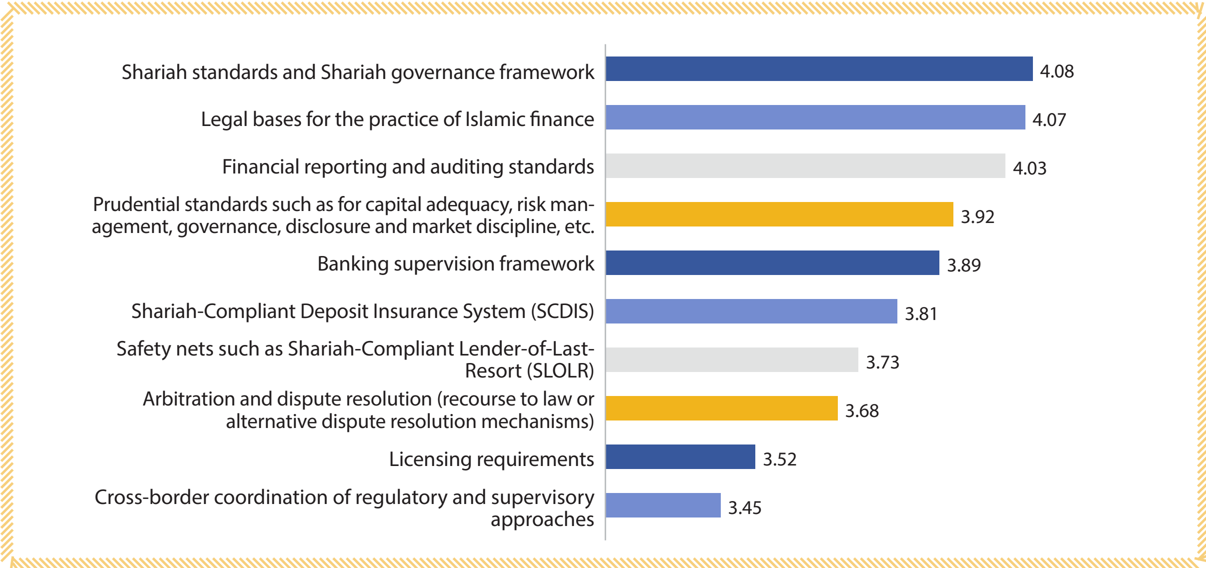
Figure 55. Areas of Regulations in Islamic finance that Islamic Banks would like Regulators to focus on - Regional Breakdown



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

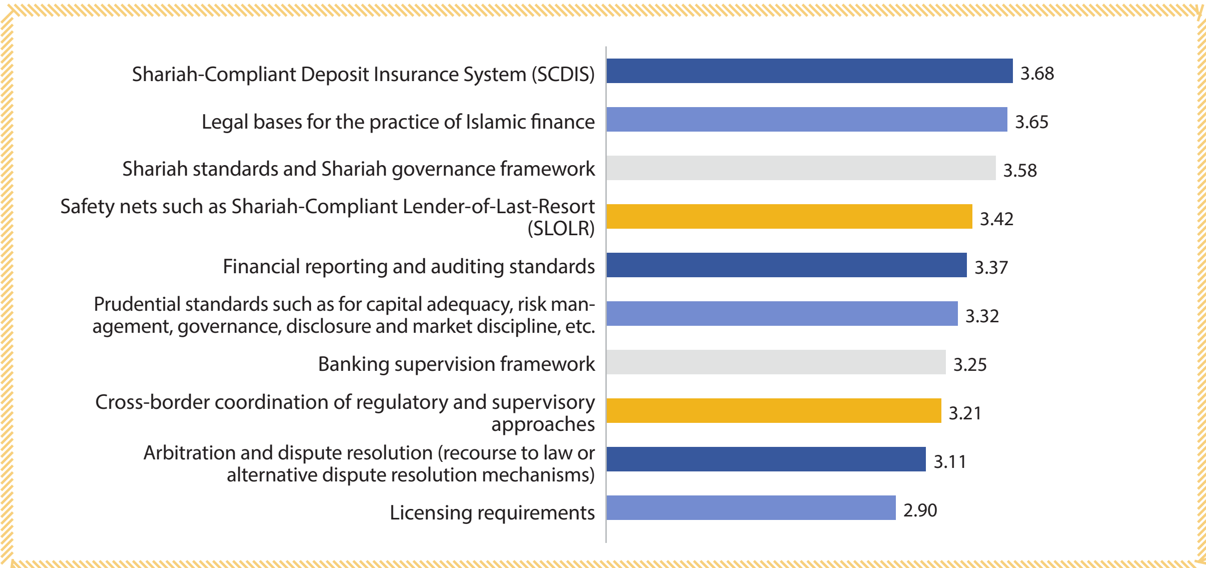
The differences between the larger and smaller banks were, however, more significant. It is not surprising that smaller banks are less interested in cross-border issues, because they are less likely to have cross-border operations. However, the more surprising finding was the relatively high priorities that the larger banks gave to Shariah-compliant deposit insurance and lender of last resort facilities. This may, however, reflect the fact that larger banks are likely to be located in jurisdictions with relatively well-developed Islamic banking sectors, which reasonably justifies such facilities. They are also likely to have more of the basics already in place.

Figure 56. Areas of Regulations in Islamic finance that Islamic Banks would like Regulators to focus on – Small Banks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

Figure 57. Areas of Regulations in Islamic finance that Islamic Banks would like Regulators to focus on – Large Banks



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

We also asked where regulators should advance their own practices. Greater knowledge of Islamic banking came first, but it was interesting that faster implementation of international standards and better consultation when doing so took second and third places. Again, the differences between regions seemed to be a matter of shading, rather than large and systematic differences[3].

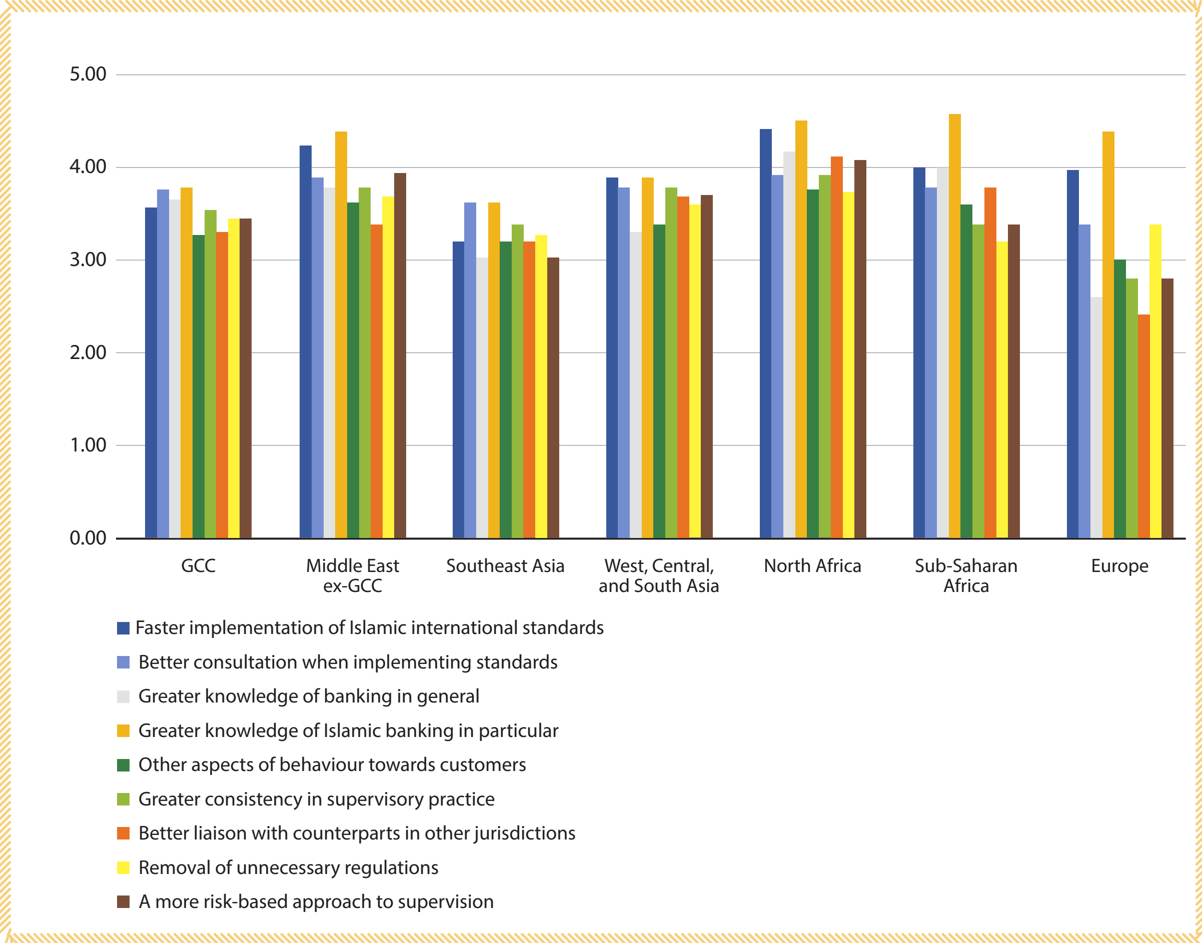
> Faster implementation of international standards and better consultation featured as second and third areas where Islamic banks would like regulators to advance their practices.

Figure 58. Areas in which Islamic Banks would like Regulators to advance their Practices in the Next 3 Years

1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

[3] Detailed data on small and large banks is available in Appendix 3

Figure 59. Areas in which Islamic Banks would like Regulators to advance their Practices in the Next 3 Years - Regional Breakdown



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5: Extremely Important

We also asked whether the banks were expecting any changes in the sources of regulation/ standards in the near future. In this area, the banks tended to focus on accounting standards. Some highlighted IFRS standards, including IFRS 9, IFRS 15 and IFRS 16 that had not yet been implemented in their jurisdiction. Banks in two jurisdictions were expecting AAOIFI accounting standards to be implemented for the first time. In another country, the banks were expecting the creation of a national Shariah Board and implementation of legislation for Islamic banks, including the application of IFSB and AAOIFI standards. In two others, the application of AAOIFI Shariah standards was expected.

Areas for International Standards Development

Finally, we asked two questions about standards development. The first was whether there were areas where new international standards for Islamic banking specifically should be developed, or existing ones revised.

Many of the answers were, in fact, concerned with the implementation of existing standards or, in some cases, the responder did not recognise the standards that had already been developed. Others were unclear and there was no overall pattern. However, some specific suggestions were:

- Priority ranking for the various investment products in the case of liquidation.
- Quality control standards.
- Standards for Islamic securities markets that comply with Shariah regarding the financial instruments traded, the methods of dealing and the quality of the dealers.
- Standards for digital and encrypted currencies.
- Updated standards relating to sukuk, waqf and social responsibility.
- Distribution of investment profits in investment deposits under the Mudarabah contract before the maturity date of the deposit.
- Islamic deposit insurance.
- Standard approach to penalties in the case of late payment.
- Standard treasury products.
- Development of AAOIFI accounting standards in line with the developments in IFRS.
- Financial derivatives.
- Modified corporate governance standard for Islamic banks.
- Refinancing.

The second question was about standards development not specific to Islamic banking. Many of the answers here overlapped with those in the previous question. However, there were a number of concerns in the broad area of financial crime; with the exception of money laundering through digital currencies, it was difficult to discern what gaps were seen in the existing FATF standards.

There were also several comments urging the development of standards in the broad area of corporate social responsibility. This echoes the commitment seen strongly in the industry's response to the UN Sustainable Development Goals discussed in the previous section. It is likely that this will be an important area for CIBAFI's future work.

> Several comments were urging the development of standards in the broad area of corporate social responsibility.

The overall picture suggests that Islamic banks, with some exceptions, are not well-coupled into the international standards scene. Most are focused dominantly on the requirements of their national regulator(s) rather than the international standards that commonly drive these requirements. Given the relatively small size of many Islamic banks, it may not be realistic for this position to change, and it underscores the need for organisations like CIBAFI to analyse and comment on the issues on behalf of their membership.

Many Islamic banks appear to be operating in jurisdictions where the level of knowledge of Islamic banking of the regulator is low, and where the legal framework is not conducive to Islamic banking. There are frequent obstacles, for example in the tax system, which need to be removed before Islamic banking can compete on an equal basis with its conventional counterpart. In the longer term, jurisdictions need to develop complete infrastructures for Islamic finance including, for example, takaful, capital markets and the issuance of liquidity instruments; but for many even the basics still need to be put into place.

Implementation of the international standards that already exist would be a welcome advance in many jurisdictions, although there are still some areas where more product standards would be met with praise.

Following the Global Financial Crisis, Islamic banks have come under pressure in the areas of compliance, liquidity and capital adequacy. The area of AML/CFT/financial crime has been and remains of particular concern, partly as a result of the jurisdictions in which many of them operate.

Conclusions and Recommendations

CONCLUSIONS AND RECOMMENDATIONS

CIBAFI Islamic Banking Confidence Index 2019

Going into 2019, banks across all regions are displaying cautious optimism; they like the direction that the financial industry is going, they feel confident about their ability to handle the possible challenges ahead, and they have bolstered positivity due to the direction of Islamic banking.

There is a very restrained outlook on how the success of the financial sector and Islamic banking will translate into revenue growth; but given the complications of the last year and the political uncertainties that lie ahead, both for specific regions and for the world, that restraint is completely understandable. It seems that banks are adhering the realities of the macroeconomic environment and the possible global shockwaves of political events. The cautious positivity is a well-grounded approach to the upcoming year.

Given their uncertainty, it is also understandable why one of the banks' top concerns was shareholders' values and expectations. Because of the possibility of an unstable macroeconomic environment in the coming years, it may be difficult for the banks to keep meeting the same standards for their shareholders. Regionally, we saw a predictable mix of concerns. Many banks expressed concern about the political climate, although for different reasons – some global, some local.

Despite this, overall concern levels have dropped, which is heartening. Of the remaining concerns, the banks identified consumer-related factors of attraction and retention as vital in the coming years. This was, unsurprisingly, particularly important for small banks. The overwhelming majority of banking officials emphasised the importance of product and service offerings to the future success of their banks.

The banks seemed very confident in their ability to navigate technological hurdles in the years to come, despite the fact that cybersecurity is an urgent concern. From the banks' detailed responses, it seems the reason for this confidence is the training and competence of their staff and the reliability of their systems.

While the banks didn't seem to fear competition from conventional or other Islamic banks, many reported that they have been affected by other competitive angles: the rise of start-ups and other unconventional business models were a concern in several regions. Banking officials have reported that they are turning to increased digitalisation to combat this problem, attract more consumers and extend their bank's reach.

CIBAFI Islamic Banking Risk Dashboard 2019

On this year's risk dashboard, cybersecurity risk features prominently. Most banks stated in their detailed written responses that cybersecurity is on their radar and that they are being proactive by implementing training and contingency plans. The responses indicated a widespread push for increased digitalisation and the use of technological tools to prepare for the future.

In addition to cybersecurity risk, general technology risk is a high priority; while banks stated in Part I that they are fairly confident in their abilities to use FinTech, the pervasiveness of technology in all the bank's dealings carries a hefty risk with it.

AML/CFT risk also scored highly, with many banks expressing concern about compliance and the possibility of a worsening reputation should things go awry. Many banks said they have contingency plans and training in place to prevent money laundering and to educate their staff in protocols to avoid risky situations.

Another top concern is liquidity risk, a feature of last year's risk dashboard as well. In some instances this seemed to reflect concerns related to the macroeconomic and political environment. In others it seemed to reflect the introduction of post-GFC liquidity regimes, which are more demanding in terms of the liquid assets banks must hold, and which can be very problematic in countries where few high-quality Shariah-compliant assets are available.

Fortunately, Shariah non-compliance risk was at an all-time low for our survey, which demonstrates that the banks feel more comfortable with the Shariah governance arrangements they have in place.

Since last year, many regions have reported that their banks have suffered a decline in CBR as a direct result of de-risking practices. The region most affected is North Africa, but every region reported a significant impact. The products and services most affected are international wire transfers, letters of credit / documentary collections and foreign exchange services.

Sustainability, Growth Drivers, and the Regulatory Challenge

Islamic banking has enjoyed notable growth worldwide in the past year. When the banks were asked which factors they believe contributed to growth in their sector, commercial and industrial financing featured as the top growth driver. Small and medium enterprise finance as well as trade finance were also scored as important growth drivers.

When it came to key innovative factors that help banks achieve competitive positioning, the banks identified that product variety and penetration of new market segments are key areas of focus for the coming year.

As for business priorities, the banks answered that they would like to pay attention to balance sheet optimisation while still meeting capital and liquidity requirements, a predictable priority given the concerns about liquidity we saw earlier. In addition, compliance is a top priority – the banks want to be sure they're meeting compliance and reporting standards. Given the difficulty of blockchain operationalisation, as well as the dubious potential of the market for peer-to-peer lending, they were both placed low on the list of priorities.

When banks were asked which elements of the UN's Goals for Sustainable Development were being utilised in their business growth plans, there was a strong focus on economic growth and development, and a pleasantly and surprising interests in ending poverty and advancing education. But there is still more to be done in integrating sustainable development fully into banks' business strategies.

Liquidity requirements were cited as main obstacles to complying with regulations. This is to be expected given that the banks reported so many concerns about meeting liquidity requirements. Another area of regulation that the banks regard as difficult in practice is AML/CFT/sanctions compliance. This coheres with the concerns seen in other parts of the survey, and both are areas where regulatory demands have been increasing. The smaller banks recorded having a harder time keeping up with post-GFC liquidity and AML/CFT/sanctions compliance requirements than larger banks.

Many banks found themselves struggling to implement Islamic banking in jurisdictions whose legal, regulatory and taxation systems did not reflect the specific needs of Islamic banking. Banks also expressed the desire for a wider range of Shariah-compliant products to compete with the ever-developing conventional market.

Overall, many banks clearly found difficulty in engaging with the broader regulatory and standards scene, perhaps reflecting the relatively small size of many of them, and this underlines the role of representative bodies like CIBAFI.

Recommendations

Customer Confidence

A recurring trend we saw in this year's survey was customer confidence, although it was addressed from multiple dimensions.

The banks' increased attention to cybersecurity and technological concerns demonstrates the desire to prepare for malware and hacking threats as well as keep up-to-date on software to instil trust in their customers that their information is safe.

Banking officials in some regions, such as Southeast Asia and Europe, seek legitimacy in the form of favourable Islamic banking legislation in their respective jurisdictions which recognises the specificities of Islamic finance. In addition, reputation is key: standing out as an attractive alternative in a landscape where Islamic banking is little understood is no easy feat.

The banks in regions that have issues with money laundering are concerned about assuring the public that they are compliant with AML/CFT regulations. In these regions, public perception is integral to attracting and retaining customers.

The answers to many of these concerns are innovation and digitalisation. Banking officials repeatedly emphasised the importance of new products and services to offer customers. Additionally, rigorous training to ensure that staff are able to effectively market these products and services to potential clients is key. Digitalisation of banking resources carries with it a threat of technological compromise, either by human error or bad actors, but it is a move that is necessary to stay competitive in the modern financial landscape. Innovative banks that stay abreast of the latest technology and navigate consumer issues with ease are those that can easily attract and retain consumers.

Proactivity

Another theme of this year's survey is the uncertainty that the current macroeconomic environment has created. Right now, the global economy is effectively in limbo; while banks are still riding the wave of prosperity that 2018 brought, there are fears of stagnation. In the face of a possible downturn, proactivity is more important than ever.

Most banks who answered the survey are already ahead of the game: they have implemented plans to increase their liquidity and bolster themselves against a possible crisis. They have researched and trained staff in services that will be useful in the coming years. They have developed contingency plans should a cybersecurity breach occur. They have striven for growth, which looks different in every region; in some, new brick-and-mortar locations are a better way to connect with customers, while in others, expanding their online reach is the best strategy for success. Many banks reported that international outreach and networking is a wise plan to gain a strong foothold in their region. Regardless, most banks agreed that encouraging customers to make use of the banks' online and mobile services is a useful solution to some of these issues.

Given the uncertainty of the macroeconomic environment, the global political climate, and the localised issues the banks are facing, proactivity is more important than ever. Many banks are already on the right track preparing for the future. The best tools at their disposal lie in the expertise of the banks' staff, the innovative products and services they can offer customers, the technological advancements that help to drive business growth and expansion and the plans in place should things take a turn for the worse.

Banks are also being encouragingly proactive in addressing the underlying values of Islamic finance, and the SDGs with which these values strongly overlap. However, at a time when the international community is increasingly concerned that banks should meet the needs of society, there is still more to be done to integrate sustainability and human development throughout banks' activities.

Handling Regulatory Challenges

A necessary element of bank operation is the adherence to regulatory standards, which can cause strain on some banks depending on their size, location and assets. The resounding opinion of the banks who answered our survey is that it is uncomfortable for them to operate within frameworks designed for conventional banks, without regard for the unique circumstances of Islamic financial institutions.

Another recurring theme was that more products and services are needed that are both Shariah-compliant and recognizable within conventional banking standards. The banks expressed the need for more extensive documentation and further staff training so they can become familiar with the products and services. In addition, general issues with liquidity can be mitigated with increased modernisation of banks' information and payment systems and transaction methods.

The lack of Shariah-compliant methods for deploying liquidity is also an issue that is hitting many banks hard. This highlights the need for regulators to understand and create a more supportive system for Islamic finance and the further development of the Islamic financial infrastructure.

Looking Forward

The invaluable insight we've received from banking officials during this survey has not only shown us what the current landscape looks like, but also the macro-environmental context and the obstacles that will be faced in the coming years.

The Islamic banking sector is growing, modernising, and in many cases thriving; however, in certain regions, it is struggling to do so given the conventional banking frameworks that constrain it. Adaptation is necessary to navigate the regulatory challenges that these banks face, especially in the face of liquidity concerns. Up-to-date technology trained and capable staff and clear contingency plans are excellent ways to keep moving ahead and boost the recognition of Islamic banking in the general financial sector. There is also a need to boost its recognition as a value-based form of banking that can help meet aspirations for development and the environment.

In addition to keeping on top of technology and having the proper training available, innovation is a key driver for business growth. Displaying their unique products and services gives Islamic banks an edge.

Expansion of digital methods, as well as internationally networking, are also excellent ways to extend the banks' reach without resorting to traditional brick-and-mortar locations. With new technologies come unconventional competitors, and digitalisation will be integral to remaining relevant in an ever-changing landscape.

By implementing these methods, Islamic financial institutions will be able to manoeuvre around the obstacles they may encounter in the context of an evolving economy. The banking officials who participated in our survey demonstrated that they see these issues and their solutions with remarkable clarity, proving that they are doubtlessly capable of putting these methods into action in the coming years.

Appendix 1

Overview of CIBAFI

APPENDIX 1: OVERVIEW OF CIBAFI

The General Council for Islamic Banks and Financial Institutions (CIBAFI) is a membership-based organisation, based in Bahrain that acts as the voice of the Islamic finance industry. CIBAFI was founded in 2001 by the Islamic Development Bank and other leading Islamic financial institutions. Today, it has over 130 members from over 34 jurisdictions and is proud to say that membership is increasing.

The Council is governed by a Board of Directors that is chaired by H.E. Shaikh Saleh Kamel, who is the Chairman of Al Baraka Banking Group. An Executive Committee of the Board is empowered to take certain decisions in between meetings of the full Board. The day-to-day management of CIBAFI's affairs is in the hands of the Secretariat, which is led by the Secretary General, Mr. Abdelilah Belatik.

CIBAFI has a unique role in the global architecture of Islamic finance: it is the only member-based organisation that exists to promote the interests of Islamic finance practitioners whether they are banks, insurance companies, financial regulators, customers and the users of Islamic financial products, or others who encounter Islamic financial services in their professional or personal lives.

CIBAFI works with other organisations within the global architecture of Islamic finance. These organisations include the Islamic Financial Services Board (which sets regulatory standards), the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) (which sets accounting and other standards), and the International Islamic Financial Market (which sets standards and produces documentation for Shariah-compliant financial instruments). CIBAFI also works closely with global organisations such as the World Bank (WB), the International Monetary Fund (IMF), the United Nations (UN), the Basel Committee on Banking Supervision, the International Accounting Standards Board (IASB) and the Institute of International Finance (IIF). It has a close relationship with the Islamic Development Bank and shares its objectives to promote and strengthen the Islamic Financial Industry.

CIBAFI's Strategic Plan for 2019 – 2022 identifies three Strategic Objectives:

1. Advocacy of Islamic Finance Values and related Policies & Regulations

This strategy focuses on supporting the added value proposition of Islamic finance and related policies and regulations through the promotion of practices that achieve the real economy and the socioeconomic benefits of Islamic finance. It aims to promote investment banking for the benefit of the society as a whole and for the support of Shariah Objectives within member institutions and with various stakeholders. It seeks to achieve ethical principles in banking transactions, to determine Shariah Objectives related to transactions, to promote the standardisation of Islamic financial instruments and to continuously develop and propose new regulations in the financial sector to positively impact Islamic financial institutions.

CIBAFI is also keen to be the voice of the industry, raising the interests and concerns of the Islamic financial services industry with relevant bodies, to support the added value of Islamic finance and to ensure that the needs of the industry are taken into account when the standards are being developed.

CIBAFI submitted recently the collective comments of its members to the United Nations Environmental Programme – Finance Initiative (UNEP FI) on the Principles for Responsible Banking as well as it raised updates to the Financial Stability Board (FSB) on the issue of de-risking and correspondent banking relationships.

CIBAFI also collaborates with international organisations and regulatory and supervisory authorities in order to build constructive and proactive dialogues that highlight the challenges facing the industry and the different implications of the regulatory requirements on IFIs business operations. For example, CIBAFI is a founding member of the IMF's External Advisory Group on Islamic Finance and a member of the International Accounting Standards Board's Consultative Group on Shariah-compliant instruments and transactions. CIBAFI also collaborates with the UN to raise awareness on Islamic finance within the global agenda through various joint initiatives.

2. Research and Innovation

This strategy focuses on encouraging research and innovation through the development of a specific process that ensures Islamic finance's independency of conventional products and promotes good practices and innovation within the industry. Through its periodic publications and reports, CIBAFI aims to highlight opportunities in the industry and means to achieve sustainable development by following Shariah Objectives within IFIs practices.

CIBAFI publishes every year its annual flagship report "CIBAFI Global Islamic Bankers' Survey" that provides insights on the Islamic banking industry and tracks its development year after year. CIBAFI also publishes a series of market related research that are conducted by CIBAFI or/and with its strategic partners in an initiative to increase its output of publications and research. CIBAFI also publishes a newsletter ("InFocus") to keep members and others informed about CIBAFI activities and about significant developments in Islamic finance. In addition, CIBAFI also publishes a need-based periodical "Briefing", which are short and concise papers addressing emerging issues of the industry.

3. Training and Professional Empowerment

CIBAFI seeks to develop human resources by developing professional ethical models for various categories of members. This is a fundamental requirement for the development of the Islamic financial services industry, especially in line with its rapid growth globally, not only to provide high quality services to clients, but also to adhere to the ethics of Islam within practices. CIBAFI also seeks to provide the necessary support for the development of Shariah scholars, deepening their independence and enabling them to effectively monitor IFIs.

CIBAFI offers 3 categories of professional development programmes: Executive Programmes for senior management and board level; Technical Workshops for mid-level staff of Islamic banks that are usually hosted by a regulator; and 16 professional certifications.

CIBAFI welcomes suggestions from members and non-members for ways in which it can strengthen the work that it does.


SÜDATLANTISCHER
OZEAN
Südlicher Wendekreis
St. Helena (GB)
Ascension (GB)
Tristan da Cunha (GB)
Gough (GB)
Äquator
Golf von Guinea
ANGOLA
Luanda
NAMIBIA
BOTSUANA
SÜDAFRIKA
SAMBIA
MALAWI
MOSAMBIK
TANSANIA
KONGO
KONGO (Dem. Republik)
GABUN
Libreville
KAMERUN
NIGERIA
BENIN
TOGO
GHANA
ELFENBEIN KÜSTE
BURKINA FASO
LIBERIA
SIERRA LEONE
GUINEA
SENEGAL
ÄQUATORIALGUINEA
SÃO TOMÉ U. PRÍNCIPE
Pointe-Noire
Brazzaville
Kinshasa
Accra
Lomé
Lagos
Malabo
Bangui
Lüderitz
Kapstadt

