



ISLAMIC FINANCIAL
SERVICES BOARD

IFSB's Prudential and Structural Islamic Financial Indicators (PSIFIs) Programme – Current Status and Future Direction

**CONSULTATIVE MEETING ON DEVELOPING ISLAMIC FINANCIAL
INDUSTRY DATABASE OF OIC MEMBER COUNTRIES**

24 September 2017 | Muğla, Turkey

Md. Salim Al Mamun

Member of Secretariat, Technical and Research

www.ifsb.org



OUTLINE

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IFSB'S MANDATE AND PSIFI PROGRAMME

2

EVOLUTION OF THE PROGRAMME: PREPARATION, TARGET, CAPACITY BUILDING, AND OUTPUT

3

WHY THE INDICATORS ARE IMPORTANT FOR ISLAMIC FINANCIAL SERVICES INDUSTRY?

4

WHAT ARE THE USES/IMPLICATIONS OF THE PSIFI DATA?

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DATA GAPS IN ISLAMIC FINANCIAL SERVICES INDUSTRY – A CASE FOR WORKING ON UNIQUE ELEMENTS

6

POSSIBLE COLLABORATION AND KEY TAKEAWAYS



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IFSB'S MANDATE

- Serves as an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital market and *Takāful*

OBJECTIVES

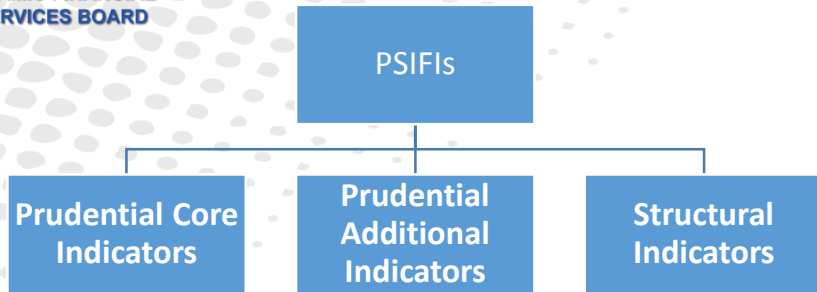
- **Develop** standards & **recommend** implementation
- **Provide guidance** on effective supervision and regulation & develop risk management & disclosure criteria
- Establish **cooperation with international standard-setting bodies** & member countries
- Enhance and coordinate initiatives to **develop instruments & procedures for efficient operation** & risk management
- Encourage cooperation among member countries
- Facilitate **capacity-building** & development of human capital
- Undertake research
- **Establish database**

- To this end, the work of the IFSB complements those of BCBS, IOSCO and IAIS





WHAT IS THE PSIFI DATABASE?



Core Prudential Islamic Financial Indicators are the key indicators that are believed to best capture the strengths and vulnerabilities of the sector.

"Additional Prudential Islamic Financial Indicators" are recommended when they are relevant to a country and are feasible to collect.

"Structural Islamic Financial Indicators" are indications of the size and structure of the Islamic banking sector.

Compilation Methodologies

- Compilation Guide on PSIFs, 2007
- Revised Compilation Guide on PSIFs, 2011
- Supplement to Compilation Guide on PSIFs, 2015
- Draft Compilation Guide on PSIFs, 2017

Objectives of the PSIFs

- ❑ **Facilitate the monitoring and analysis of the soundness and stability of the IFSI**
- ❑ **Strengthen the transparency and quality of data available**
- ❑ **Enhance international comparability of Islamic finance sectors within countries and across jurisdictions**
- ❑ **Facilitate assessment of the strengths and vulnerabilities of the Islamic banking system**
- ❑ **Support macroprudential oversight of the Industry**



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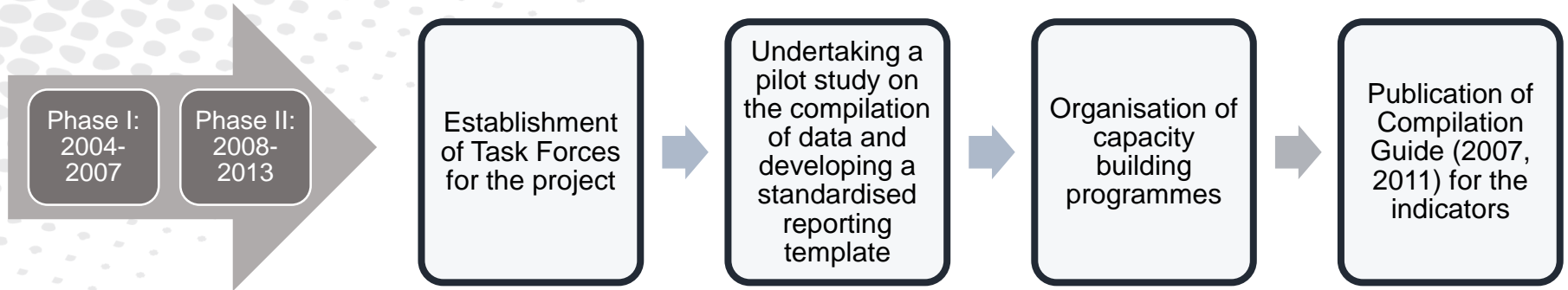
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EVOLUTION OF THE PROGRAMME: PREPARATION, AND DEVELOPMENT

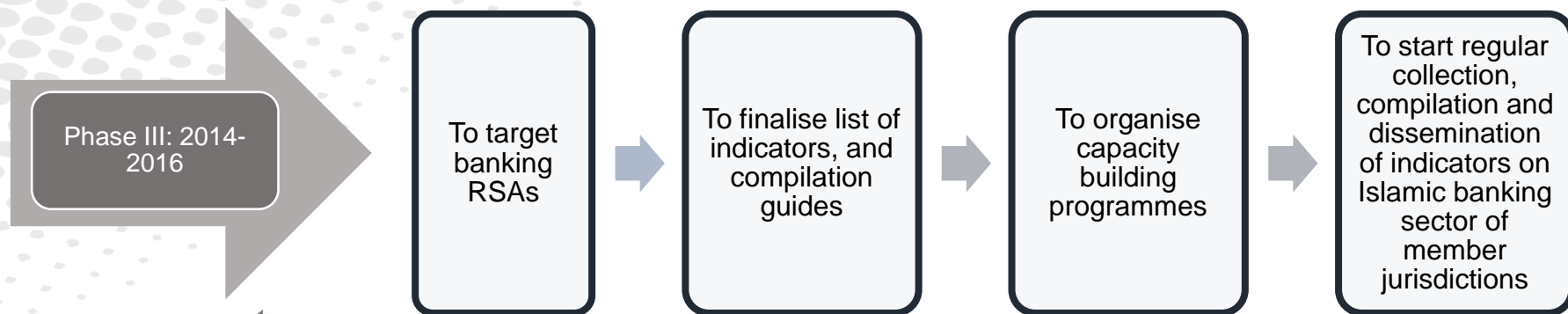


OUTCOMES

Achievements
A list of 35 indicators for banking sector
Data and metadata templates
Compilation Guides, 2007 and 2011
Identified practical challenging uses getting feedback on Compilation Guides
Identified emerging issues in regular data collection and compilation received from survey findings
Developed outreach programme by organising capacity building workshops



