General Council for Islamic Banks And Financial Institutions

Affiliated Institution to the OIC
Established under Royal Decree No 23 -2001

CIBAFI

المجلس العام للبنوك والمؤسسات المالية الإسلامية

مؤسسة منتمية لمنظمة التعاون الإسلامي
تأسست بمرسوم ملكي رقم ٢٣ لسنة ٢٠٠١م

Ref. 0419/1625/MA
23rd April 2019

Dietrich Domanski
Secretary General
Financial Stability Board
Bank for International Settlements
Cenatralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Mr. Domanski,

Correspondent Banking

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the Financial Stability Board (FSB).

CIBAFI is an international body representing Islamic Financial Institutions (IFIs) globally, who offer financial services and products complying with Islamic rules and principles (Shariah). CIBAFI acts as the voice of the Islamic finance industry and has a membership of over 130 banks and non-bank financial institutions, both large and small, from 34 countries and jurisdictions.

CIBAFI greatly appreciates the work that the FSB and other global bodies continue to do to address issues in correspondent banking. I wrote to you on this subject last year, when I mentioned that correspondent banking is an issue of particular importance to our members, few of whom have a global reach and most of whom are in emerging or developing markets. They are therefore very dependent on relationships with other banks to be able to provide basic international services to their customers. Some have suffered

هاتف: ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس: ٩٠٢ ٣٢٤ ١٧ / ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ ص.ب: ٢٤٤٥٦ المنامة مملكة البحرين
Tel: +973 17 357 300 Fax: +973 17 324 902 P.O. Box 24456 Manama, Kingdom of Bahrain
C.R. No 47423 www.cibafi.org Email: cibafi@cibafi.org

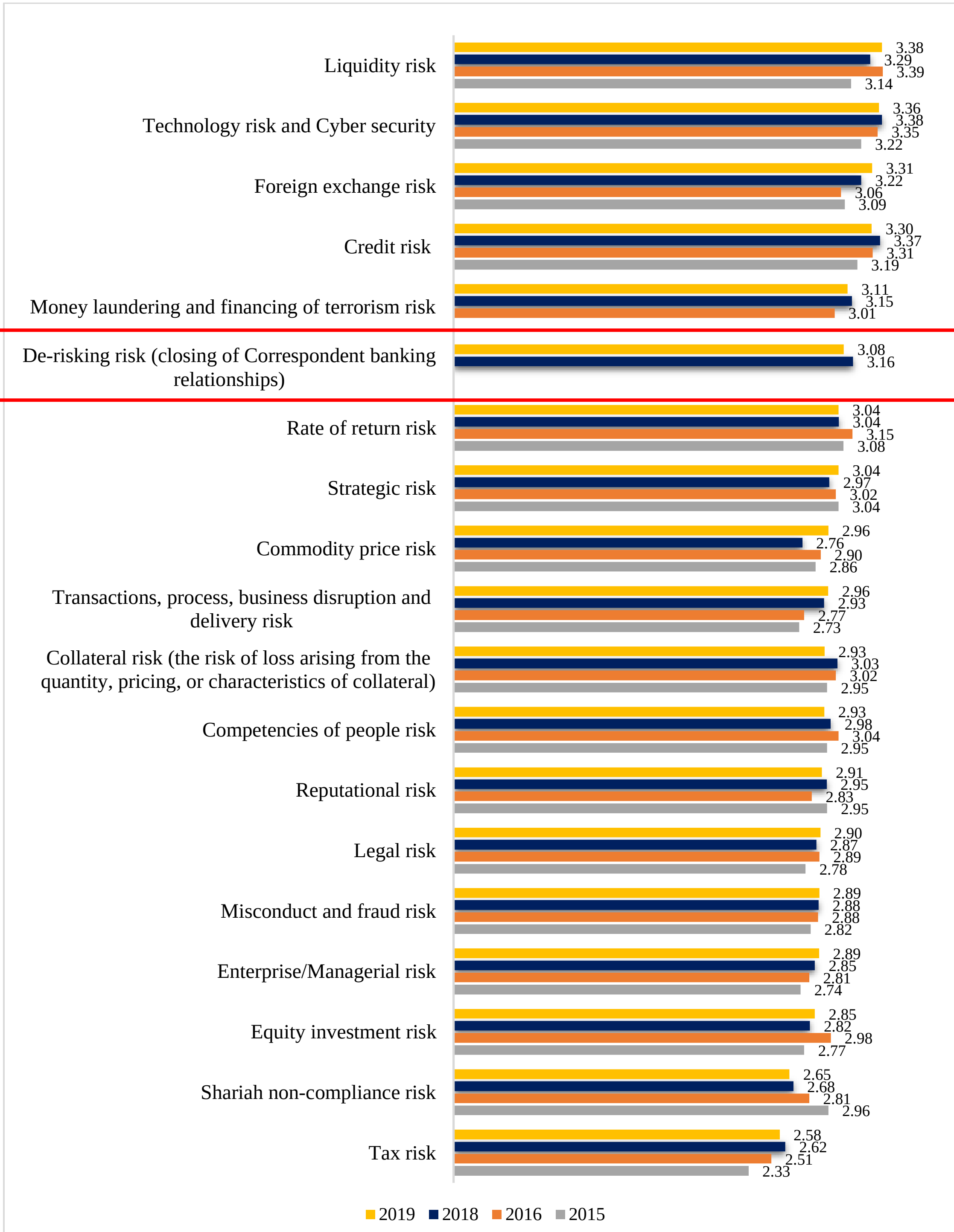
particularly from de-risking by international banks because of the countries in which they are based.