Appendix 2

Survey Findings: Region-Focused

GROUP 1: GCC

Figure 1. Banking Operation

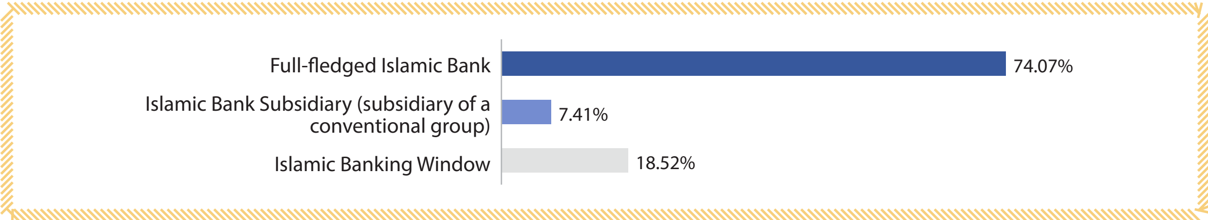


Figure 2. Core Business

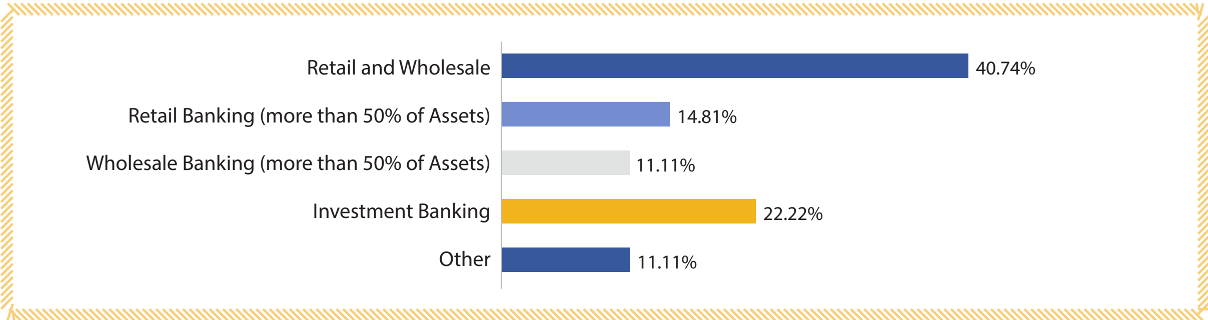


Figure 3. Size of Total Islamic Assets

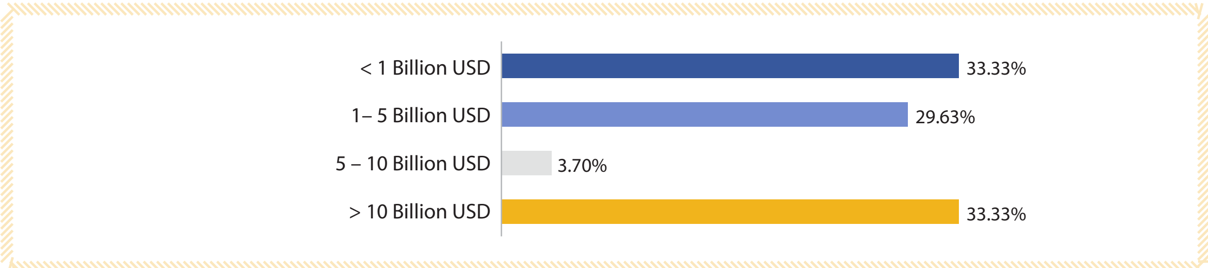


Figure 4. Overall Banking Industry Optimism Level

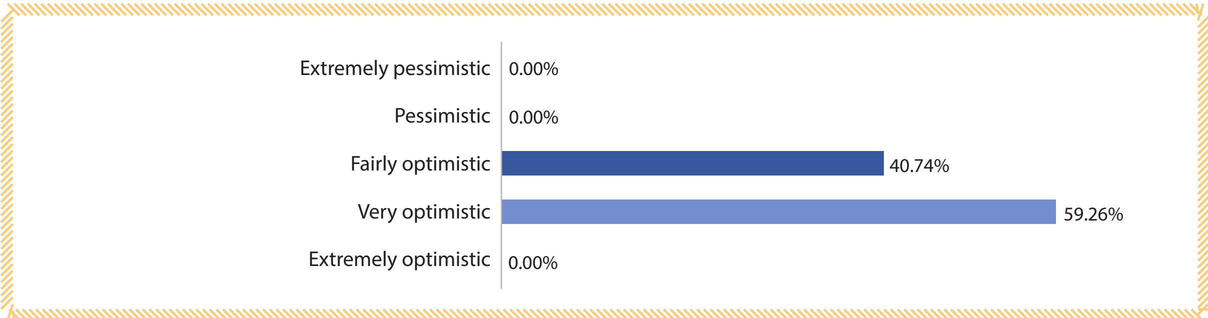


Figure 5. Islamic Banking Industry Optimism Level

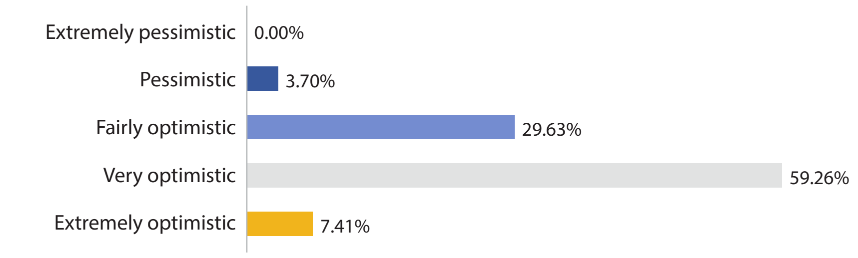


Figure 6. Revenue Growth Expectation

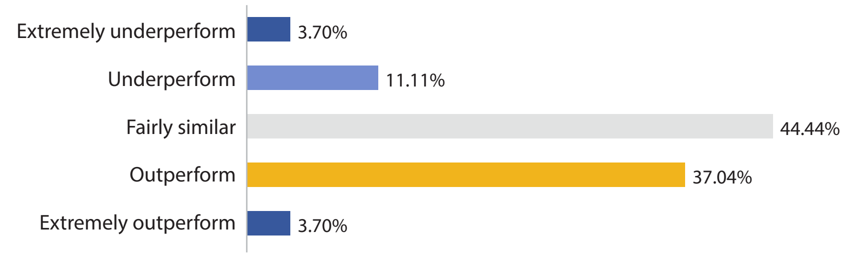


Figure 7. Islamic Banking Top Concerns

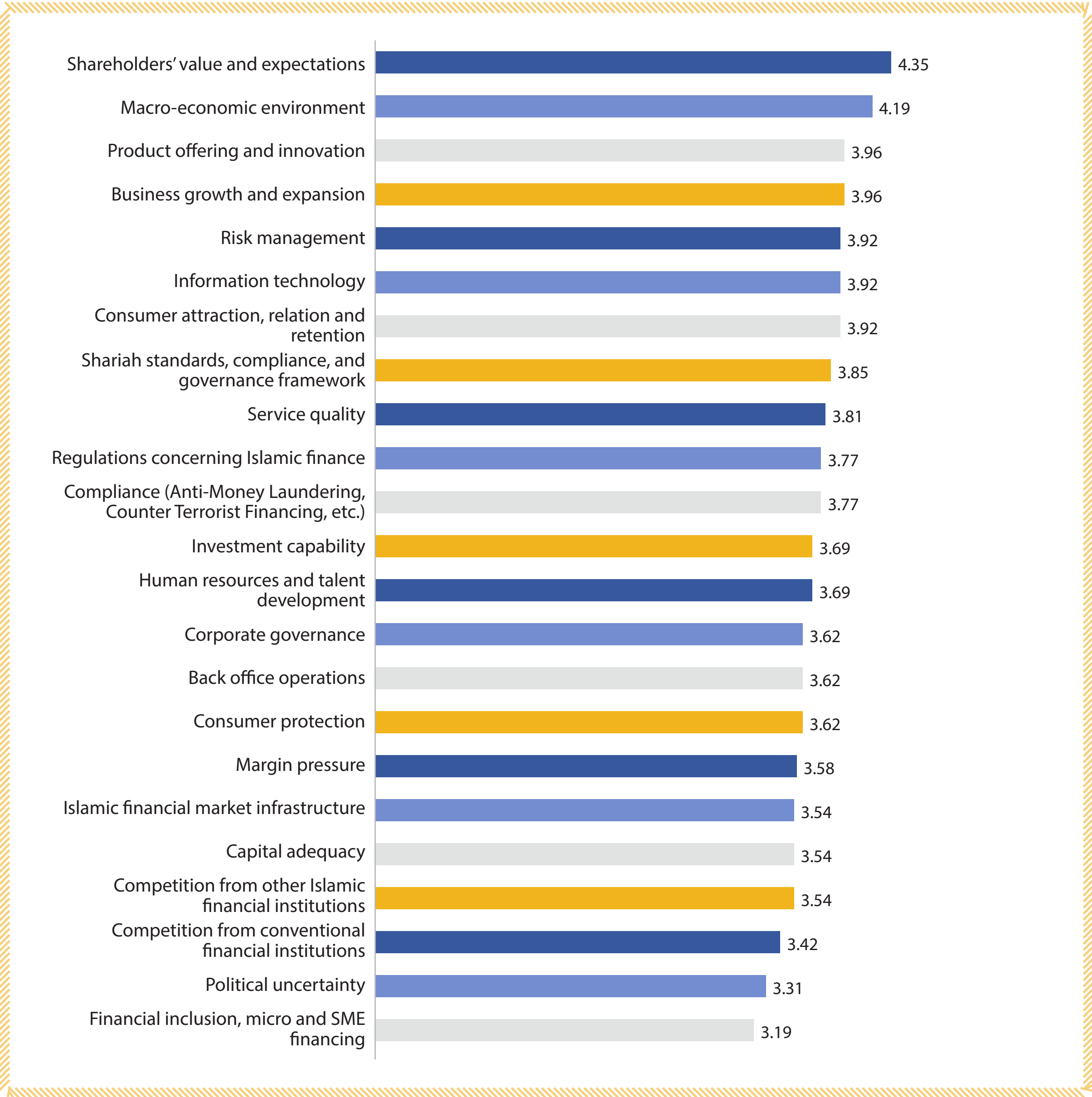


Figure 8. Competition from Novel, Technology-enabled Business Models

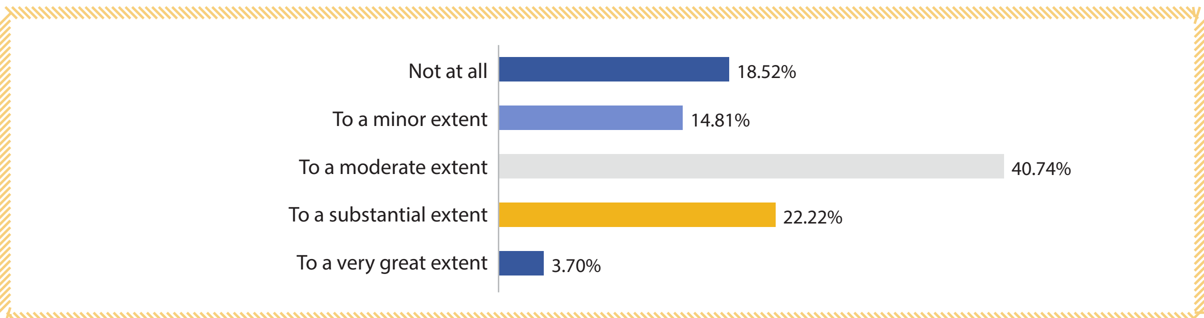


Figure 9. Islamic Banking Risk Dashboard

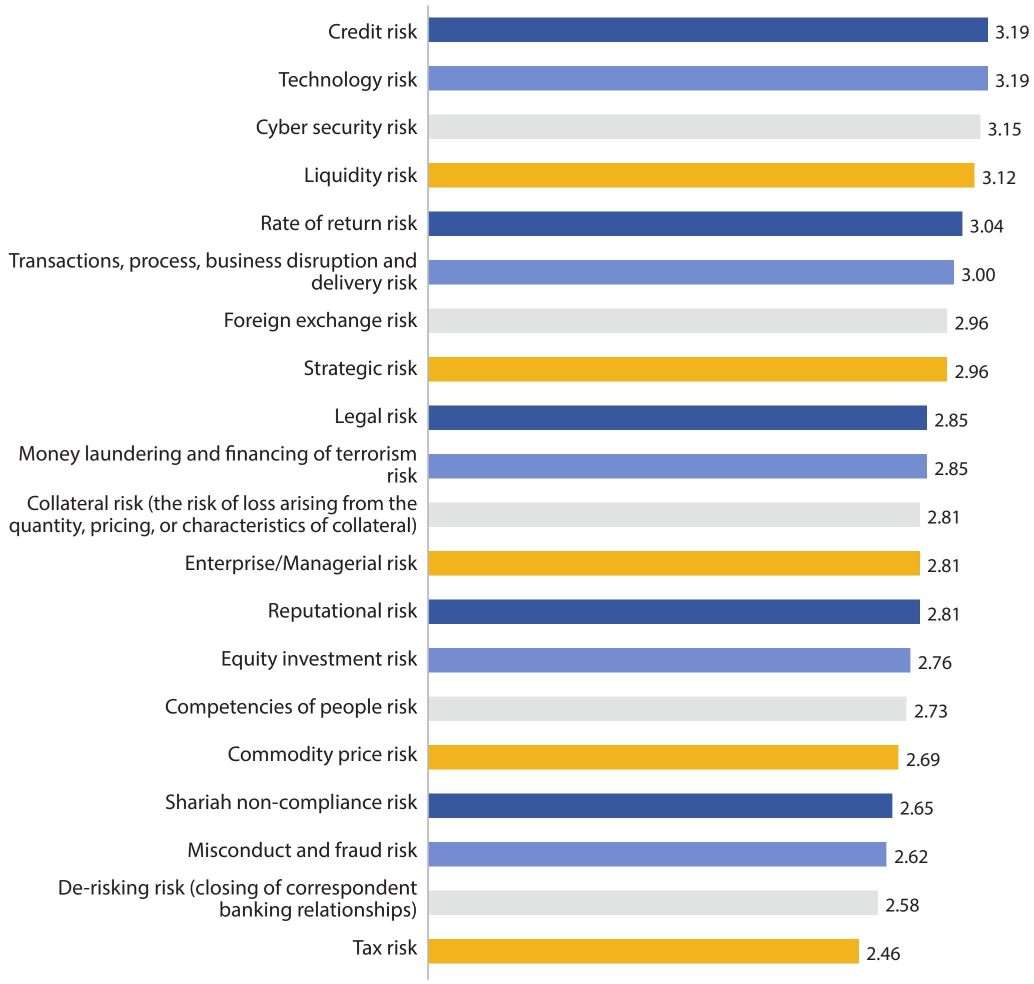


Figure 10. Decline in CBR Due to De-Risking

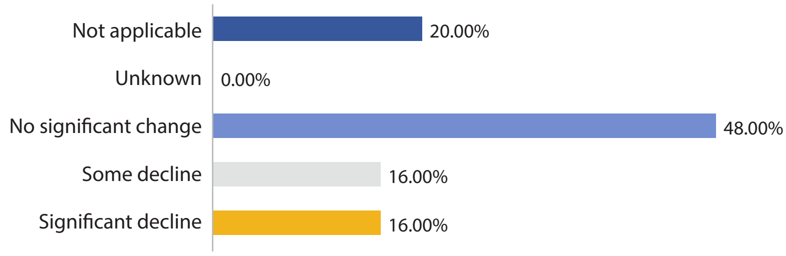


Figure 11. De-risking Effects on Products and Services

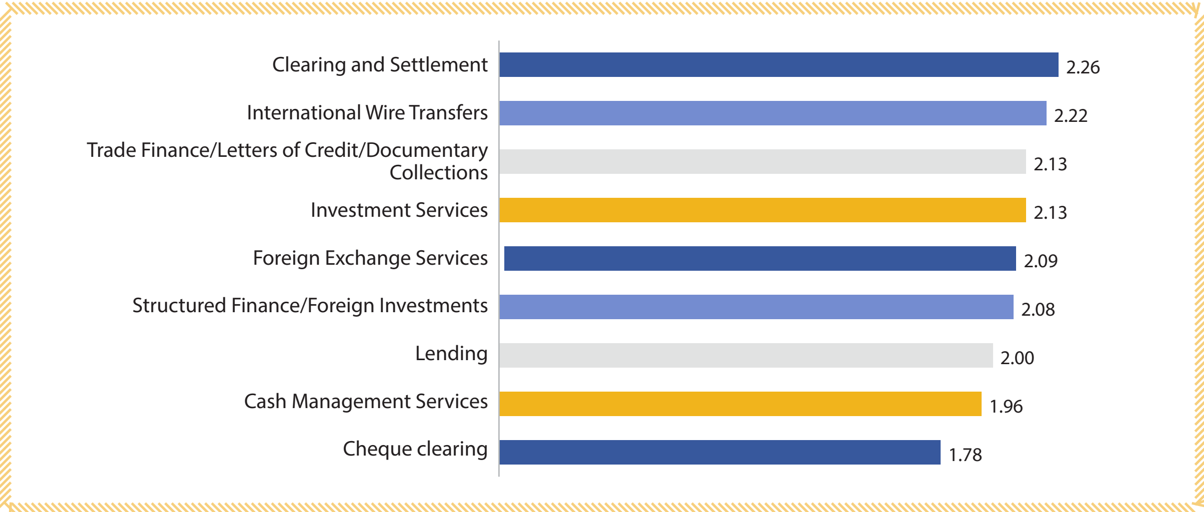


Figure 12. Segments Driving Revenue Growth

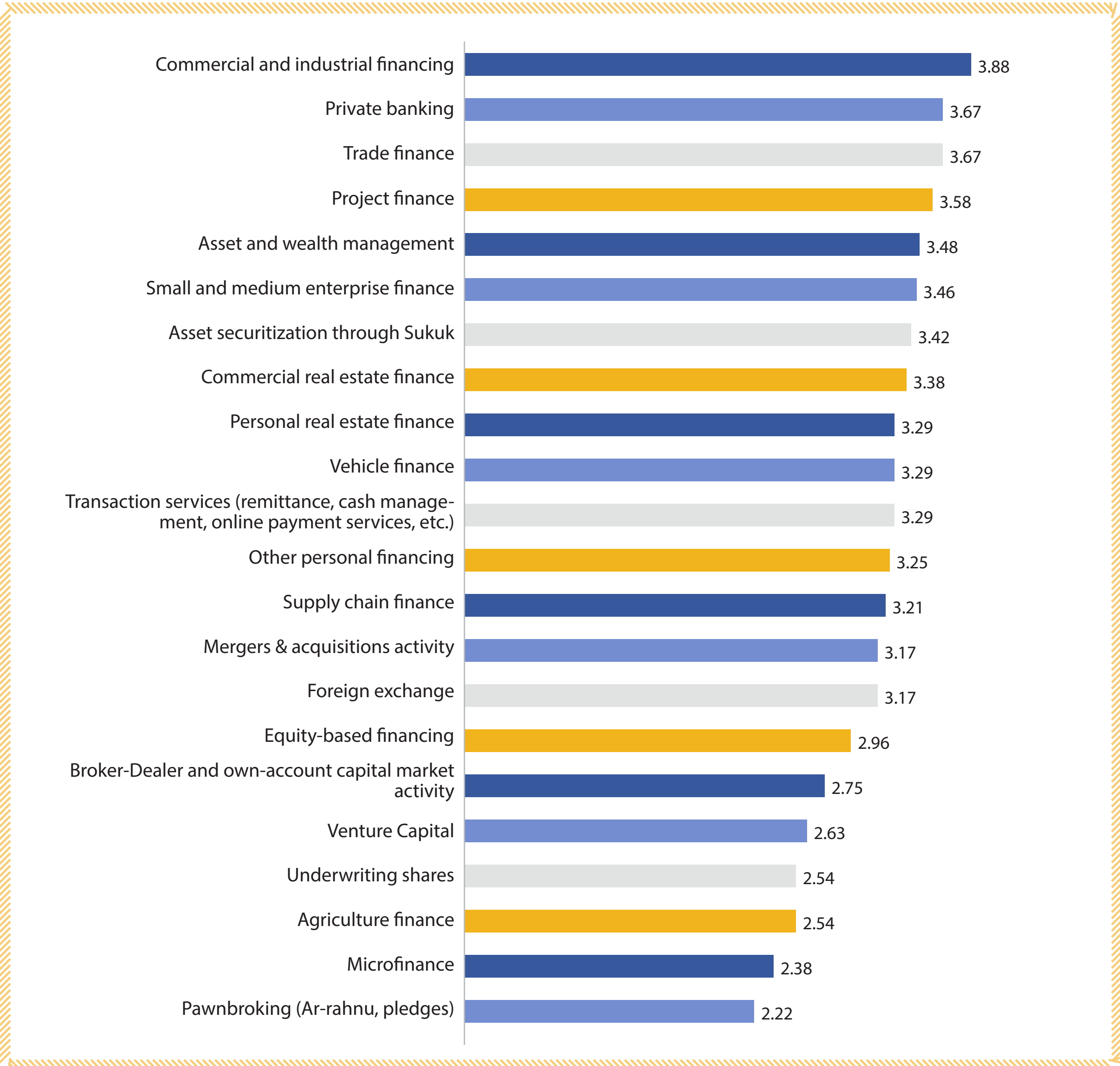


Figure 13. Areas of Business Expansion to achieve Competitive Positioning

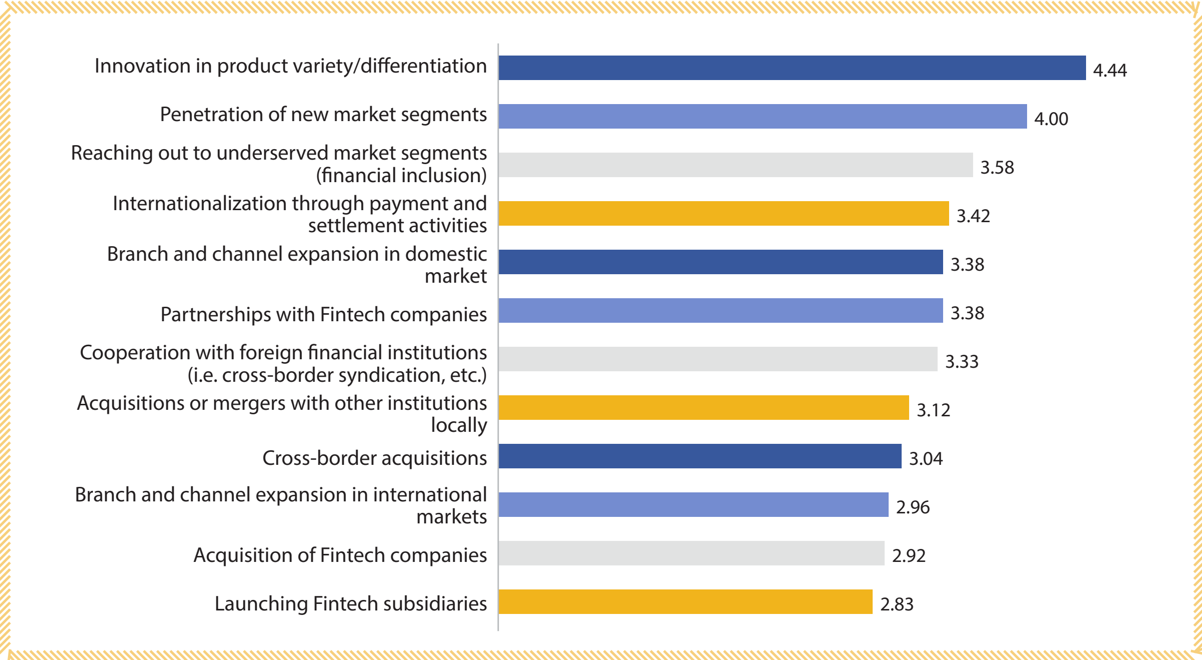


Figure 14. Business Priorities in 2019

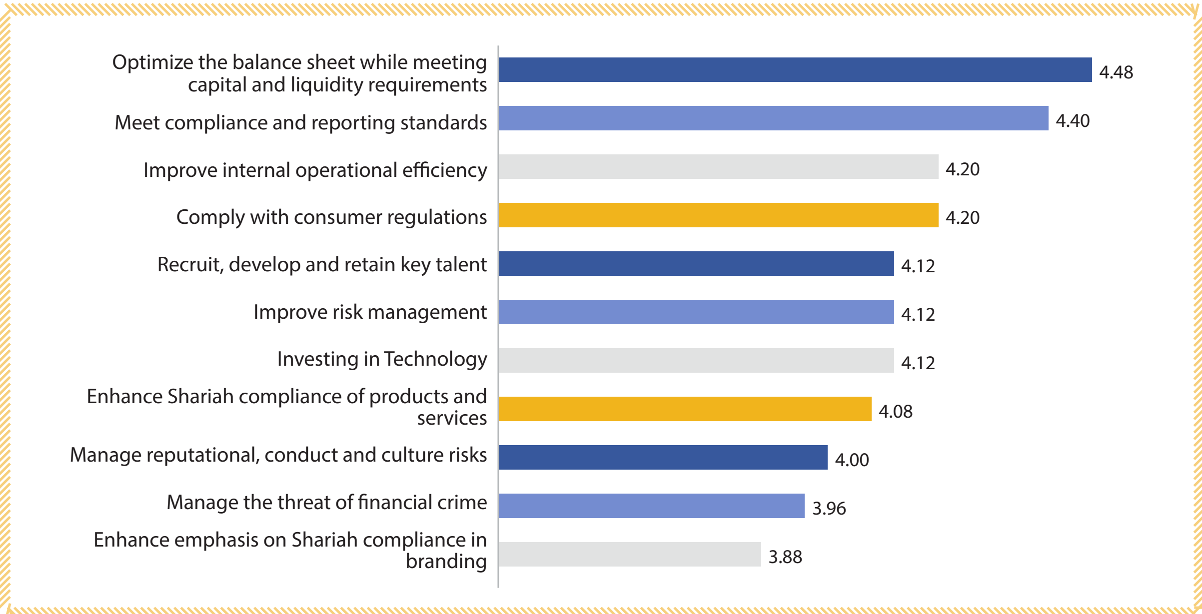


Figure 15. Areas for applying Banking Technology as a Business Growth Driver

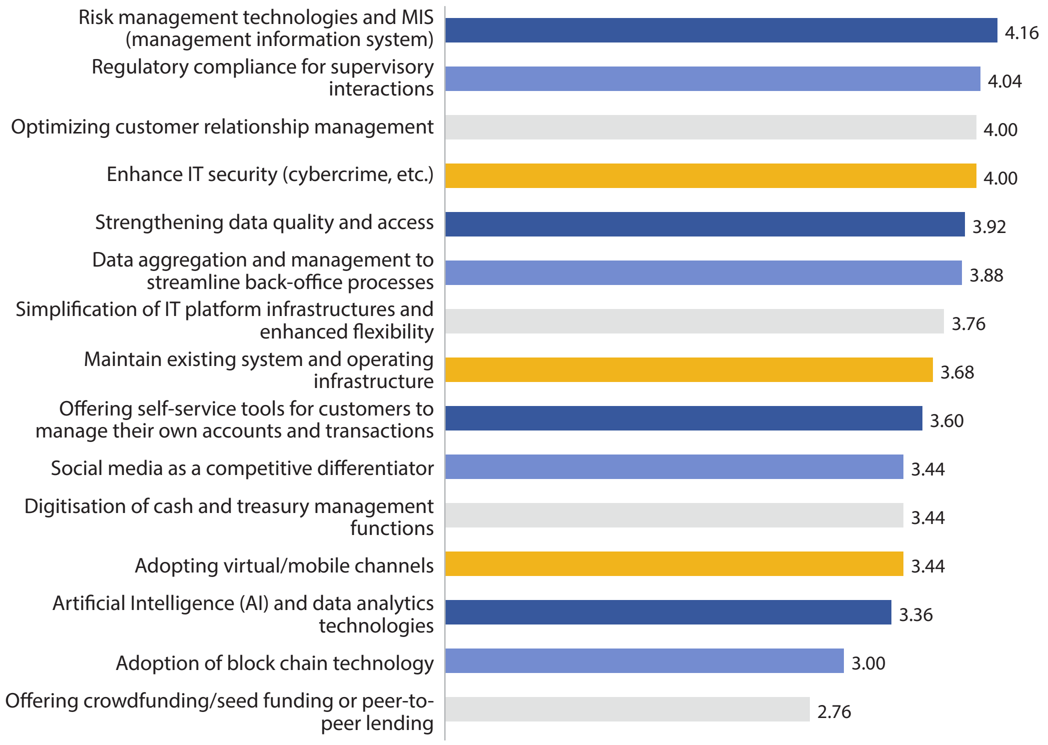


Figure 16. UN SDGs institutions plan to promote as part of their Business Growth Plan

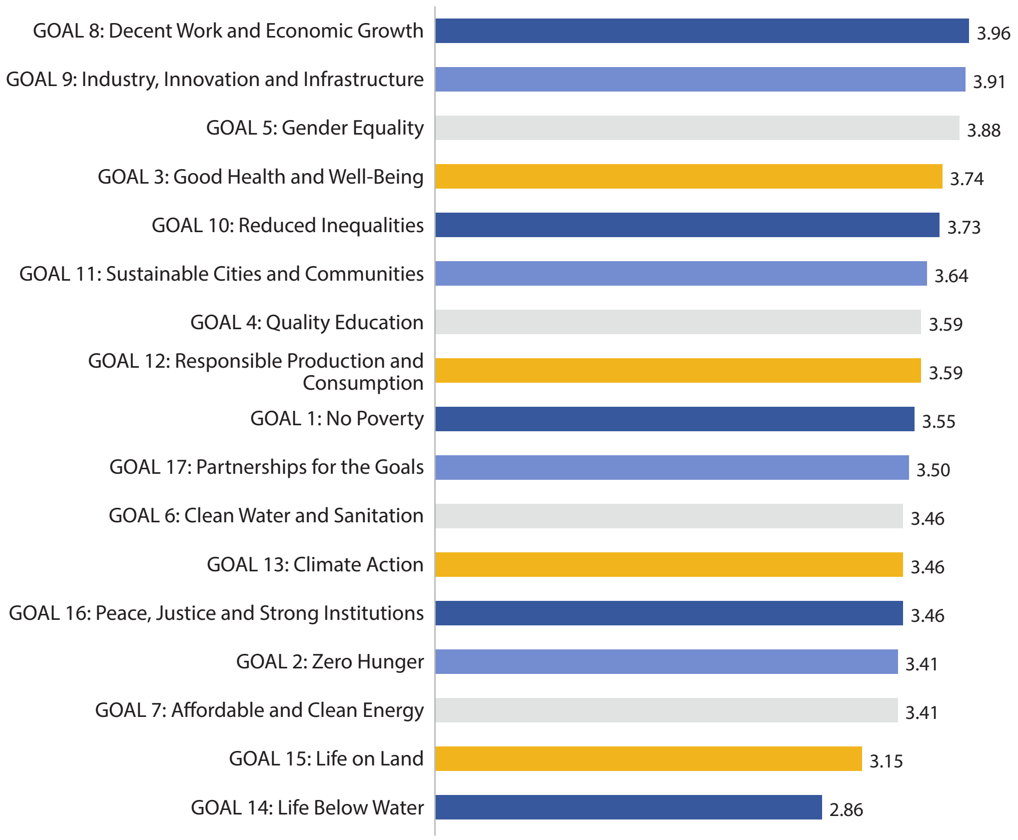


Figure 17. Principal Source of Capital Adequacy and Liquidity Regulations

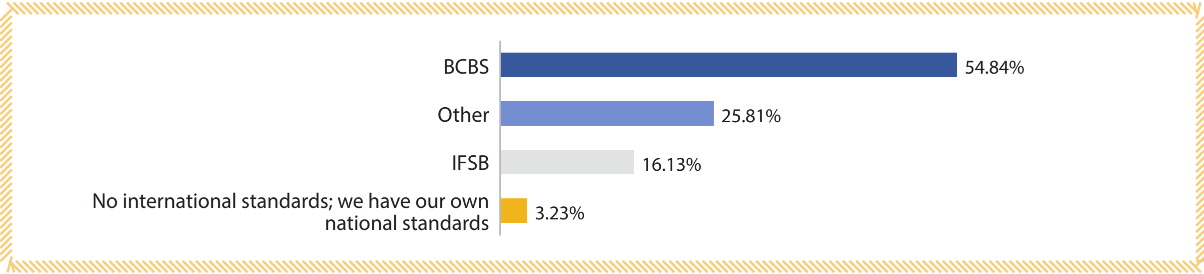


Figure 18. Principal Source of Corporate Governance Regulations

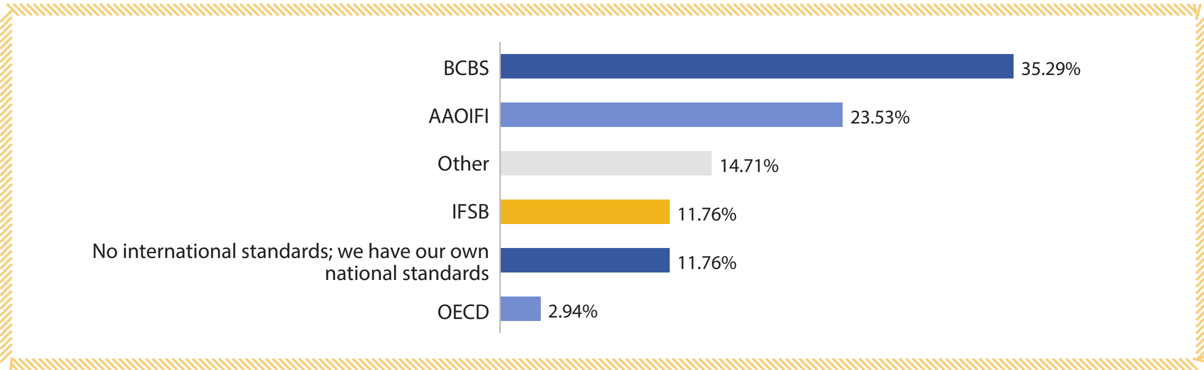


Figure 19. Principal Source of AML/CFT Regulations

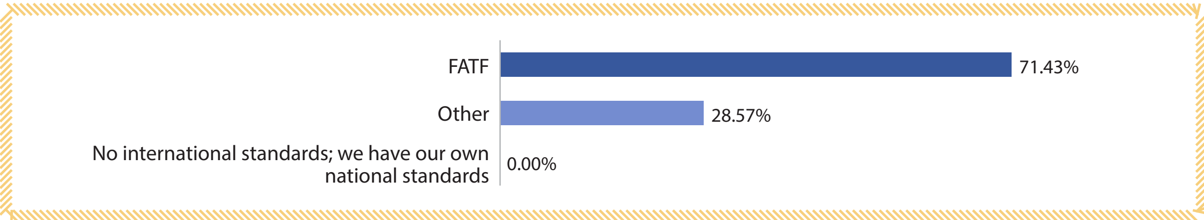


Figure 20. Principal Source of other Behavioural Standards

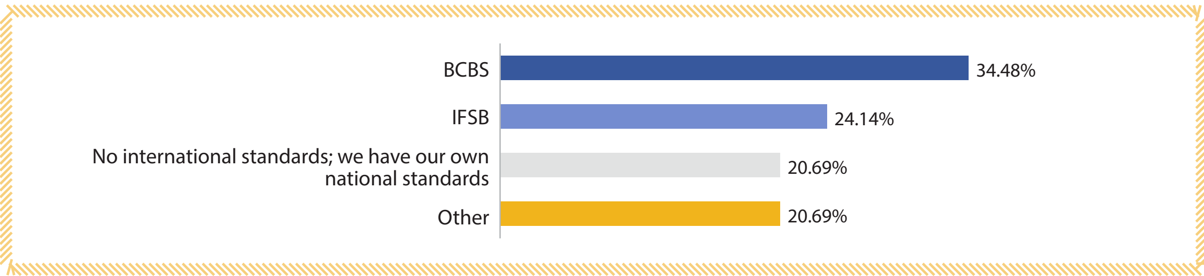


Figure 21. Principal Source of Accounting Standards

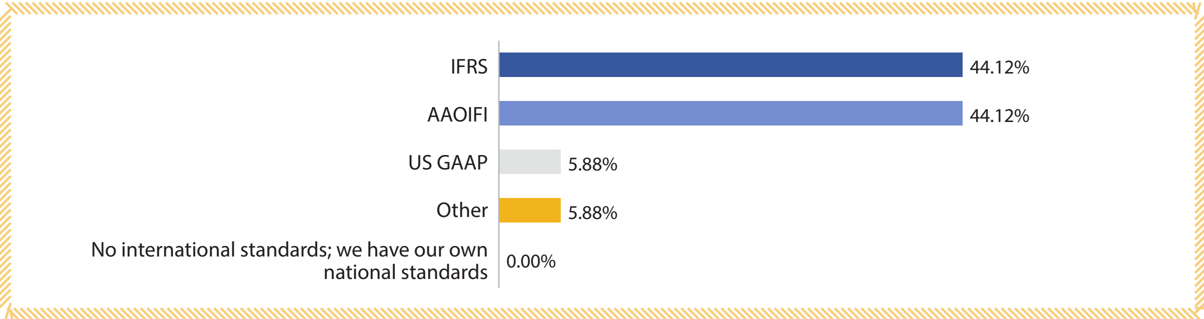


Figure 22. Principal Source of Shariah Standards

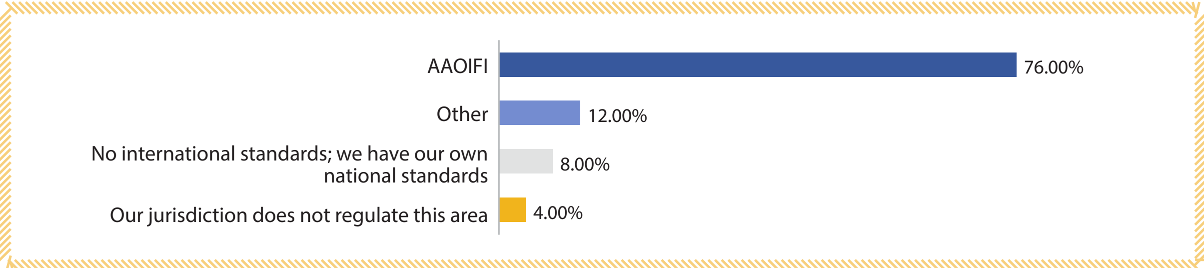


Figure 23. Principal Source of Shariah Governance Standards

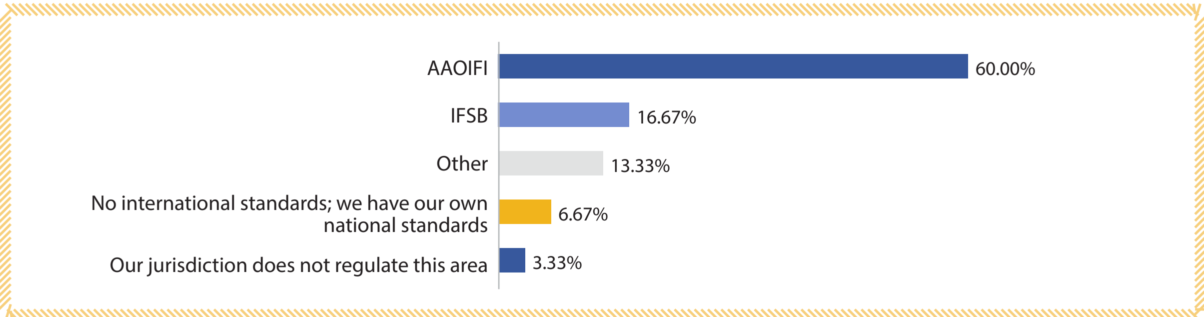


Figure 24. Impacts resulting from the Implementation of the International Regulatory Reforms following the GFC

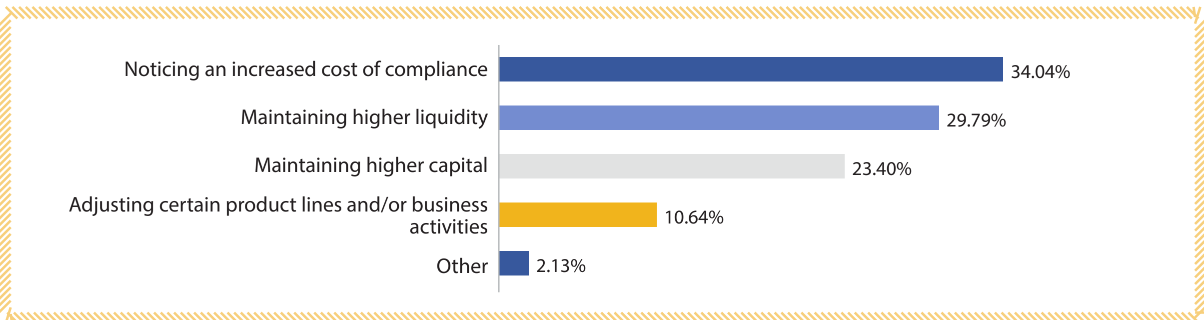
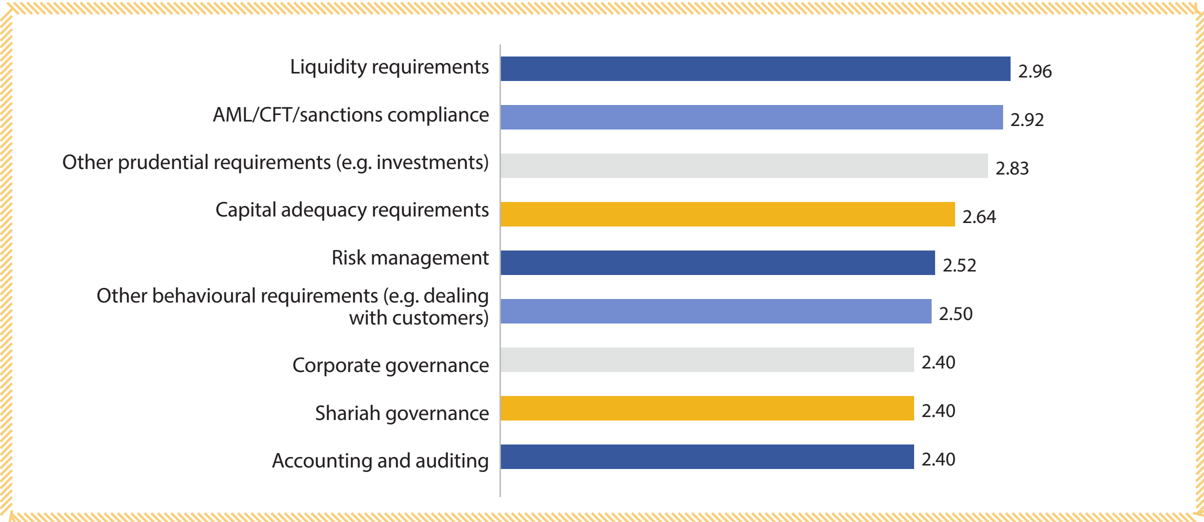


Figure 25. Most Challenging Areas of Regulation to Comply with in Practice



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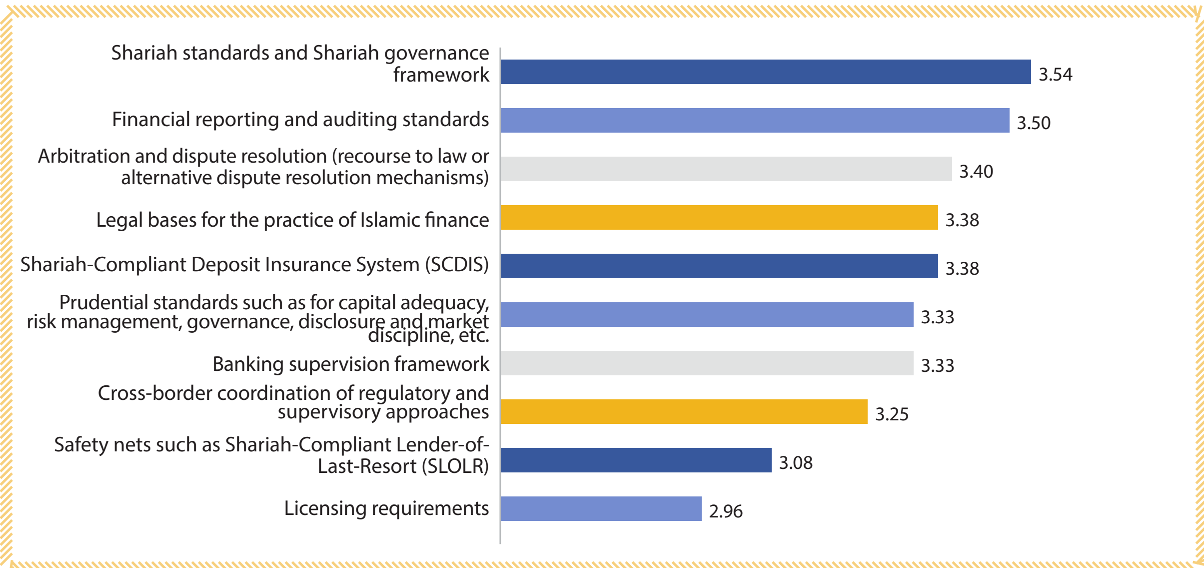

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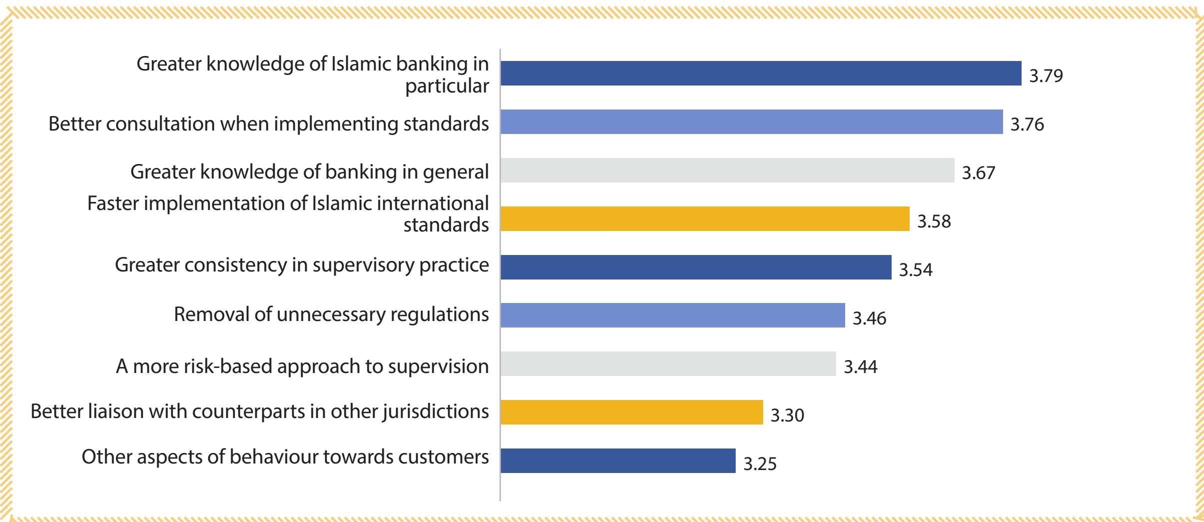