EVOLUTION OF THE PROGRAMME: IMPLEMENTATION AND ACHIEVEMENT

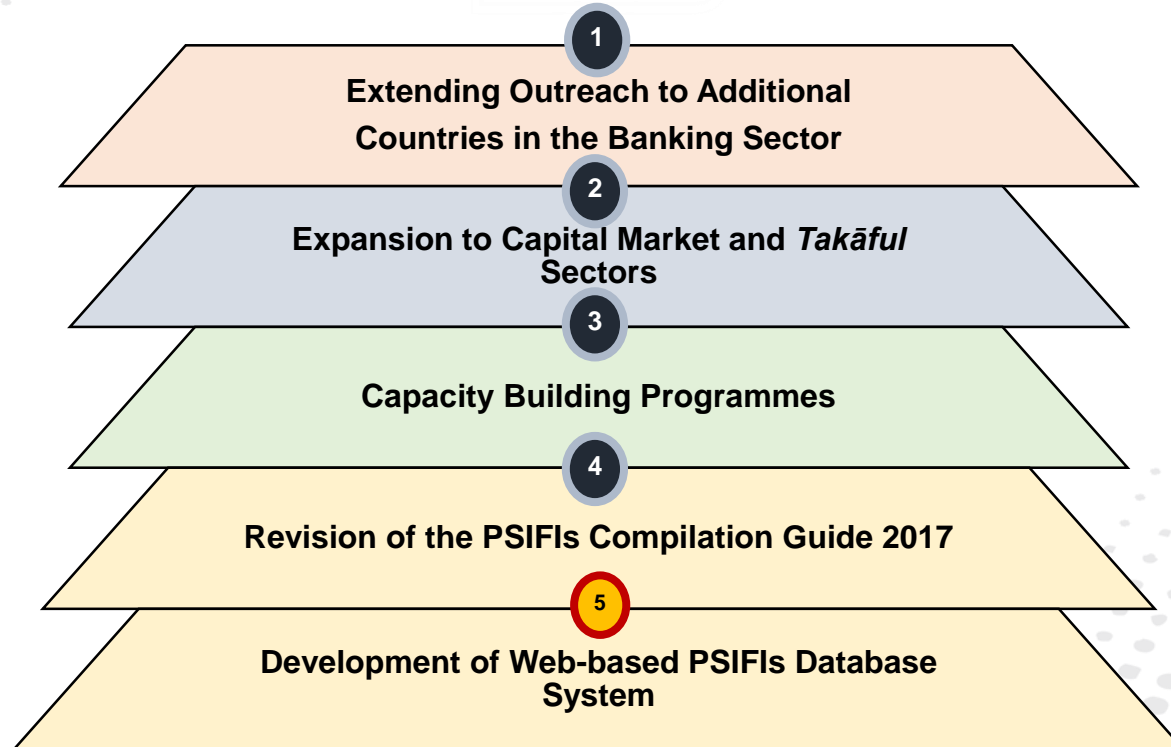


Outcomes

Key Targets	Achievements
Targeted countries	Banking RSAs from 17 countries
Task Force	Representatives from 17 RSAs and IMF, IDB, ADB
Indicators	A list of 35 indicators along with breakdown indicators for banking sector
Revision of Compilation Guide	<ul style="list-style-type: none"> A Supplement to Compilation Guide (May 2015) A draft of revised Compilation Guide (on-going)
Capacity Building	<ul style="list-style-type: none"> Seven meetings of the Task Force
Collaboration	<ul style="list-style-type: none"> The IMF, the IDB, and the ADB joined the Task Force. The IFSB and IMF had several meetings at the management level Organise a Joint IMF-IFSB-AMF Conference on Soundness Indicators
Dissemination platform	A dedicated PSIFIs web portal has been developed.
Data collection and dissemination	Regular PSIFIs data is being disseminated on the IFSB website. So far dissemination covers ten quarters of data from Q4–2013 to Q3–2016.

PHASE IV (2017-2019)

Key Targets



 To be undertaken at a later stage



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KEY COMPONENTS OF PSIFIs PROJECT

Banking RSAs of 21 Countries

Region/ Group	Countries
G-20	Indonesia
	Saudi Arabia
	Turkey
	UK*
Emerging & developing Asia	Bangladesh
	Brunei Darussalam
	Iran
	Malaysia
	Pakistan
Central Asia	Afghanistan
Middle East	Bahrain
	Jordan
	Kuwait
	Lebanon*
	Oman
	Palestine*
	Qatar*
	United Arab Emirates
Africa	Egypt
	Nigeria
	Sudan
Total	21



Core Indicators
Capital adequacy
Capital adequacy ratio
Tier 1 capital to RWA
Common equity Tier 1 capital to RWA
Asset Quality
Gross nonperforming financing (NPF) ratio
Net NPF to capital
Provisions for Gross NPF
Earnings
Return on Assets (ROA)
Return on Equity (ROE)
Net Profit Margin
Cost to Income
Leverage
Capital to Assets
Leverage
Liquidity
Liquid assets ratio
Liquid assets to short-term liabilities
Liquidity Coverage Ratio (LCR)
Net Stable Funding Ratio (NSFR)
Sensitivity to Risks
Net FX open position to capital
Large exposures to capital
Growth of financing to the private sector

List of indicators – Separately for banks and windows

Additional Indicators
Income distributed to IAH out of total income from assets funded by PSIA
Total off-balance-sheet items to total assets
Foreign-currency denominated funding to total funding (excluding interbank)
Foreign-currency denominated financing to total financing (excluding interbank)
Value of <i>Sukūk</i> holdings to capital
Value (or percentage) of <i>Shari'ah</i> -compliant financing by economic activity
Value (or percentage) of gross NPF by economic activities
Value (or percentage) of returns by major type of <i>Shari'ah</i> -compliant contract

Structural Indicators
Number of Islamic banks/ Islamic windows
Number of employees
Total assets
Total funding/liabilities and equities
Total Revenues
Earnings before taxes and <i>Zakat</i>
Value (or percentage) of financing by type of <i>Shari'ah</i> -compliant contract
Assets held by D-SIBs

PSIFIs are benchmarked against the Financial Soundness Indicators (FSI) programme of the IMF

*Joined in 2017 under Phase IV.



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PSIFI DISSEMINATION ON THE IFSB WEBSITE

PSIFI Website

- About PSIFI
- Key Exhibits
- Data by Country
- Selected Aggregated Indicators
- Metadata
- FAQs
- Compilation Guides

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Preparation of Standards
Published Standards
Exposure Drafts

Prudential and Structural Islamic Financial Indicators (PSIFIs)

Financial Safety Nets: Striking a Balance between Sharī'ah Requirements and the Soundness of the Islamic Financial System

PSIFIs Data > Data by Country

Data by Country

Period Covered: 2013Q4 to 2016Q3

Country	Islamic Banking Data		Islamic Windows Data	
	Preview	Download	Preview	Download
Afghanistan	-	-		
Bahrain			-	-
Bangladesh				
Brunei Darussalam			-	-
Egypt			-	-
Indonesia				
Iran			-	-
Jordan			-	-
Kuwait			-	-
Malaysia				
Nigeria			-	-
Oman				
Pakistan				

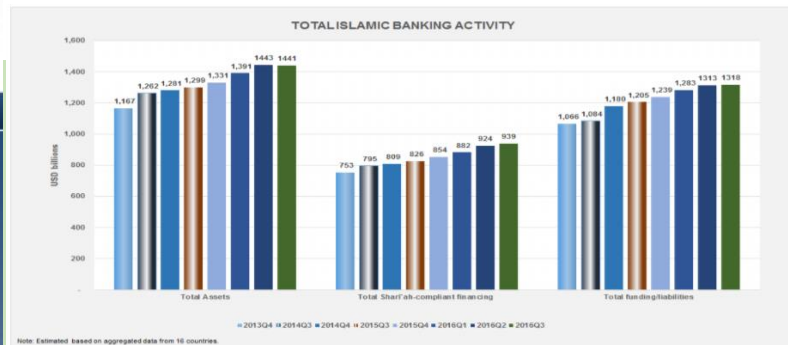
Calendar of Events

IFSB programmes to facilitate the development of the Islamic financial services industry

- 10 Oct 2017 | Kuala Lumpur, MALAYSIA
IFSB-FIS Workshops on IFSB Standards for Regulatory and Supervisory Authorities for the Islamic Capital Market and Takaful Sectors
- 16 Oct 2017 | Bandar Seri Begawan, BRUNEI DARUSSALAM
IFSB-FIS Workshop Series (Brunei)
- 22 Oct 2017 | Abu Dhabi, UNITED ARAB EMIRATES
IFSB Summit 2017 : Reinigorating the Momentum of Islamic Finance : Solidifying Resilience and Sustaining Growth
- 13 Nov 2017 | Kuala Lumpur, MALAYSIA
IFSB-FIS Workshop on IFSB Standards

Task Forces

- Prudential Database
- Prudential Database Phase II
- Prudential Database Phase III & IV



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Prudential and Structural Islamic Financial Indicators (PSIFIs)

PSIFIs Data > FAQs

Frequently Asked Questions (FAQs)

What are PSIFIs?

PSIFIs – Prudential and Structural Islamic Financial Indicators is a project of the Islamic Financial Services Board (IFSB) to establish a global database of prudential statistics for Islamic financial services industry (IFSI). The indicators provide information on the soundness, stability and size of Islamic financial systems in participating jurisdictions. PSIFIs are indicators for the entire Islamic banking system in respective jurisdictions rather than supervisory indicators on the condition of individual institutions. PSIFIs cover aggregated data of Islamic banking institutions at the country level, compiled by the regulatory and supervisory authorities (RSAs) of the participating countries. Separate data are provided on stand-alone Islamic banks and Islamic windows of conventional banks in jurisdictions, where available.

Who is involved in the PSIFIs Project?