GROUP 2: MIDDLE EAST EX-GCC

Figure 1. Banking Operation

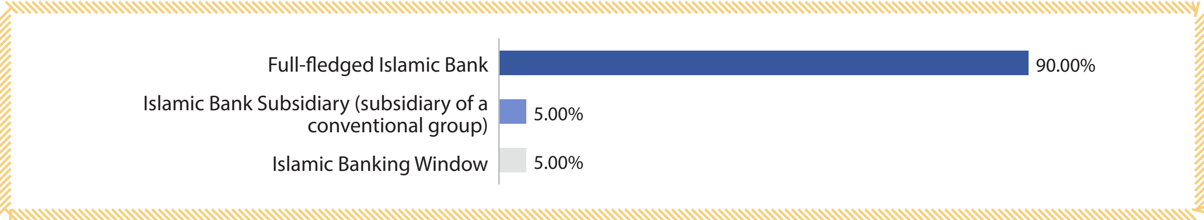


Figure 2. Core Business

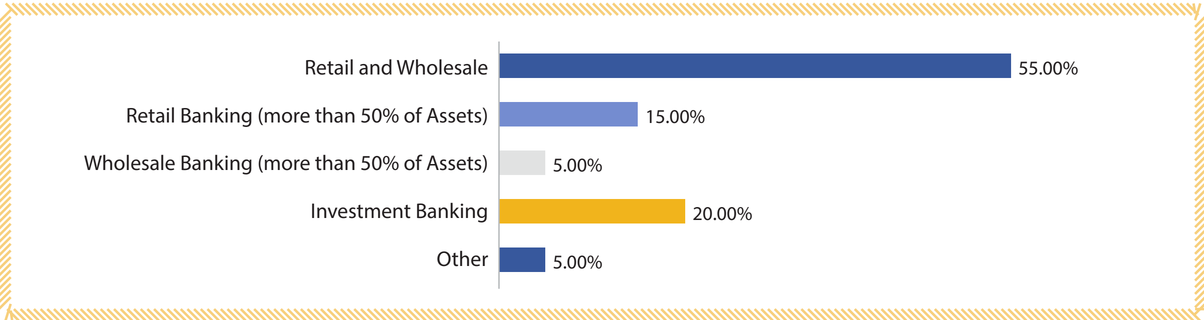


Figure 3. Size of Total Islamic Assets

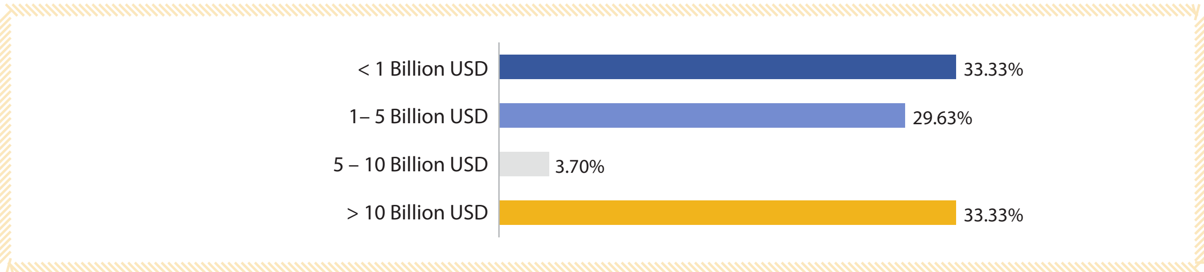


Figure 4. Overall Banking Industry Optimism Level

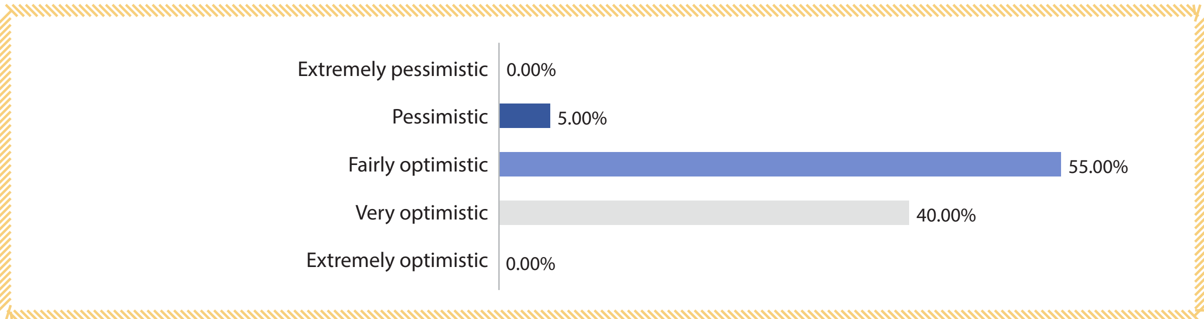


Figure 5. Islamic Banking Industry Optimism Level

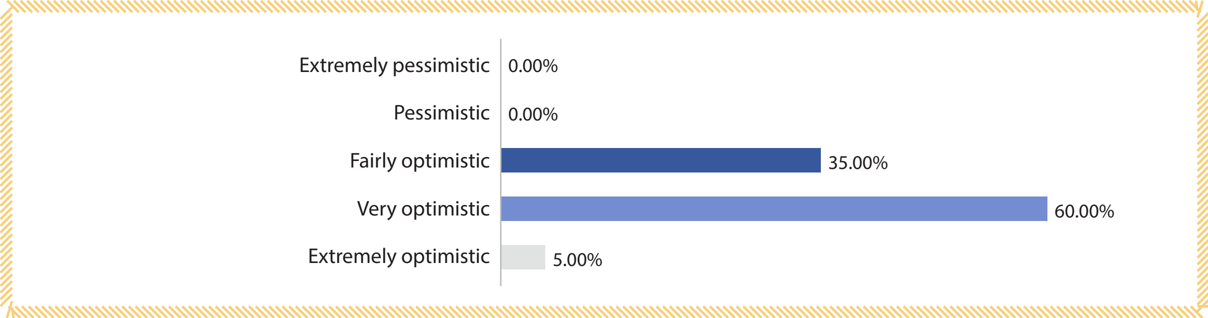


Figure 6. Revenue Growth Expectation

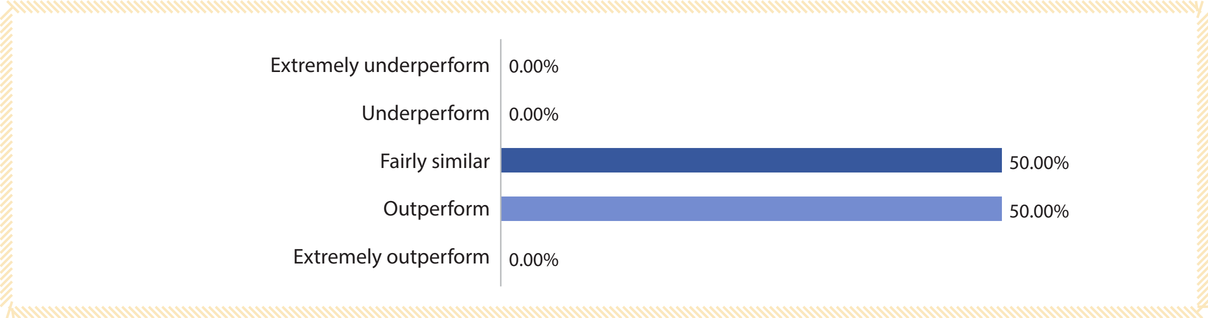


Figure 7. Islamic Banking Top Concerns

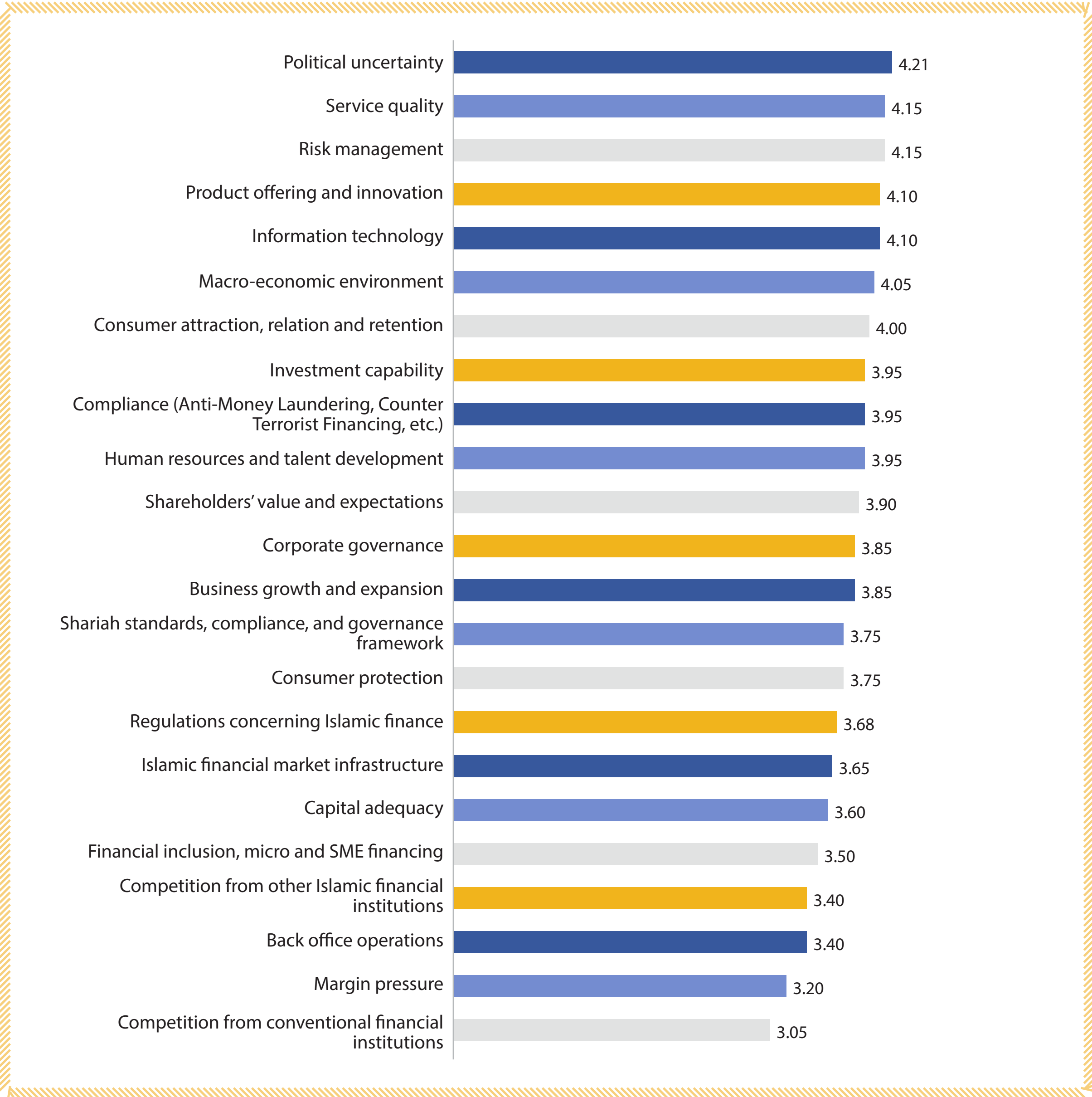


Figure 8. Competition from Novel, Technology-enabled Business Models

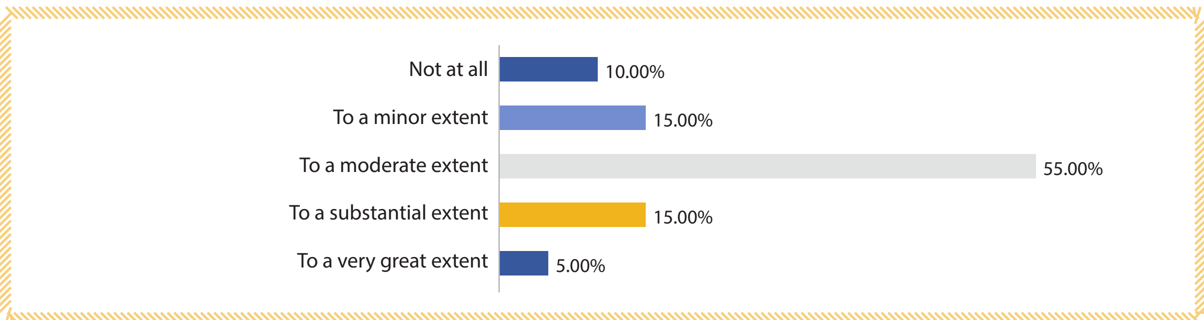


Figure 9. Islamic Banking Risk Dashboard

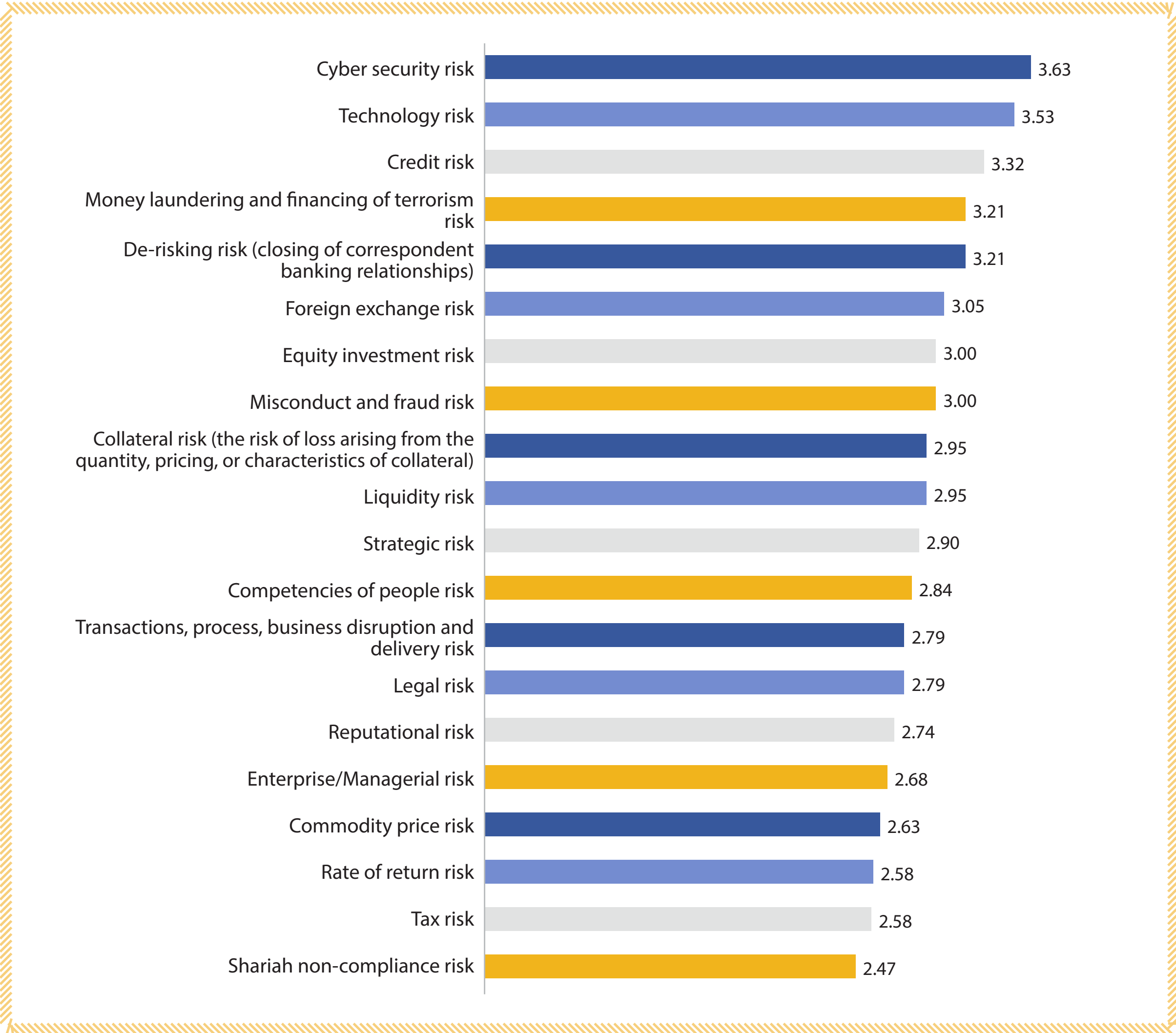


Figure 10. Decline in CBR Due to De-Risking

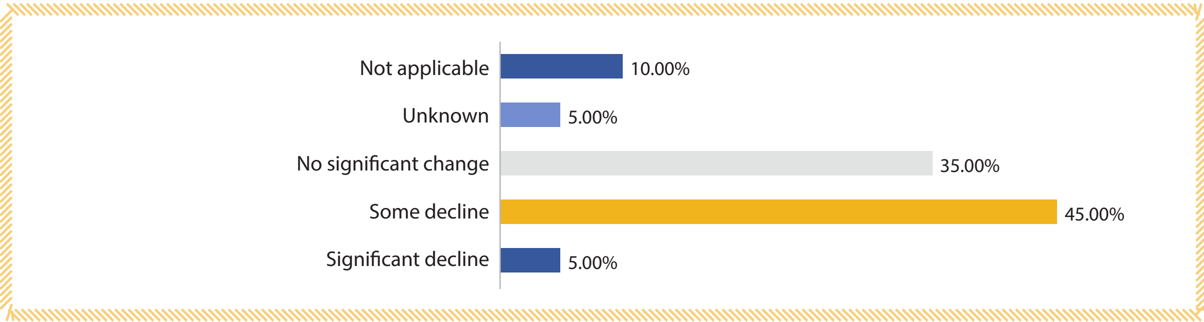


Figure 11. De-risking Effects on Products and Services

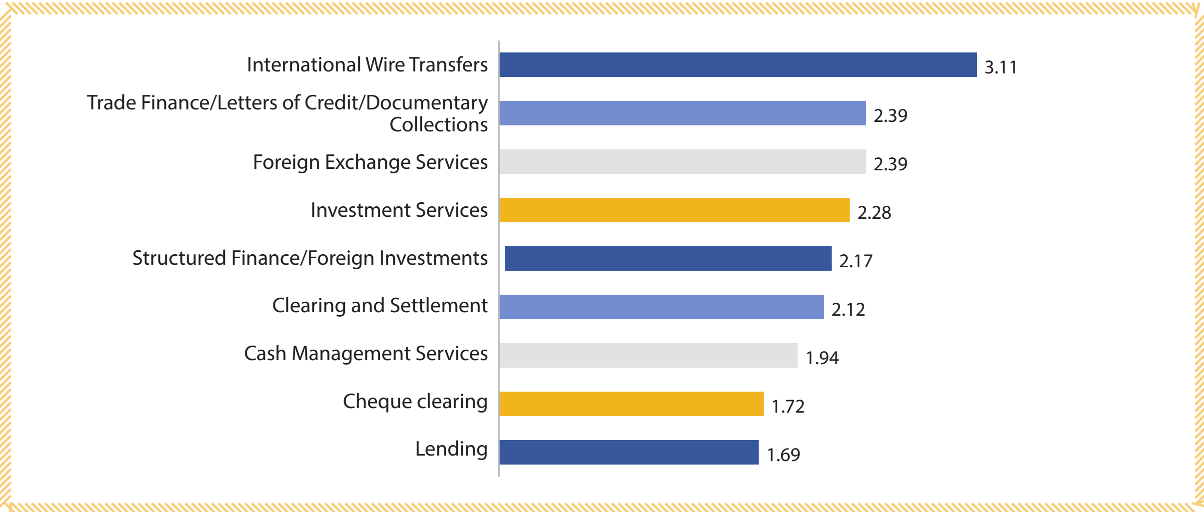


Figure 12. Segments Driving Revenue Growth

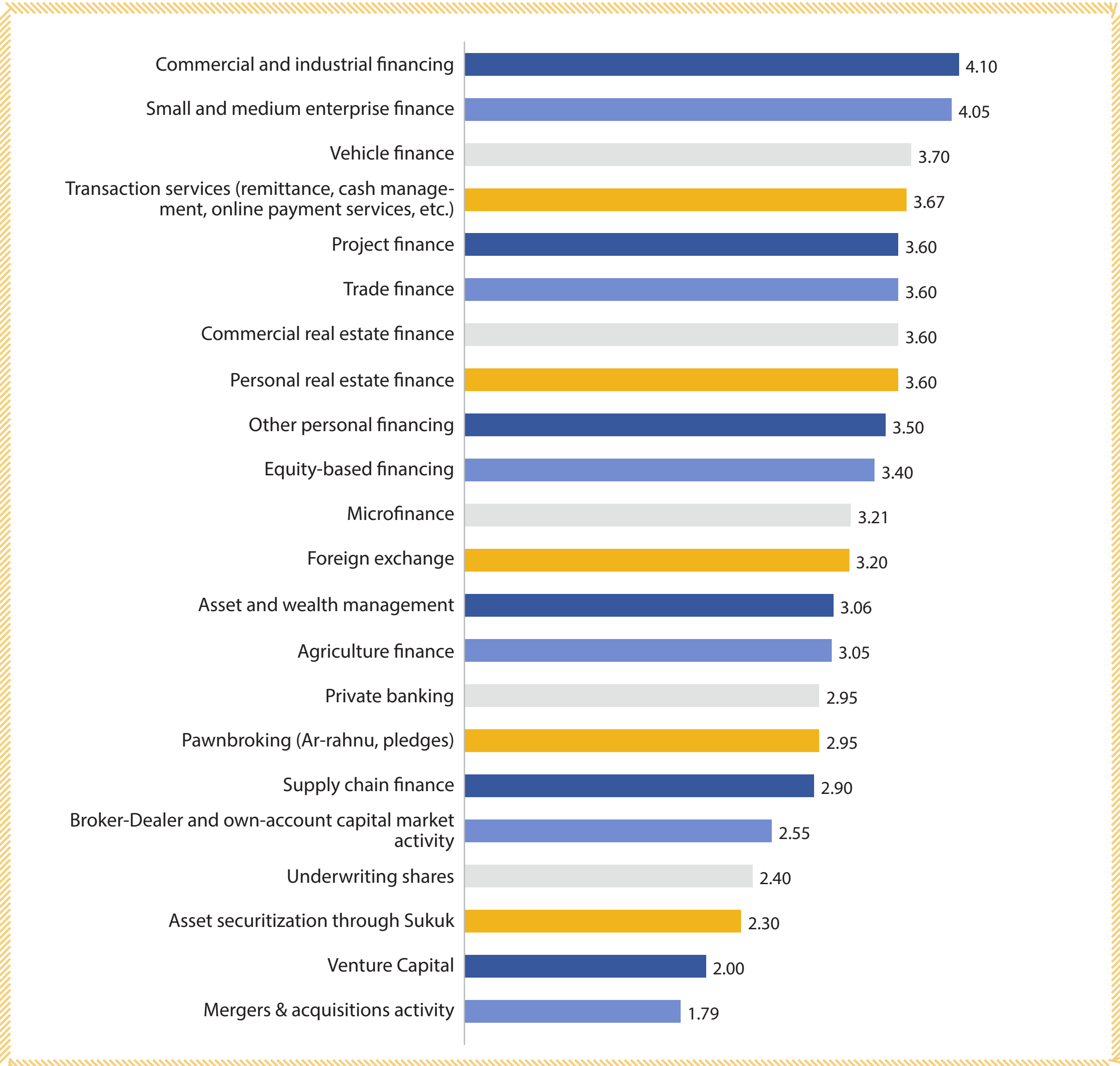


Figure 13. Areas of Business Expansion to achieve Competitive Positioning

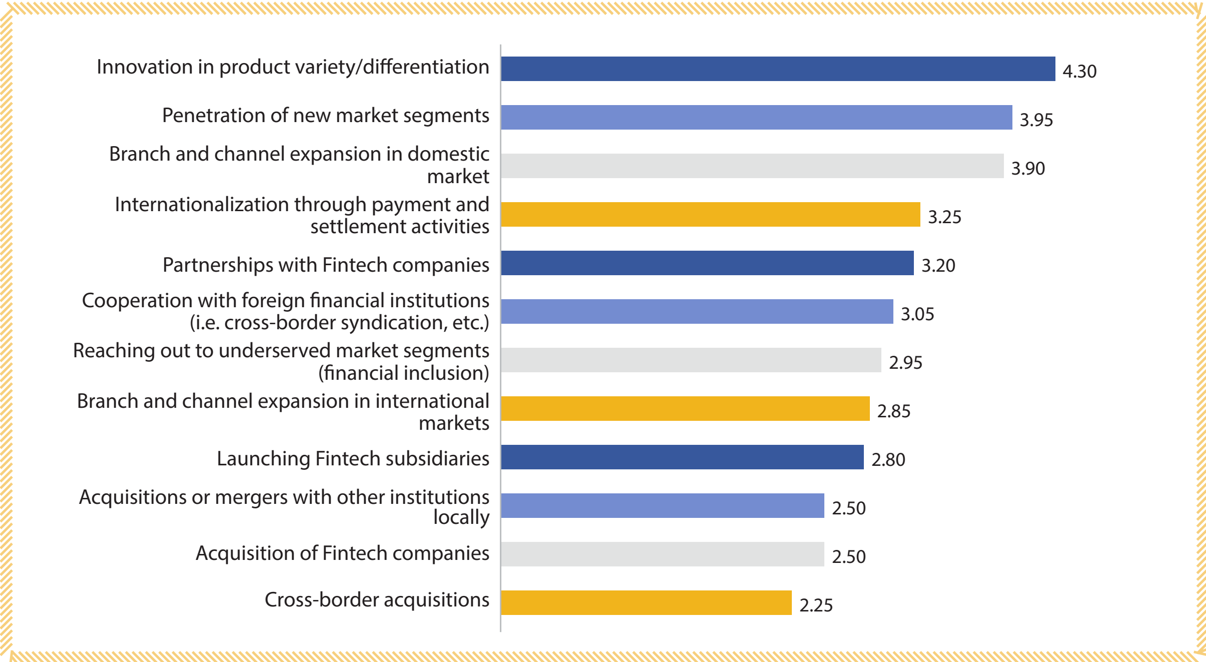


Figure 14. Business Priorities in 2019

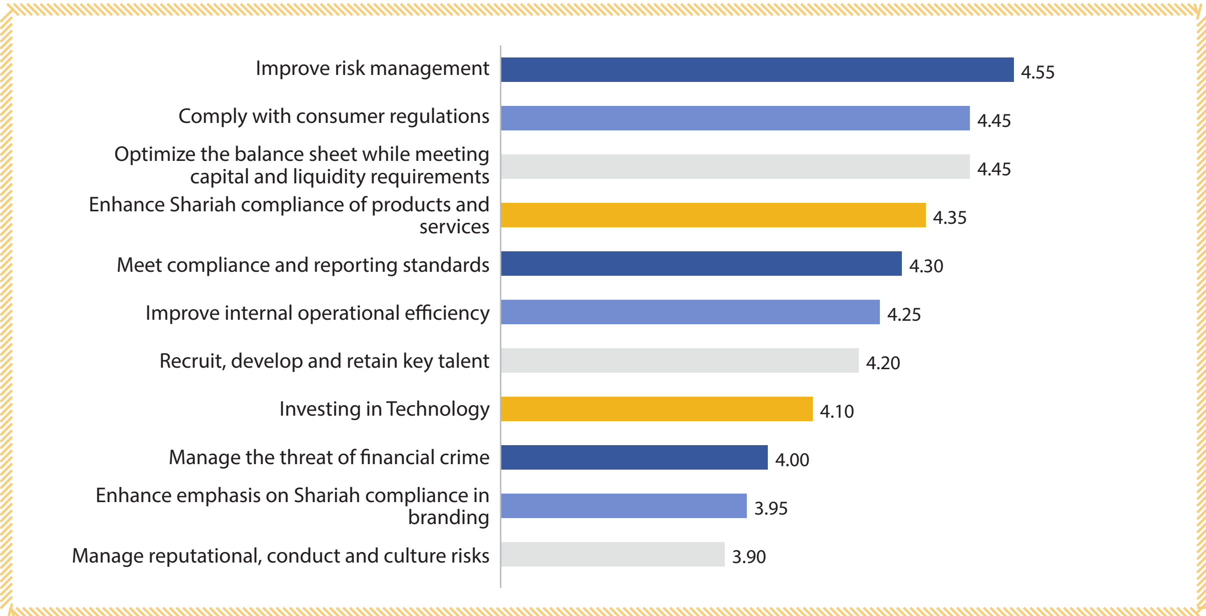


Figure 15. Areas for applying Banking Technology as a Business Growth Driver

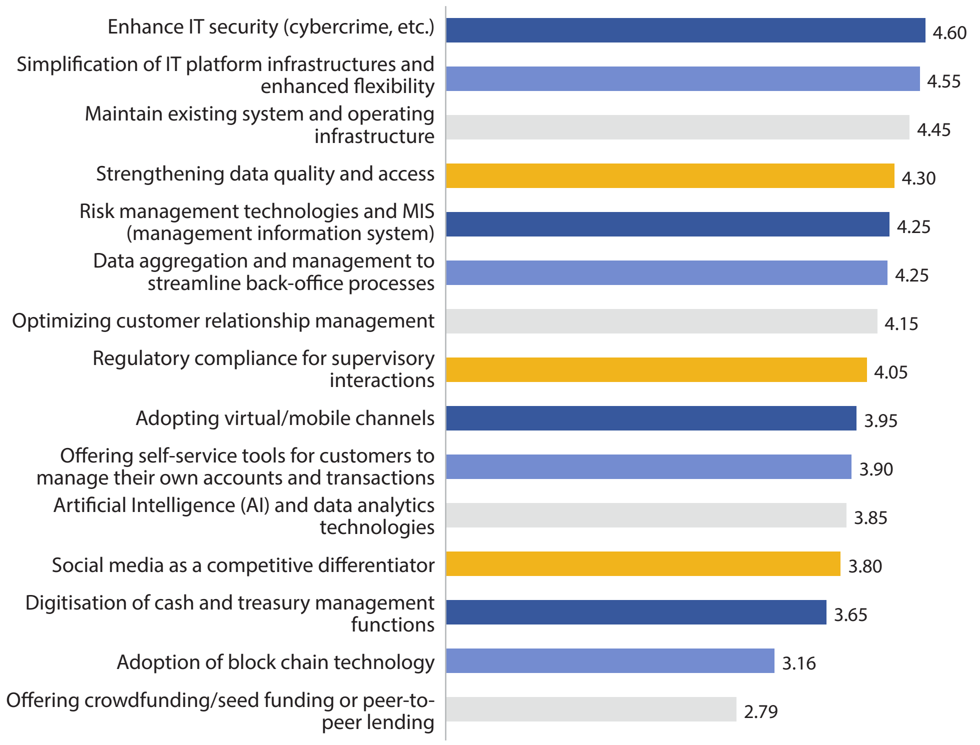


Figure 16. UN SDGs institutions plan to promote as part of their Business Growth Plan

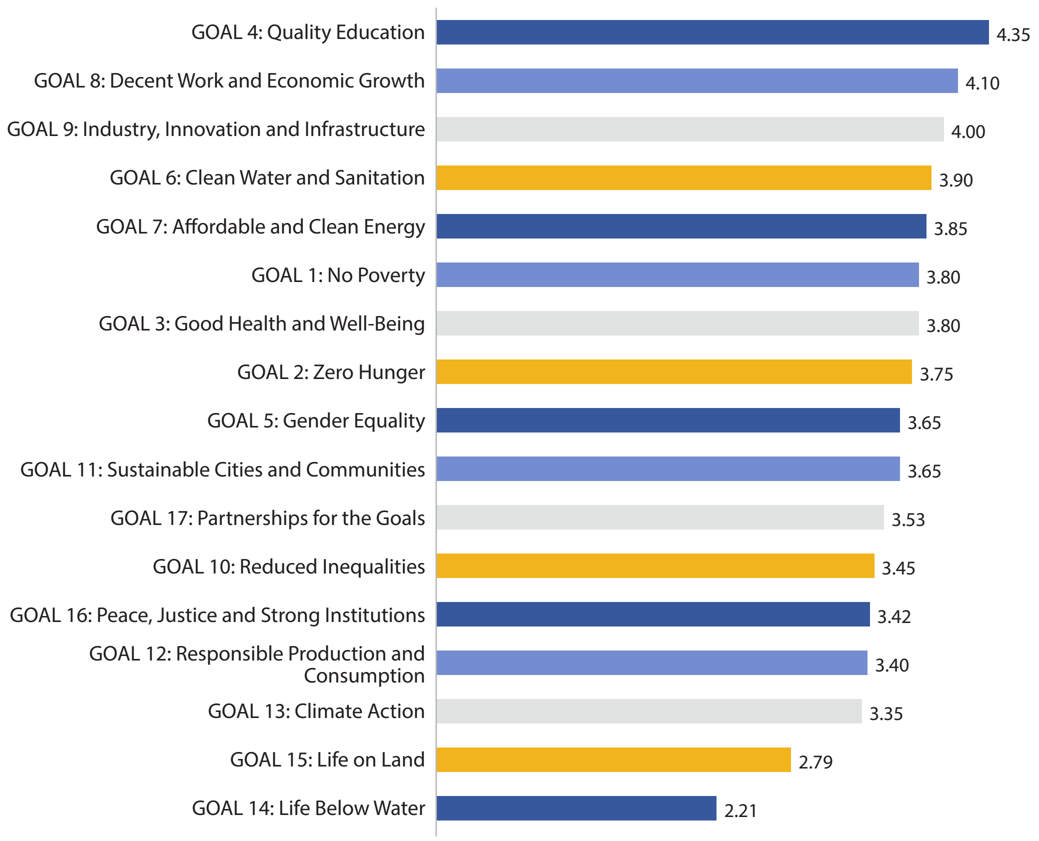


Figure 17. Principal Source of Capital Adequacy and Liquidity Regulations

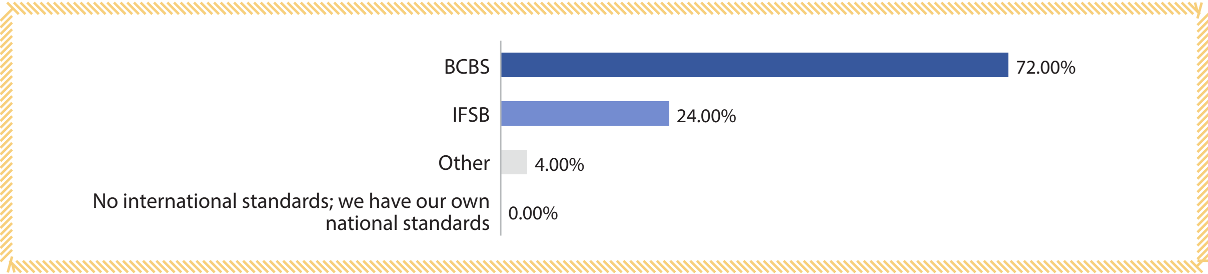


Figure 18. Principal Source of Corporate Governance Regulations

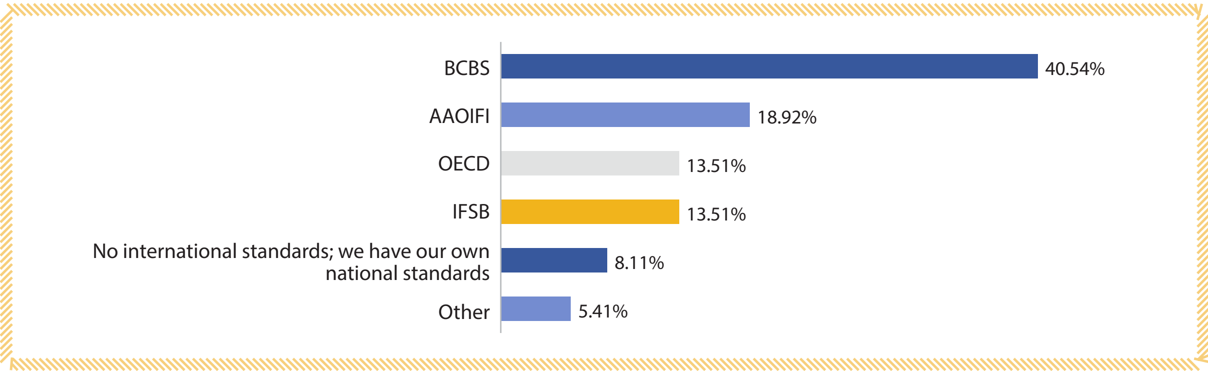


Figure 19. Principal Source of AML/CFT Regulations

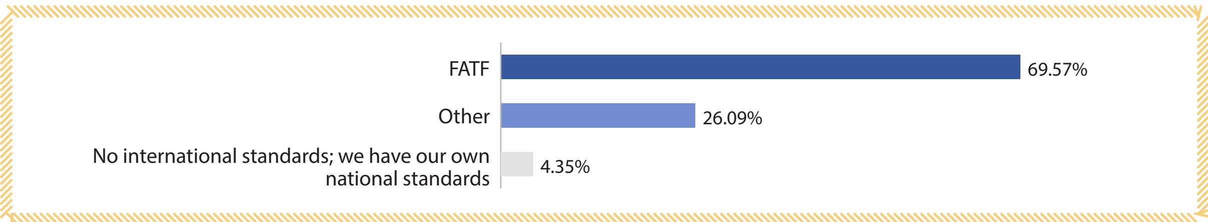


Figure 20. Principal Source of other Behavioural Standards

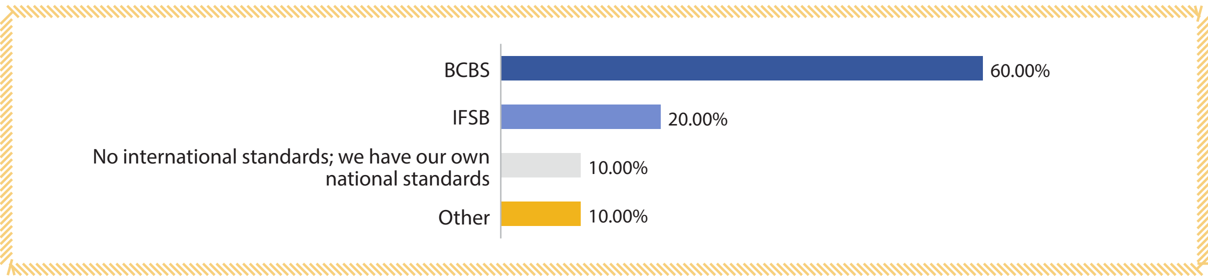


Figure 21. Principal Source of Accounting Standards

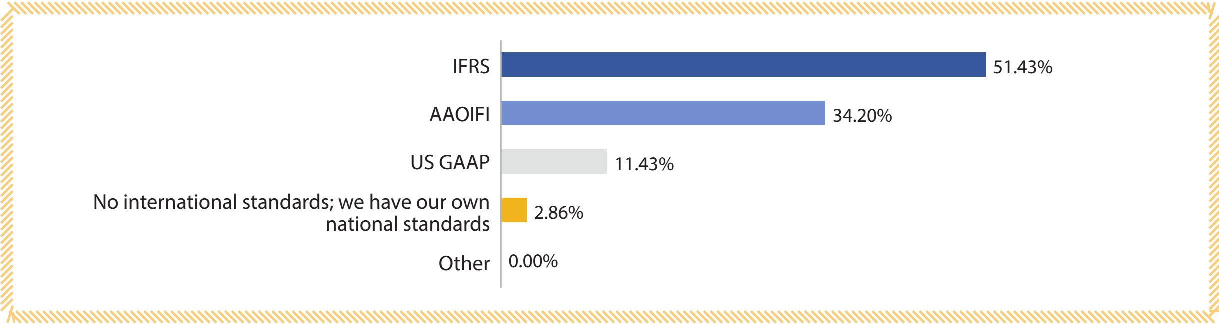


Figure 22. Principal Source of Shariah Standards

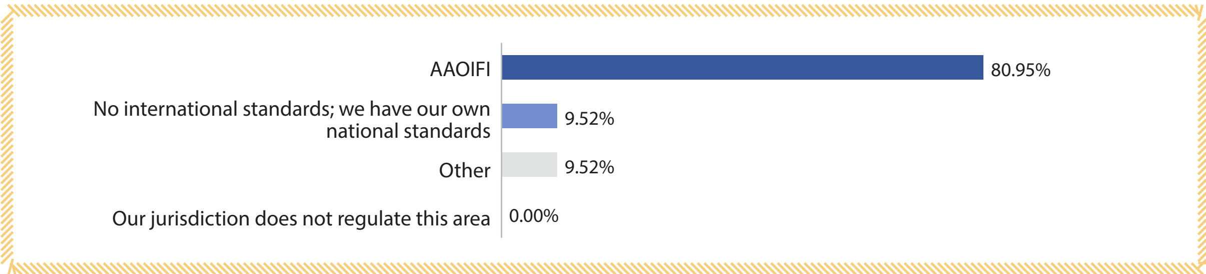


Figure 23. Principal Source of Shariah Governance Standards

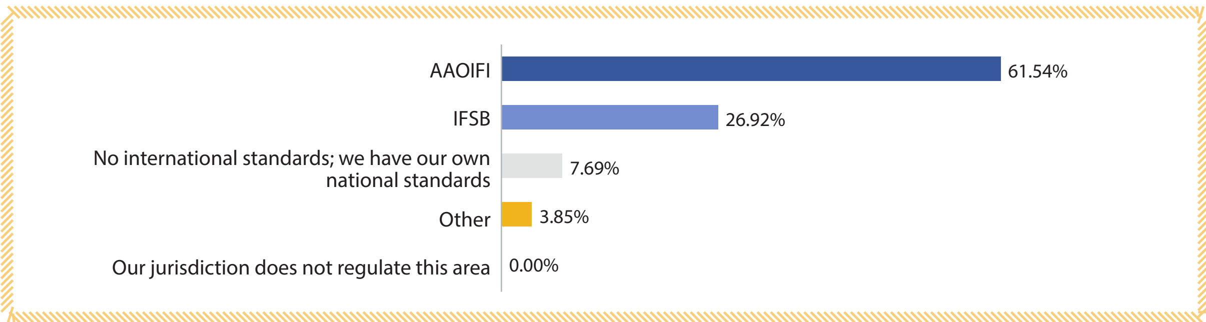


Figure 24. Impacts resulting from the Implementation of the International Regulatory Reforms following the GFC

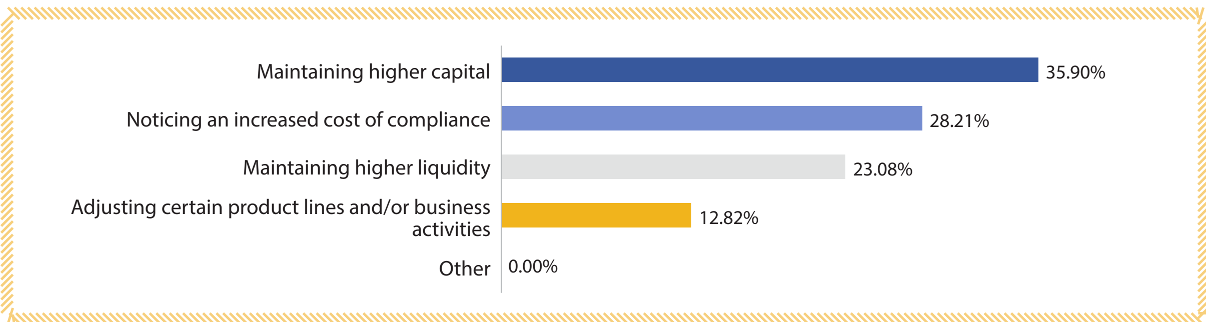
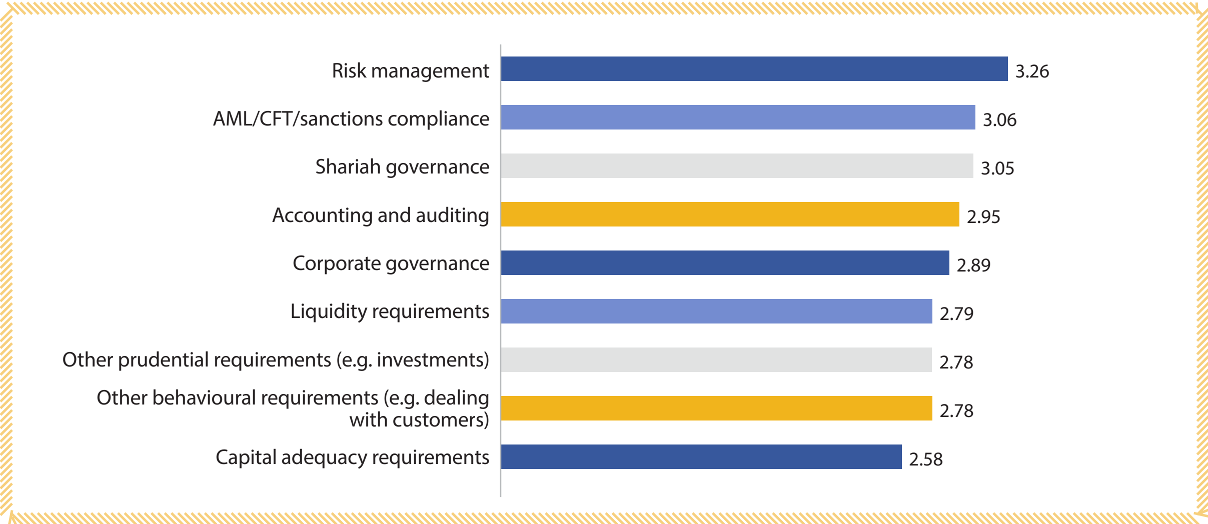


Figure 25. Most Challenging Areas of Regulation to Comply with in Practice



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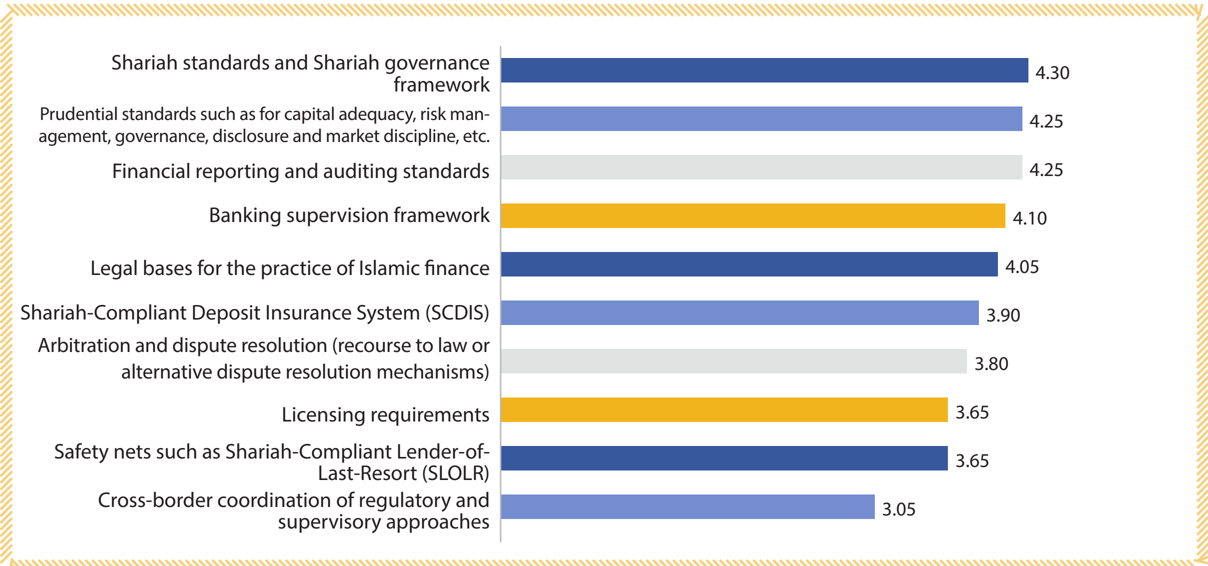

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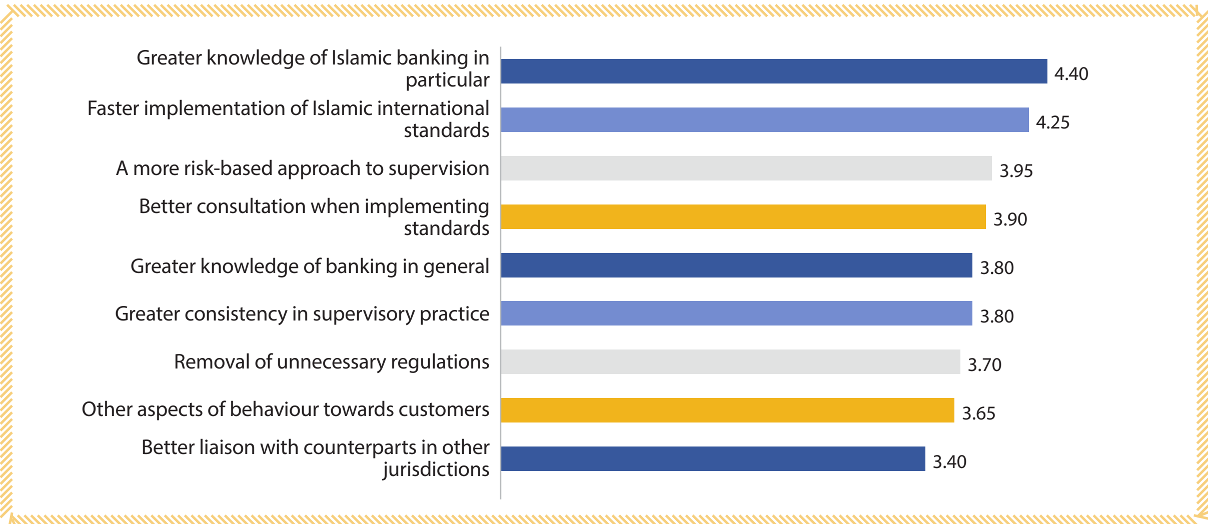


GROUP 3: SOUTHEAST ASIA

Figure 1. Banking Operation

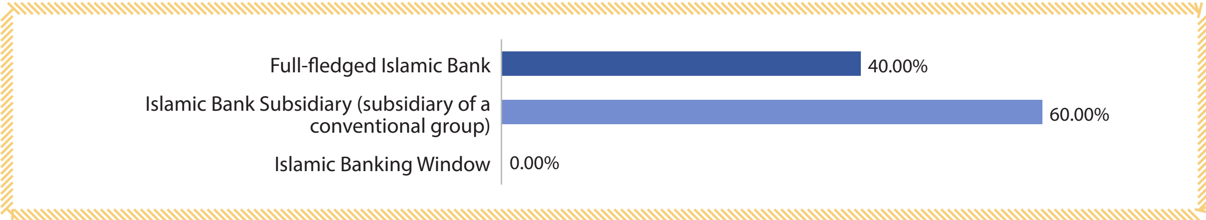


Figure 2. Core Business

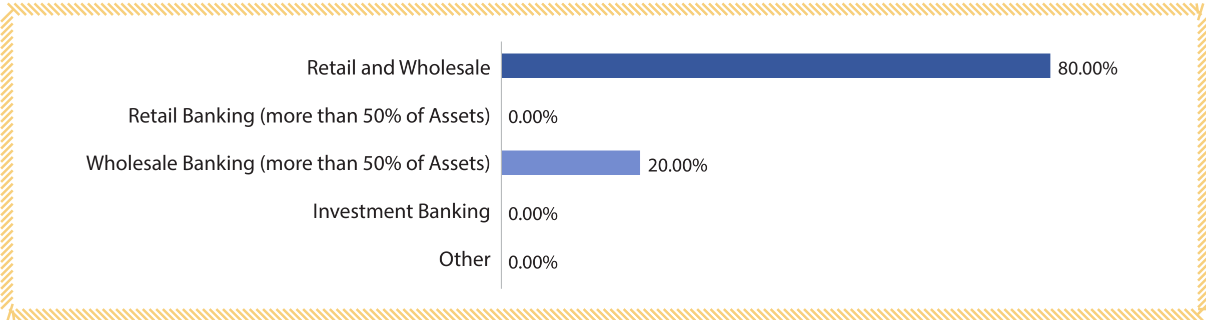


Figure 3. Size of Total Islamic Assets

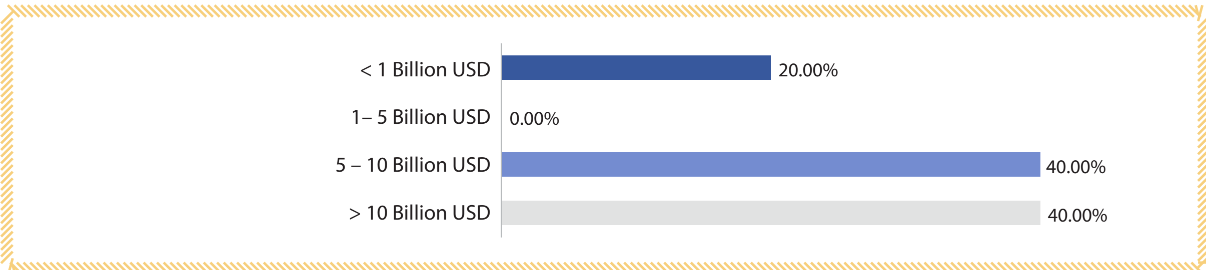


Figure 4. Overall Banking Industry Optimism Level

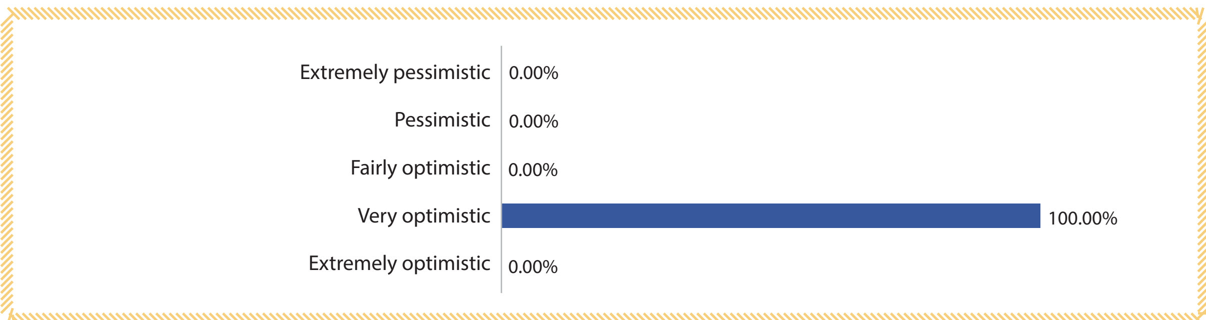


Figure 5. Islamic Banking Industry Optimism Level

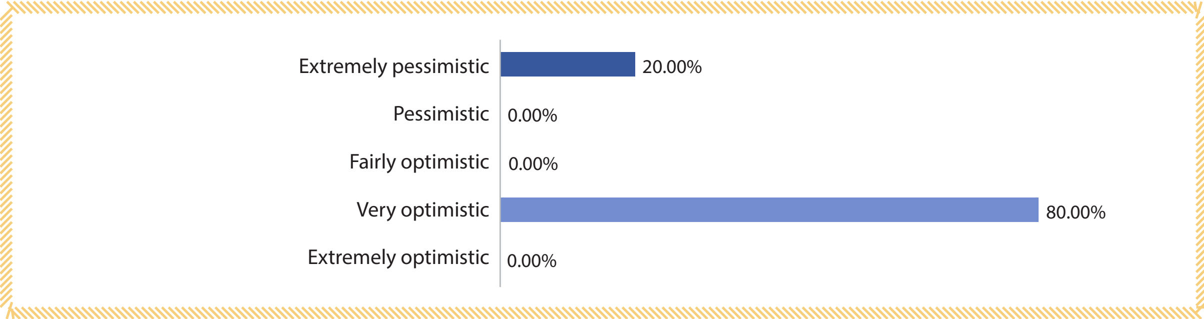


Figure 6. Revenue Growth Expectation

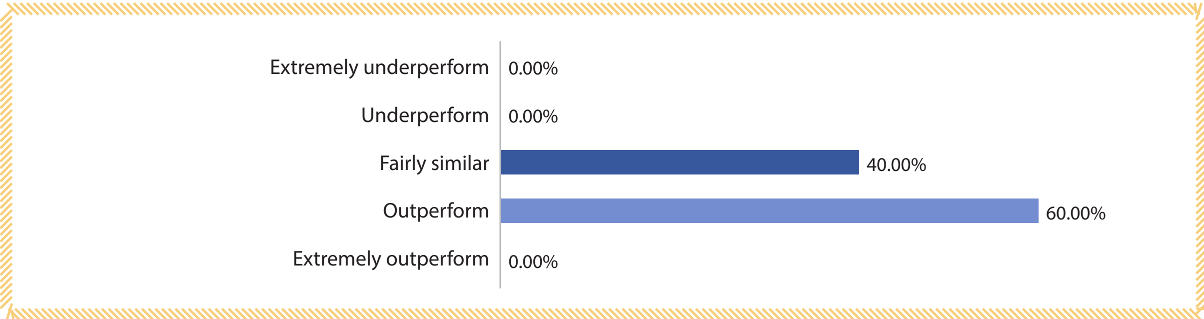
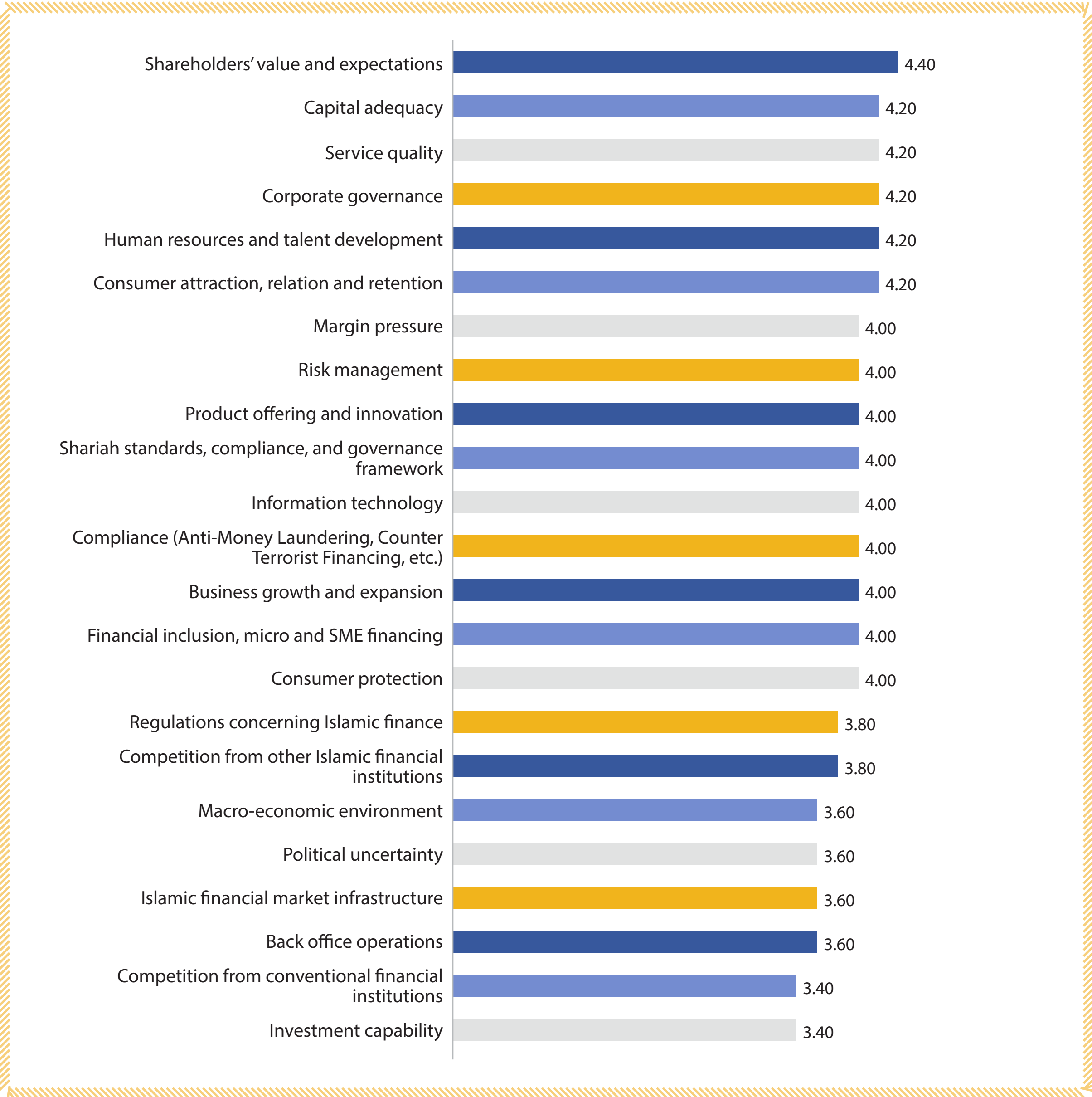


Figure 7. Islamic Banking Top Concerns



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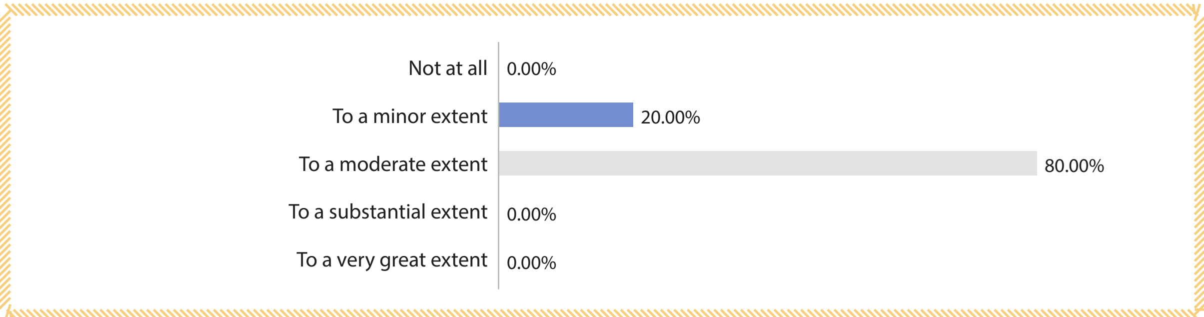


Figure 9. Islamic Banking Risk Dashboard

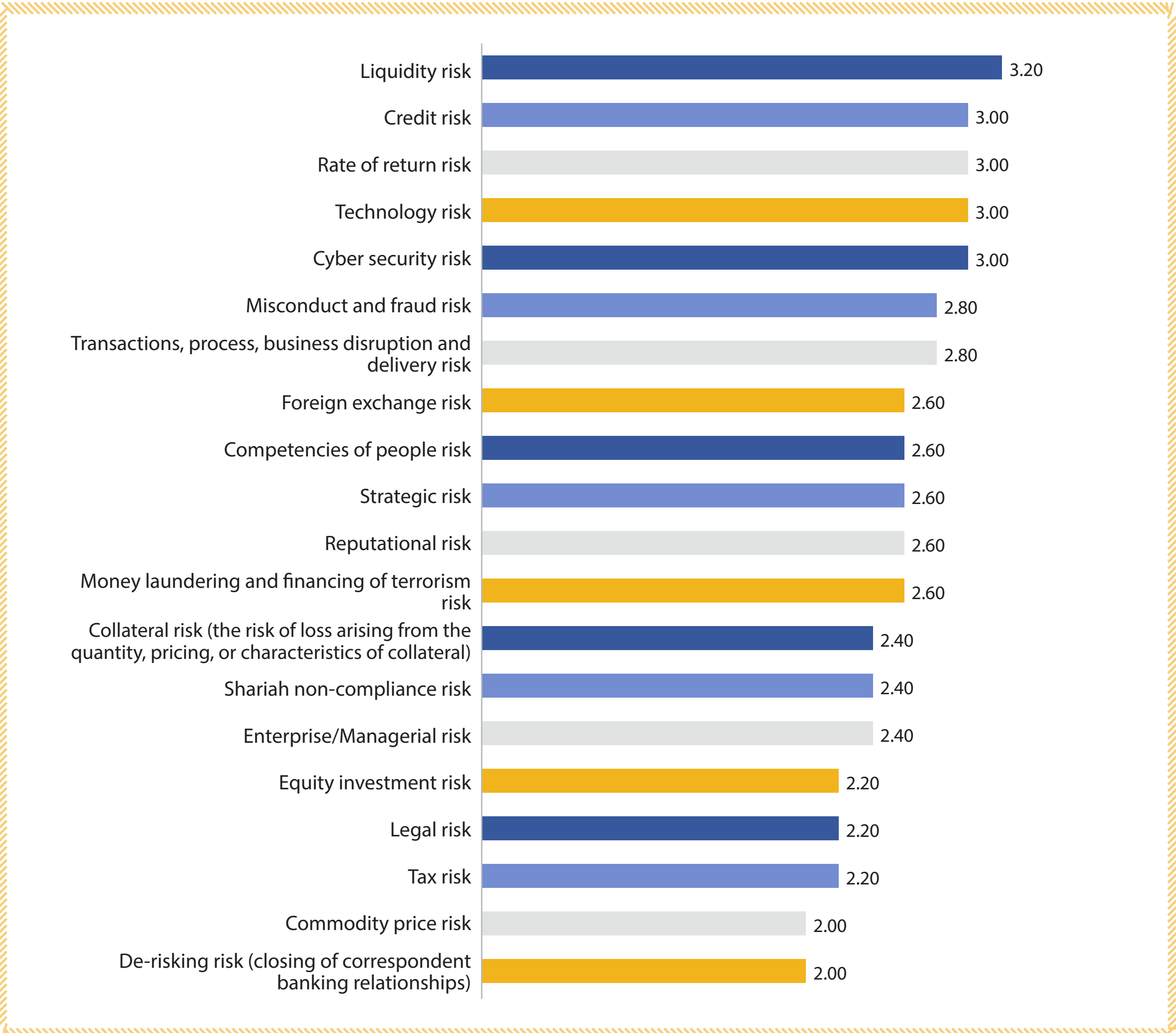


Figure 10. Decline in CBR Due to De-Risking

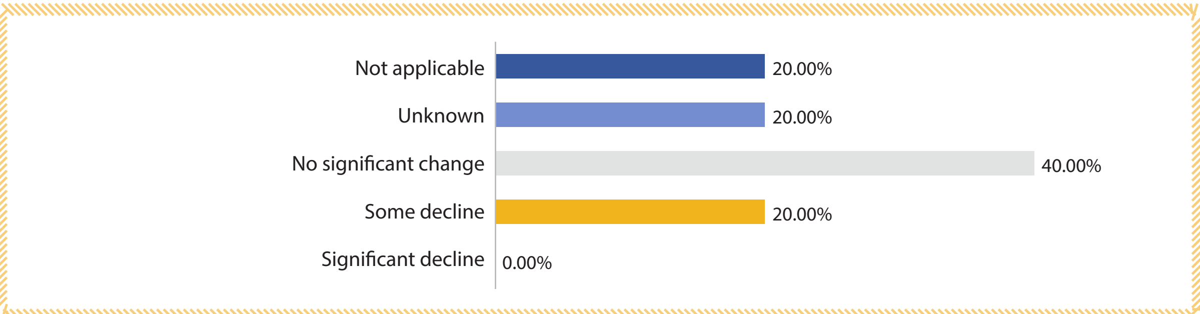
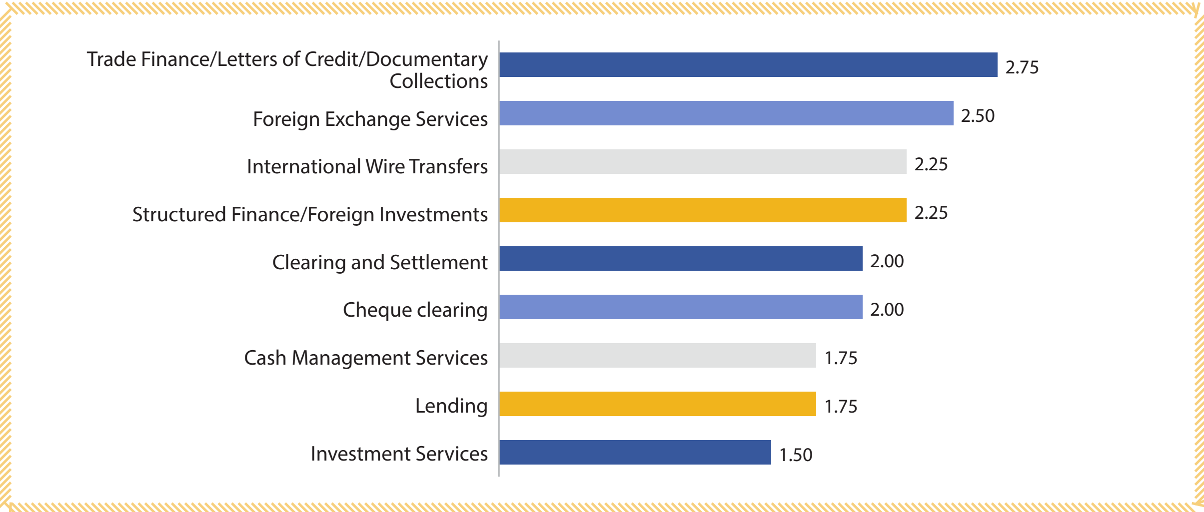


Figure 11. De-risking Effects on Products and Services



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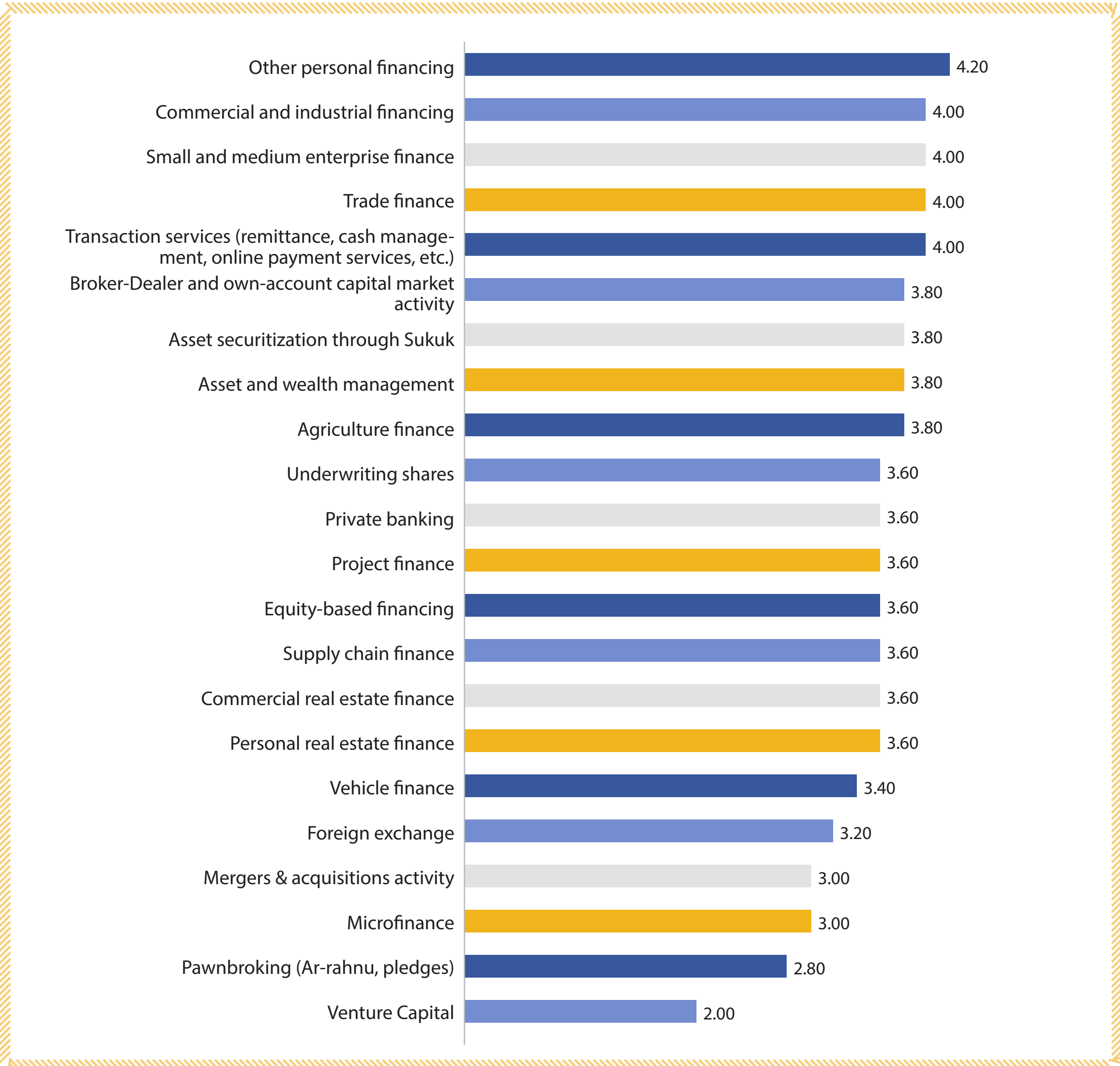


Figure 13. Areas of Business Expansion to achieve Competitive Positioning

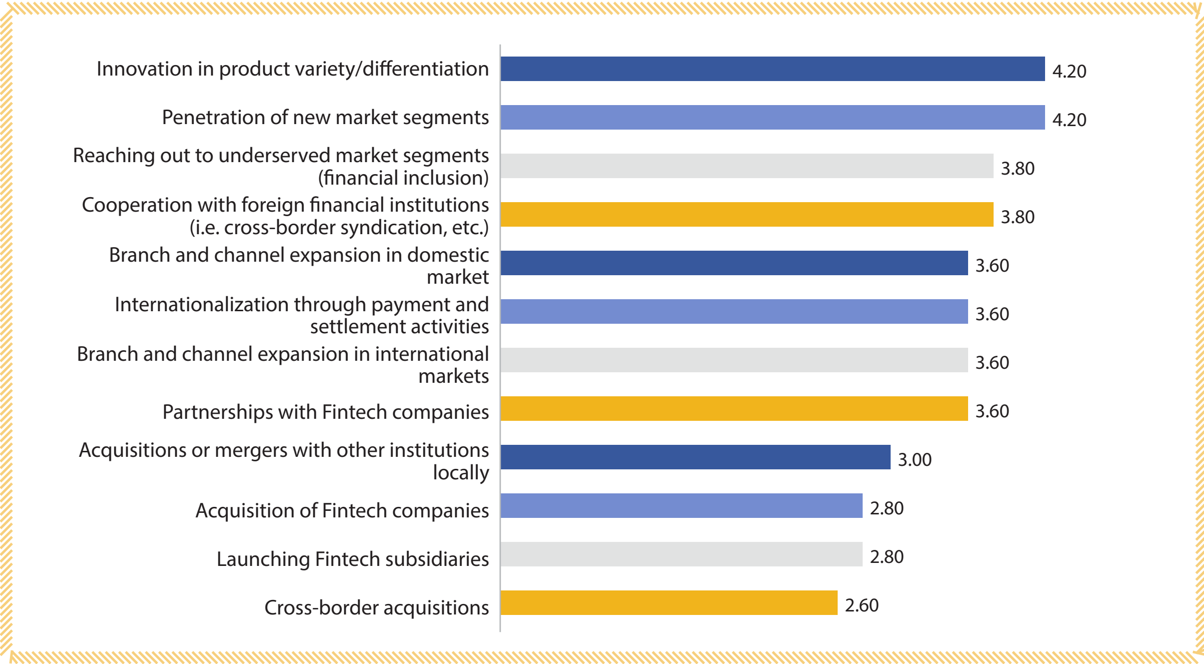
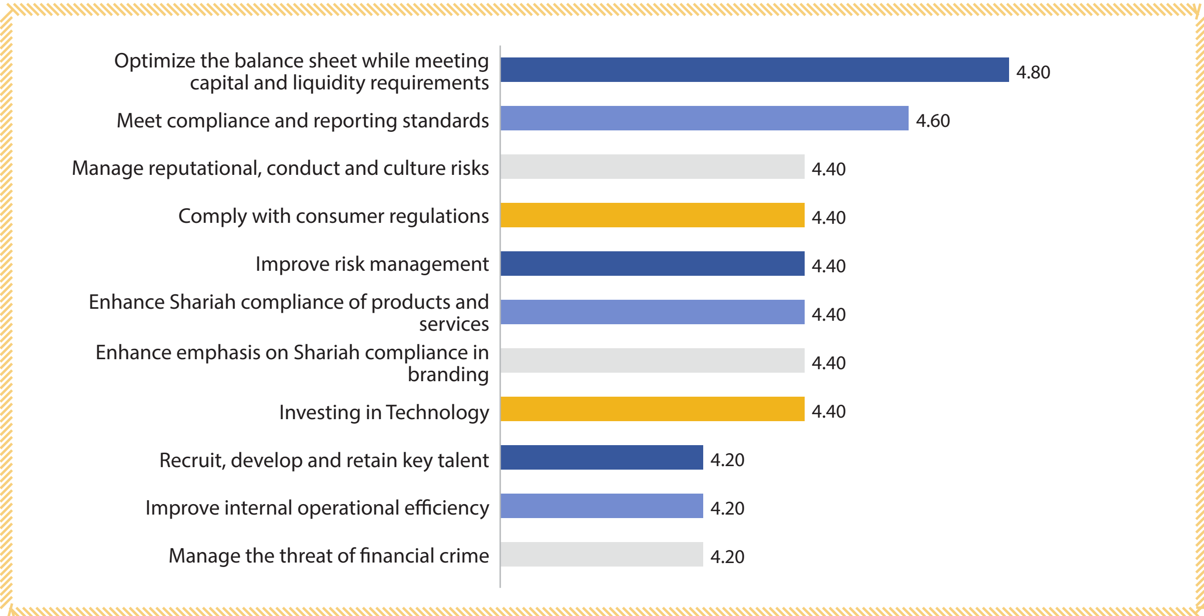


Figure 14. Business Priorities in 2019



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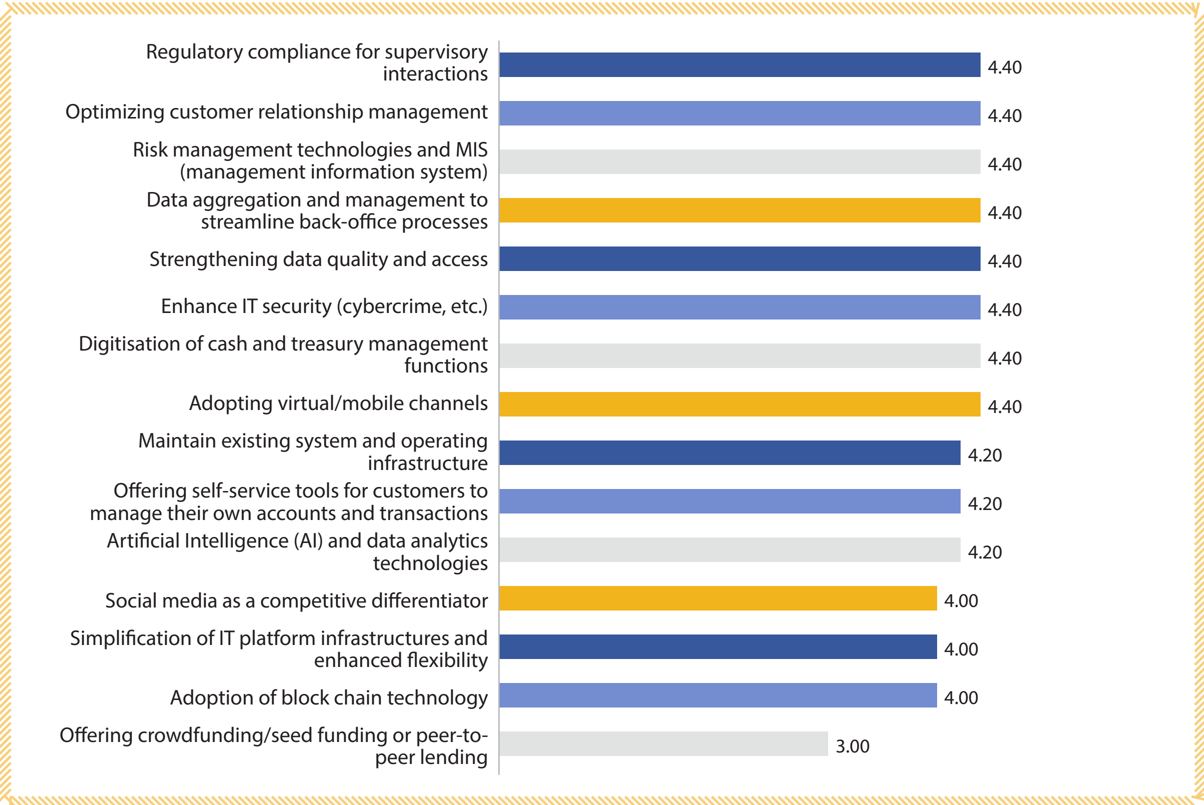

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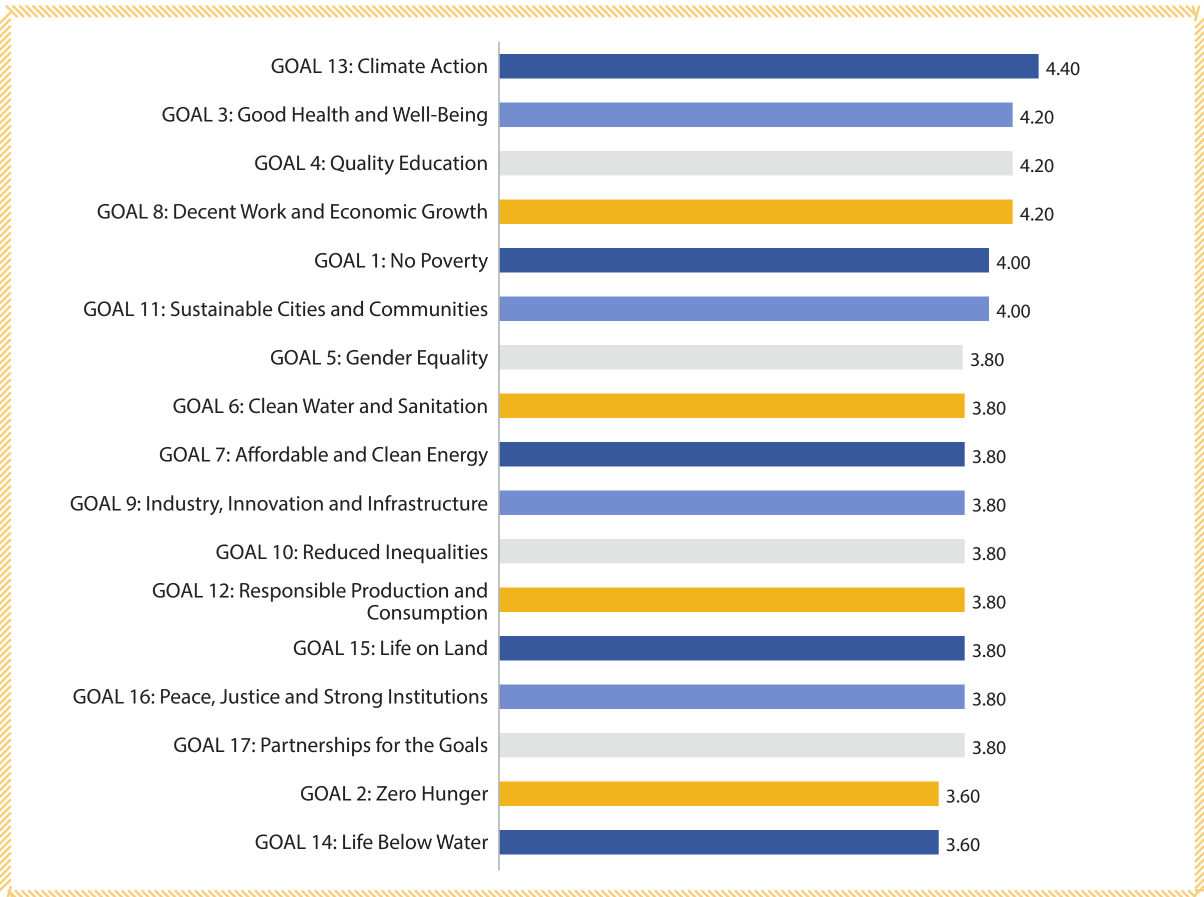


Figure 17. Principal Source of Capital Adequacy and Liquidity Regulations

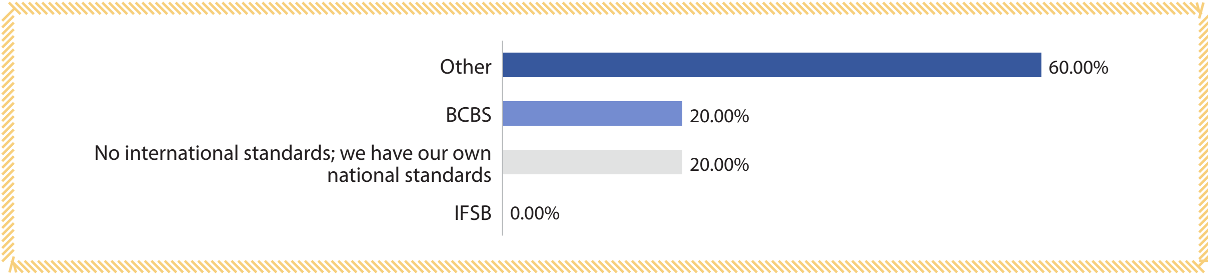
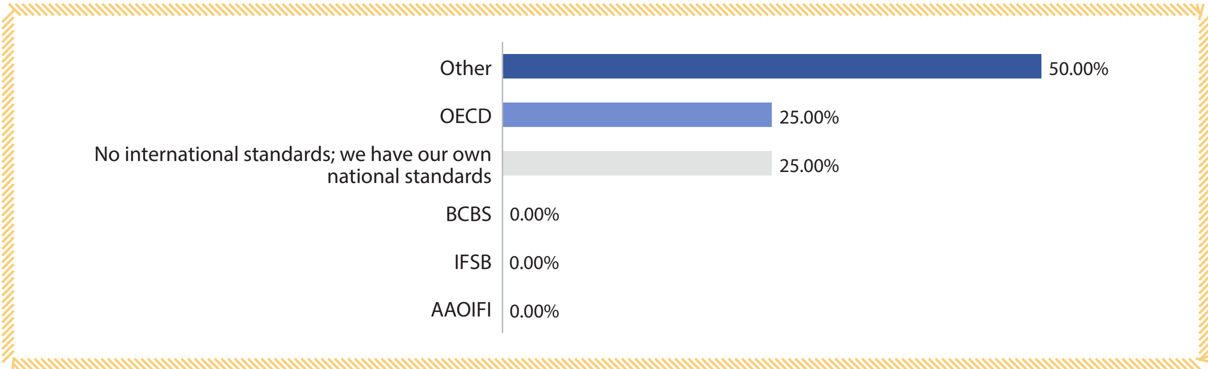


Figure 18. Principal Source of Corporate Governance Regulations



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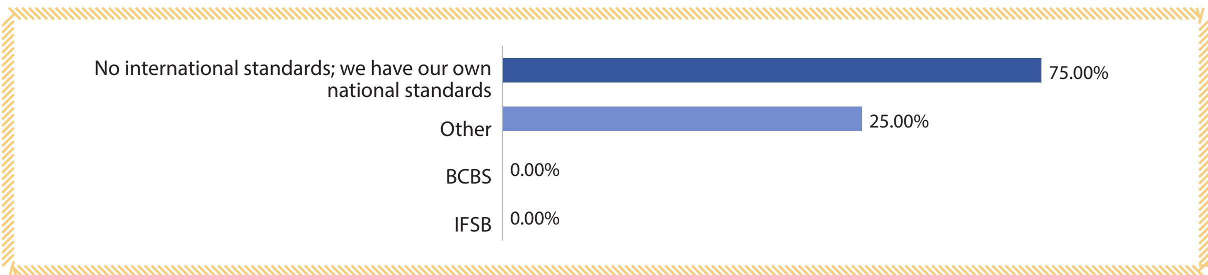


Figure 21. Principal Source of Accounting Standards

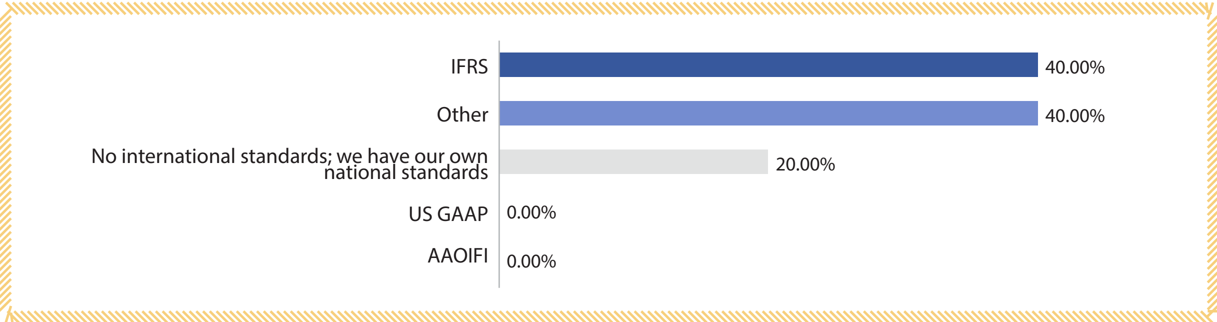


Figure 22. Principal Source of Shariah Standards

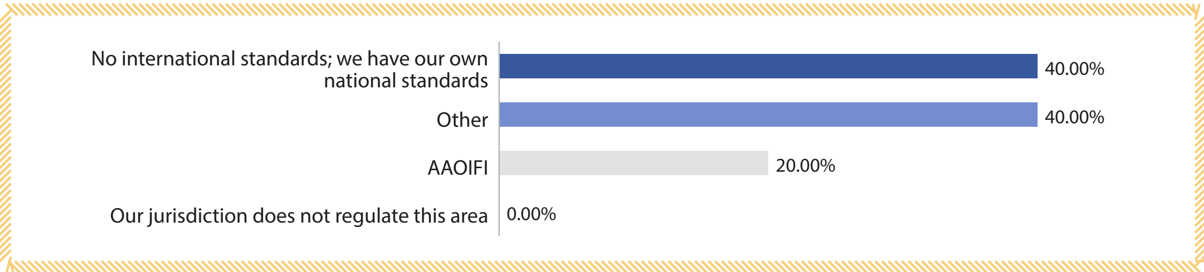
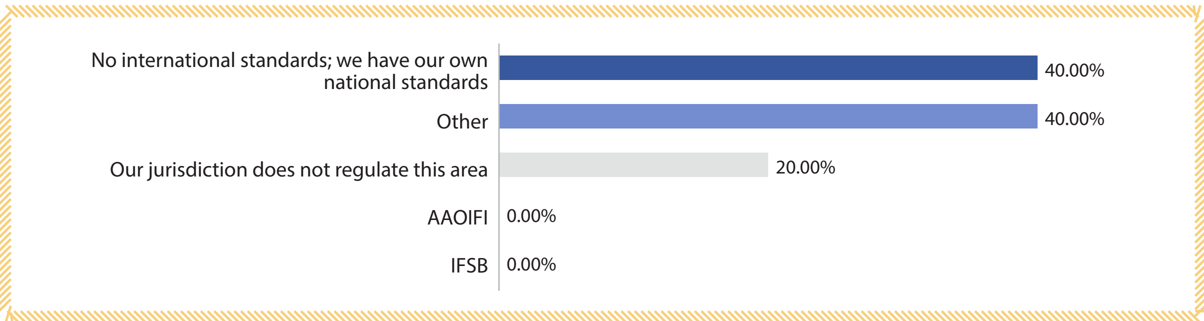


Figure 23. Principal Source of Shariah Governance Standards



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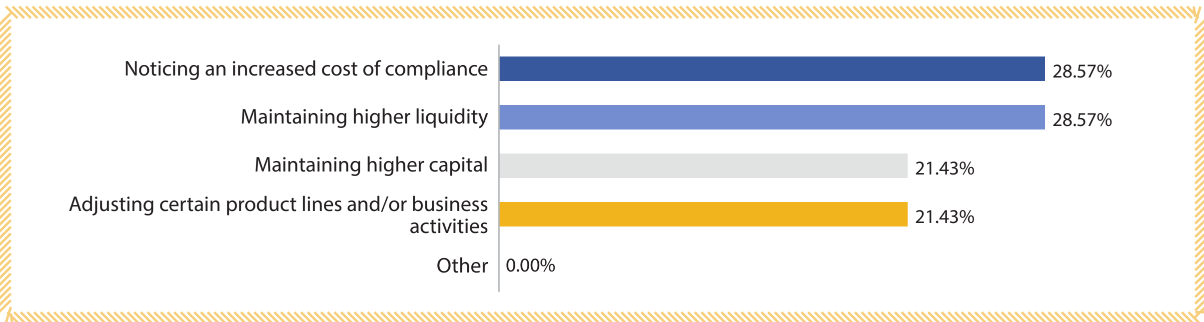
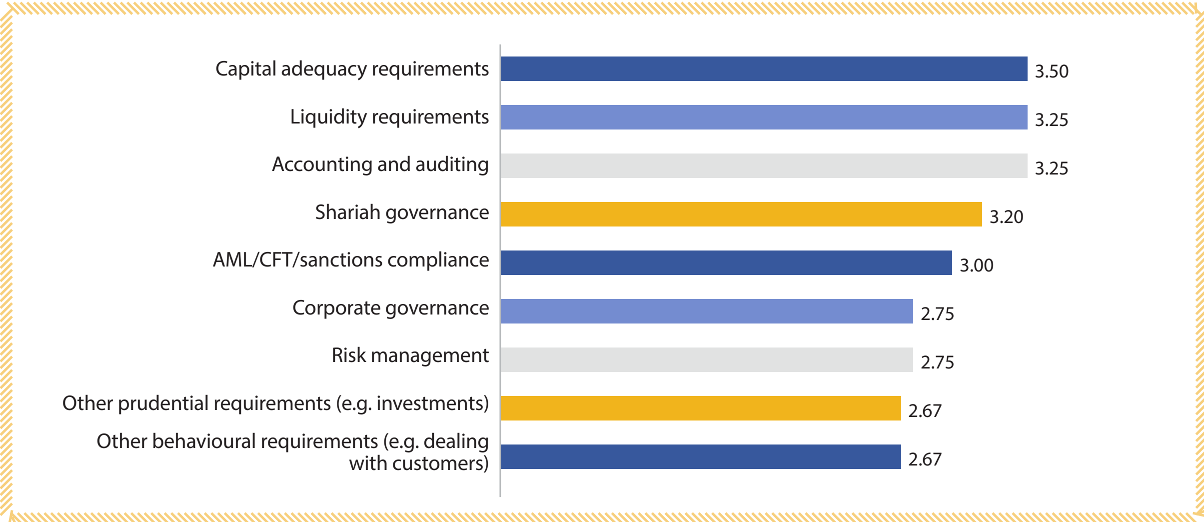


Figure 25. Most Challenging Areas of Regulation to Comply with in Practice



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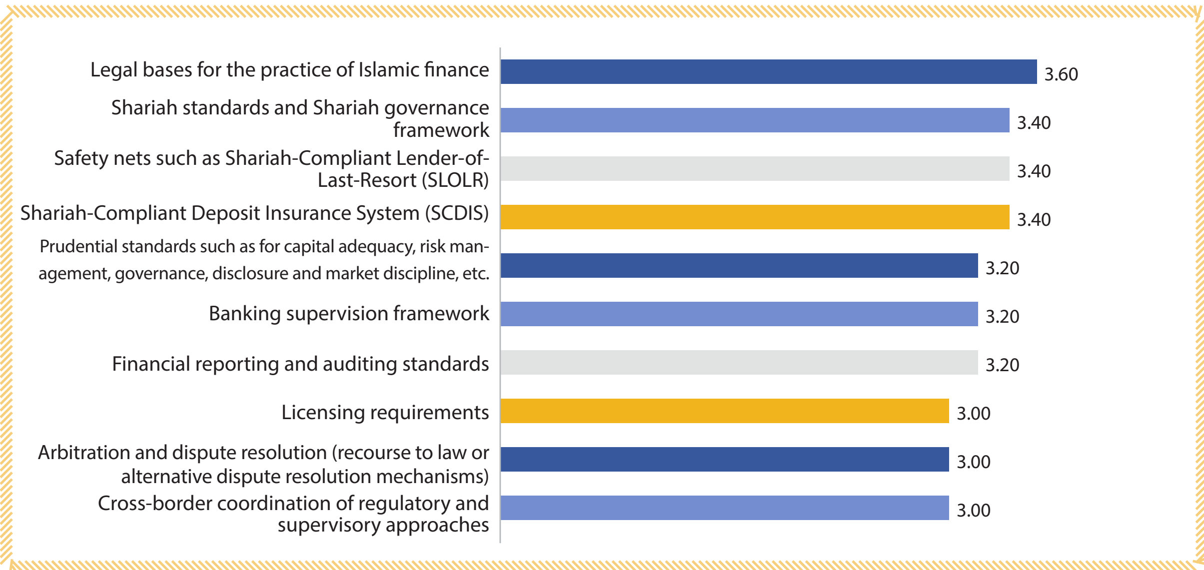

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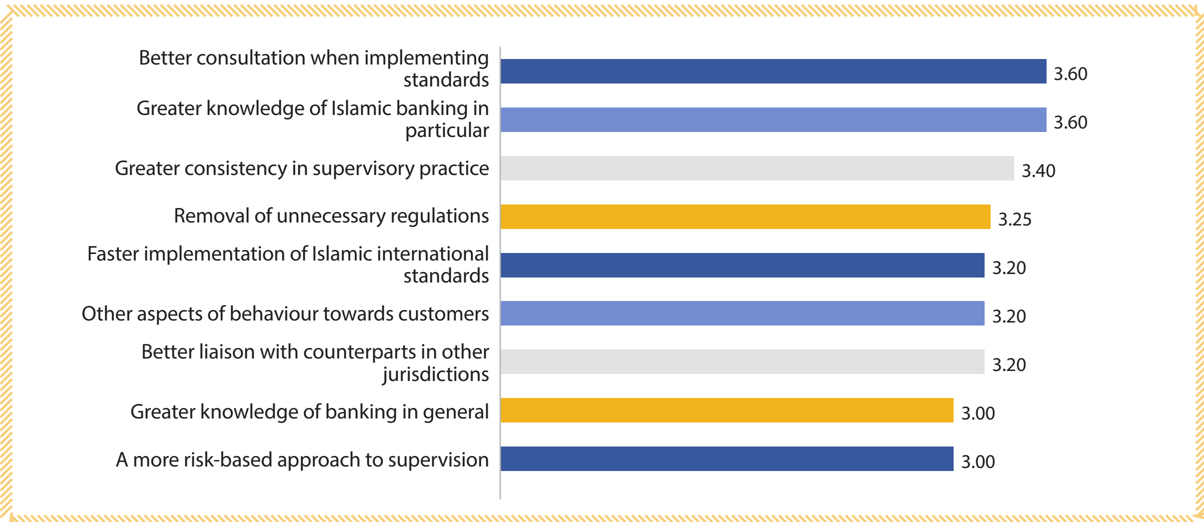
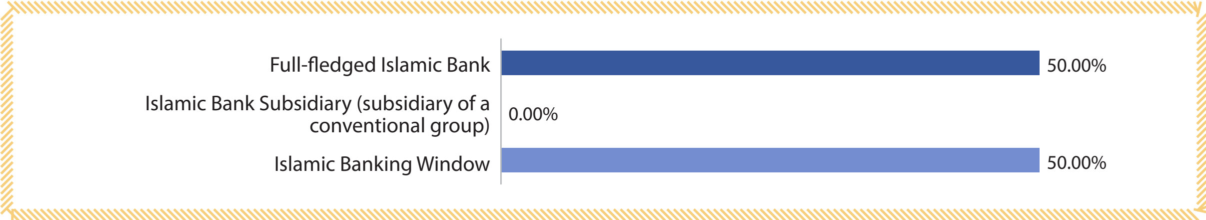


GROUP 4: WEST, CENTRAL, AND SOUTH ASIA

Figure 1. Banking Operation



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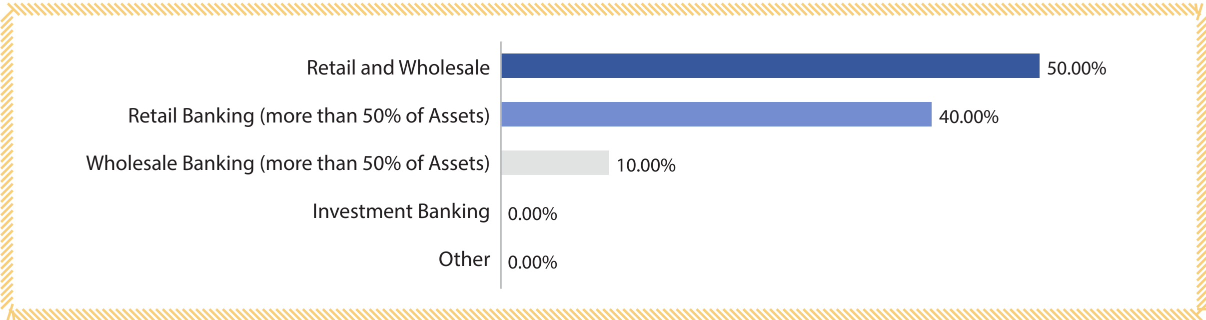
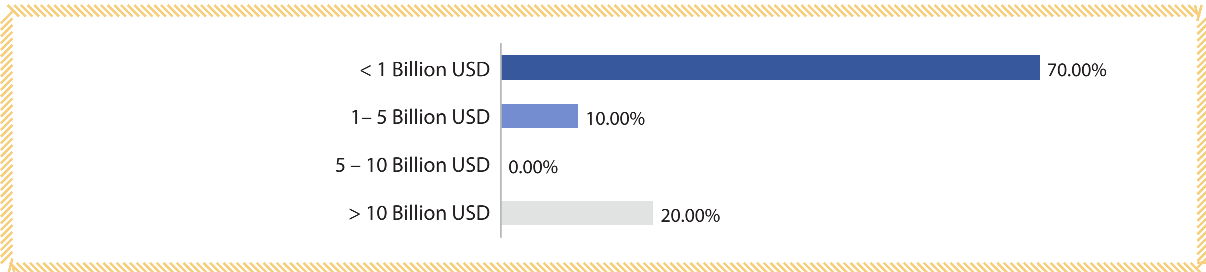


Figure 3. Size of Total Islamic Assets



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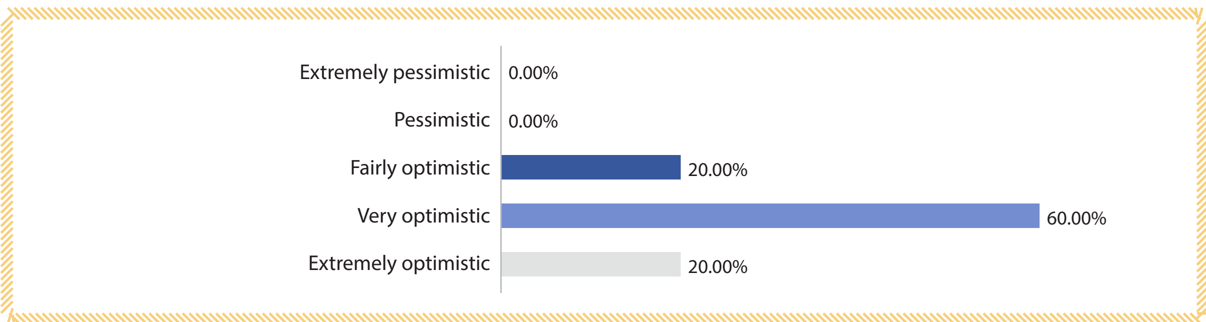

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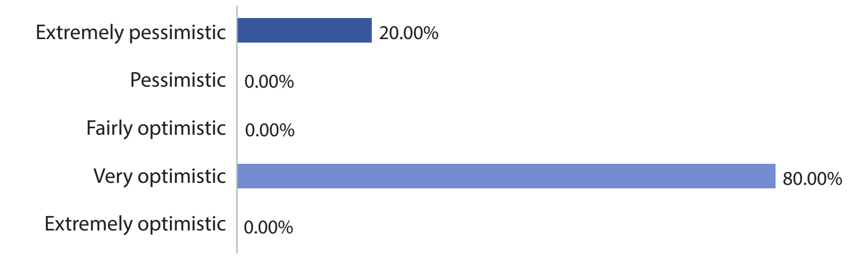

Figure 6. Revenue Growth Expectation

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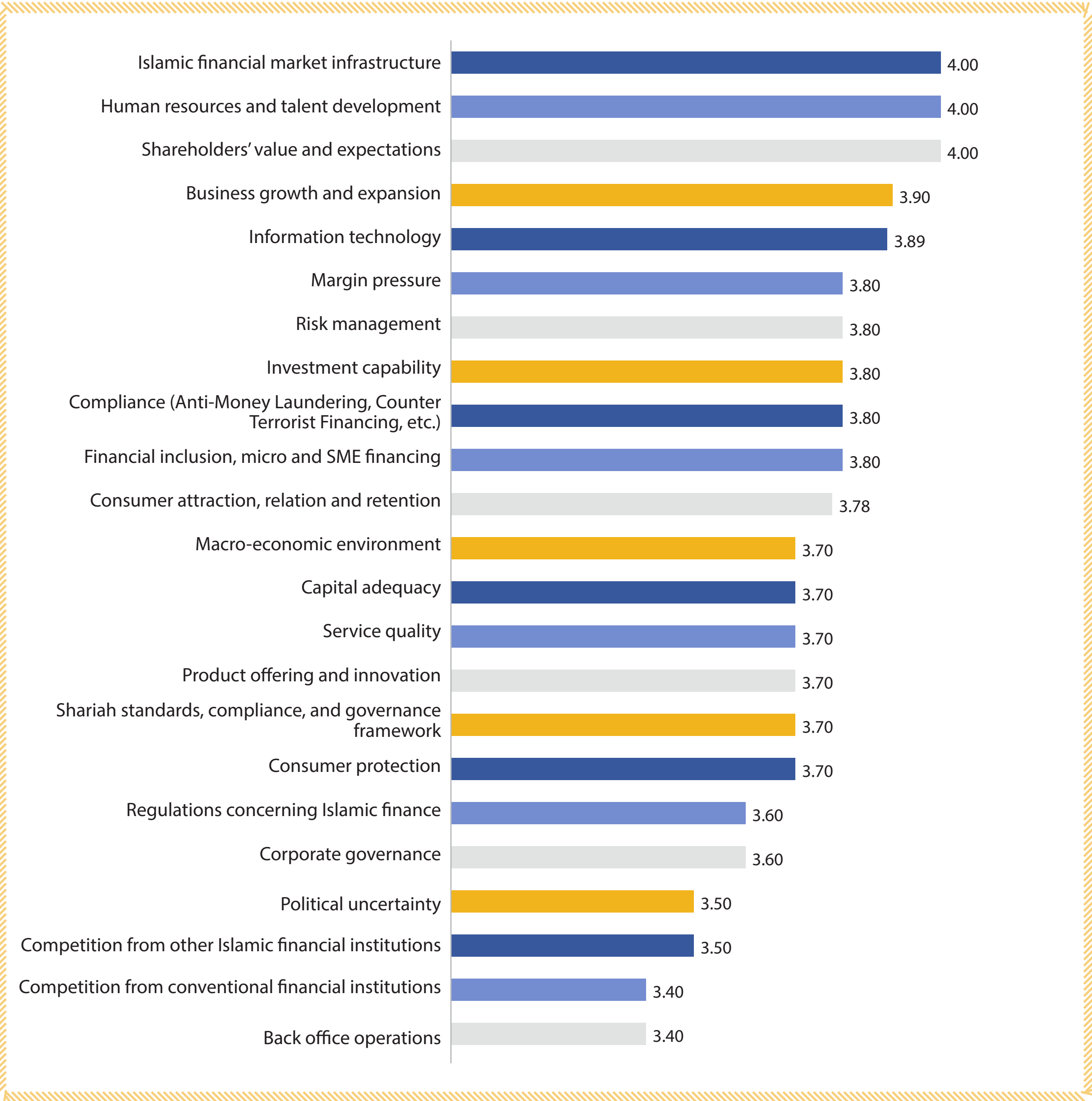

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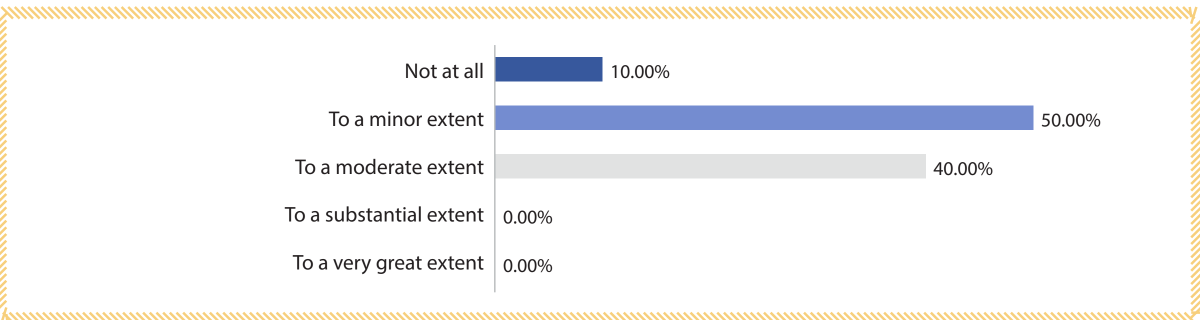
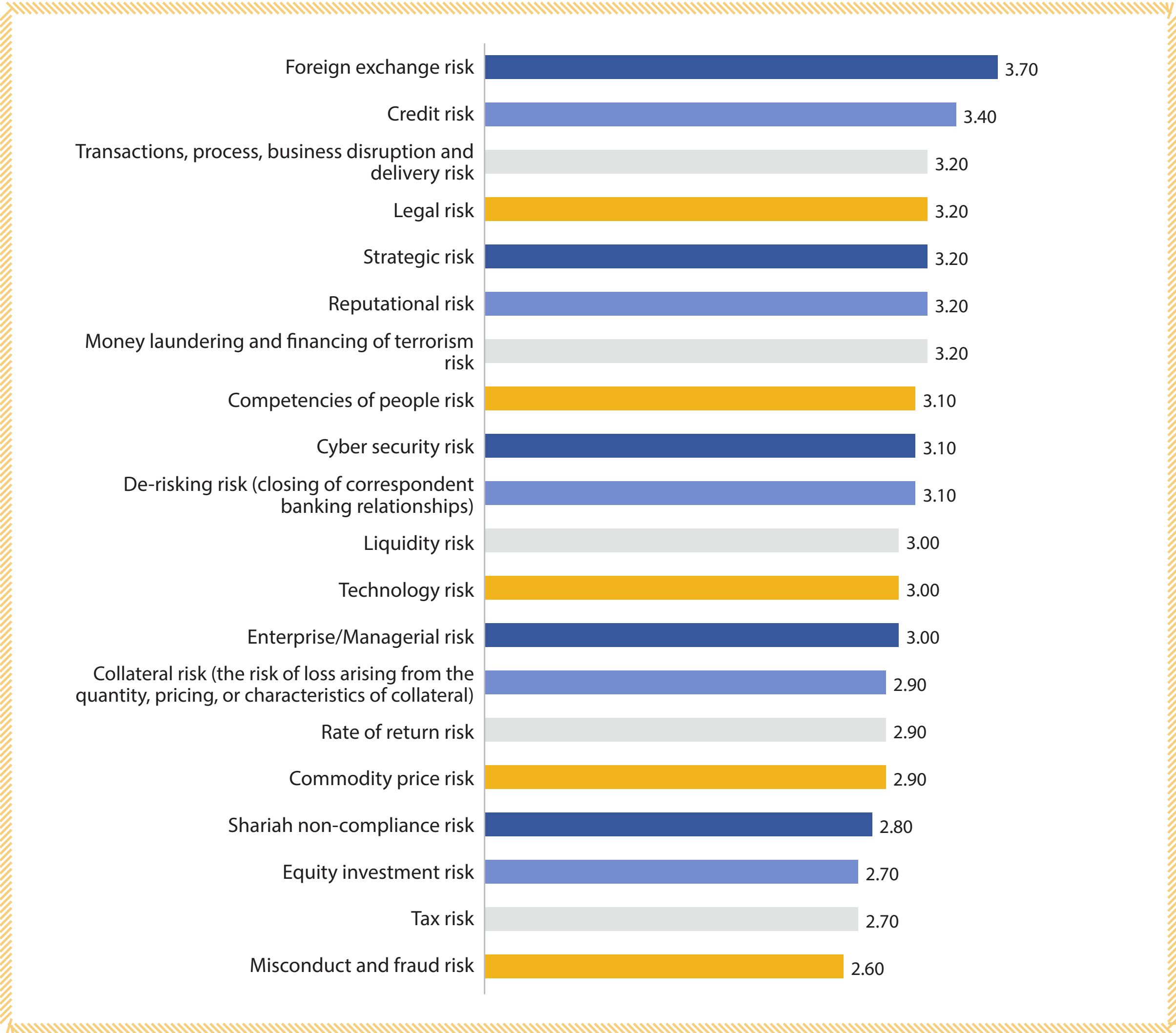


Figure 9. Islamic Banking Risk Dashboard



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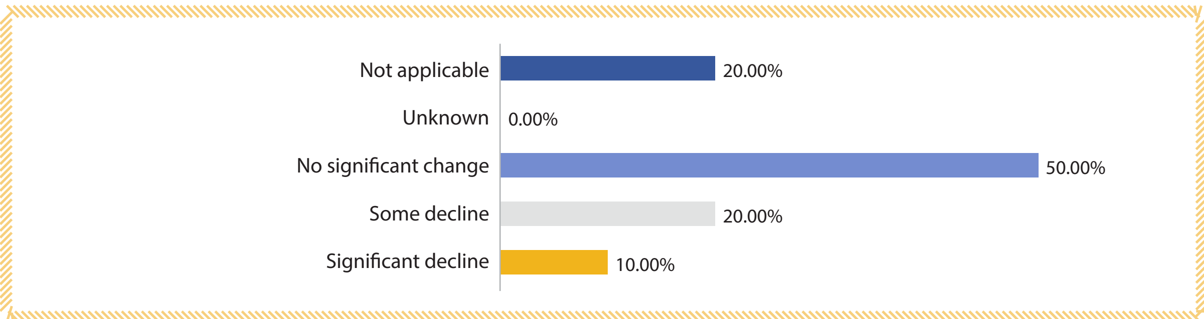