Article 4 of the IFSB Articles of Agreement mandates the IFSB to establish a global database of the Islamic financial services industry. Thus, this project mainly involves banking regulatory and supervisory authorities from the IFSB membership. In undertaking this task, the IFSB has benefited from the Technical Assistance from both the Islamic Development Bank and the Asian Development Bank. The current phase of the project is being undertaken with the assistance from the latter. The IFSB has also closely worked with the IMF in all the phases of this project.

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IFSB-FIS Workshop on IFSB Standards

MAIN STRENGTH OF THE DATABASE: A COMPREHENSIVE REVIEW PROCESS

- A Taskforce comprising of two members of each banking RSAs submit their data/metadata to the IFSB;
- IFSB follows a comprehensive review process through discussion in capacity building meetings as well as in email communications;
- The banking RSA submit the revised set of data based on discussion in the review process;
- Thereafter, both IFSB and Taskforce members have to agree on a final set of data/metadata;
- Finally, the IFSB requests the RSA to submit the final data set along with an approval letter signed off by a high official of the respective RSA permitting the IFSB to disseminate the data on the IFSB website (<http://psifi.ifsb.org>).
- The IFSB disseminates macro level country data in both pdf and xls formats separately for Islamic banking and Islamic windows.
- The IFSB issues a press release on each dissemination date.
- The IFSB also produces aggregated global indicators and key exhibits and disseminates on the IFSB website.



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POSSIBLE COLLABORATION AND KEY TAKEAWAYS



IDENTIFICATION OF RISKS IN THE FINANCIAL SECTOR

For Overall Financial Sector

- ❑ Context for the financial sector stability
- ❑ Need to reduce the likelihood of systemic risks and limit their severity
- ❑ Macro-prudential surveillance
- ❑ Effective crisis management

PSIFs identify generic risks that affect all banks including IIFS

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

Therefore, PSIFs:



Can anticipate risks/imbbalances in system so that actions to prevent or ameliorate crises can be taken (Early Warning System)

PSIFs identify unique risks in Islamic finance

Rate of Return Risk

Shariah Non-compliant risk

Displaced Commercial Risk

Equity Investment Risk

Therefore, PSIFs are used for financial sector surveillance in:



Financial sector stability



Macroeconomic stability



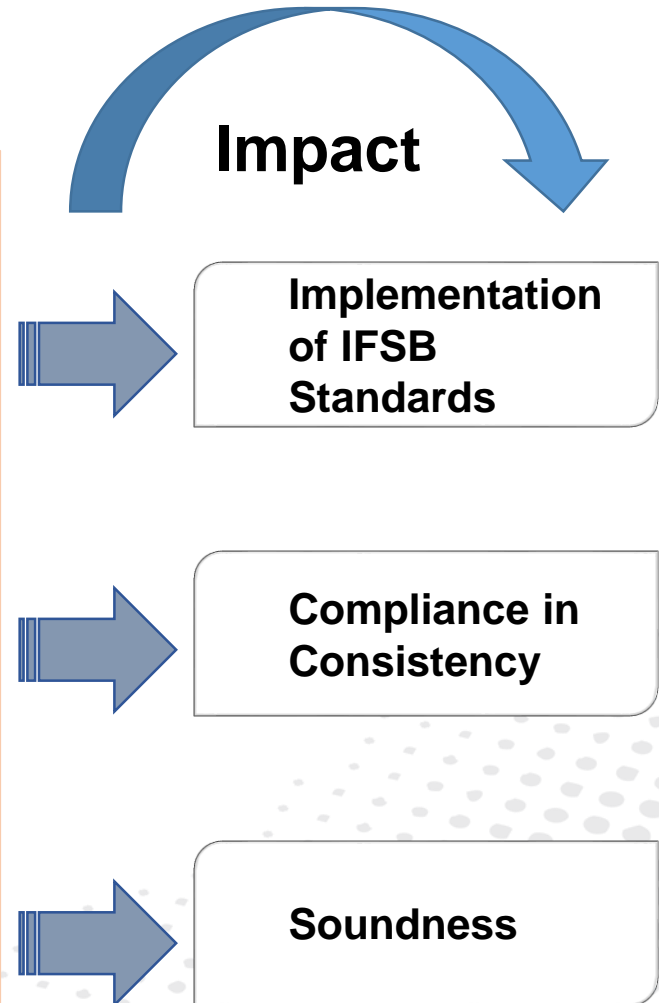
Unique risk management of IIFS

Objectives

- ❖ Increase comparability on the resilience of the Islamic finance systems between various jurisdictions
- ❖ Enhance comparison between conventional and Islamic finance sector within a jurisdiction
- ❖ Integrate Islamic finance into global surveillance mechanism

Application

- ❖ Unique indicators that enable surveillance and supervision of differentiated risks in Islamic banking
- ❖ Collection of time-series data to support formulation of prudential and development policies
- ❖ Basis to monitor and anticipate potential vulnerabilities of Islamic financial system





PSIFI FOR FINANCIAL SECTOR SOUNDNESS

Core

Additional

Structural

To assess the capacity of the financial sector to absorb losses and sustain earning to maintain adequate capital, as measured by capital adequacy and profitability indicators

Capital adequacy

- Capital adequacy ratio
- Tier 1 capital to RWA
- Common equity Tier 1 (CET1) capital to RWA

Earnings

- Return on assets (ROA)
- Return on equity (ROE)
- Net profit margin
- Cost to income

- Income distributed to investment account holders (IAH) out of total income from assets funded by PSIA
- Value (or percentage) of returns by major type of *Shari`ah*-compliant contract

- Total Revenues
- Earnings before taxes and *Zakat*

To monitor asset quality of the financial sector

- Gross nonperforming financing (NPF) ratio
- Net nonperforming financing (Net NPF) to capital
- Provisions for Gross NPF

- Value (or percentage) of gross NPF by economic activities

To monitor financial sector vulnerabilities using leverage and liquidity indicators

- Capital to assets Leverage (regulatory definition)*
- Liquid assets ratio*
- Liquid assets to short-term liabilities
- Liquidity coverage ratio (LCR)
- Net stable funding ratio (NSFR)

- Total off-balance sheet items to total assets
- Value of *Sukuk* holdings to capital

To monitor sensitivity to foreign risks, exposure and concentration to financing by activity/contracts

- Net foreign exchange open position to capital*
- Large exposures to capital*
- Growth of financing to private sector*
- Total value of *Shari`ah*-compliant financing by economic activities

- FC denominated funding to total funding
- FC financing to total financing
- Shari`ah*-compliant financing by economic activity



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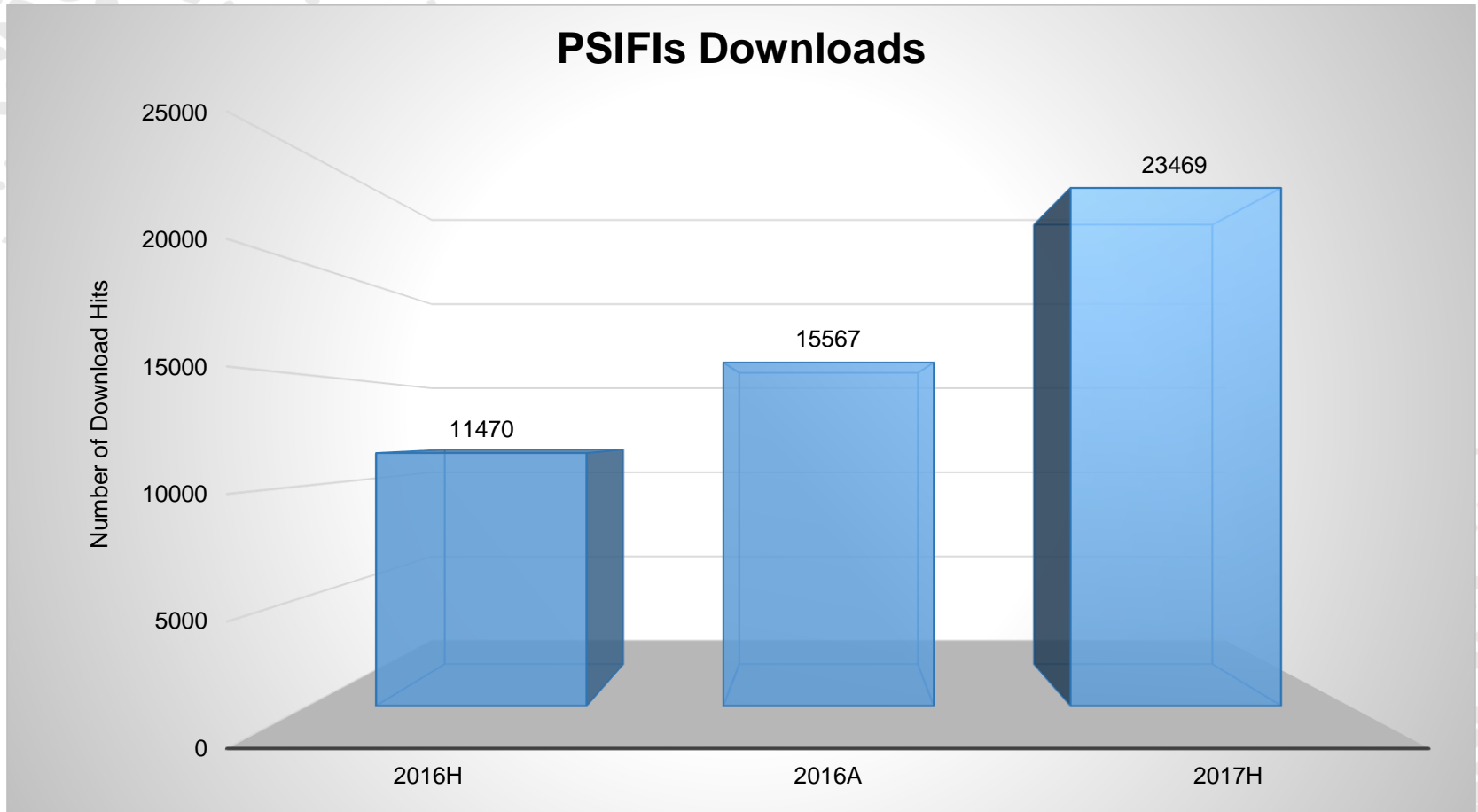
POSSIBLE COLLABORATION AND KEY TAKEAWAYS