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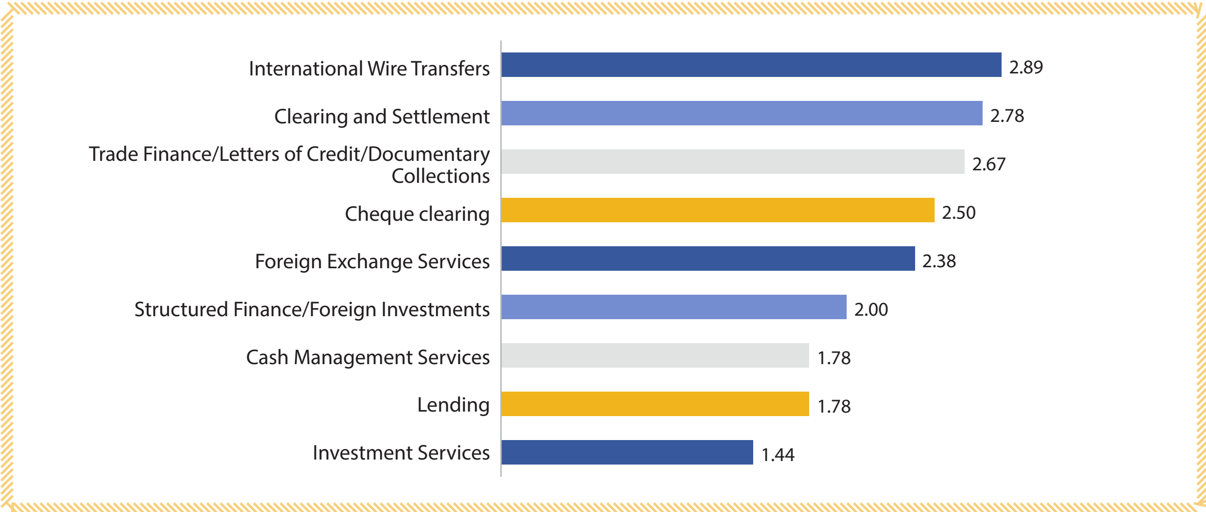

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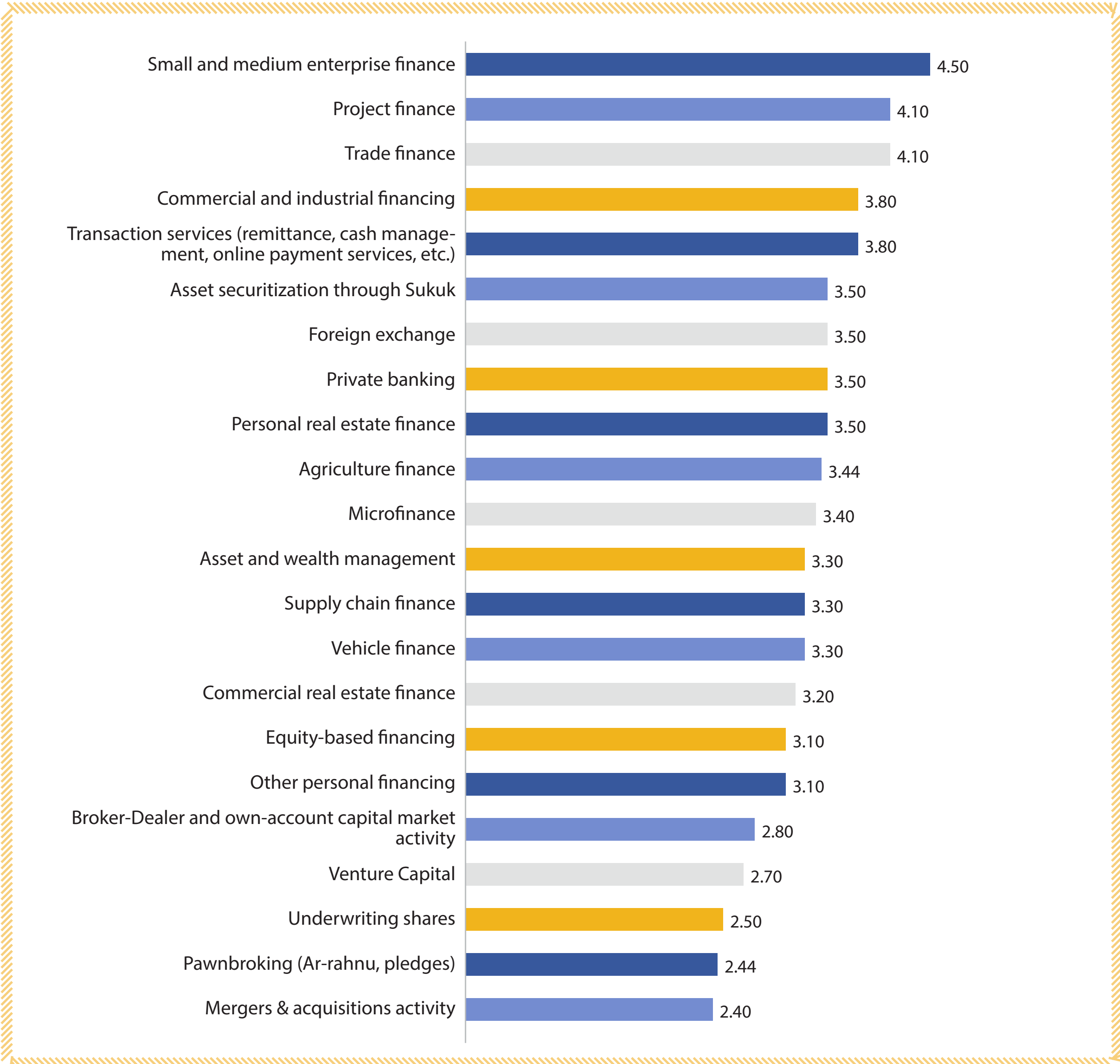

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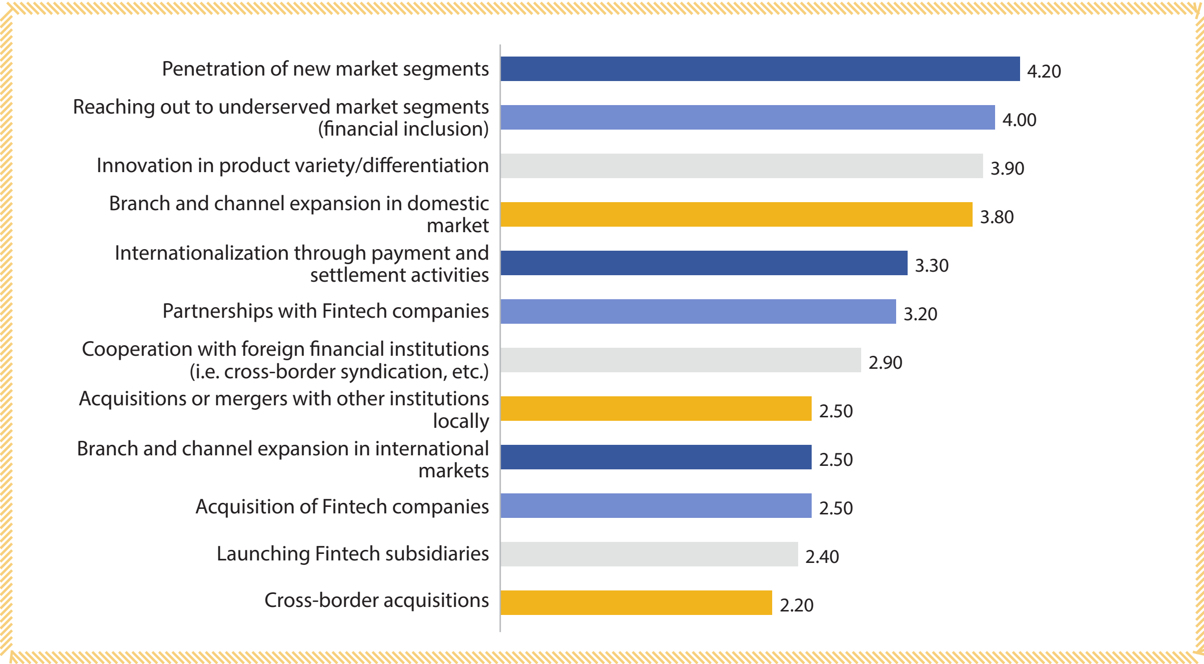


Figure 14. Business Priorities in 2019

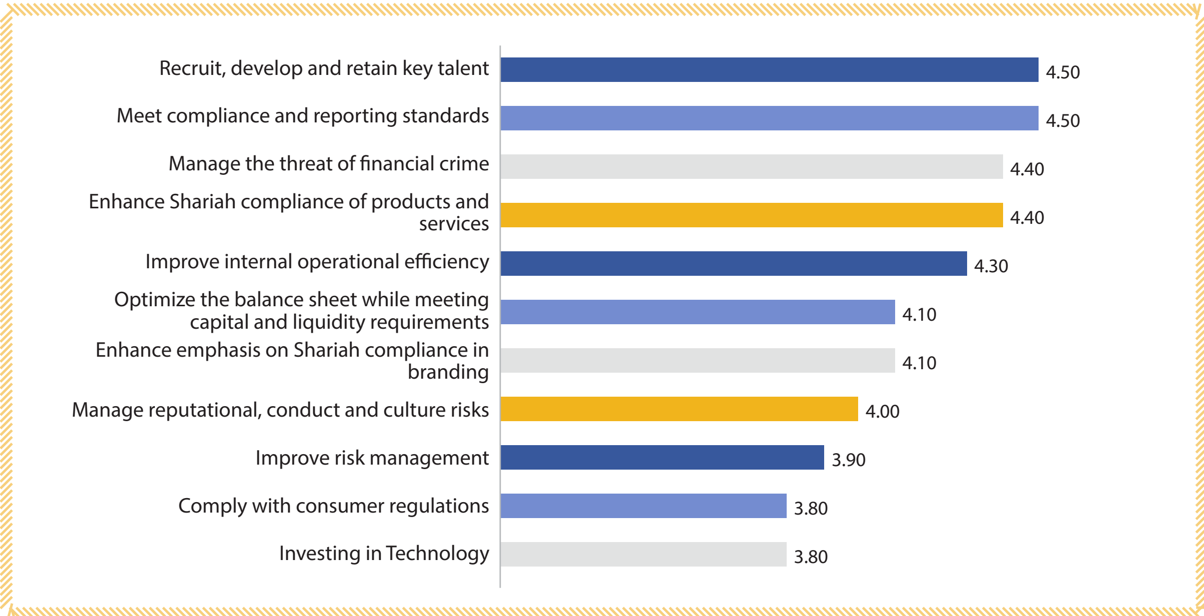


Figure 15. Areas for applying Banking Technology as a Business Growth Driver

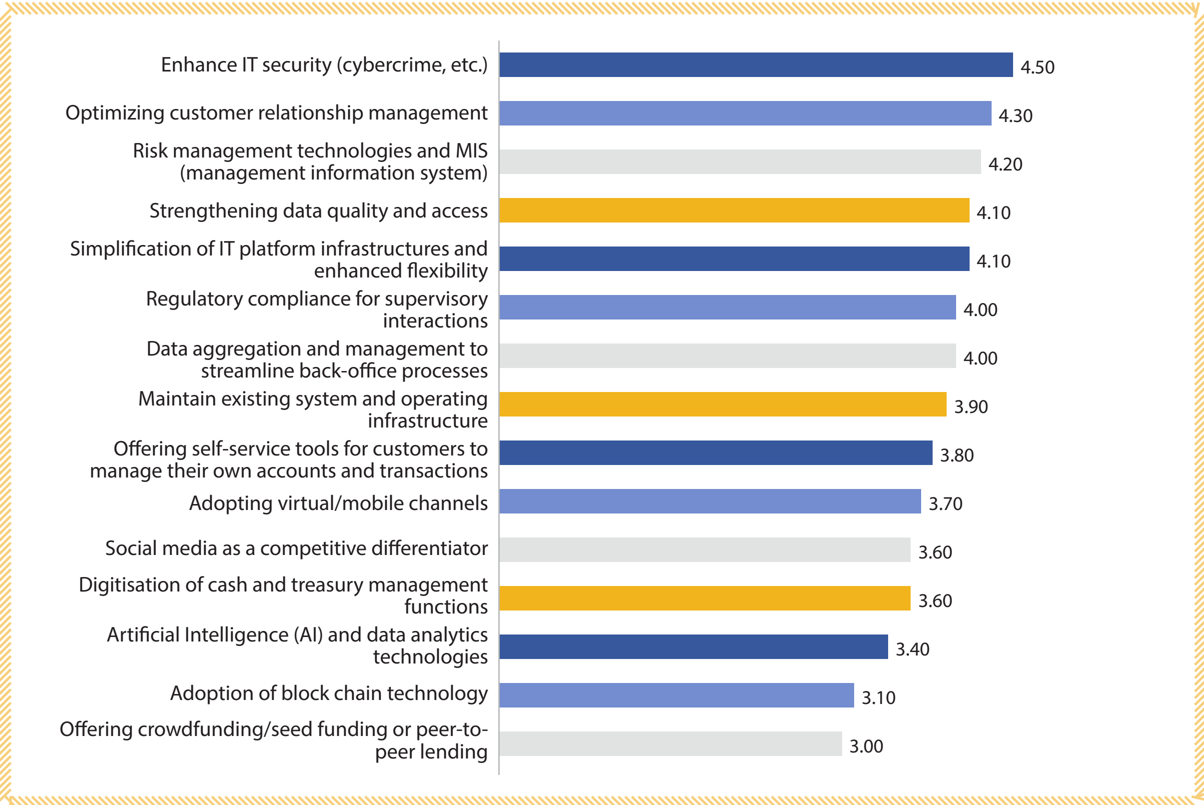


Figure 16. UN SDGs institutions plan to promote as part of their Business Growth Plan

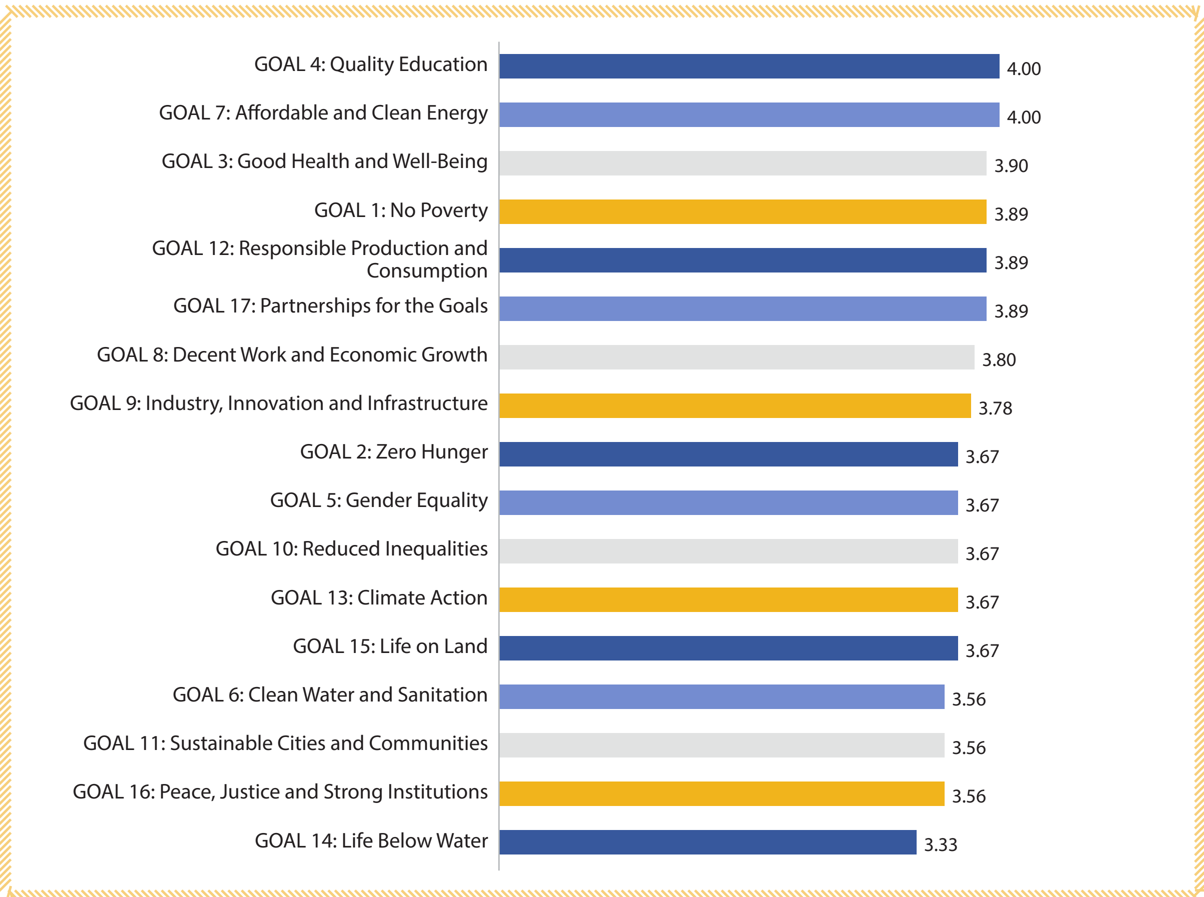


Figure 17. Principal Source of Capital Adequacy and Liquidity Regulations

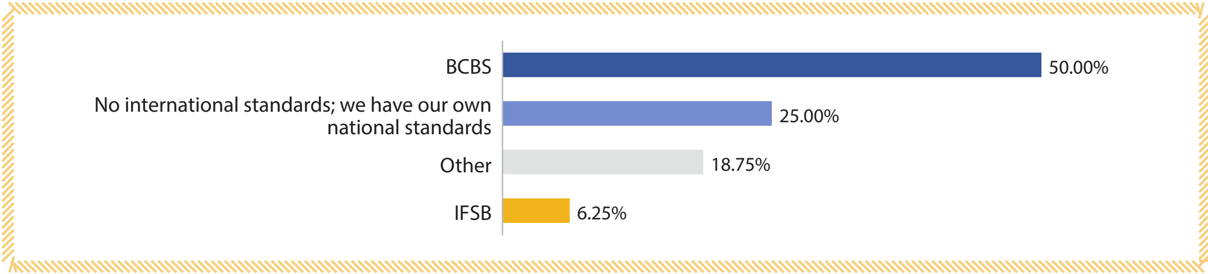


Figure 18. Principal Source of Corporate Governance Regulations

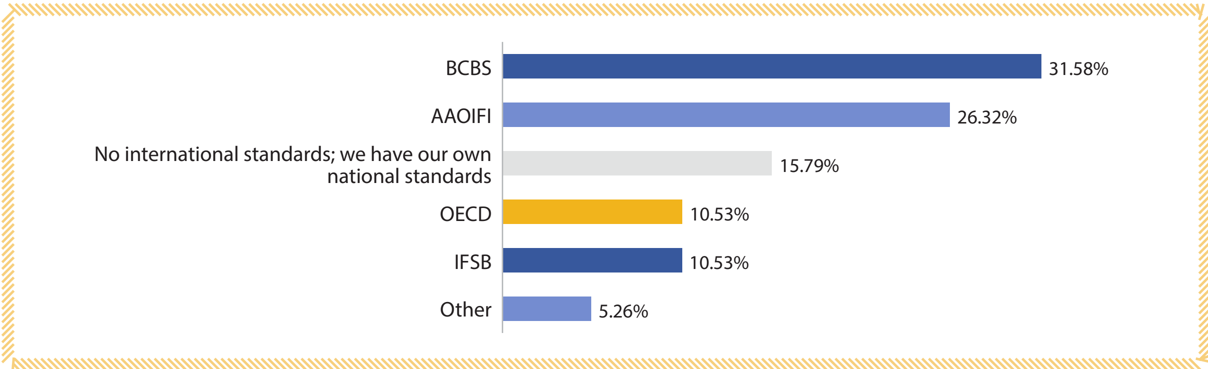


Figure 19. Principal Source of AML/CFT Regulations

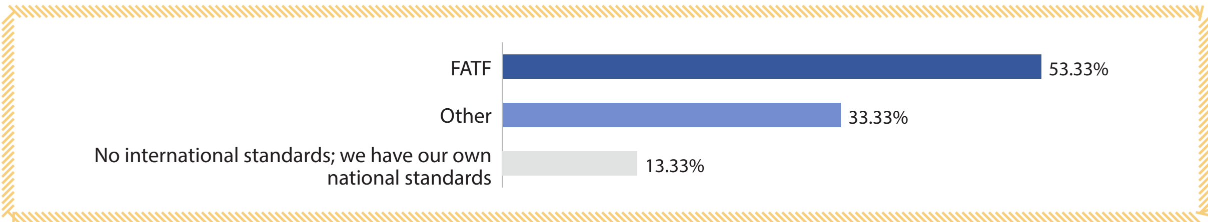


Figure 20. Principal Source of other Behavioural Standards

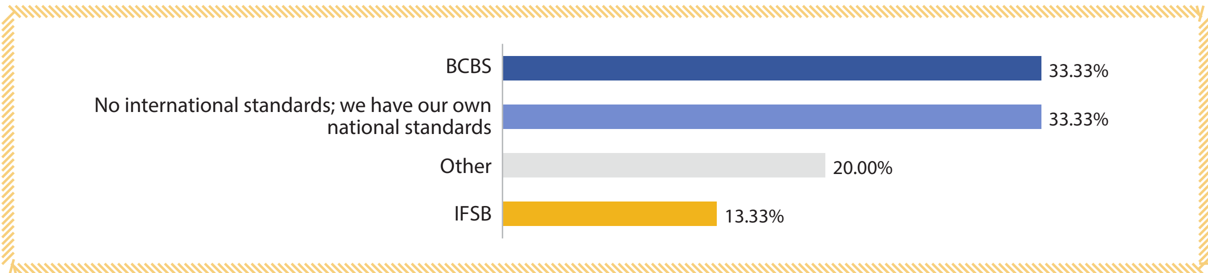


Figure 21. Principal Source of Accounting Standards

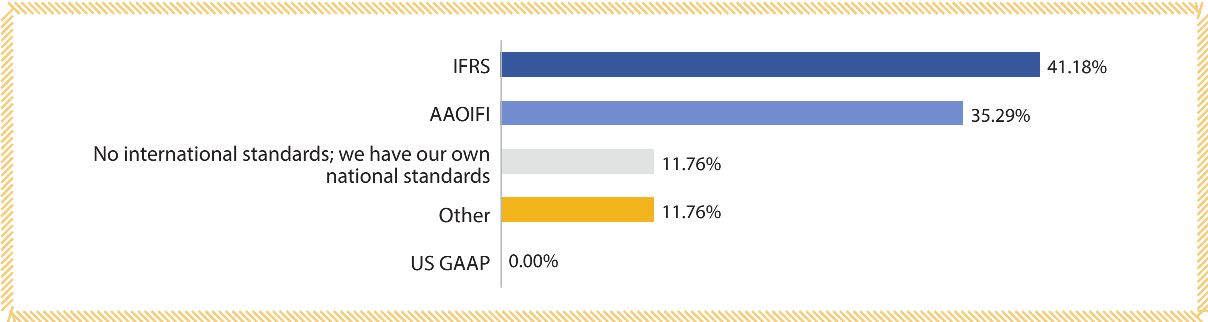


Figure 22. Principal Source of Shariah Standards

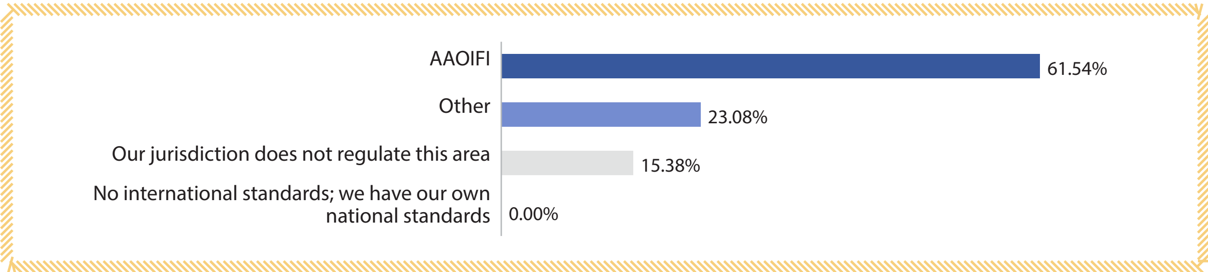


Figure 23. Principal Source of Shariah Governance Standards

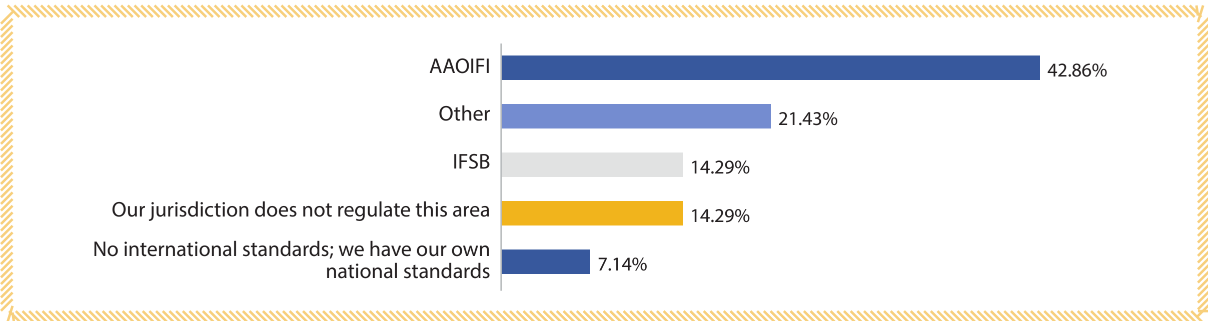


Figure 24. Impacts resulting from the Implementation of the International Regulatory Reforms following the GFC

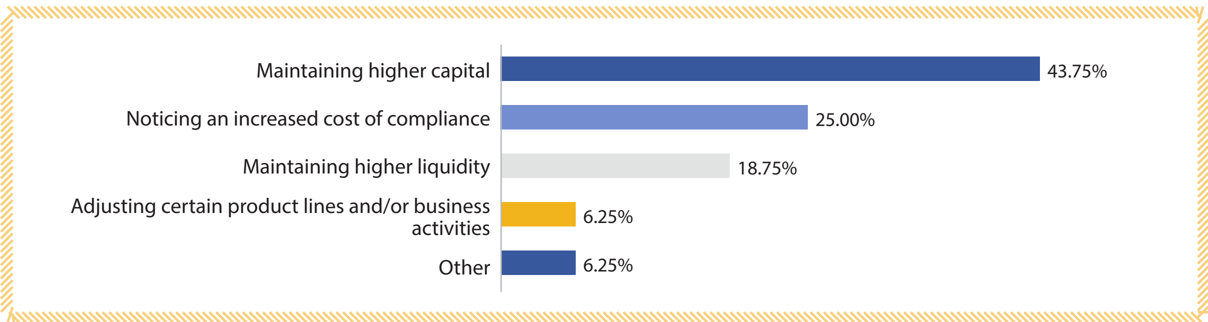
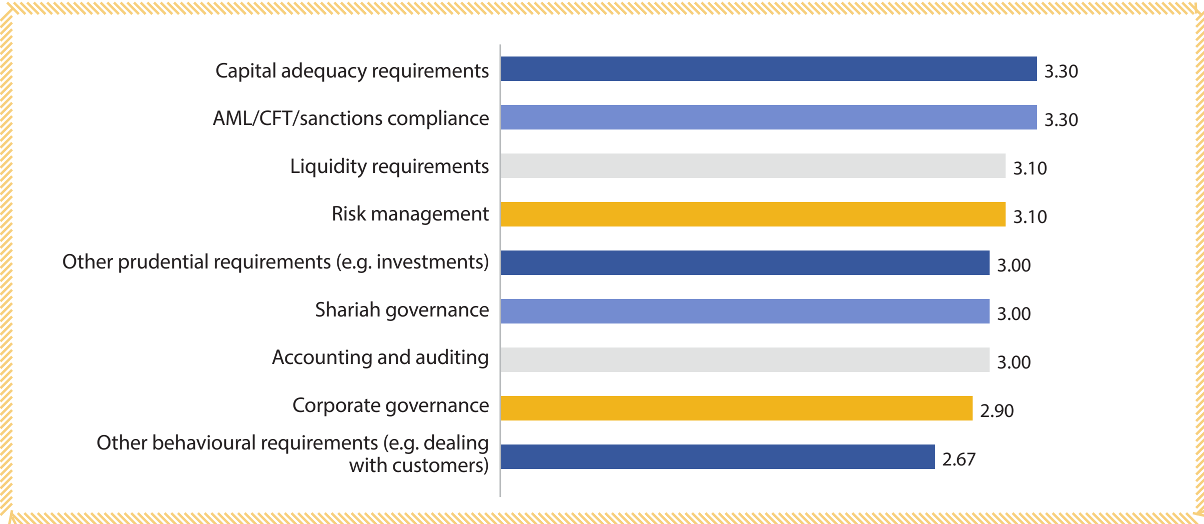


Figure 25. Most Challenging Areas of Regulation to Comply with in Practice



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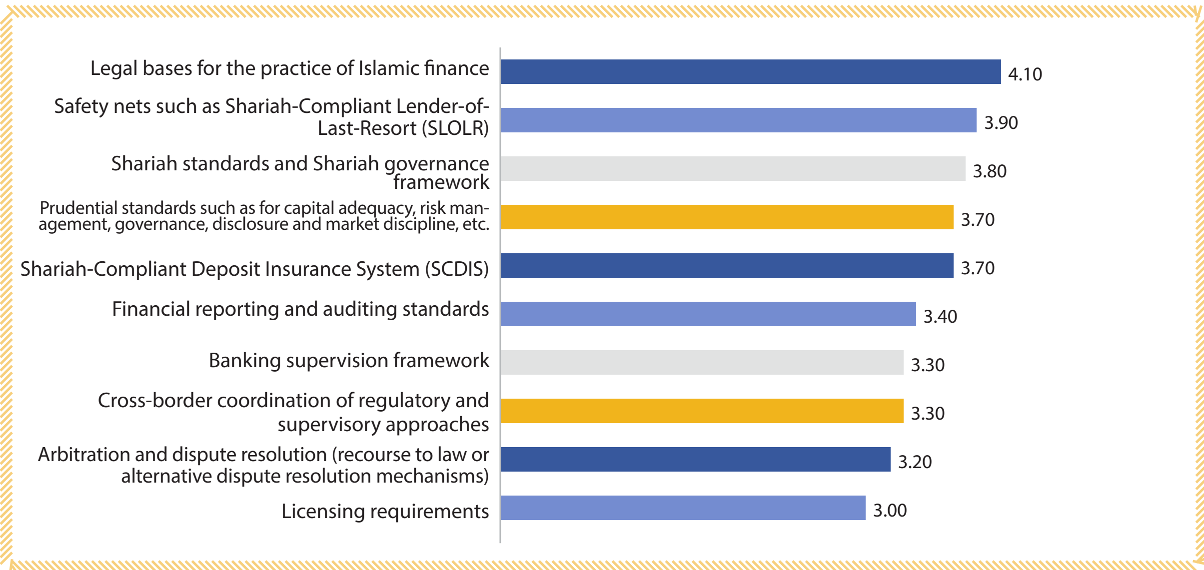

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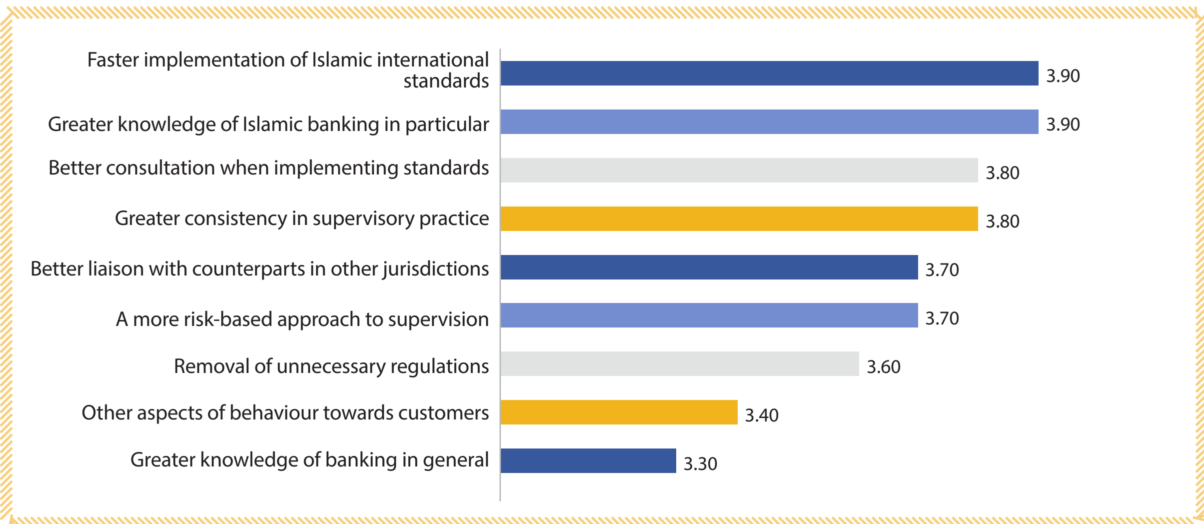


GROUP 5: NORTH AFRICA

Figure 1. Banking Operation

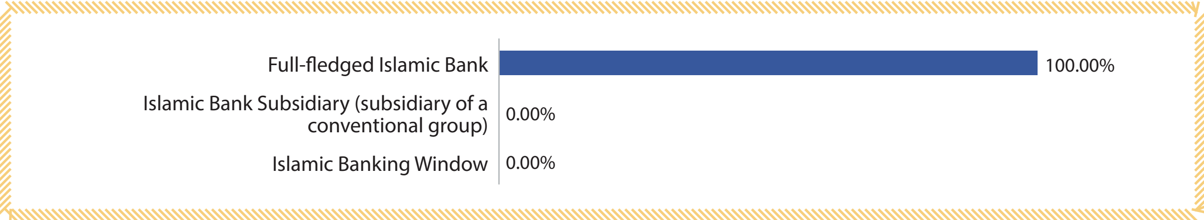


Figure 2. Core Business

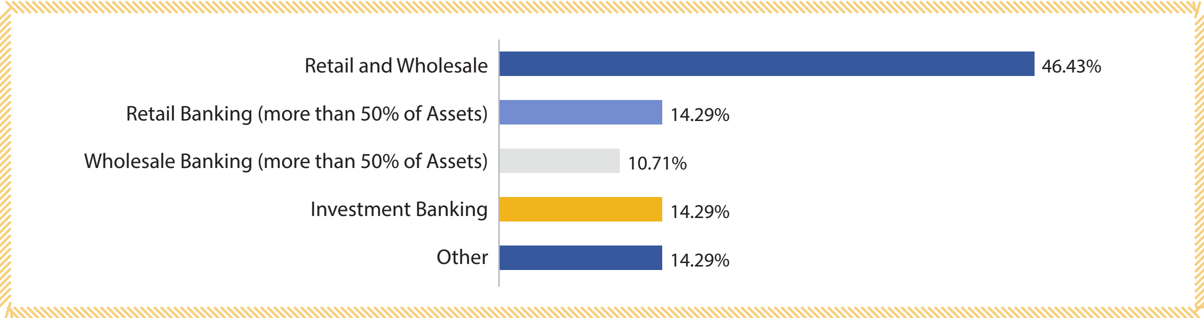


Figure 3. Size of Total Islamic Assets

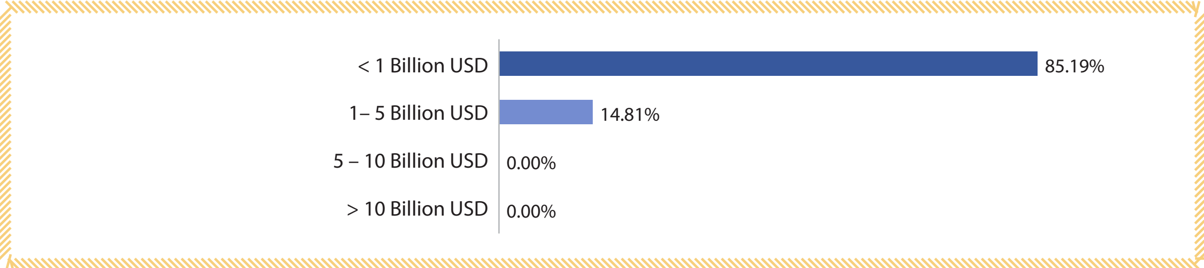


Figure 4. Overall Banking Industry Optimism Level

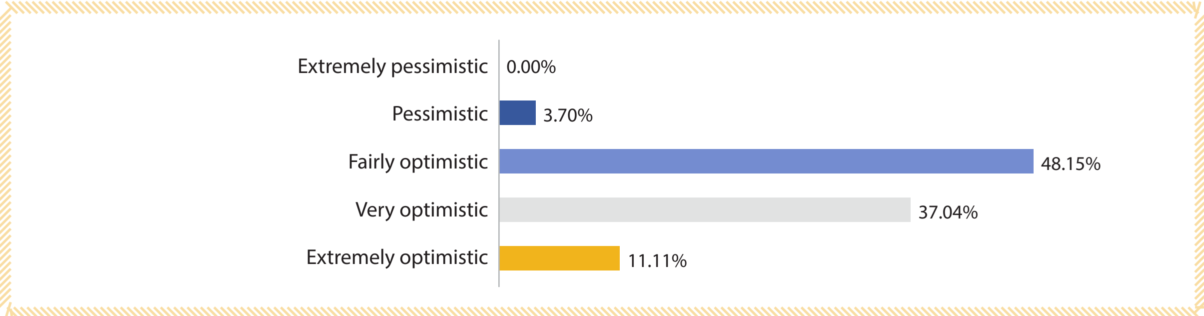


Figure 5. Islamic Banking Industry Optimism Level

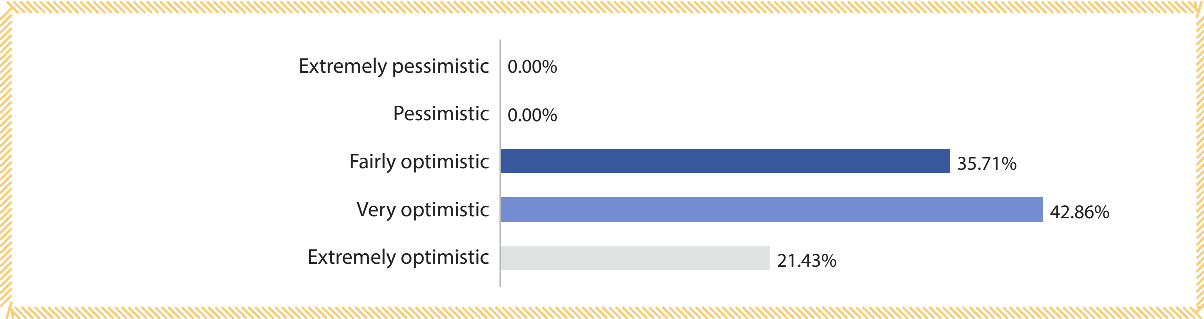


Figure 6. Revenue Growth Expectation

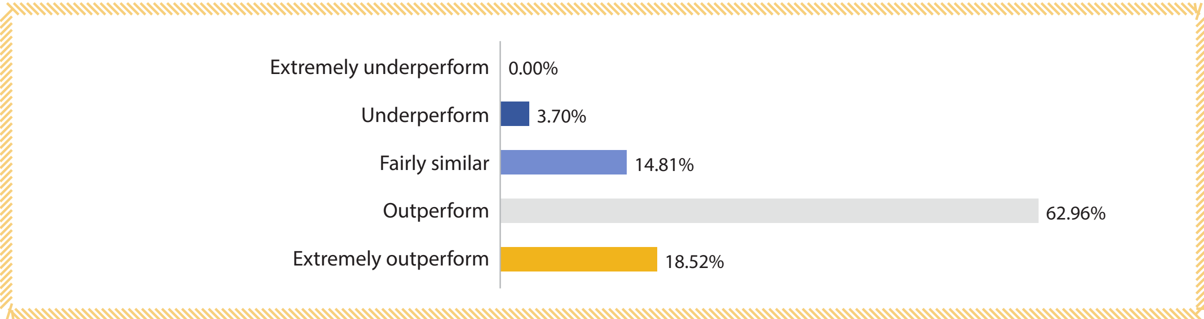


Figure 7. Islamic Banking Top Concerns

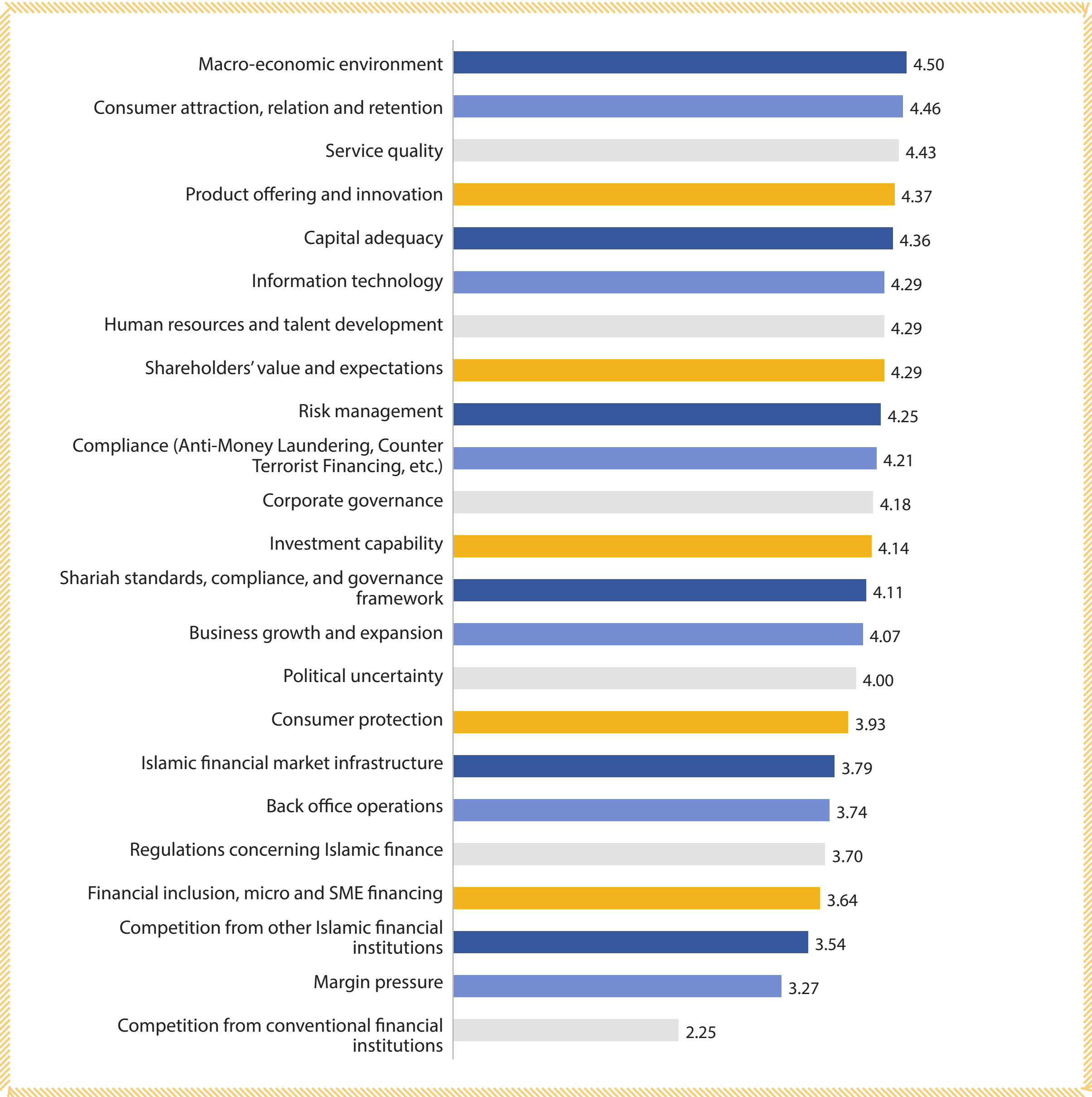


Figure 8. Competition from Novel, Technology-enabled Business Models

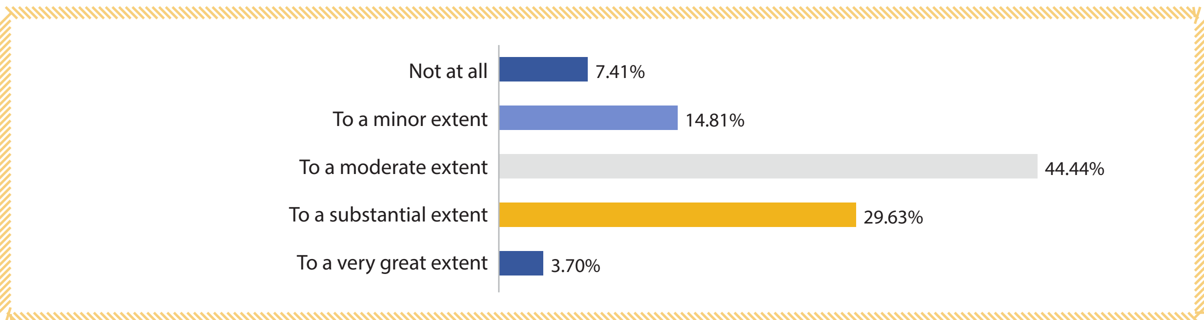


Figure 9. Islamic Banking Risk Dashboard

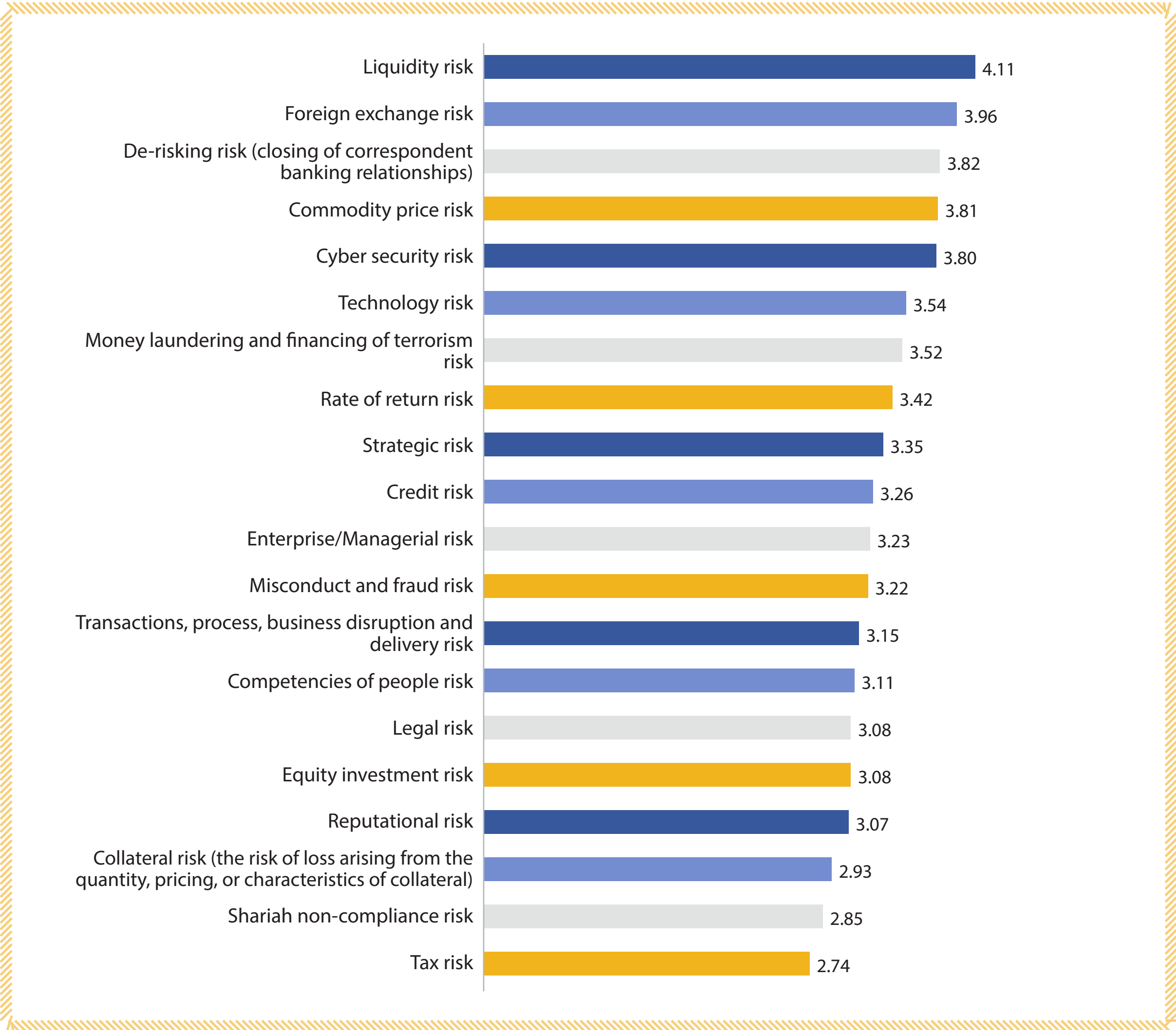


Figure 10. Decline in CBR Due to De-Risking

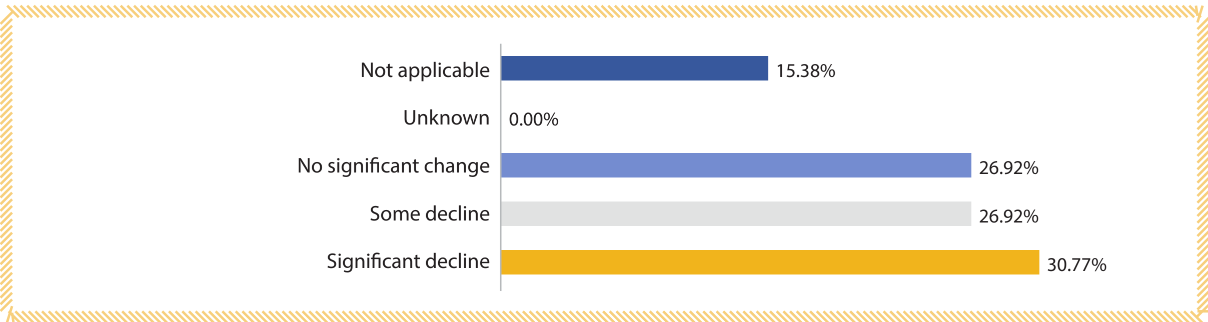


Figure 11. De-risking Effects on Products and Services

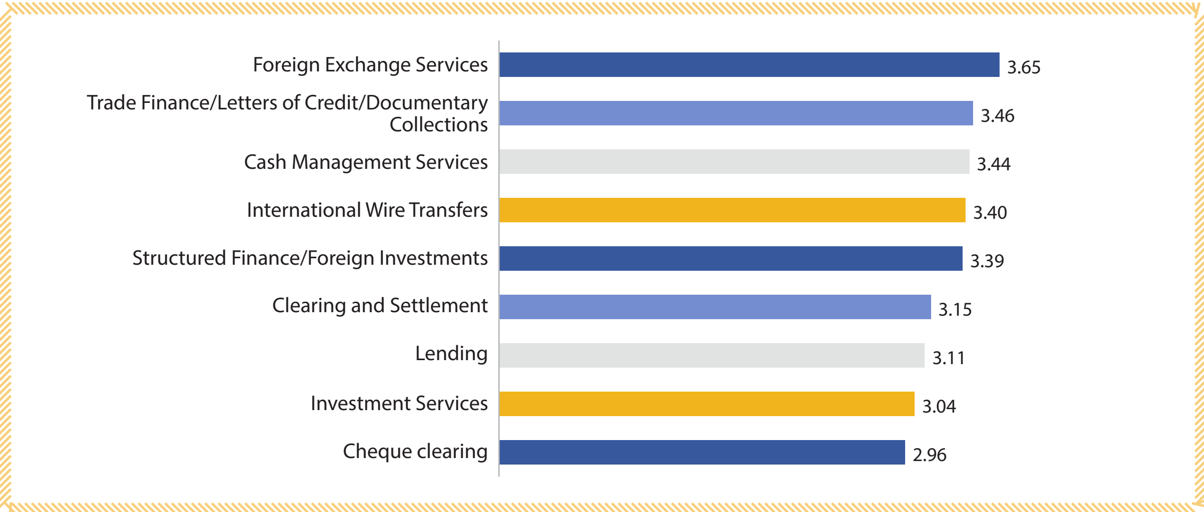


Figure 12. Segments Driving Revenue Growth

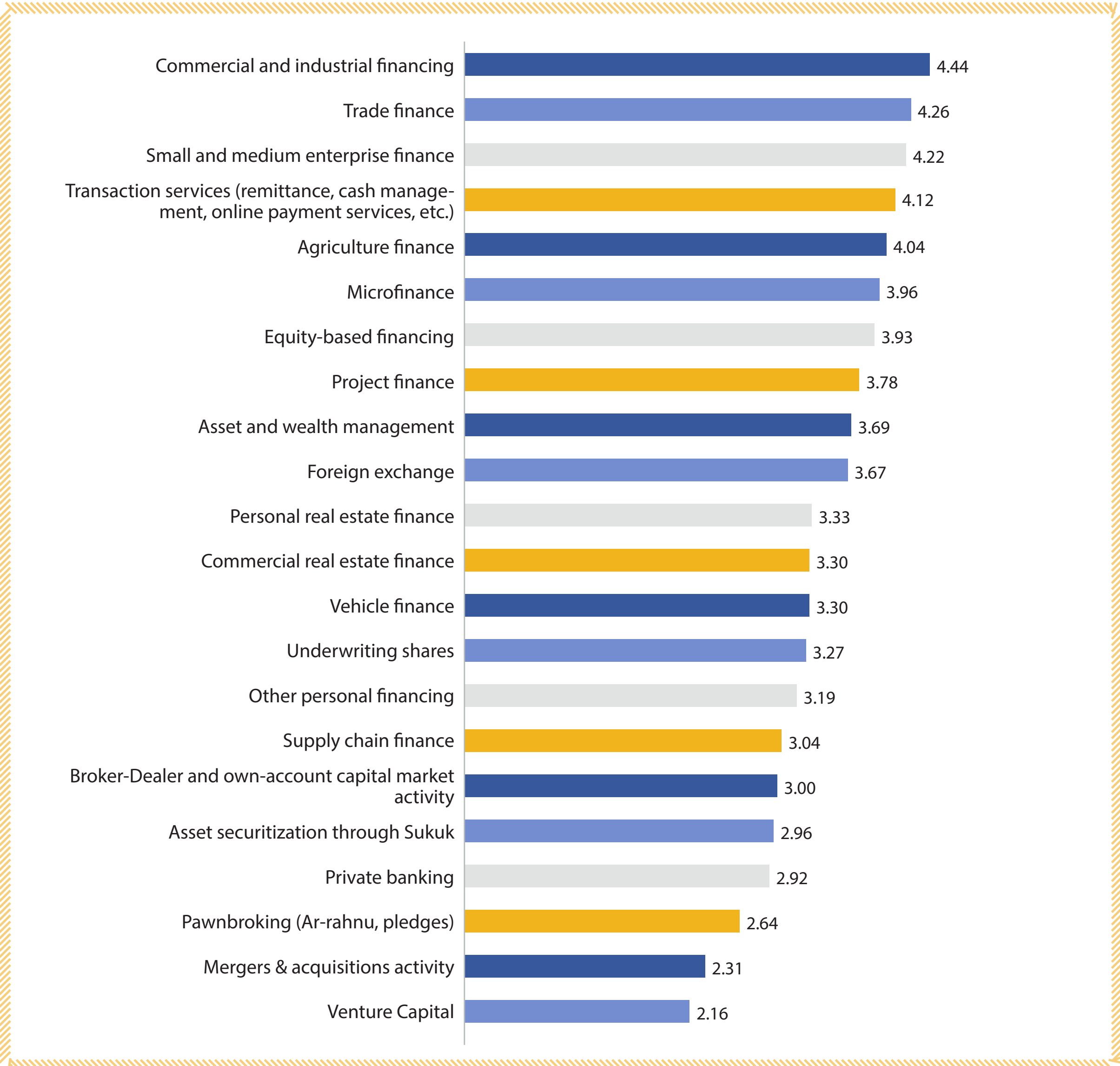


Figure 13. Areas of Business Expansion to achieve Competitive Positioning

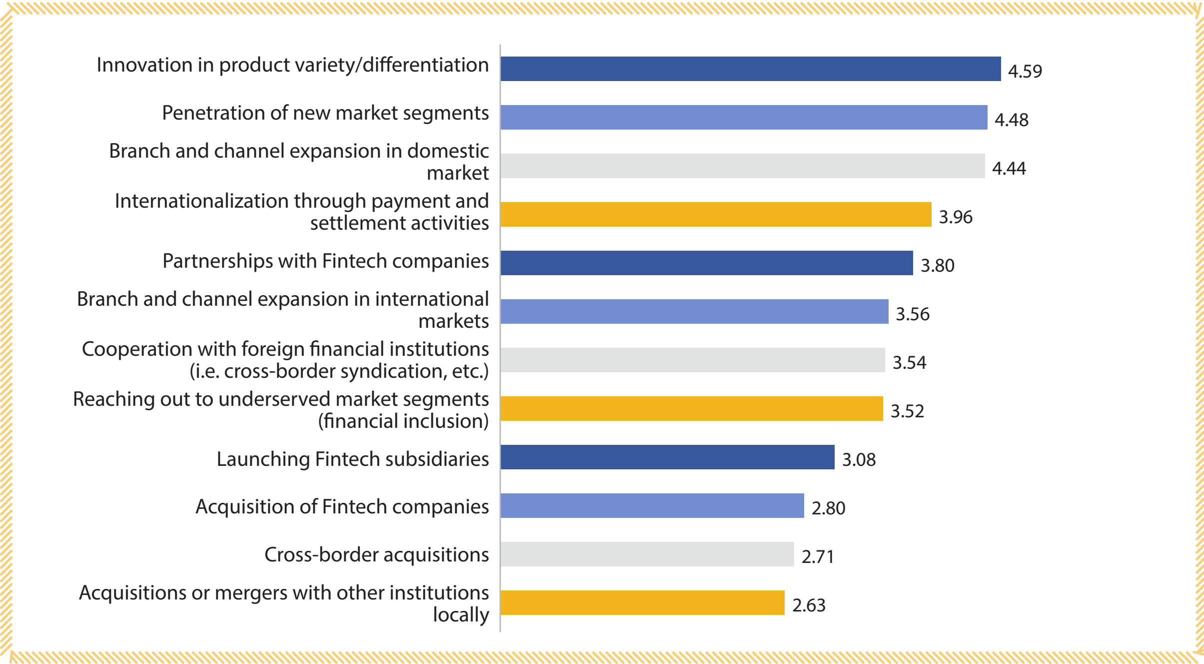


Figure 14. Business Priorities in 2019

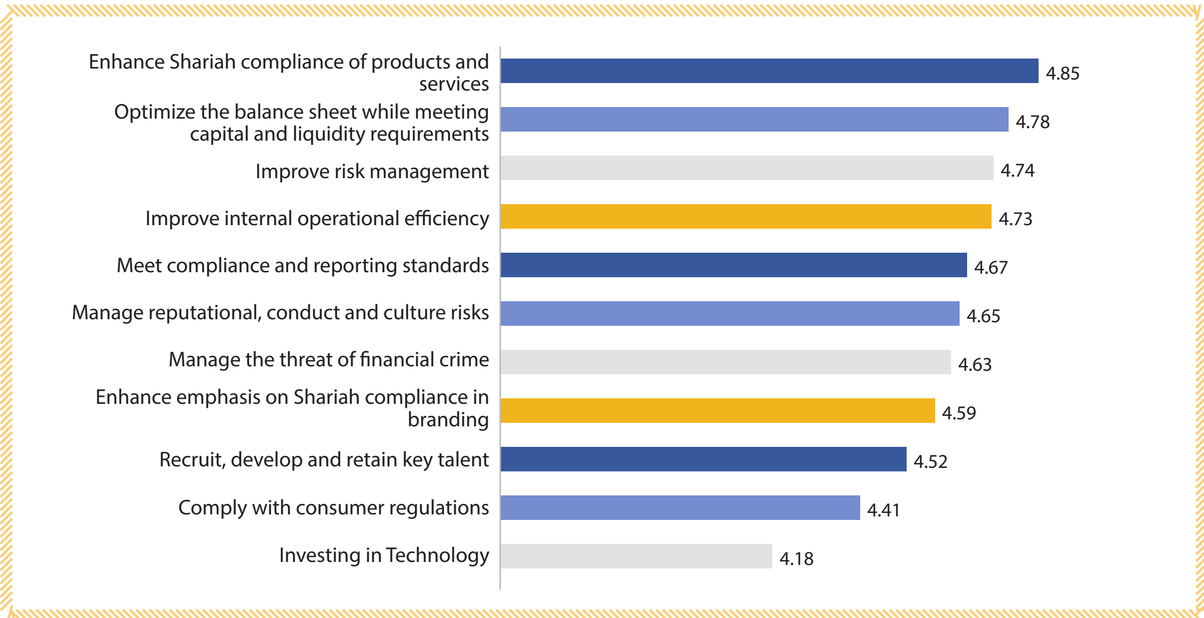


Figure 15. Areas for applying Banking Technology as a Business Growth Driver

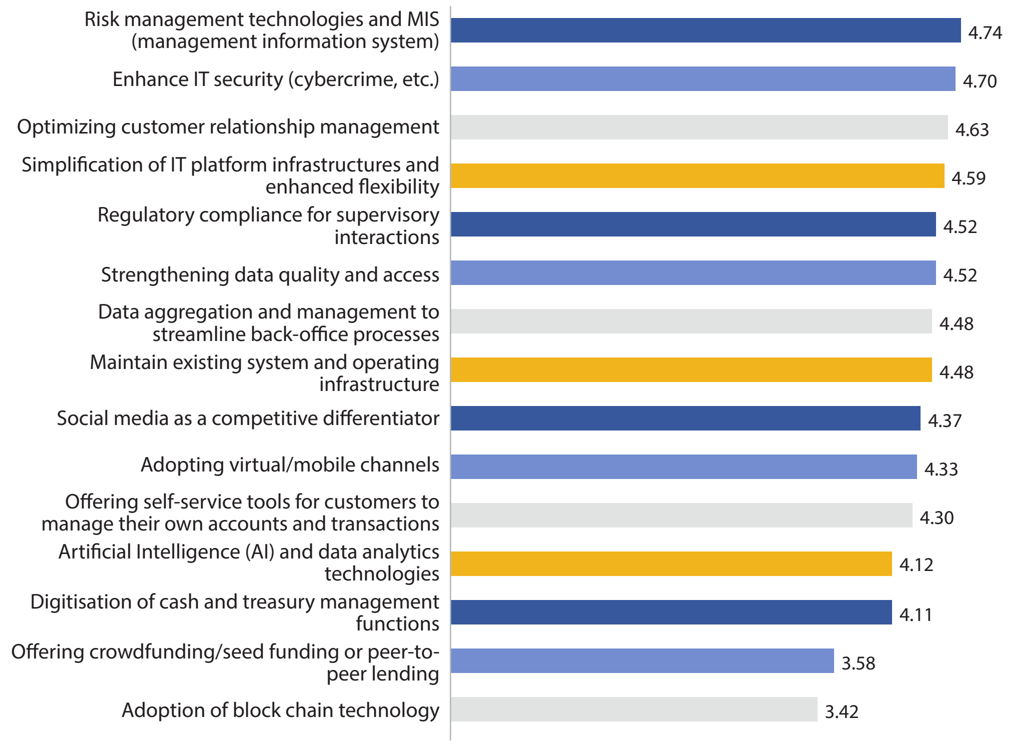


Figure 16. UN SDGs institutions plan to promote as part of their Business Growth Plan

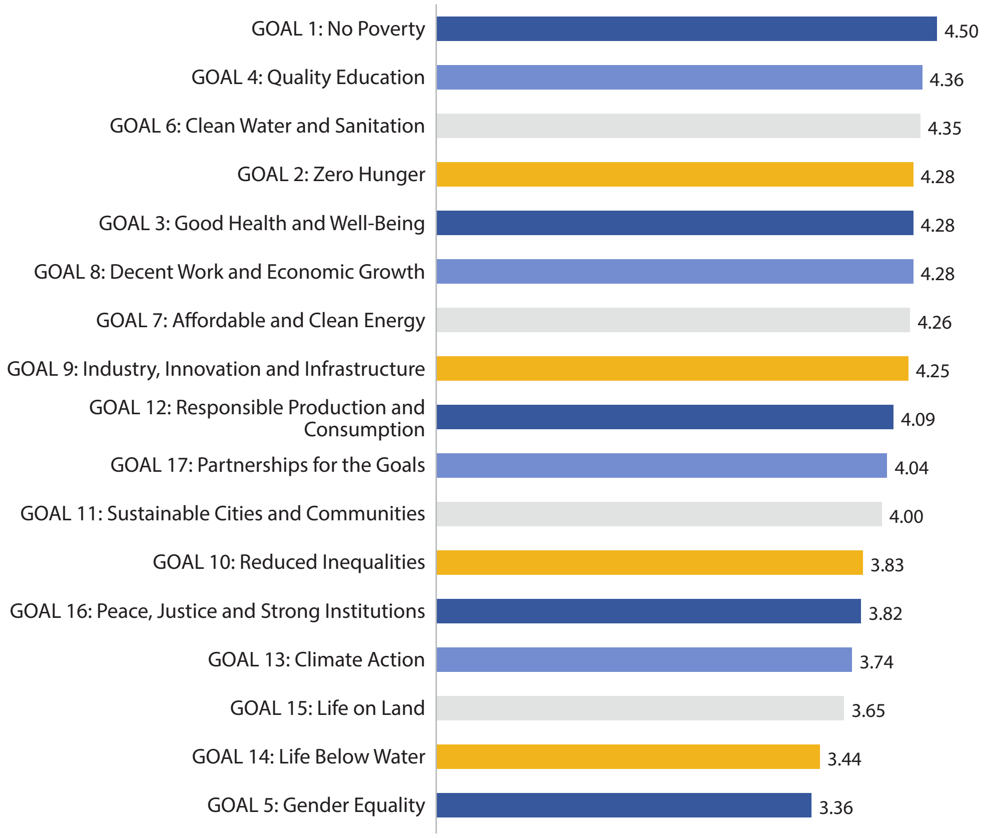


Figure 17. Principal Source of Capital Adequacy and Liquidity Regulations

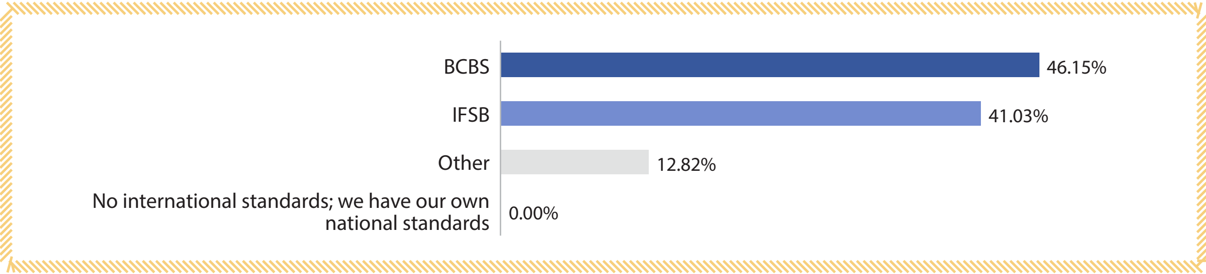


Figure 18. Principal Source of Corporate Governance Regulations

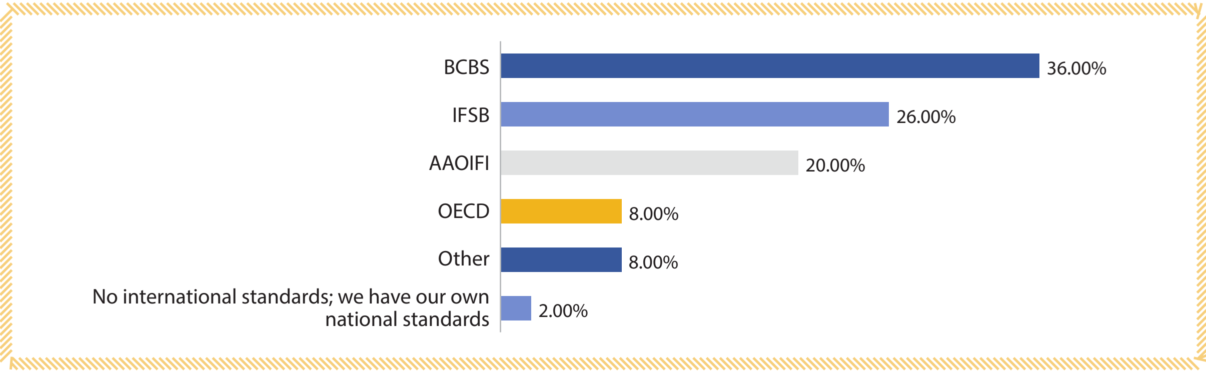


Figure 19. Principal Source of AML/CFT Regulations

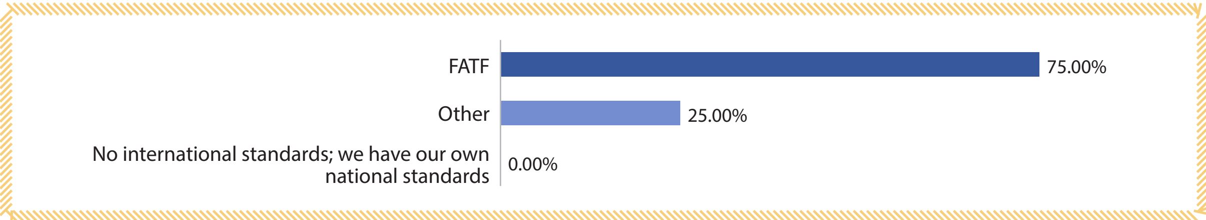


Figure 20. Principal Source of other Behavioural Standards

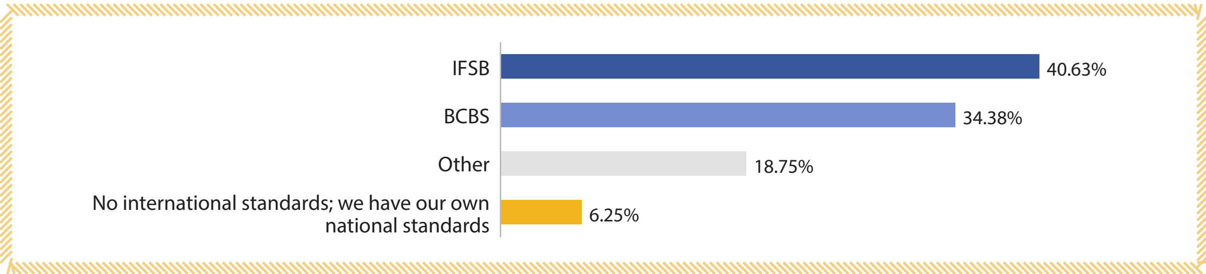


Figure 21. Principal Source of Accounting Standards

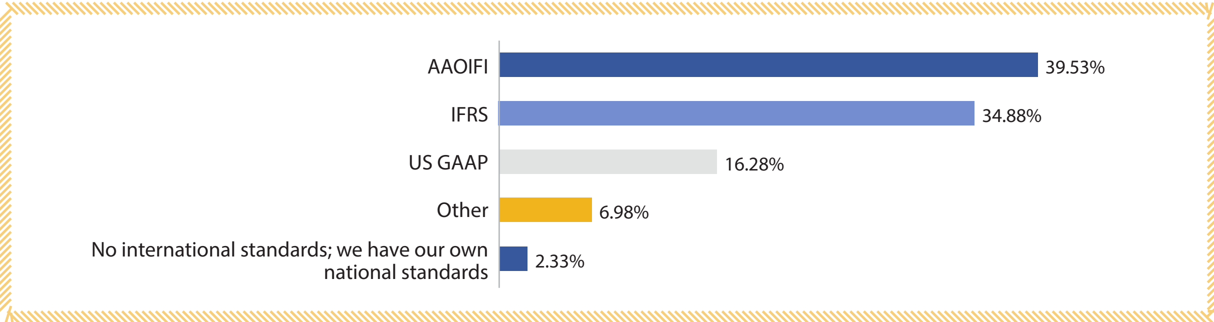


Figure 22. Principal Source of Shariah Standards

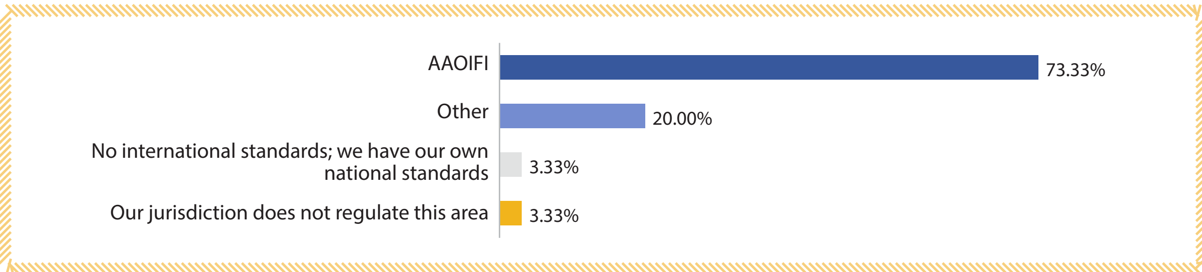


Figure 23. Principal Source of Shariah Governance Standards

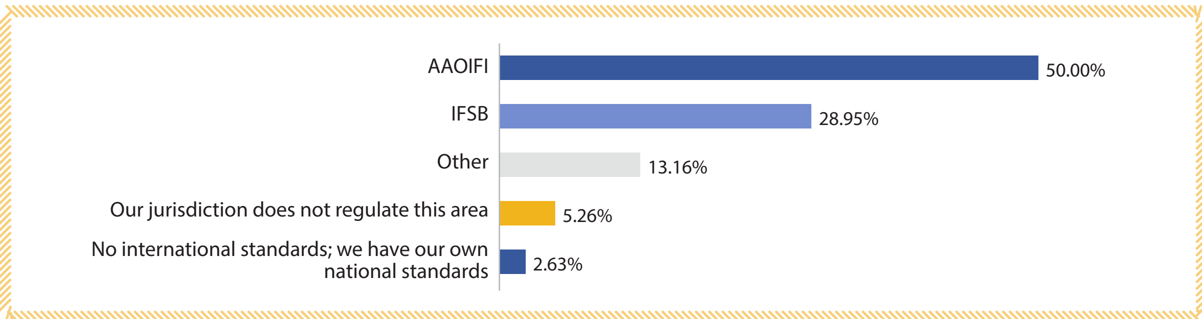


Figure 24. Impacts resulting from the Implementation of the International Regulatory Reforms following the GFC

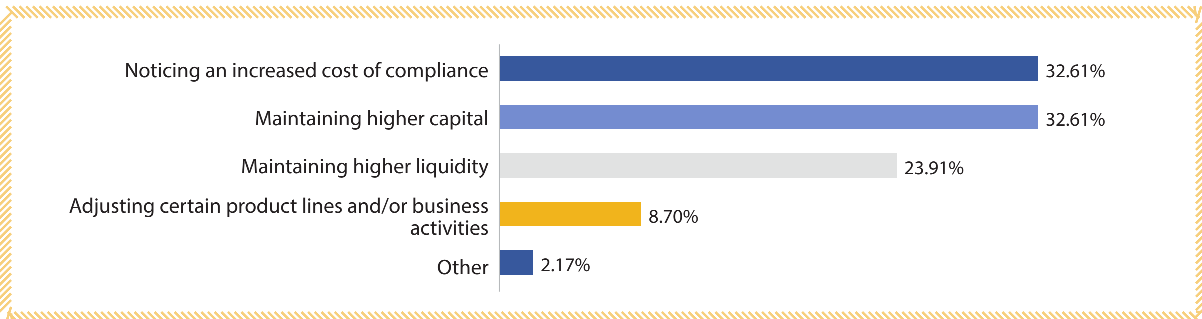
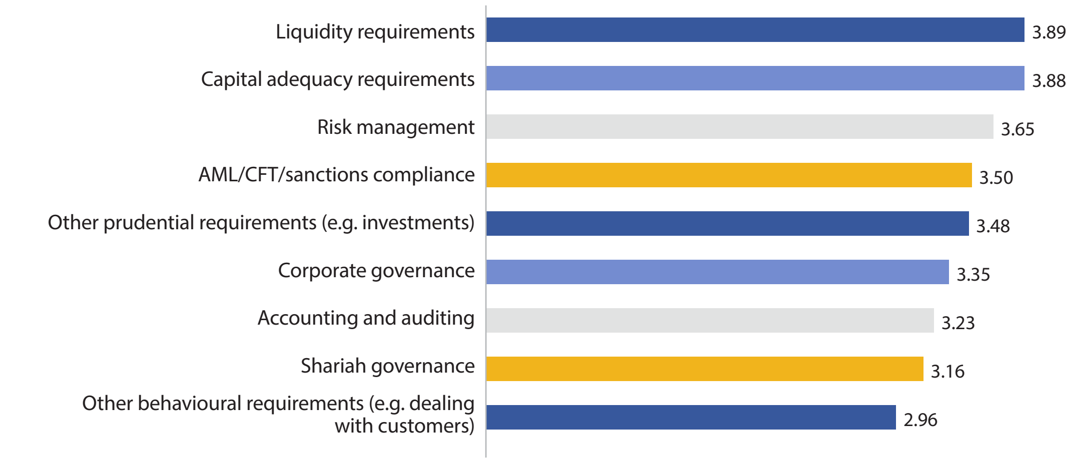


Figure 25. Most Challenging Areas of Regulation to Comply with in Practice



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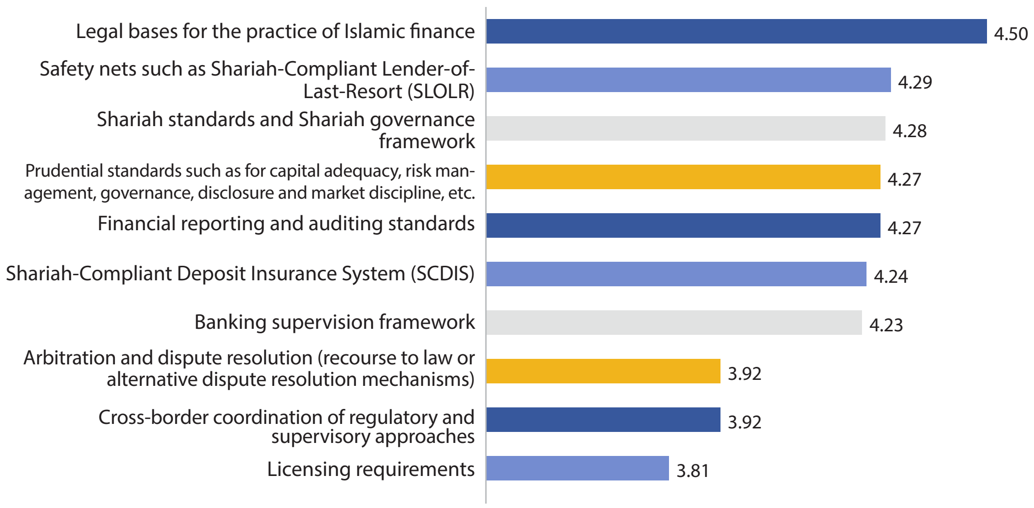

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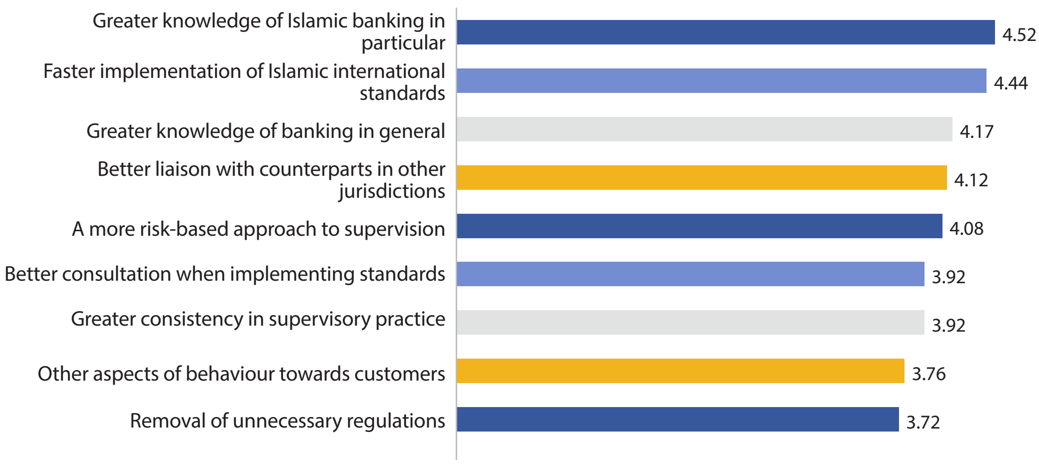


GROUP 6: SUB-SAHARAN AFRICA

Figure 1. Banking Operation

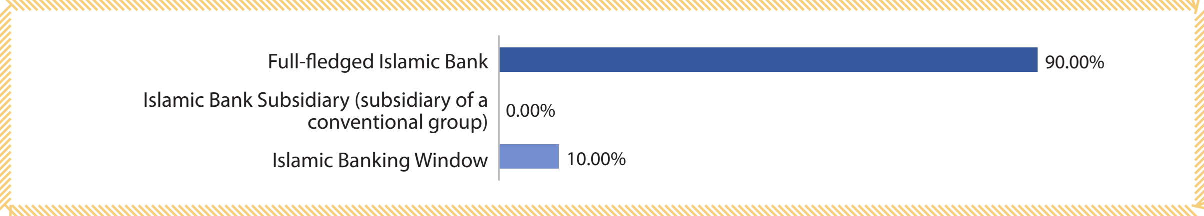


Figure 2. Core Business

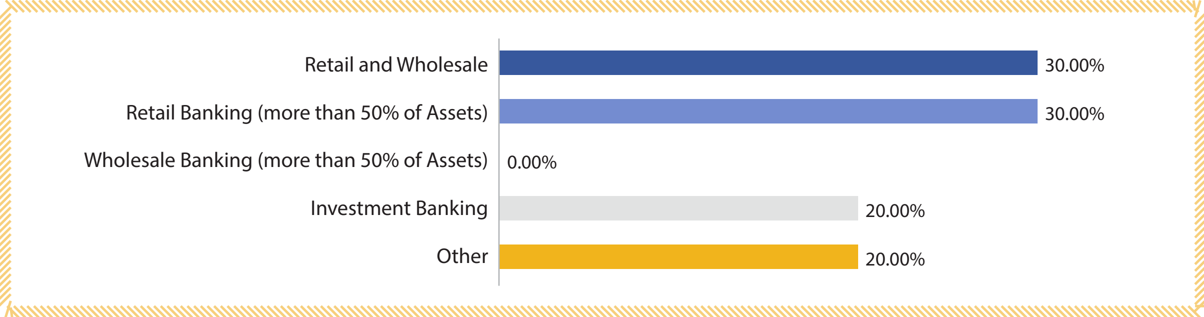


Figure 3. Size of Total Islamic Assets

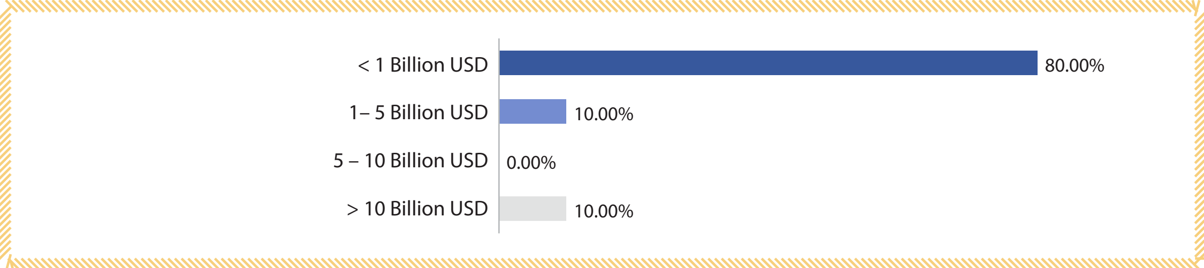


Figure 4. Overall Banking Industry Optimism Level

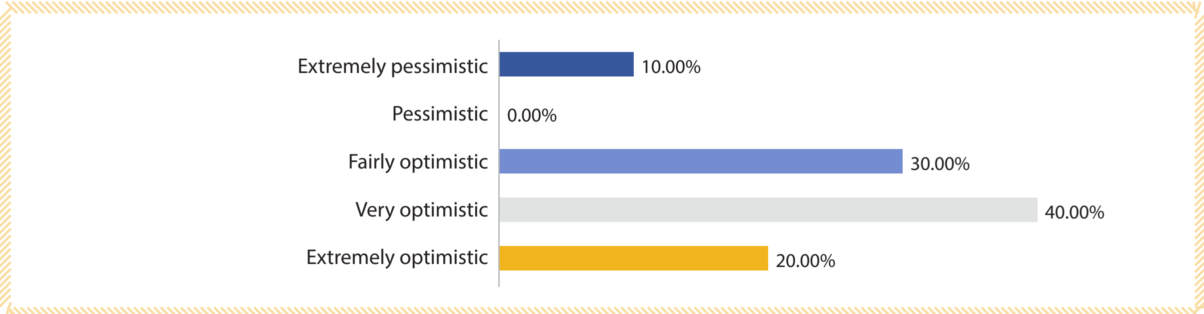


Figure 5. Islamic Banking Industry Optimism Level

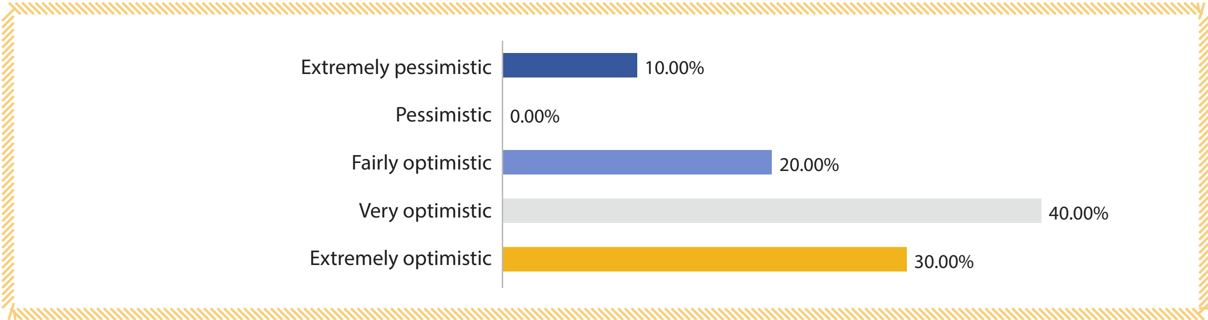


Figure 6. Revenue Growth Expectation

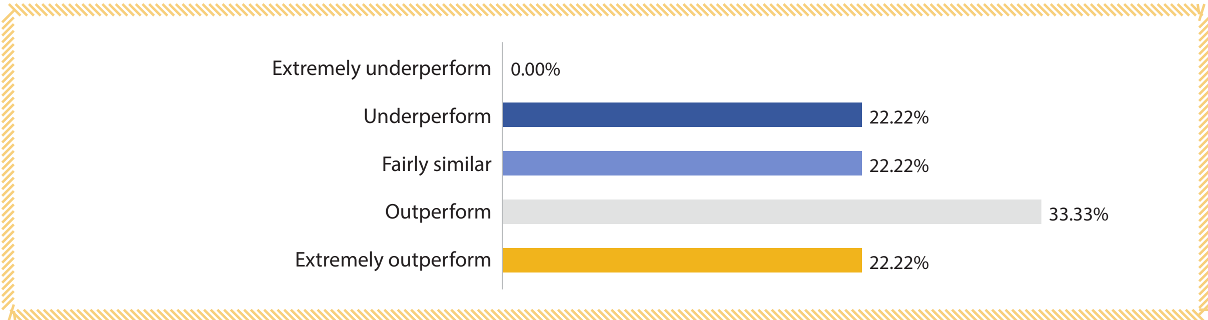


Figure 7. Islamic Banking Top Concerns

Figure 8. Competition from Novel, Technology-enabled Business Models

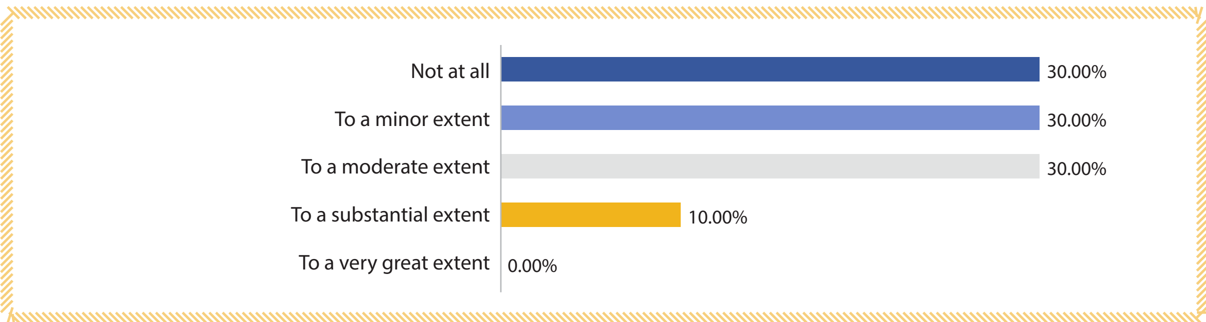
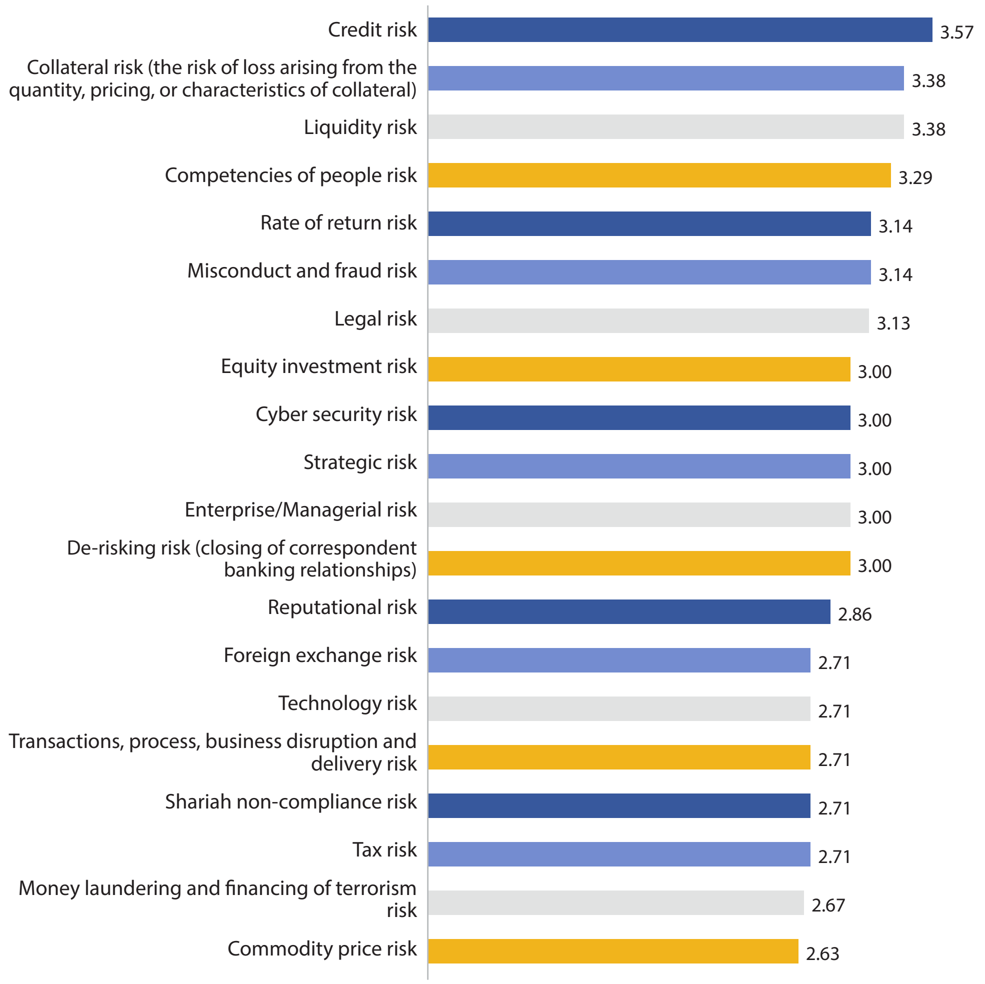


Figure 9. Islamic Banking Risk Dashboard



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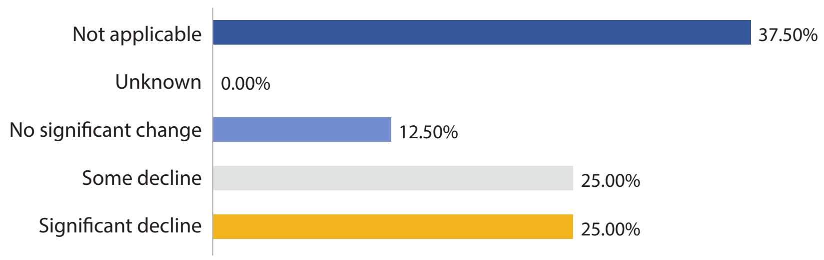