WHAT ARE THE USES/IMPLICATIONS OF THE PSIFI PROGRAMME?

Uses of PSIFIs Data: Some References

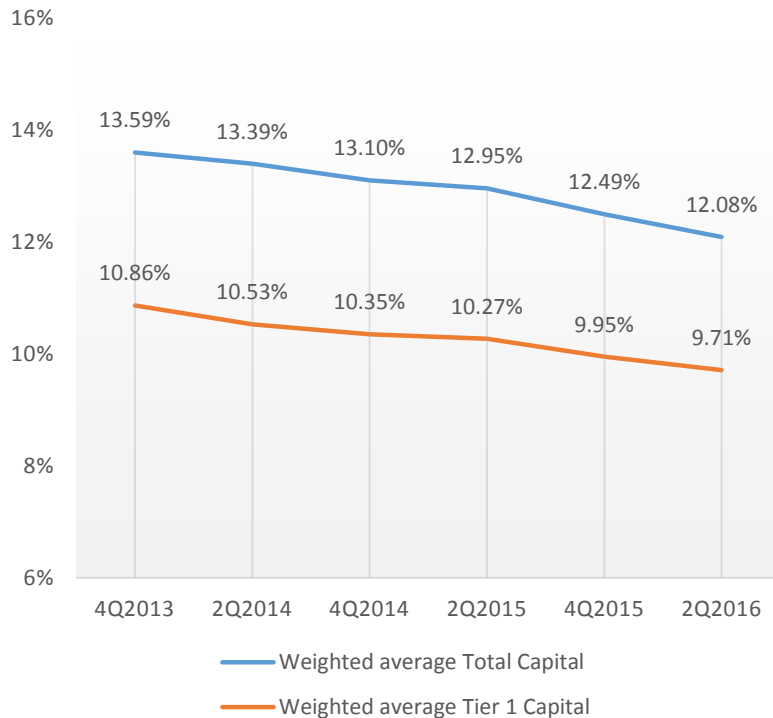
- ❖ Islamic Financial Services Board (IFSB). 2017. *Islamic Financial Services Industry Stability Report*. <http://www.ifsb.org/docs/IFSB%20IFSI%20Stability%20Report%202017.pdf>
- ❖ Islamic Financial Services Board (IFSB). 2016. *Islamic Financial Services Industry Stability Report* [http://www.ifsb.org/docs/IFSI%20Stability%20Report%202016%20\(final\).pdf](http://www.ifsb.org/docs/IFSI%20Stability%20Report%202016%20(final).pdf)
- ❖ Islamic Finance News. 2016. *Islamic Finance News Reports - Islamic Banks: Sustaining the Theme of Resilience*, 5th July 2016 (Volume 13 Issue 27).
- ❖ The World Bank Group - Islamic Development Bank Group. 2016. *Global Report on Islamic Finance: Islamic Finance – A Catalyst for Shared Prosperity*. September 2016.
- ❖ International Monetary Fund. 2017. *Ensuring Financial Stability in Countries with Islamic Banking. Policy Paper*. 21 February 2017.
- ❖ Mokhtar, H. S. A (2017). *Soundness Indicators for Islamic Financial Services Industry*. Conference Presentation. Conference on Soundness Indicators for conventional and Islamic Finance, 1-2 March 2017, Abu Dhabi.
- ❖ Qatar Central Bank. 2015. *Financial Stability Review 2015* - <http://www.qcb.gov.qa/English/Publications/ReportsAndStatements/Documents/7thStabilityReview2015.pdf>

WHAT ARE THE USES/IMPLICATIONS OF THE PSIFI PROGRAMME?



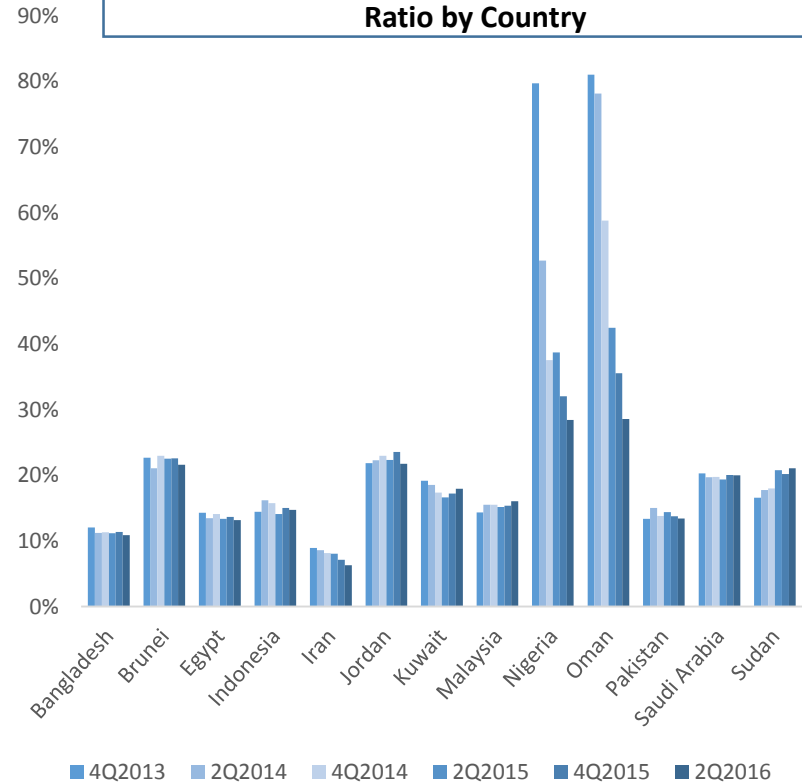
EXAMPLES: USES OF PSIFI DATA

Islamic Banking Average Capital Adequacy Ratios



*2Q2016 data for Sudan not available; 1Q2016 data used.
 *4Q2013 data for Iran not available; 1Q2014 data used.
 Source: Islamic Financial Services Industry Stability Report 2017