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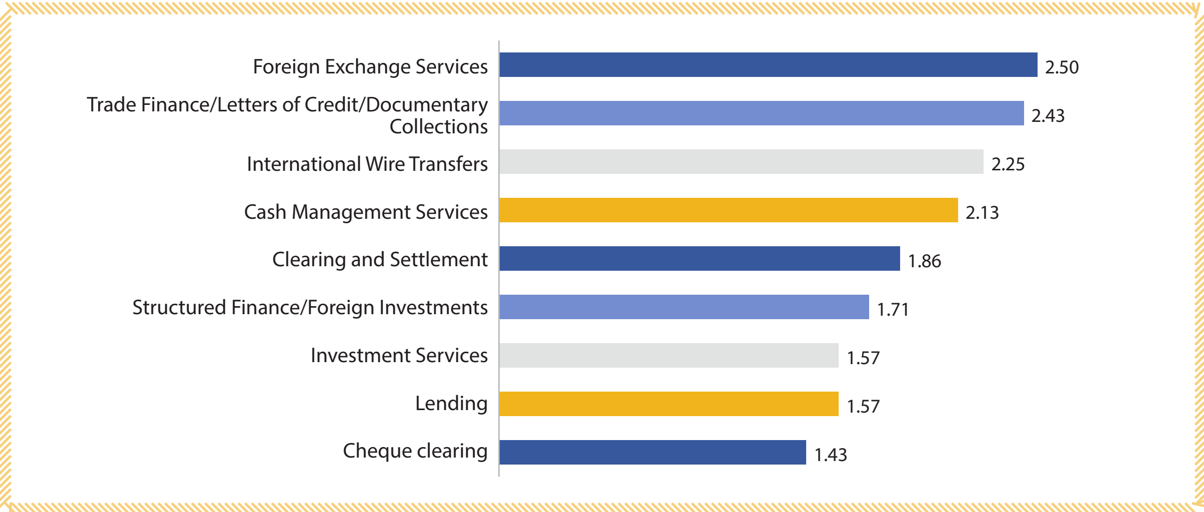

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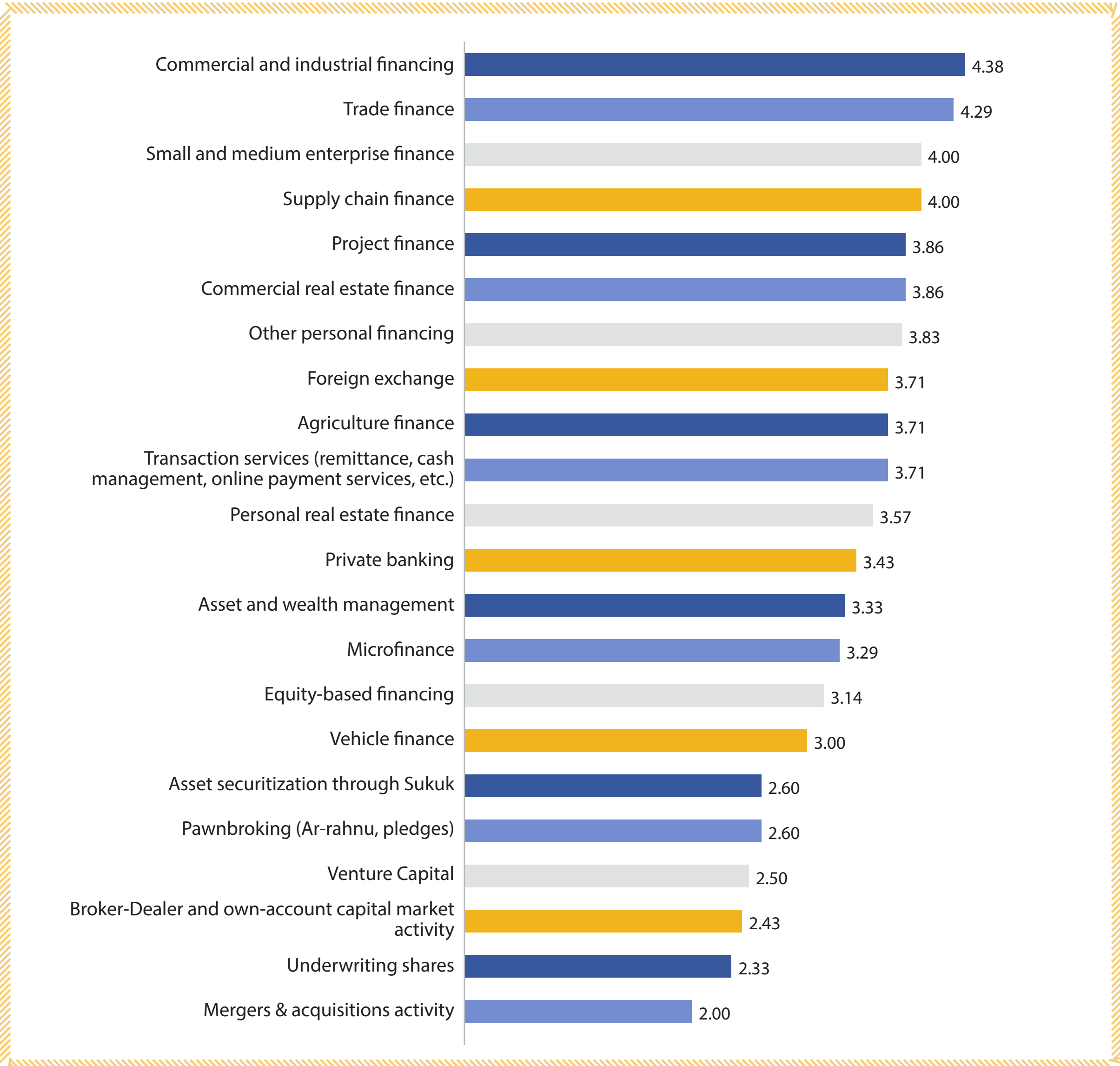

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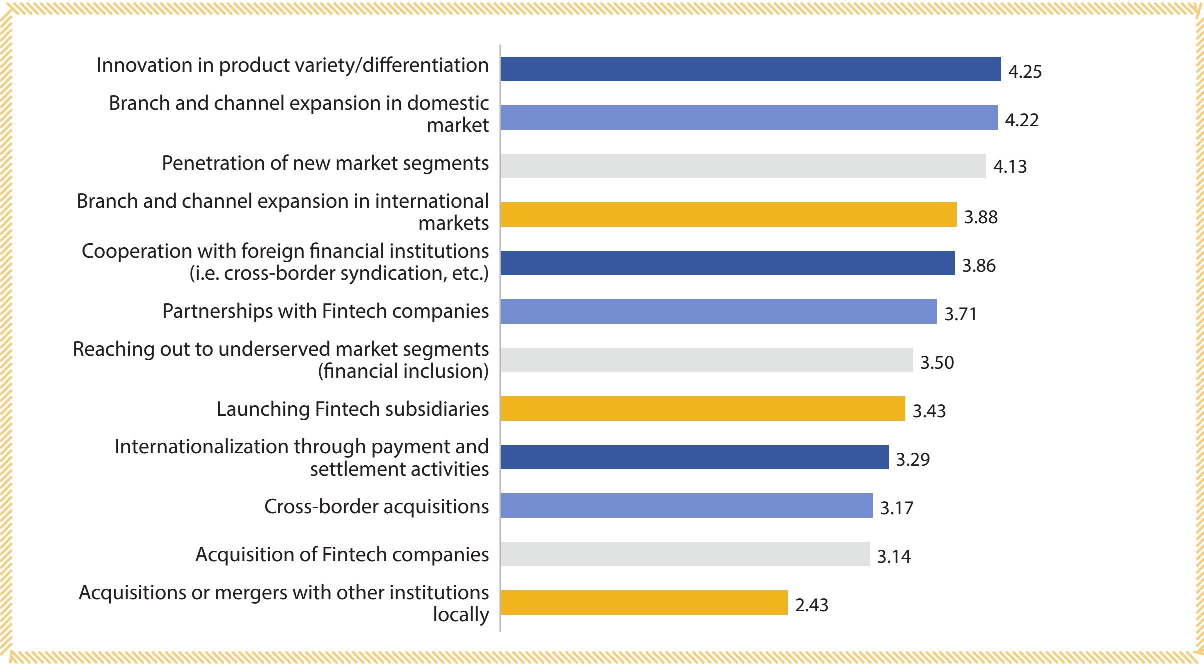

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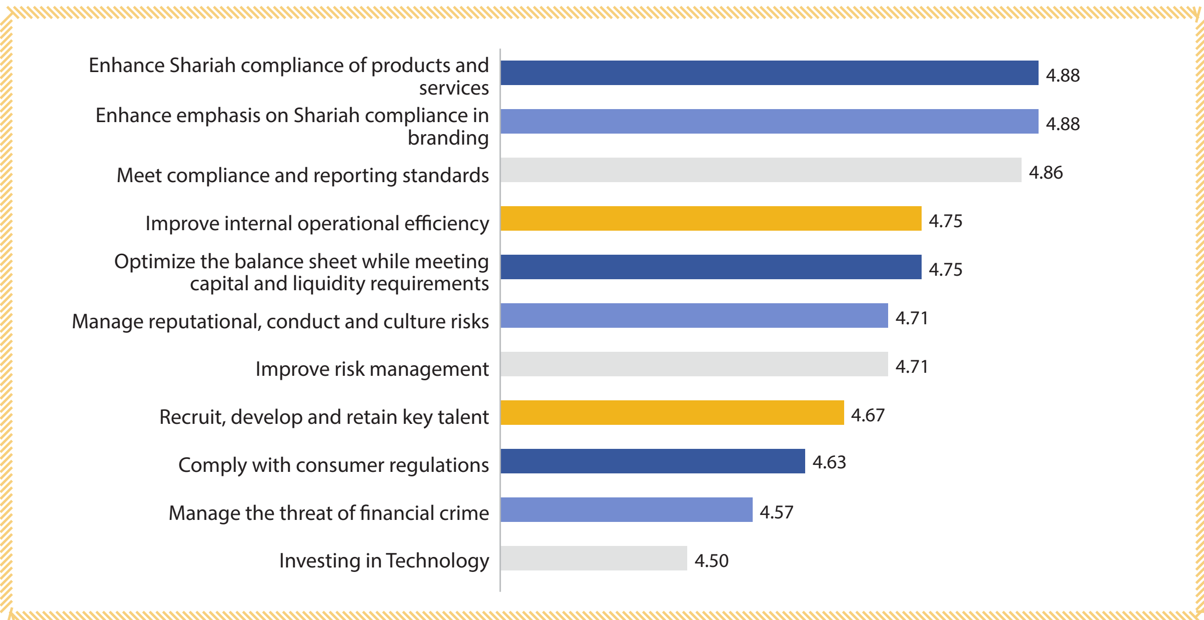

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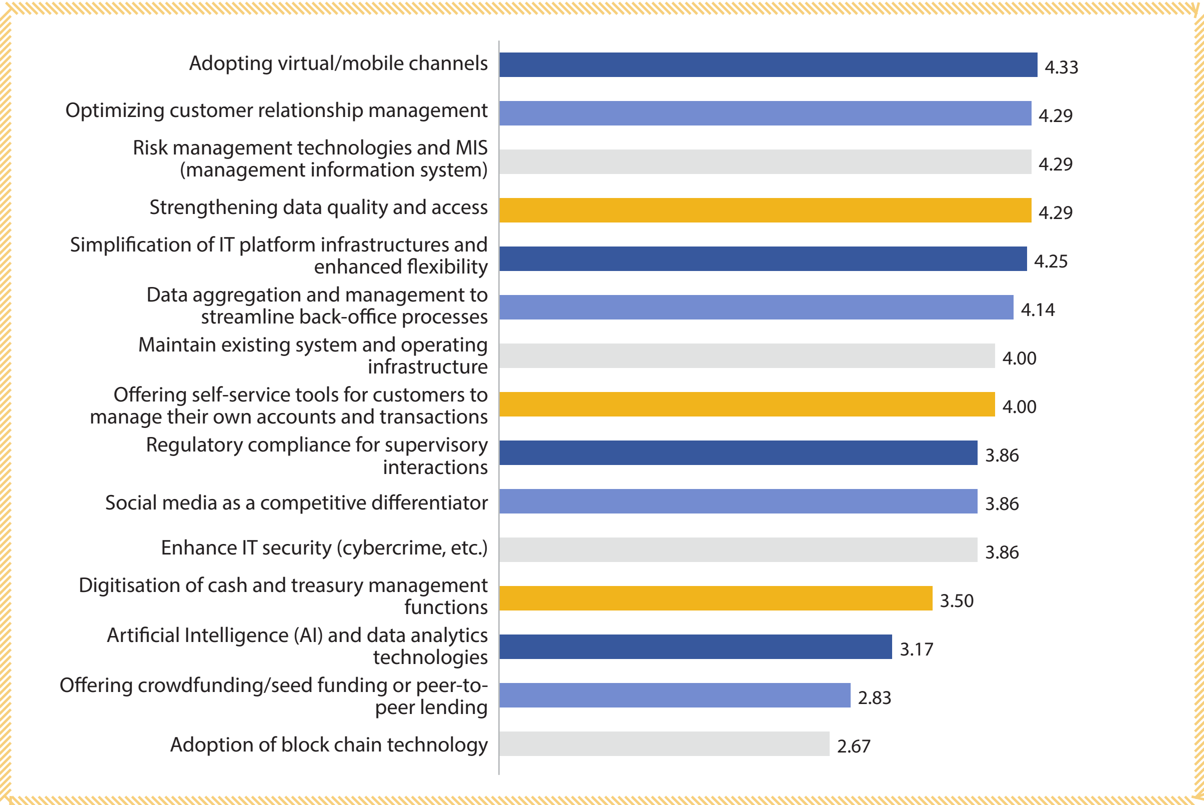

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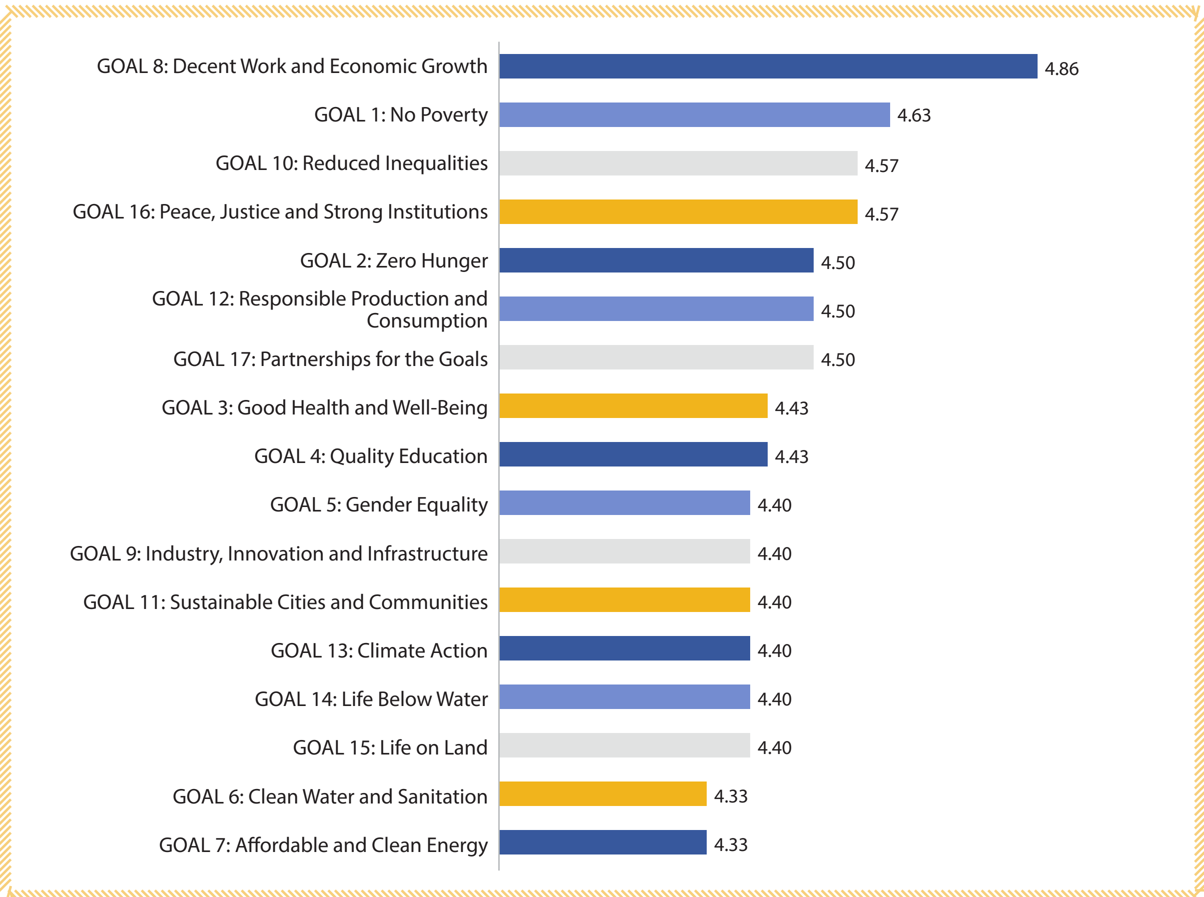


Figure 17. Principal Source of Capital Adequacy and Liquidity Regulations

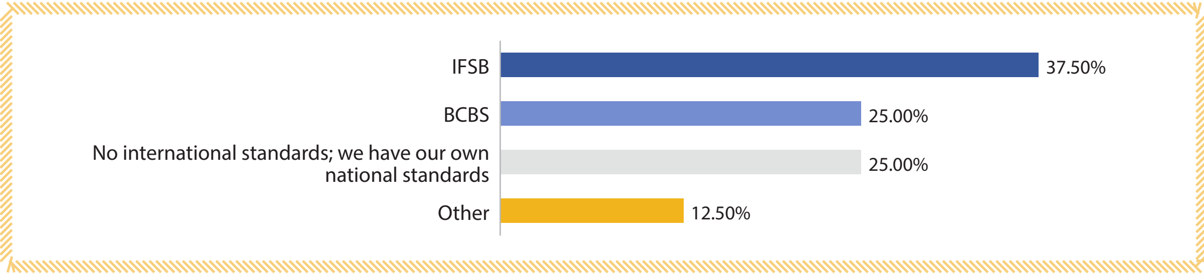


Figure 18. Principal Source of Corporate Governance Regulations

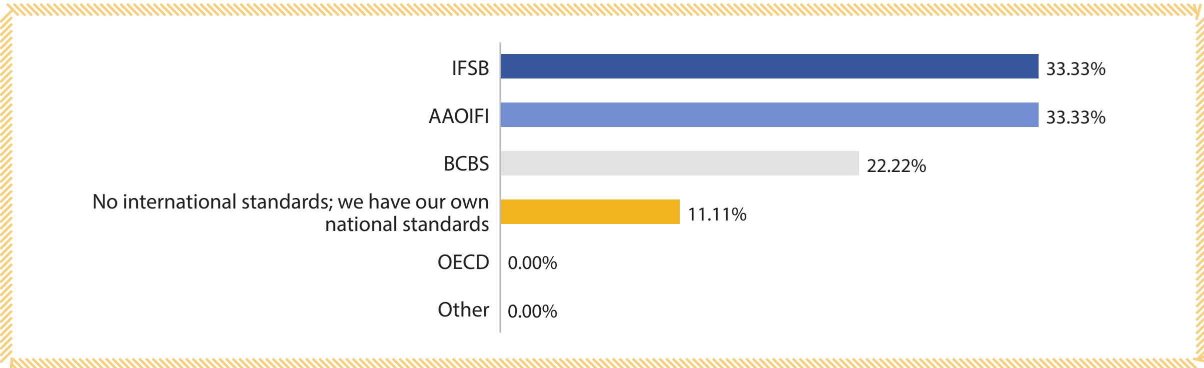
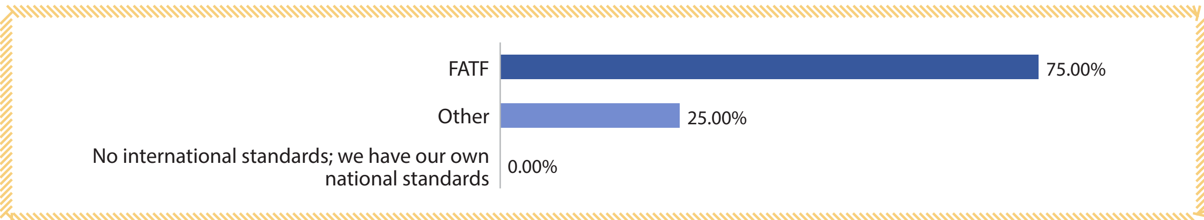


Figure 19. Principal Source of AML/CFT Regulations



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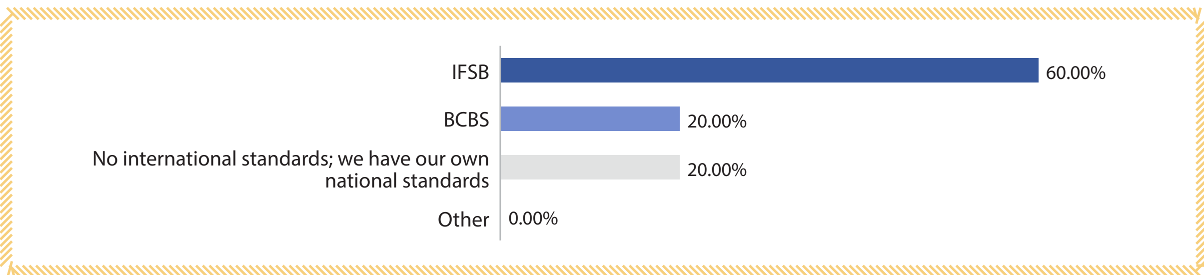
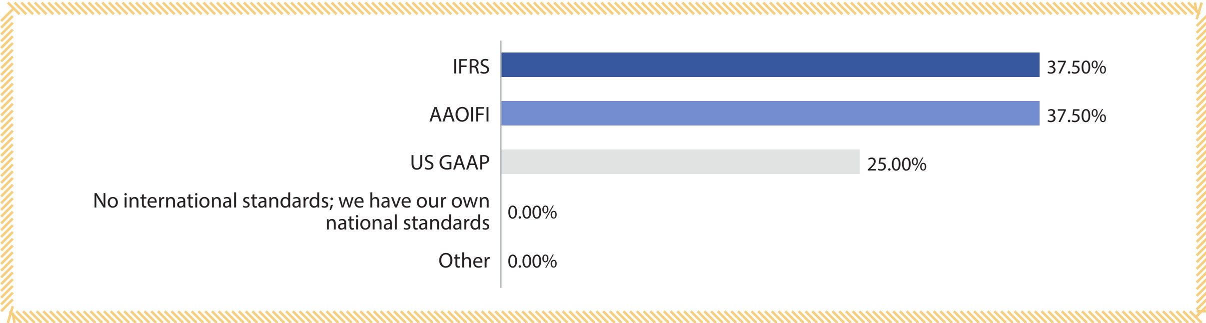


Figure 21. Principal Source of Accounting Standards



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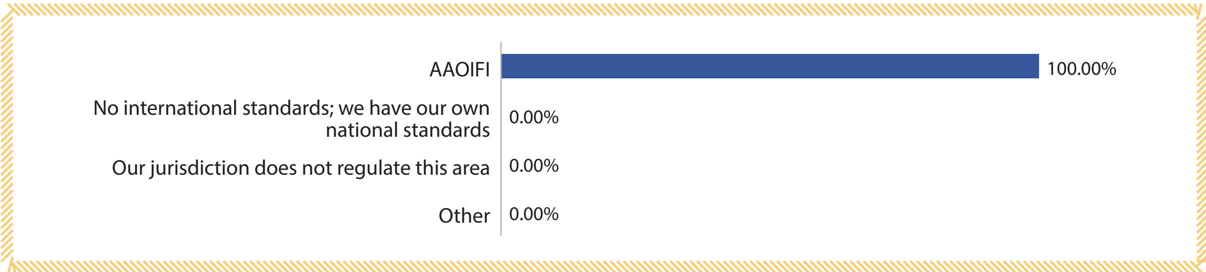
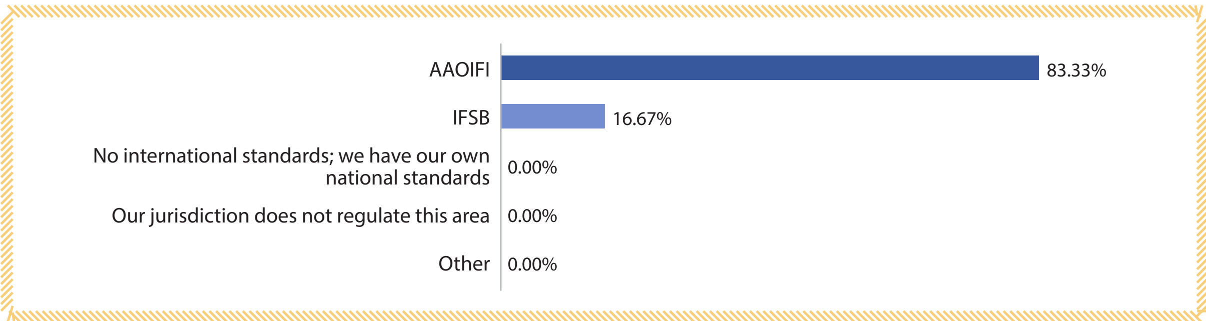


Figure 23. Principal Source of Shariah Governance Standards



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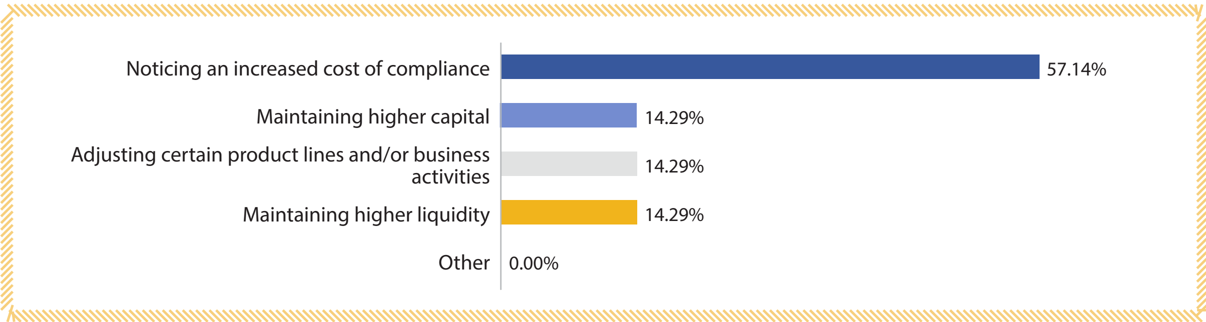
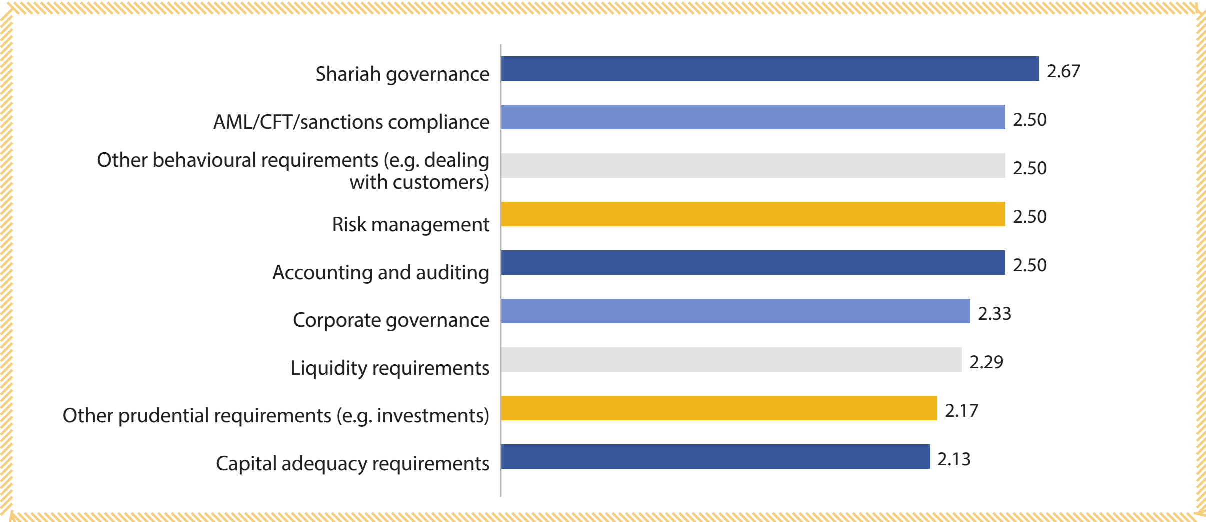


Figure 25. Most Challenging Areas of Regulation to Comply with in Practice



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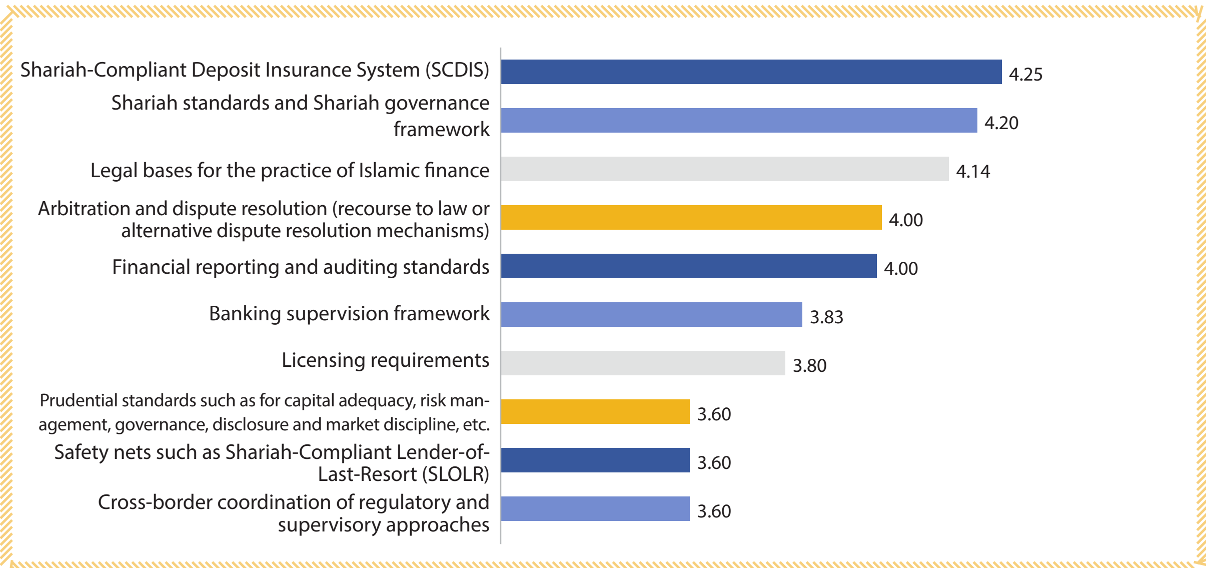

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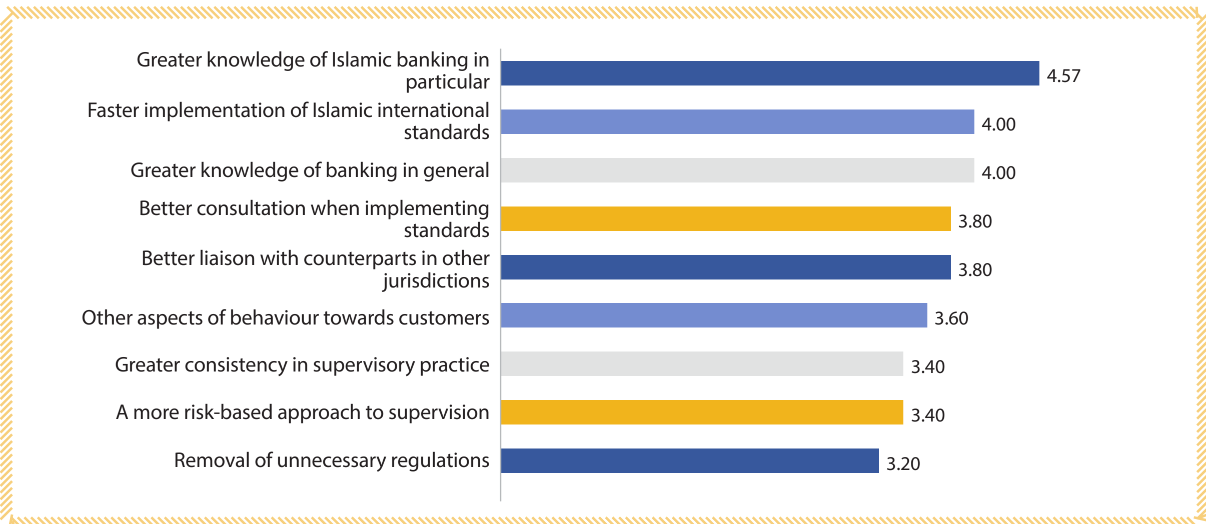


GROUP 7: EUROPE

Figure 1. Banking Operation

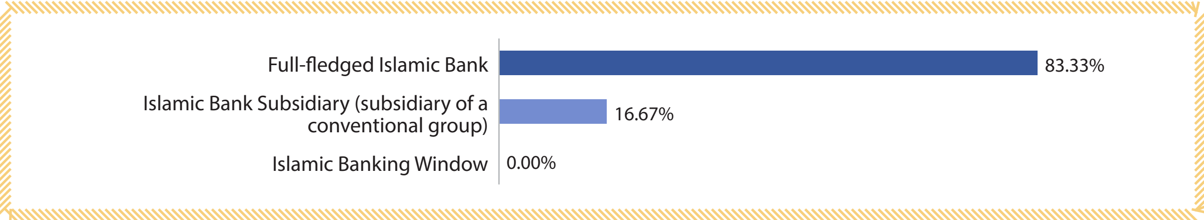


Figure 2. Core Business

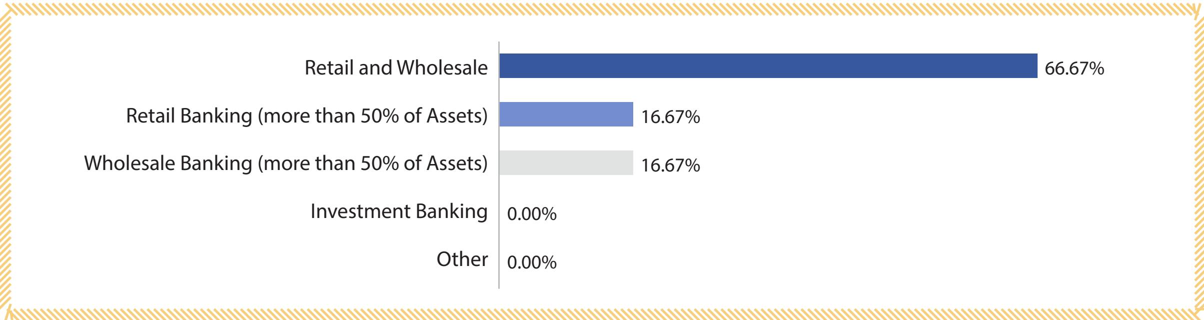


Figure 3. Size of Total Islamic Assets

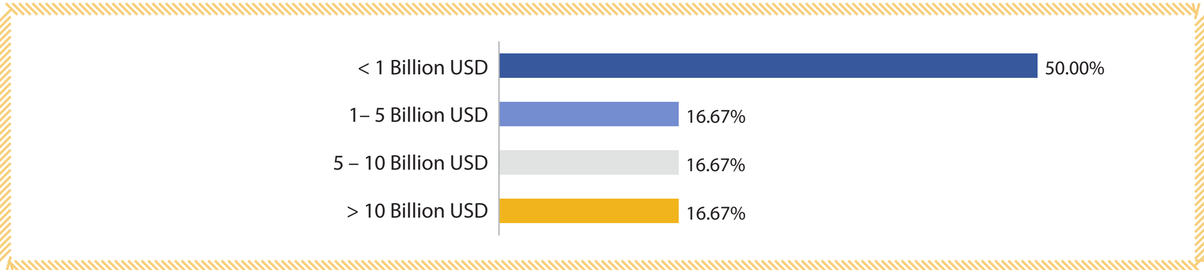


Figure 4. Overall Banking Industry Optimism Level

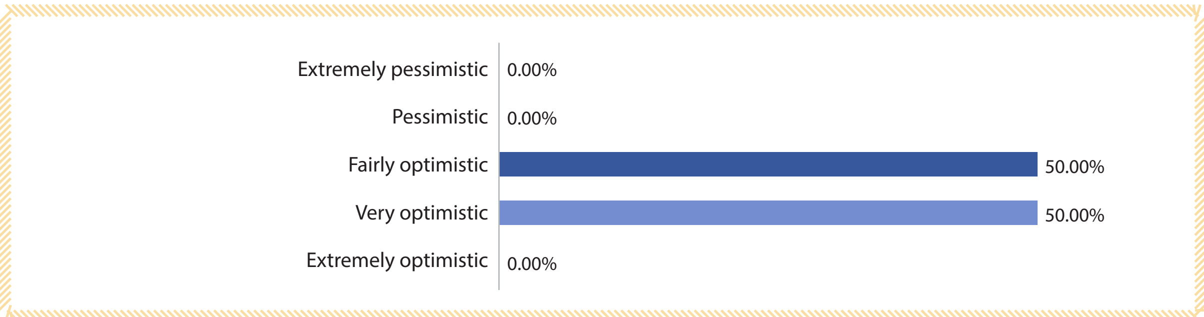


Figure 5. Islamic Banking Industry Optimism Level

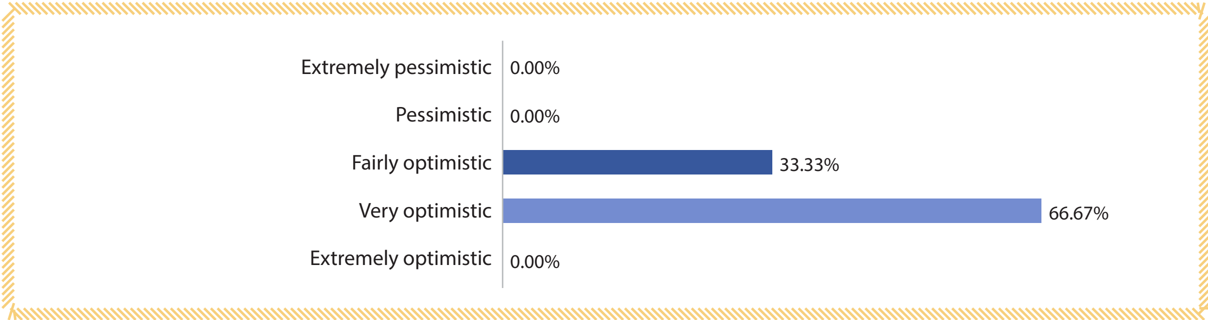


Figure 6. Revenue Growth Expectation

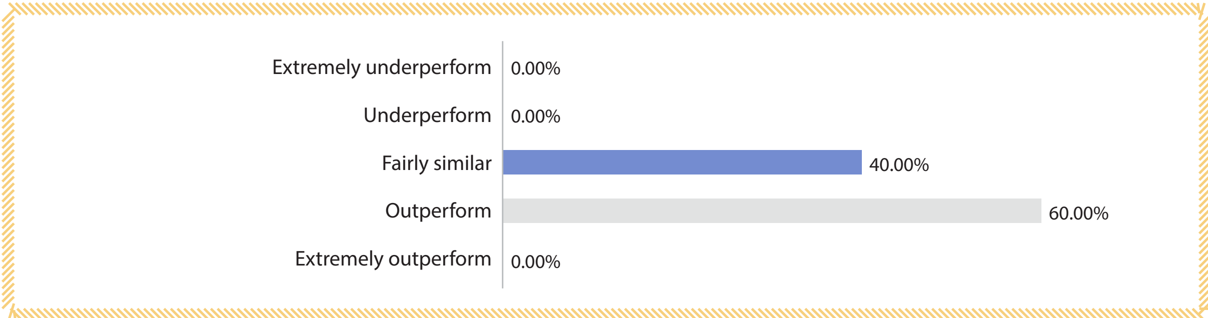


Figure 7. Islamic Banking Top Concerns

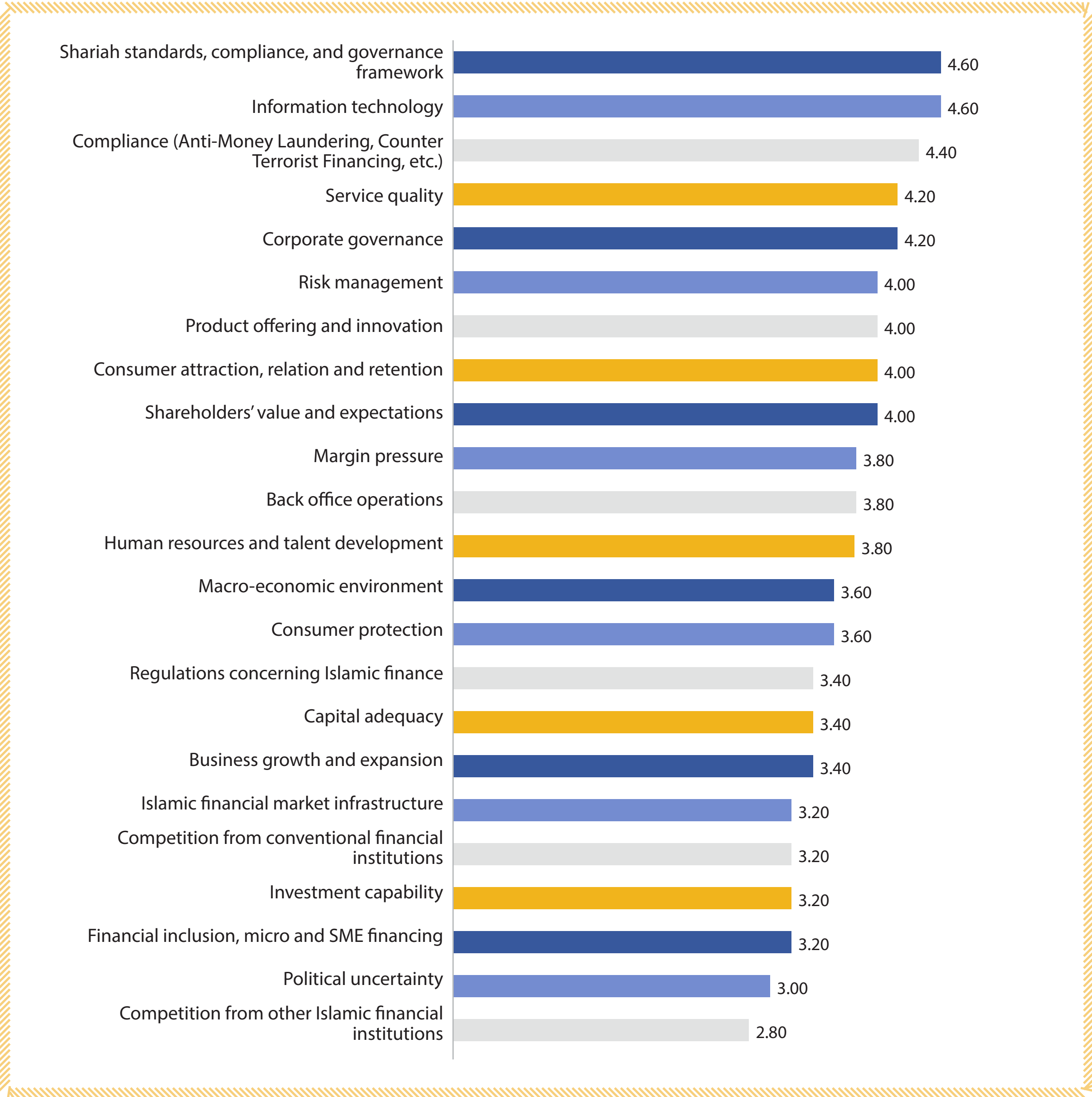


Figure 8. Competition from Novel, Technology-enabled Business Models

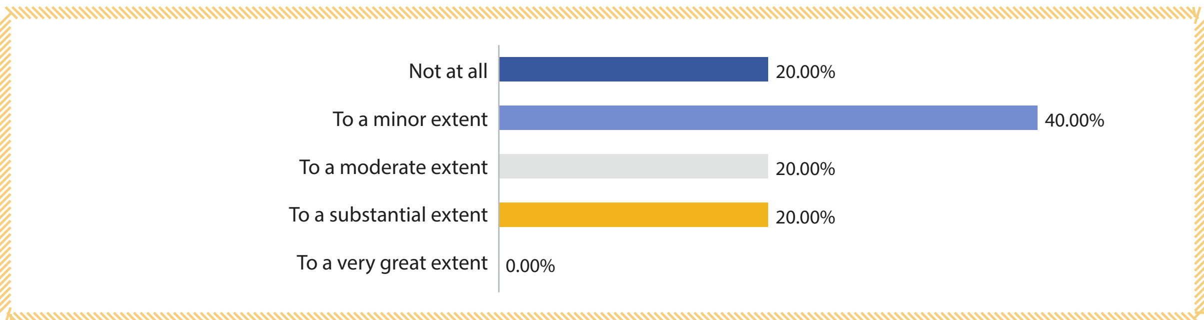


Figure 9. Islamic Banking Risk Dashboard

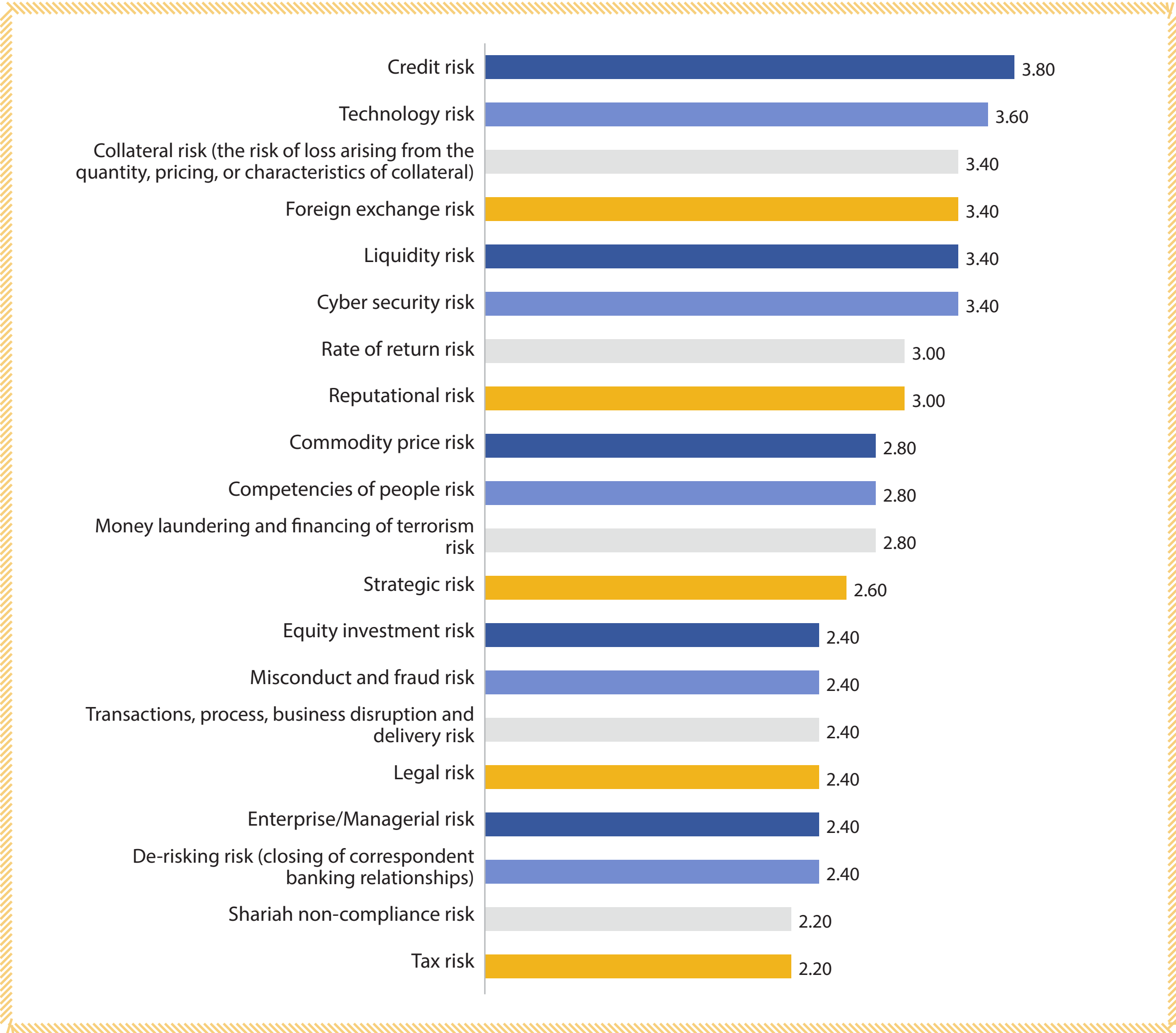


Figure 10. Decline in CBR Due to De-Risking

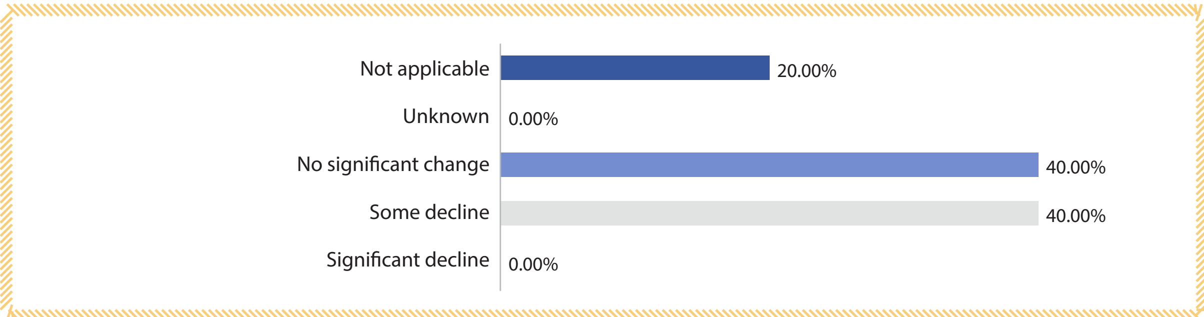


Figure 11. De-risking Effects on Products and Services

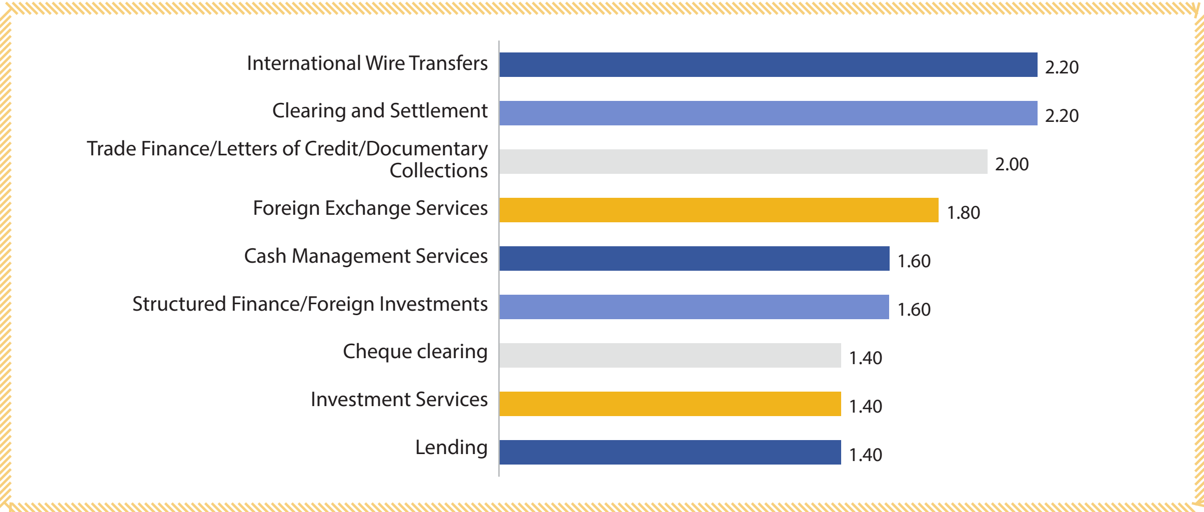


Figure 12. Segments Driving Revenue Growth

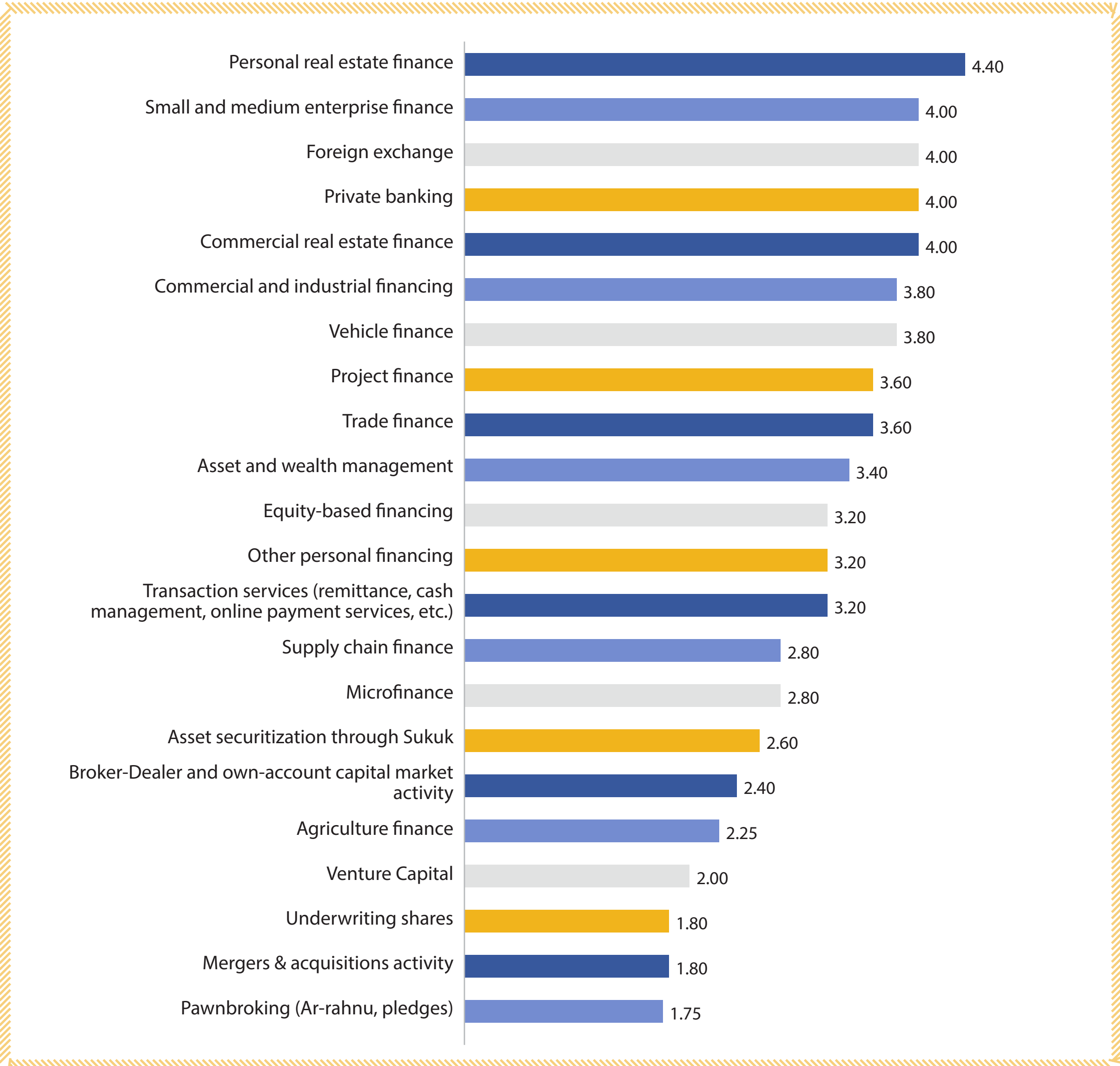


Figure 13. Areas of Business Expansion to achieve Competitive Positioning

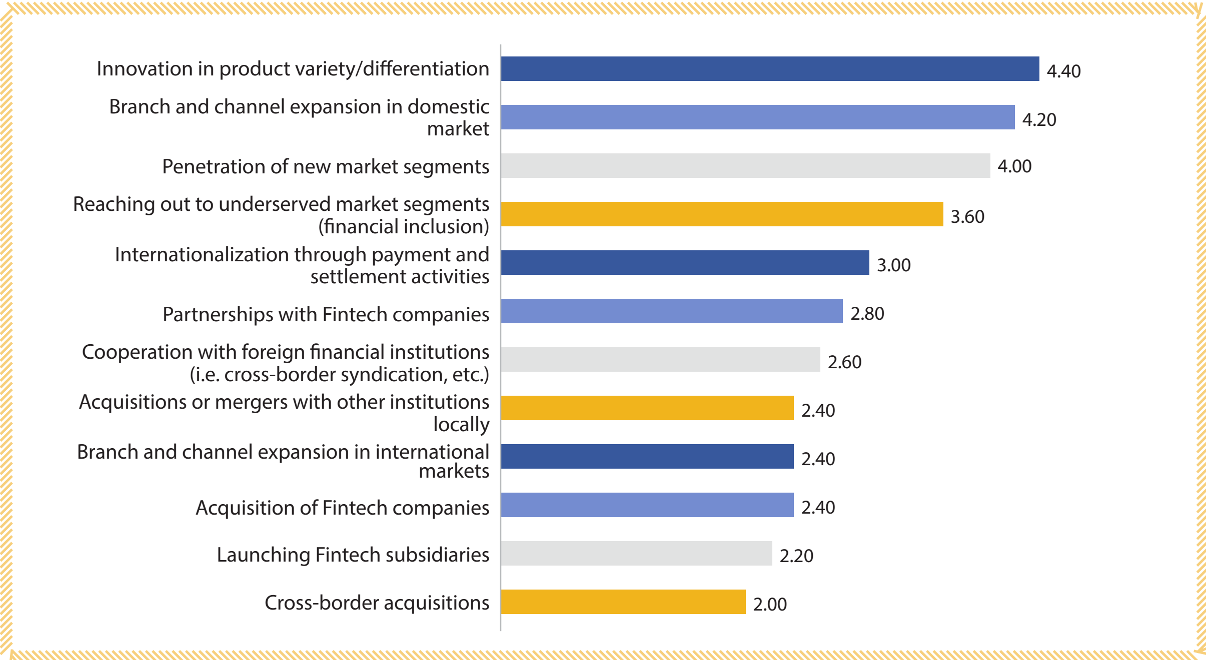


Figure 14. Business Priorities in 2019

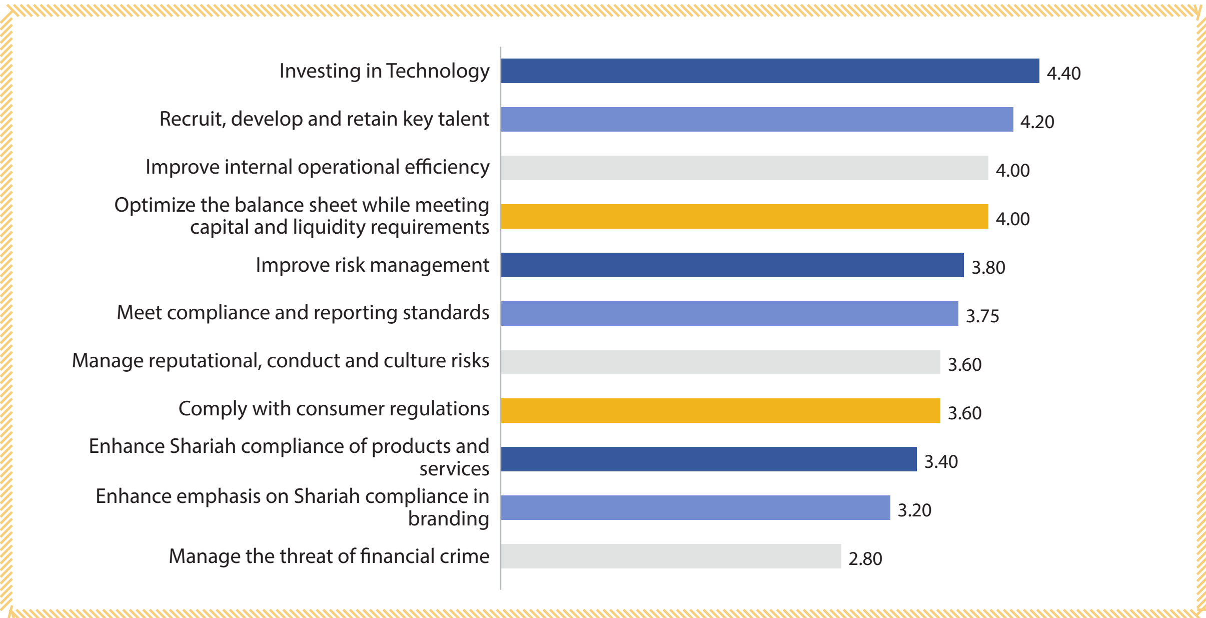


Figure 15. Areas for applying Banking Technology as a Business Growth Driver

Figure 16. UN SDGs institutions plan to promote as part of their Business Growth Plan

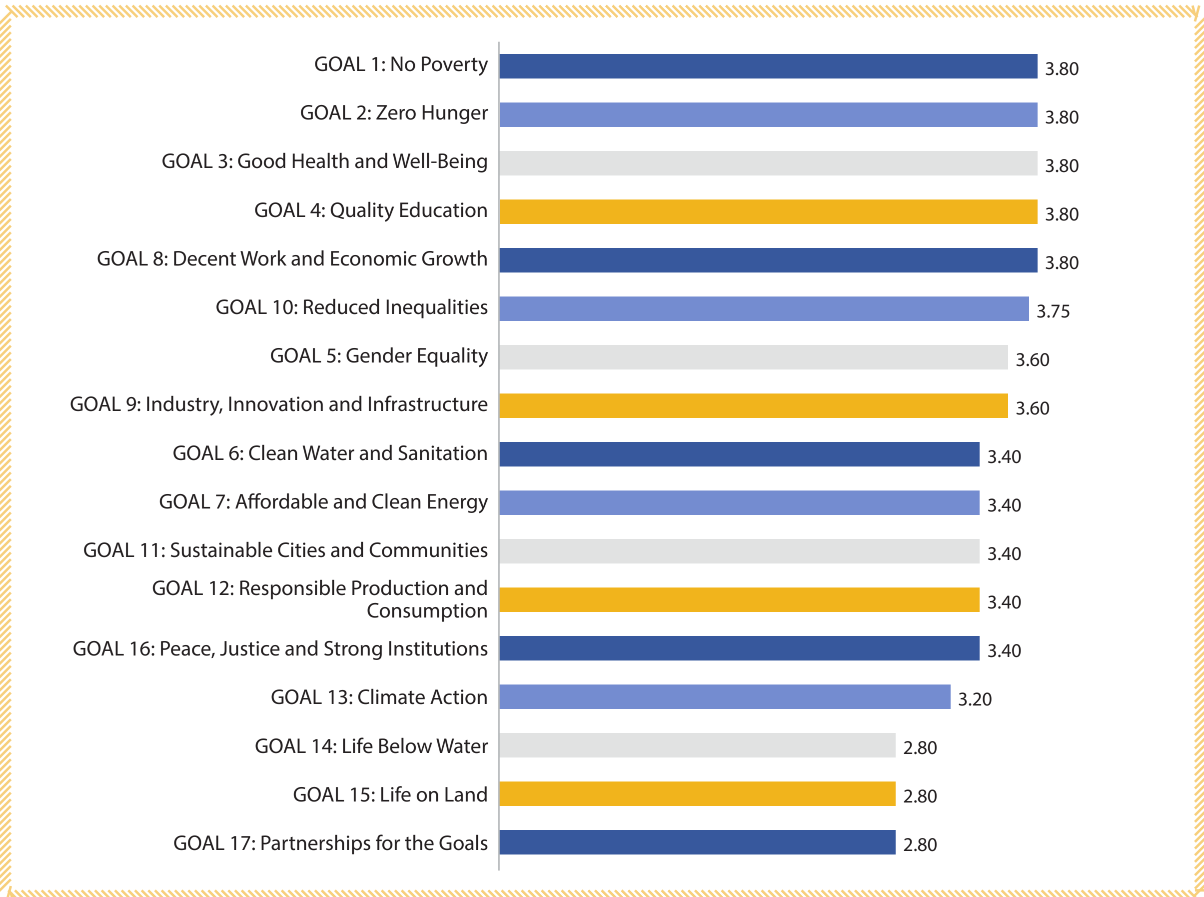


Figure 17. Principal Source of Capital Adequacy and Liquidity Regulations

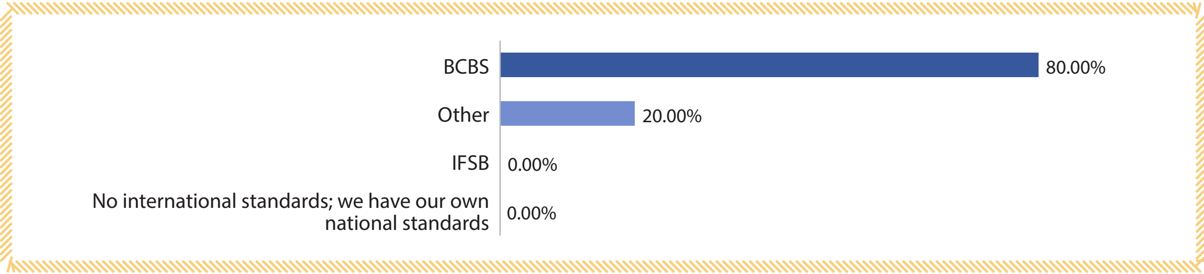


Figure 18. Principal Source of Corporate Governance Regulations

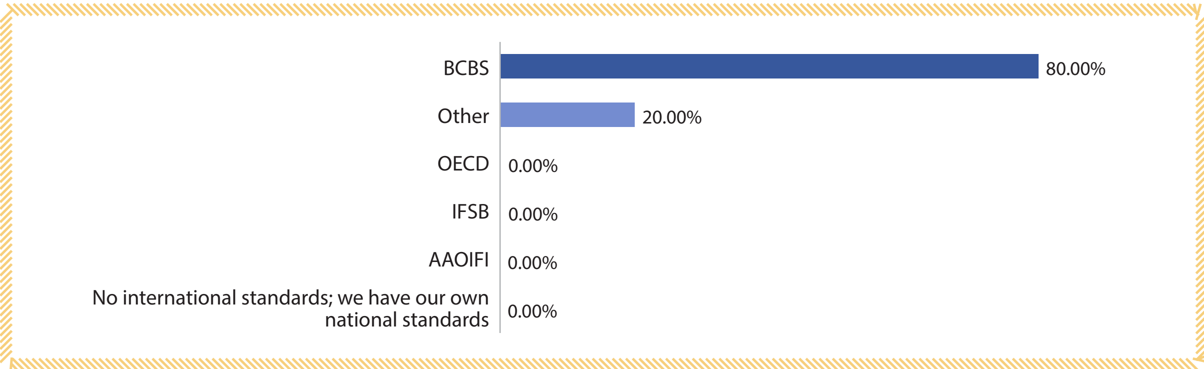


Figure 19. Principal Source of AML/CFT Regulations

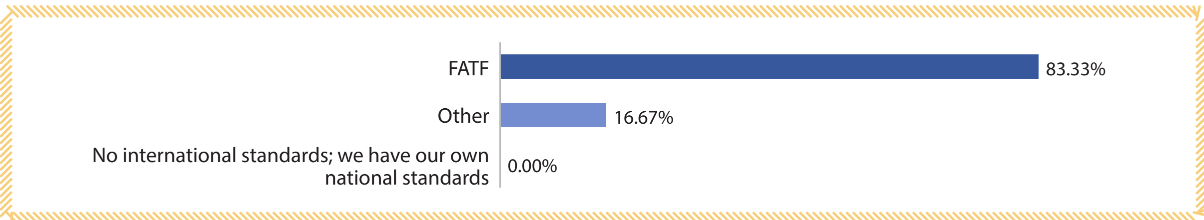


Figure 20. Principal Source of other Behavioural Standards

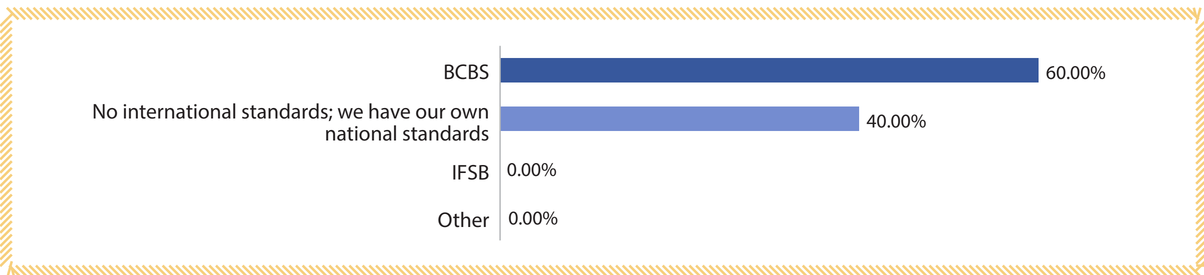


Figure 21. Principal Source of Accounting Standards

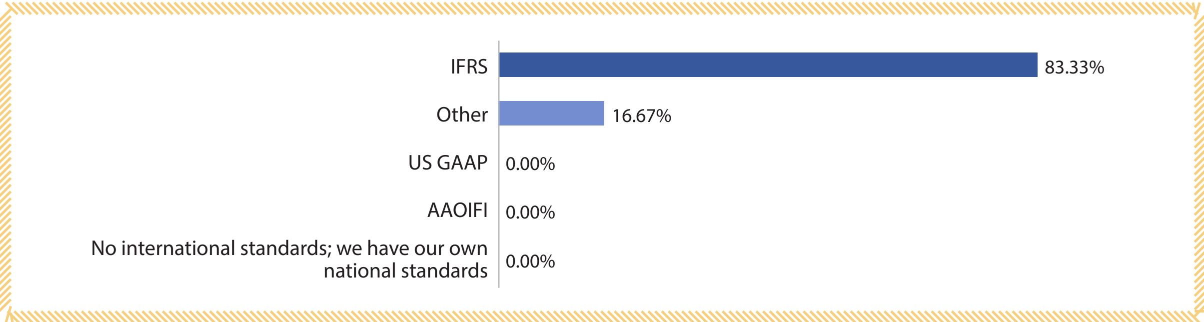


Figure 22. Principal Source of Shariah Standards

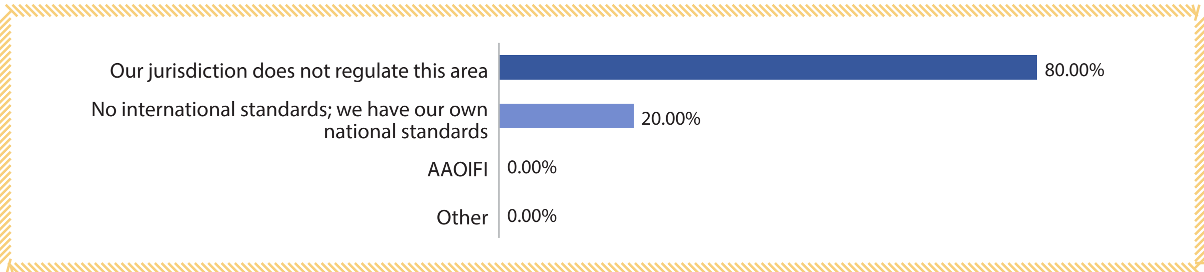


Figure 23. Principal Source of Shariah Governance Standards

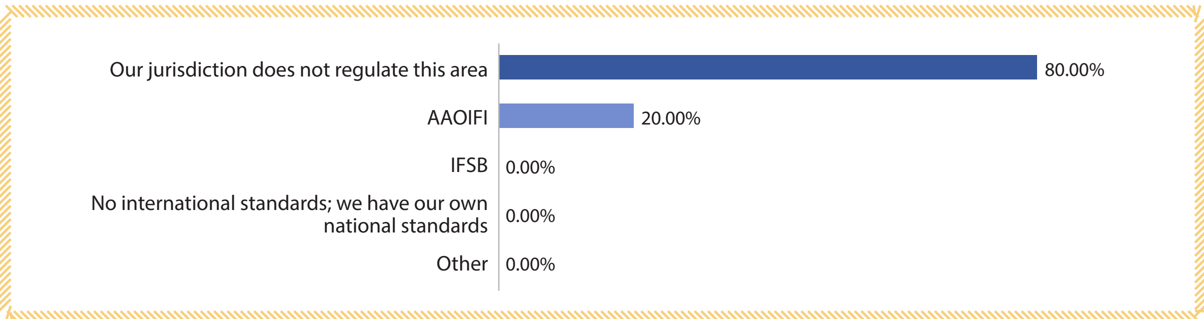


Figure 24. Impacts resulting from the Implementation of the International Regulatory Reforms following the GFC

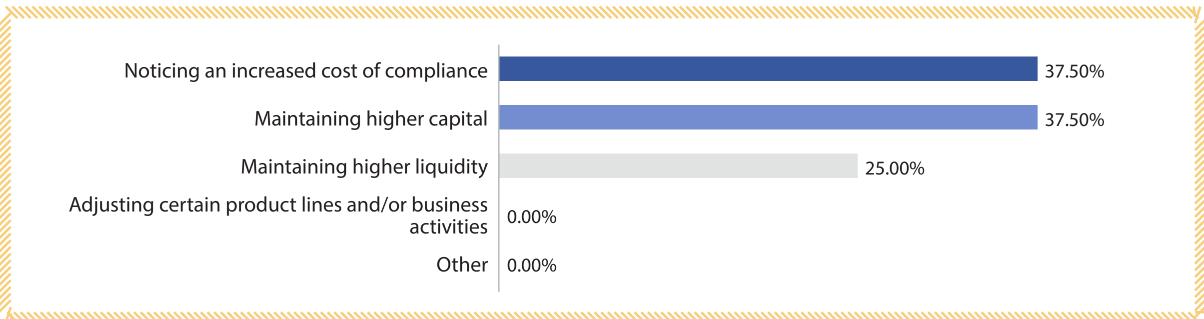


Figure 25. Most Challenging Areas of Regulation to Comply with in Practice

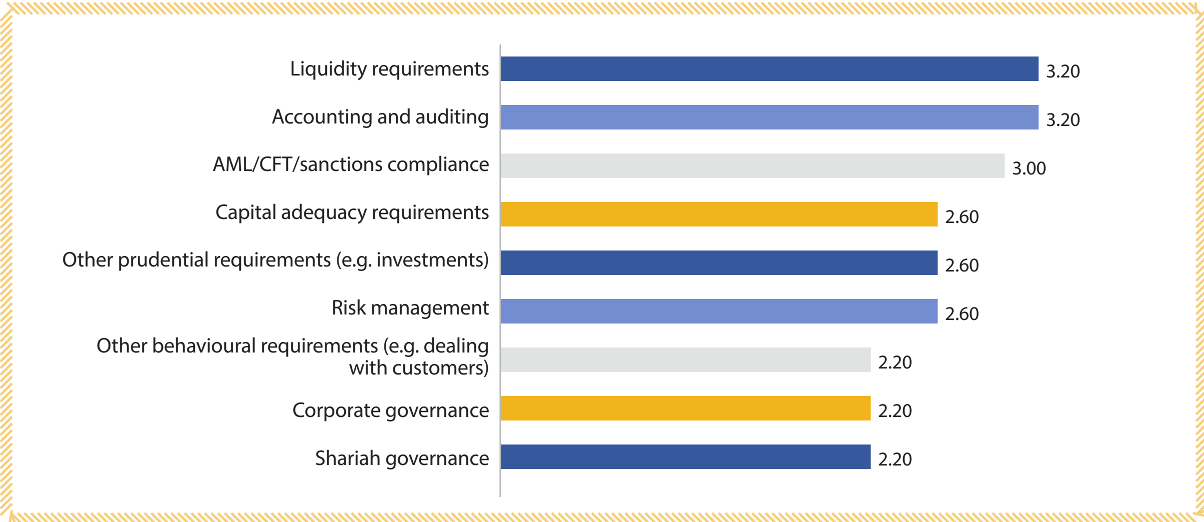


Figure 26. Areas of Regulations in Islamic finance that Islamic Banks would like Regulators to focus on

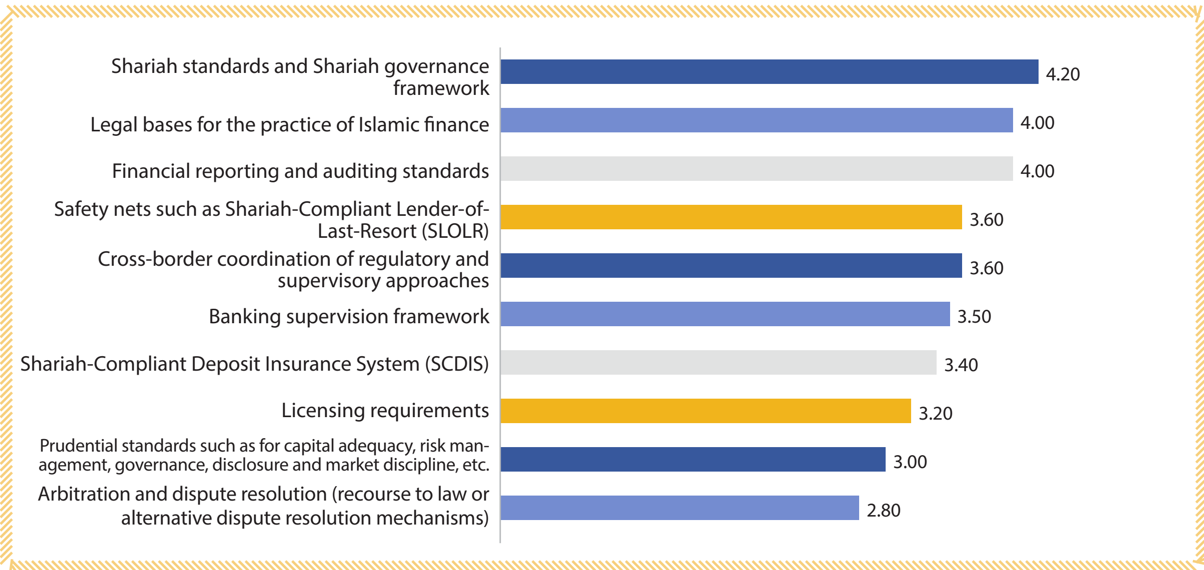
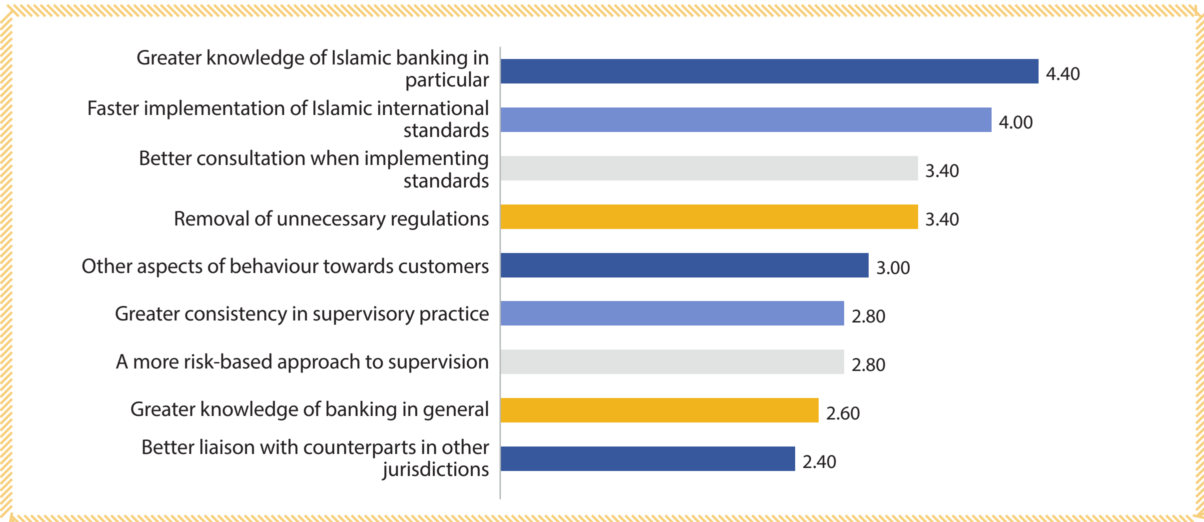


Figure 27. Areas in which Islamic Banks would like Regulators to advance their Practices in the Next 3 Years

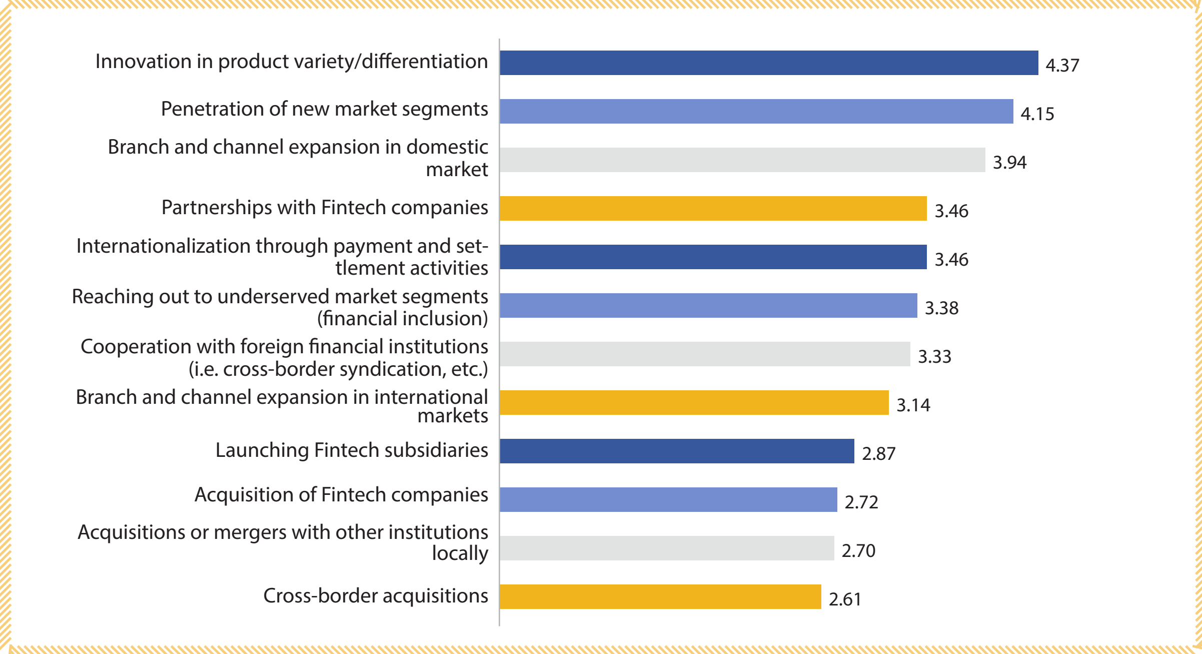


Appendix 3

Survey Findings: Size-Focused

SMALL BANKS[4]

Figure 1. Areas of Business Expansion to achieve Competitive Positioning - Small Banks



[4] Under this section, data of small and large banks is presented. Large banks' data start on page 184.

Figure 2. UN SDGs institutions plan to promote as part of their Business Growth Plan – Small Banks

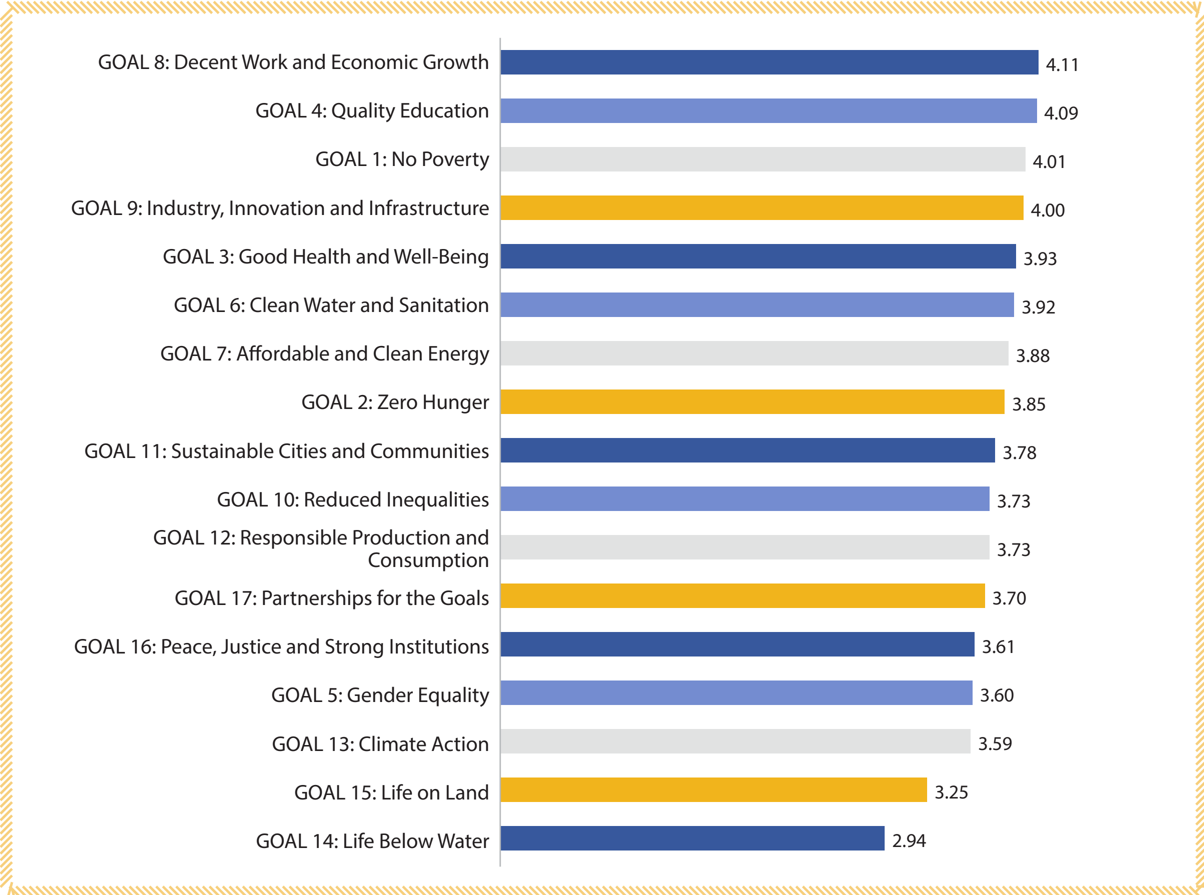


Figure 3. Areas in which Islamic Banks would like Regulators to advance their Practices in the Next 3 Years – Small Banks

LARGE BANKS

Figure 1. Areas of Business Expansion to achieve Competitive Positioning – Large Banks

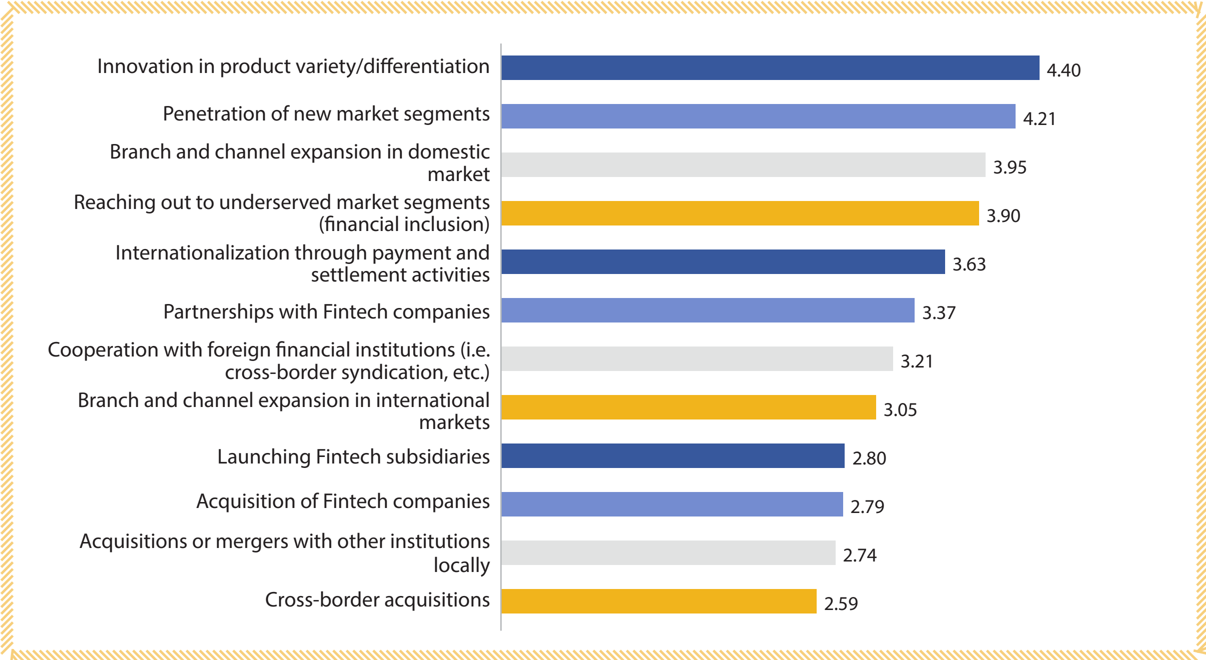


Figure 2. UN SDGs institutions plan to promote as part of their Business Growth Plan – Large Banks

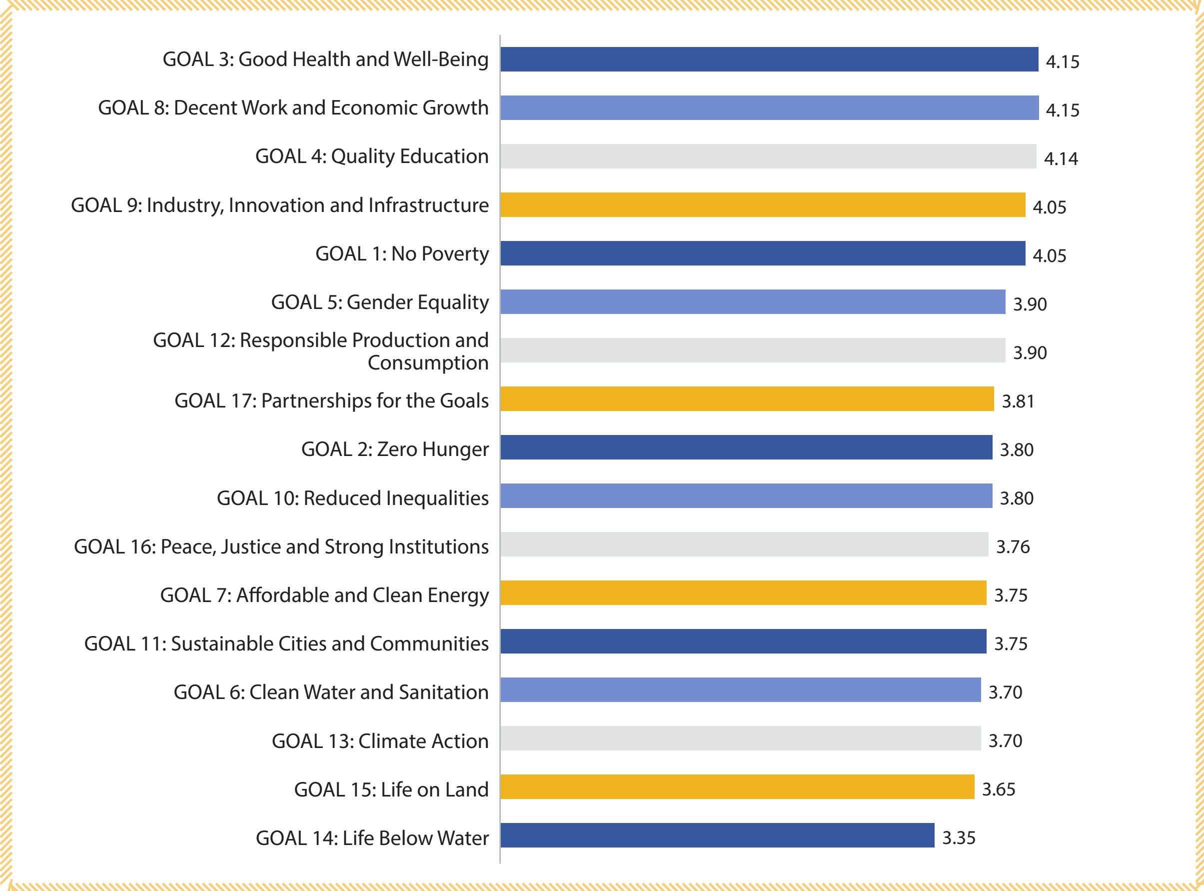
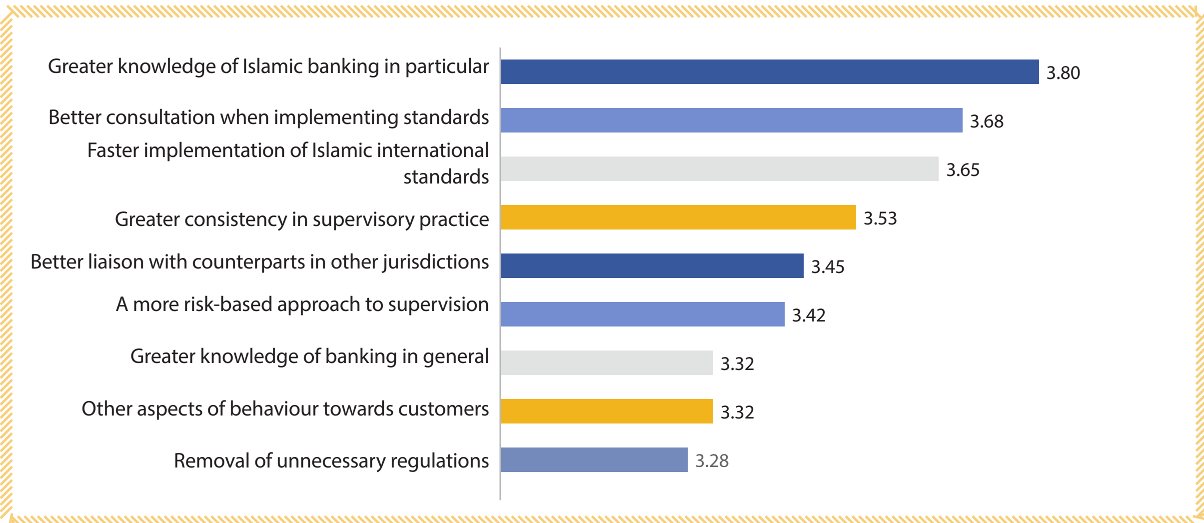


Figure 3. Areas in which Islamic Banks would like Regulators to advance their Practices in the Next 3 Years – Large Banks



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