Islamic Banking Average Total Capital Adequacy Ratio by Country

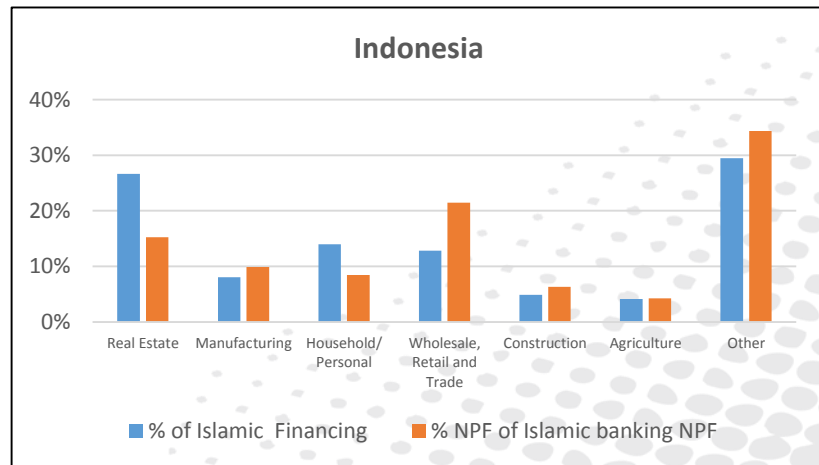
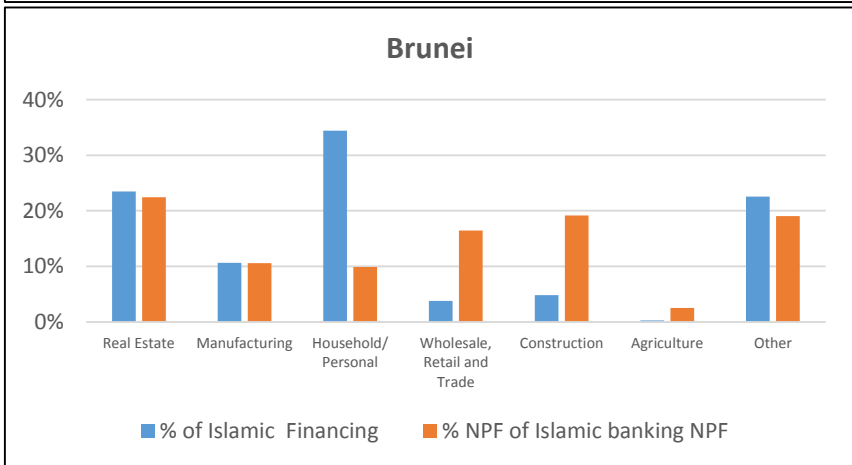
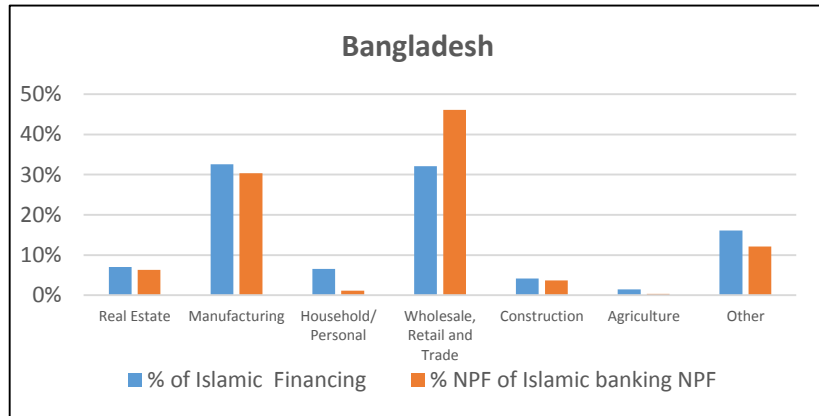
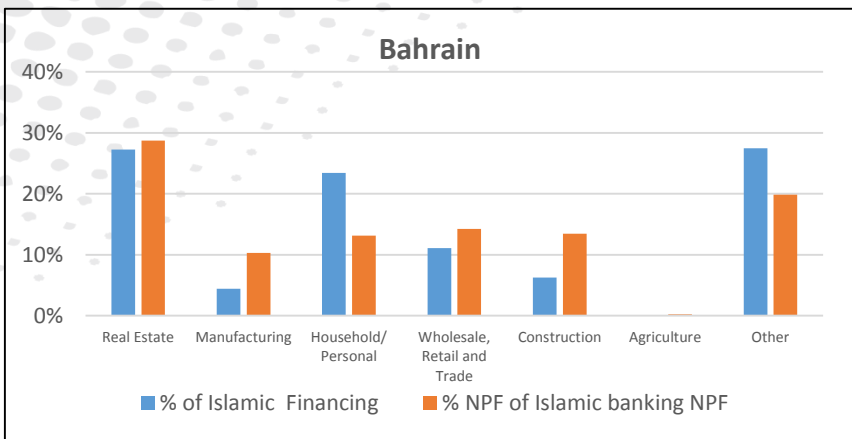


*2Q2016 data for Egypt and Sudan not available; 1Q2016 data used.
 *4Q2013 data for Iran not available; 1Q2014 data used.
 Source: Islamic Financial Services Industry Stability Report 2017



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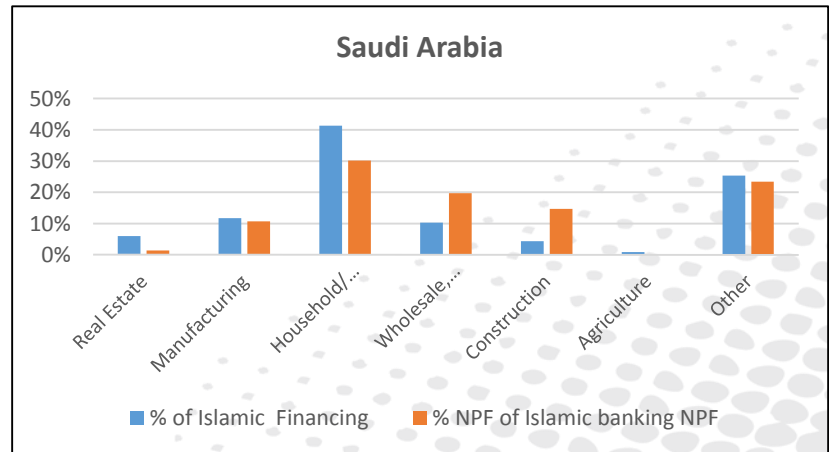
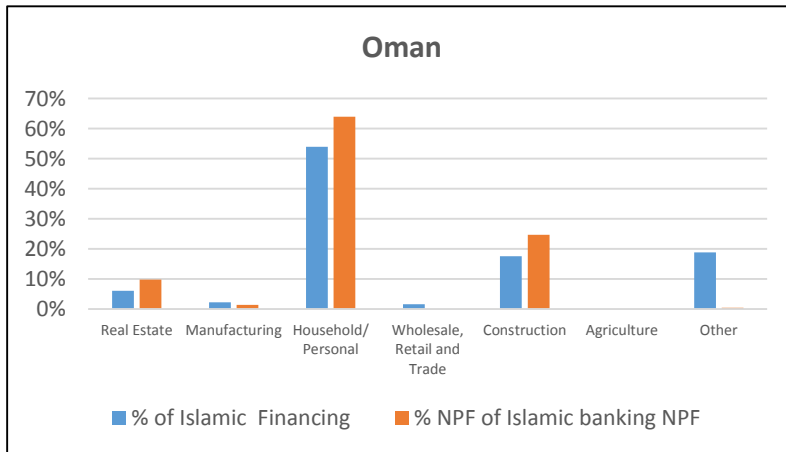
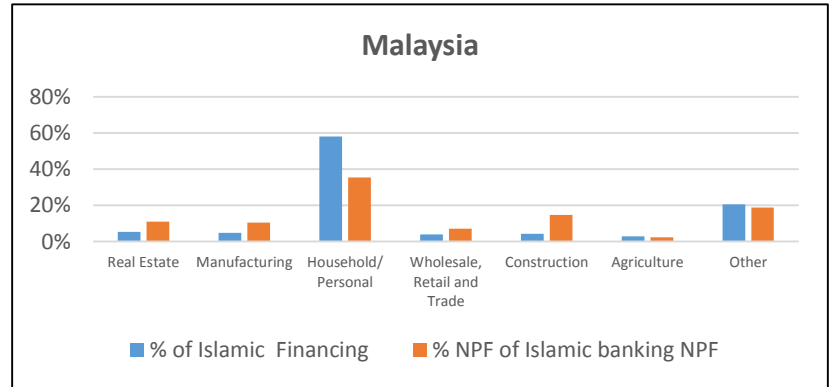
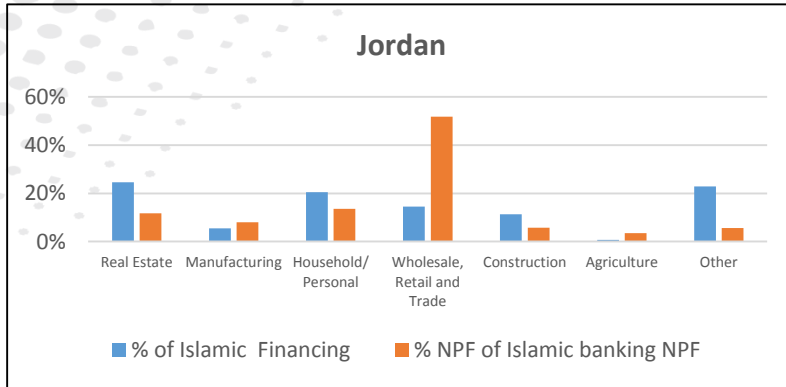
Islamic Banking Sectoral Composition of Financing and NPF by Country



Source: Figures are prepared based on information from Islamic Financial Services Industry Stability Report 2017

EXAMPLES: USES OF PSIFI DATA

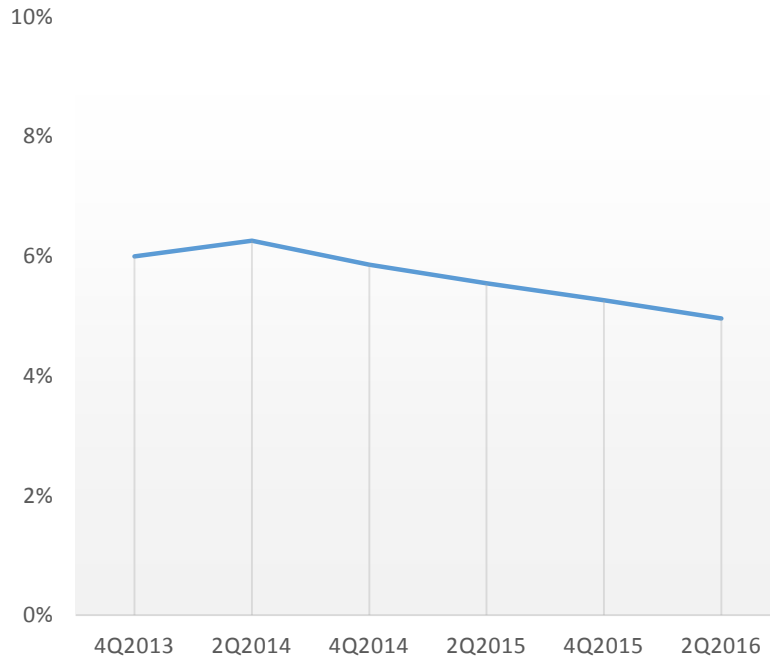
Islamic Banking Sectoral Composition of Financing and NPF by Country



Source: Figures are prepared based on information from Islamic Financial Services Industry Stability Report 2017

EXAMPLES: USES OF PSIFI DATA

Islamic Banking Average Gross Non-Performing Financing to Total Financing

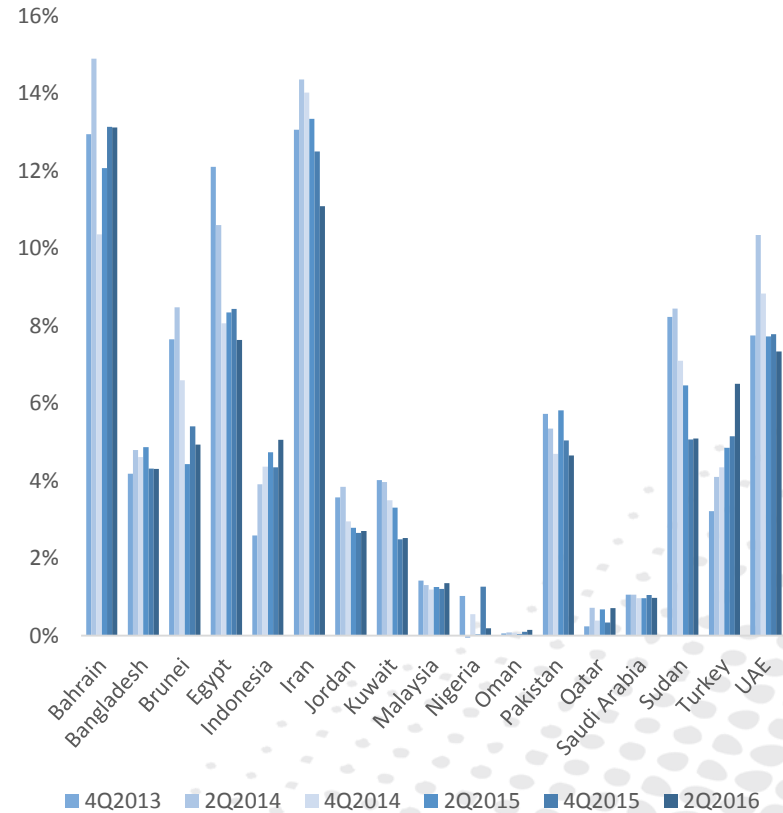


*2Q2016 data for Sudan not available; 1Q2016 data used.

*4Q2013 data for Iran not available; 1Q2014 data used.

Source: Islamic Financial Services Industry Stability Report 2017

Islamic Banking Average Gross Non-Performing Financing to Total Financing by Country



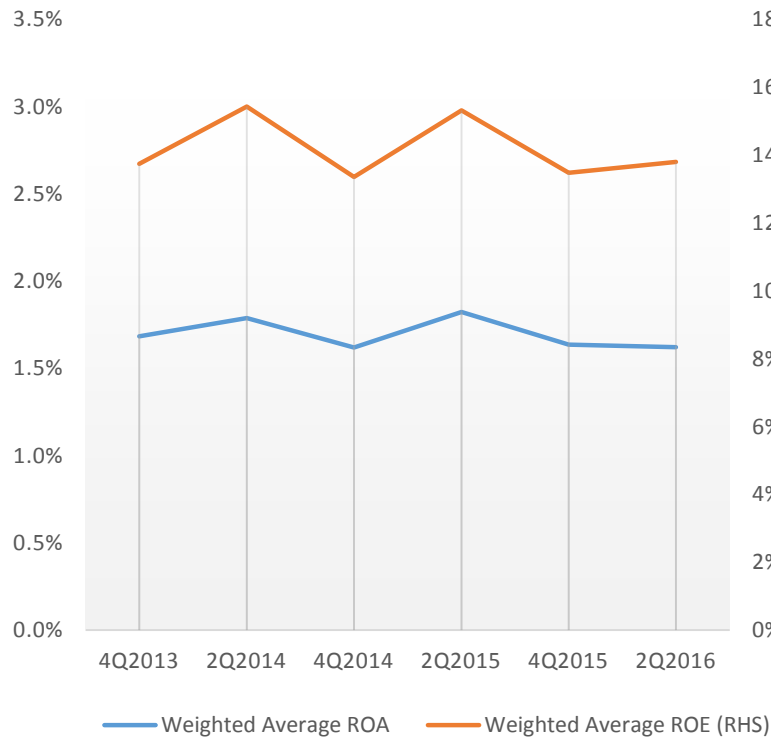
*2Q2016 data for Egypt and Sudan not available; 1Q2016 data used.

*4Q2013 data for Iran not available; 1Q2014 data used.

Source: Islamic Financial Services Industry Stability Report 2017

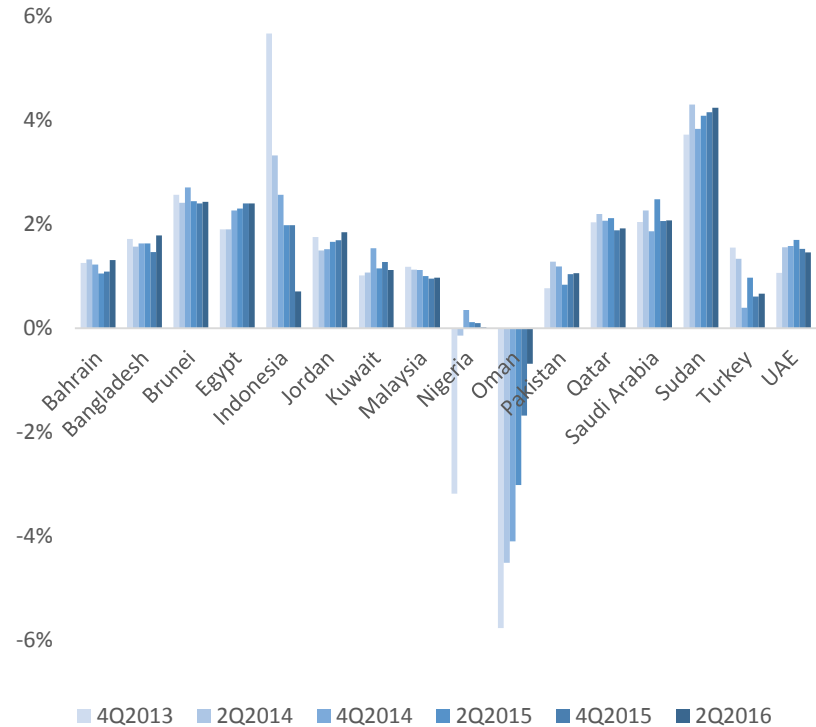
EXAMPLES: USES OF PSIFI DATA

Weighted Average ROA and ROE for Standalone Islamic banks



*2Q2016 data for Sudan not available; 1Q2016 data used.
Source: Islamic Financial Services Industry Stability Report 2017

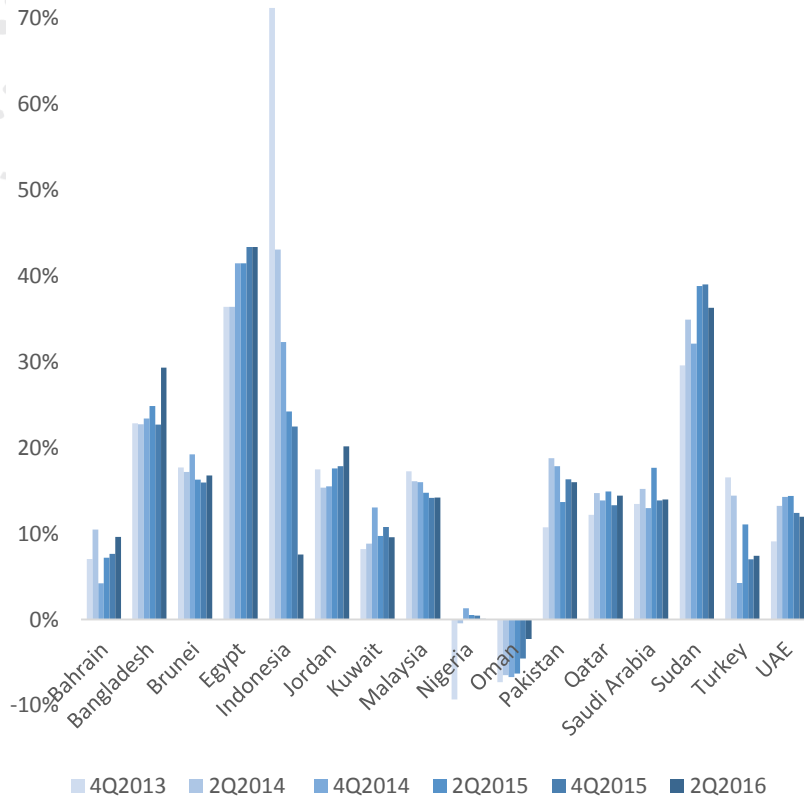
Average ROA for Standalone Islamic banks by Country



*2Q2016 data for Egypt and Sudan not available; 1Q2016 data used.
Source: Islamic Financial Services Industry Stability Report 2017

EXAMPLES: USES OF PSIFI DATA

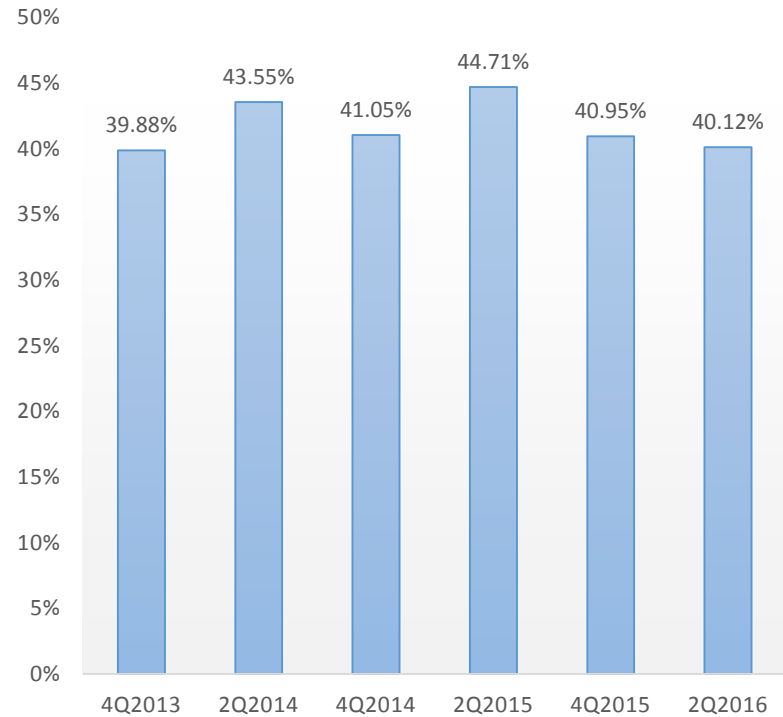
Average ROE for Standalone Islamic Banks by Country Islamic banks



*2Q2016 data for Egypt and Sudan not available; 1Q2016 data used.

Source: Islamic Financial Services Industry Stability Report 2017

Islamic Banking Average Net Profit Margin



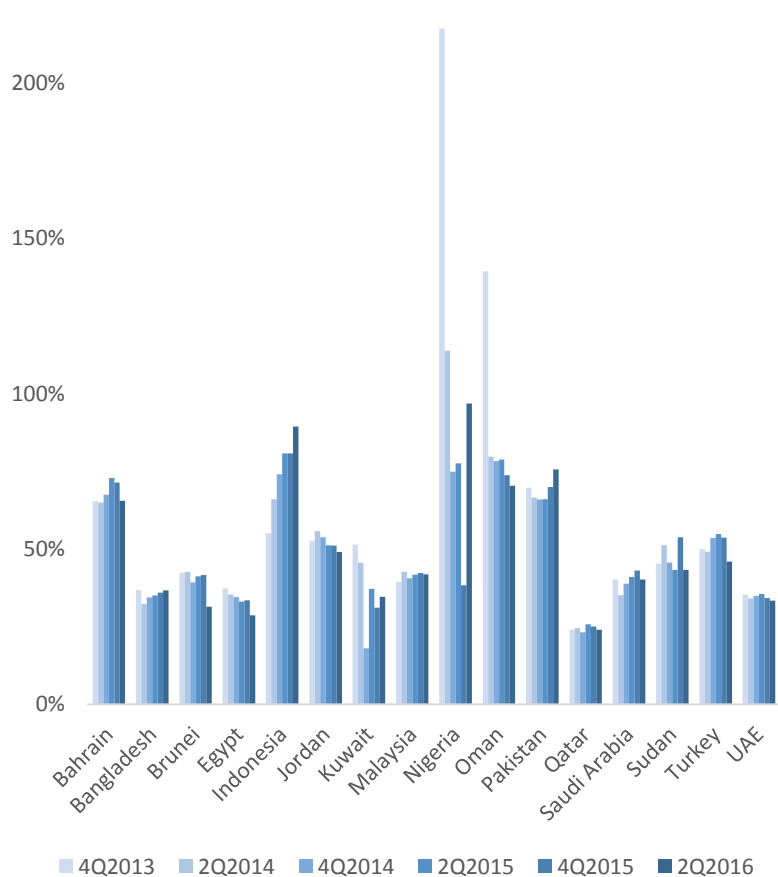
*2Q2016 data for Afghanistan, Egypt and Sudan not available; 1Q2016 data used.
Source: Islamic Financial Services Industry Stability Report 2017



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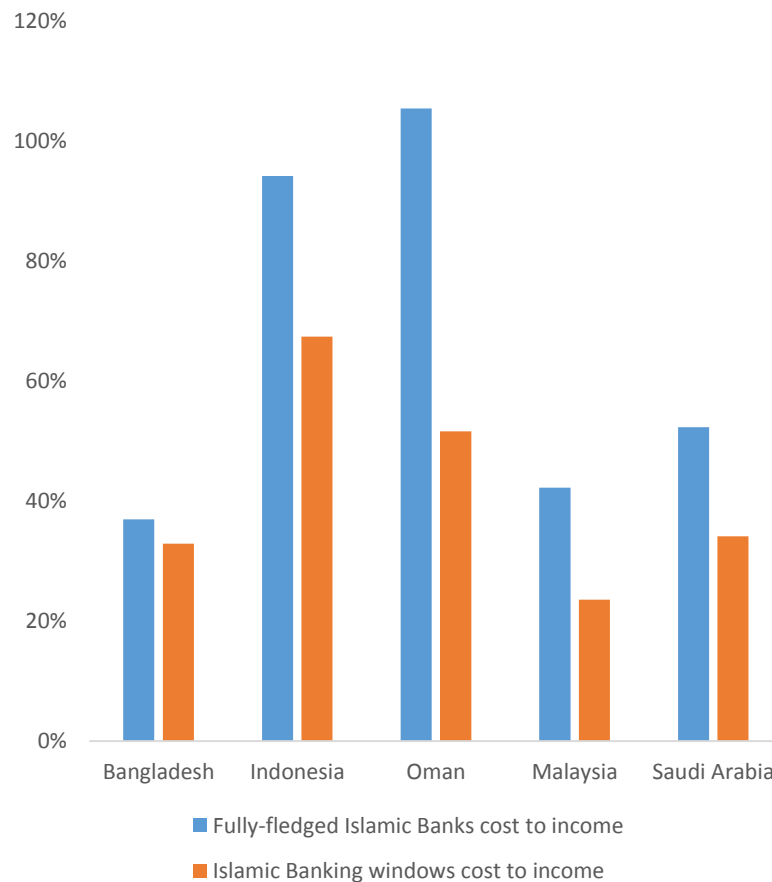
EXAMPLES: USES OF PSIFI DATA

Islamic Banking Cost-to-Income by Country



Source: Islamic Financial Services Industry Stability Report 2017

Cost to Income (Standalone Islamic Banks and Islamic Banking Windows) as at 2Q2016

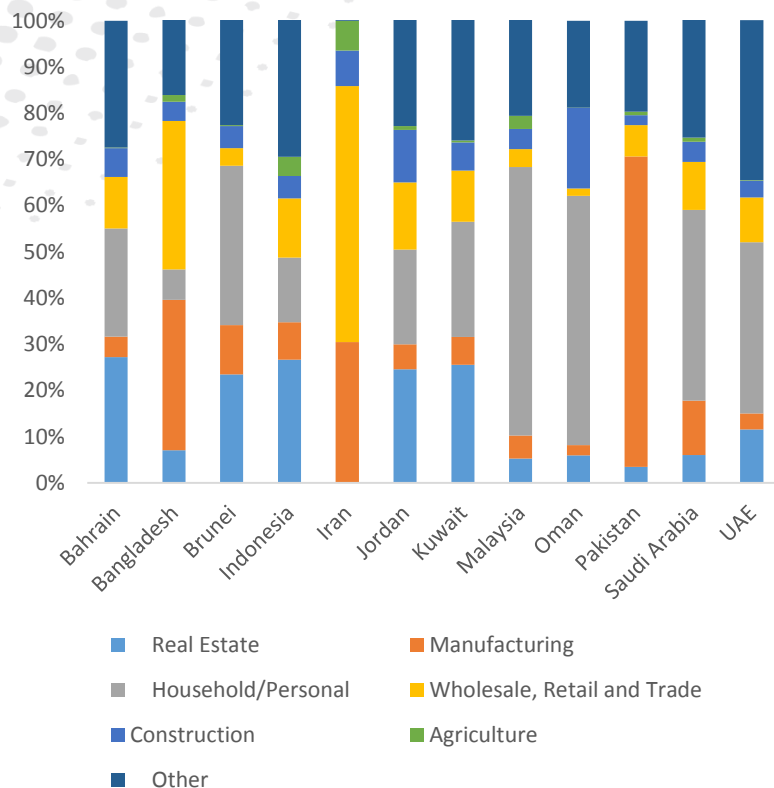


Source: Islamic Financial Services Industry Stability Report 2017

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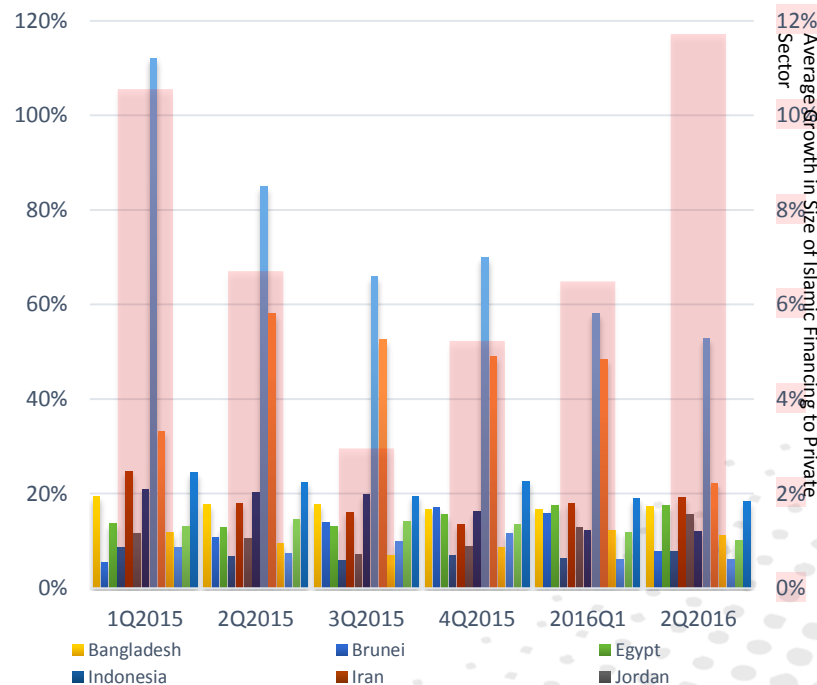
EXAMPLES: USES OF PSIFI DATA

Islamic Banking Sectoral Composition of Financing by Country (2Q2016)



Source: Islamic Financial Services Industry Stability Report 2017

Average and By-Country Growth in Size of Islamic Financing to Private Sector (y-o-y)



*2Q2016 data for Afghanistan, Egypt and Sudan not available; 1Q2016 data used.

*4Q2013 data for Iran not available; 1Q2014 data used.

*1Q2014 and 3Q2014 data for Jordan not available, 4Q2013 and 2Q2014 data used respectively.

Source: Islamic Financial Services Industry Stability Report 2017



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DATA GAPS IN ISLAMIC FINANCIAL SERVICES INDUSTRY – A CASE FOR WORKING ON UNIQUE ELEMENTS

AREA OF REQUIRED DATA	ACTIONS TAKEN	Coverage/Remarks
Macro level banking data	IFSB's PSIFIs programme	PSIFIs currently covers 95% of global data
Macro level windows data	IFSB's PSIFIs programme	PSIFIs currently covers 95% of global data
Macro level capital market data	Bloomberg Islamic Finance Platform (ISLM) Thomson Reuters Zawya (TRZ) IFSB's plan (started implementation)	ISLM produces indices on <i>Sukuk</i> , equity, and Takaful. TRZ published information on Shariah-compliant asset classes and instruments. IFSB will start live data collection for macro level capital market data in 2018
Macro level Takaful data	IFSB's plan (started implementation)	IFSB will start live data collection in 2018
Islamic finance indicators in System of National Accounts (SNA)	The UN initiated Intersecretariat Working Group on National Accounts (ISWGNA)	Need to implement
Institution level banking data	- IRTI's Islamic Banks and Financial Institutions Information System (IBIS) - Bank Scope	Both project are not very active Need to start work in this area
Institution level insurance data	Insurance directory	Not specific to Takaful sector Need to start work in this area
Islamic microfinance data (Country and institution levels)	-	Need to start work in this area
Non bank Islamic Financial Institutions' data (Macro and institution levels)	-	Need to start work in this area

Potential area where the industry has sustainable database

Data gaps reflect scope of works



1

IFSB'S MANDATE AND PSIFI PROGRAMME

2

EVOLUTION OF THE PROGRAMME: PREPARATION, TARGET, CAPACITY BUILDING, AND OUTPUT

3

WHY THE INDICATORS ARE IMPORTANT FOR ISLAMIC FINANCIAL SERVICES INDUSTRY?

4

WHAT ARE THE USES/IMPLICATIONS OF THE PSIFI DATA?

5

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6

POSSIBLE COLLABORATION AND KEY TAKEAWAYS



POSSIBLE COLLABORATION



Collaboration and coordination will enhance synergy for database initiatives and will reduce duplication of efforts

KEY TAKEAWAYS

- ❖ Islamic finance industry needs a quality database to track its stability and soundness. Within a short period of time, the PSIFIs database has been able to effectively fill this gap.
- ❖ The PSIFIs database provides critical information on some unique indicators (e.g., PSIA, Shari'ah-compliant financing). It provides important feedback for the development and implementation of regulatory, supervisory and accounting standards on Islamic finance (e.g. standards/guidelines issued by IFSB, AAOIFIs)
- ❖ Countries' reporting status on the indicators is increasing gradually..
- ❖ the PSIFIs data holds about 95% of global Islamic banking industry of 21 key Islamic finance countries.
- ❖ PSIFIs compile soundness indicators for Islamic banking industry only. Soundness indicators for other sectors such as ICM and Takaful will also fill major gaps in stability analysis of these sectors.
- ❖ PSIFIs, in future, can focus on collecting data for consolidated balance sheets and income statements from the countries.
- ❖ **In addition to the PSIFIs initiatives, the industry needs focus on establishing database for Islamic finance indicators in SNA, institution level data for banking, non banking, and microfinance indicators.**



ISLAMIC FINANCIAL
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Thank you

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