In my letter last year, I passed on to you some information on this subject from CIBAFI's Global Islamic Bankers' Survey (GIBS) 2018. I am now in a position to update this information based on the 2019 survey, which will be published next month and which was conducted in late 2018 and early 2019. This survey attracted a record of 106 responses, from institutions in 33 countries. (Geographical distribution is attached to this letter in the appendix)

Part of the survey is a "risk dashboard", in which we ask banks to rate the importance to them of a number of specific risks. In the 2018 edition, for the first time, we included among them "de-risking risk", i.e. the risk posed by the closure of correspondent banking relationships (CBR). We included this risk again in 2019, and overall it scored sixth of the 20 risks listed, down from fifth in the previous survey. While last year it scored equal first in two regions (West, Central, and South Asia, and Middle East ex-GCC), and second in North Africa, this year the only region in which it was near the top of the rankings was North Africa, where it came third.

هاتف: ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس : ٩٠٢ ٣٢٤ ١٧ / ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ ص.ب: ٢٤٤٥٦ المنامة مملكة البحرين
Tel: +973 17 357 300 Fax: +973 17 324 902 P.O. Box 24456 Manama, Kingdom of Bahrain
C.R. No 47423 www.cibafi.org Email: cibafi@cibafi.org

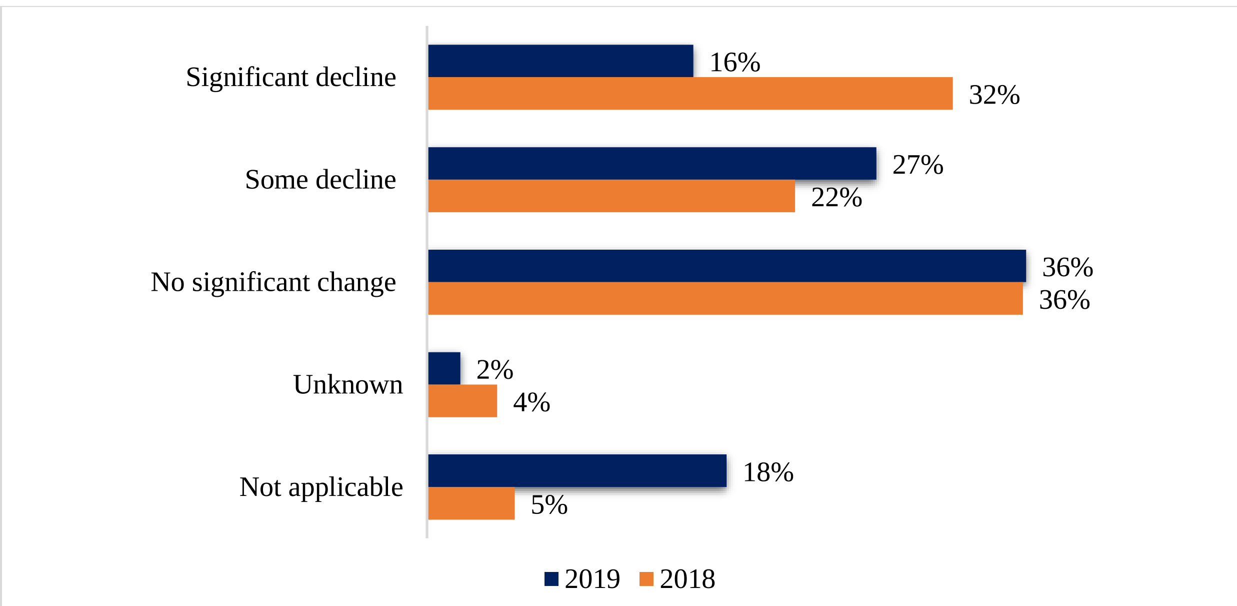
Figure 1. Global Islamic Banking Risk Dashboard



This year we were also able to analyse the data by bank size, and to confirm that de-risking is primarily a concern for smaller banks, i.e. those with up to USD 5 billion in assets. All the banks in North Africa fall into this category, and it seems likely that the small size of Islamic banks in that region is exacerbating what would in any event be a significant regional issue.

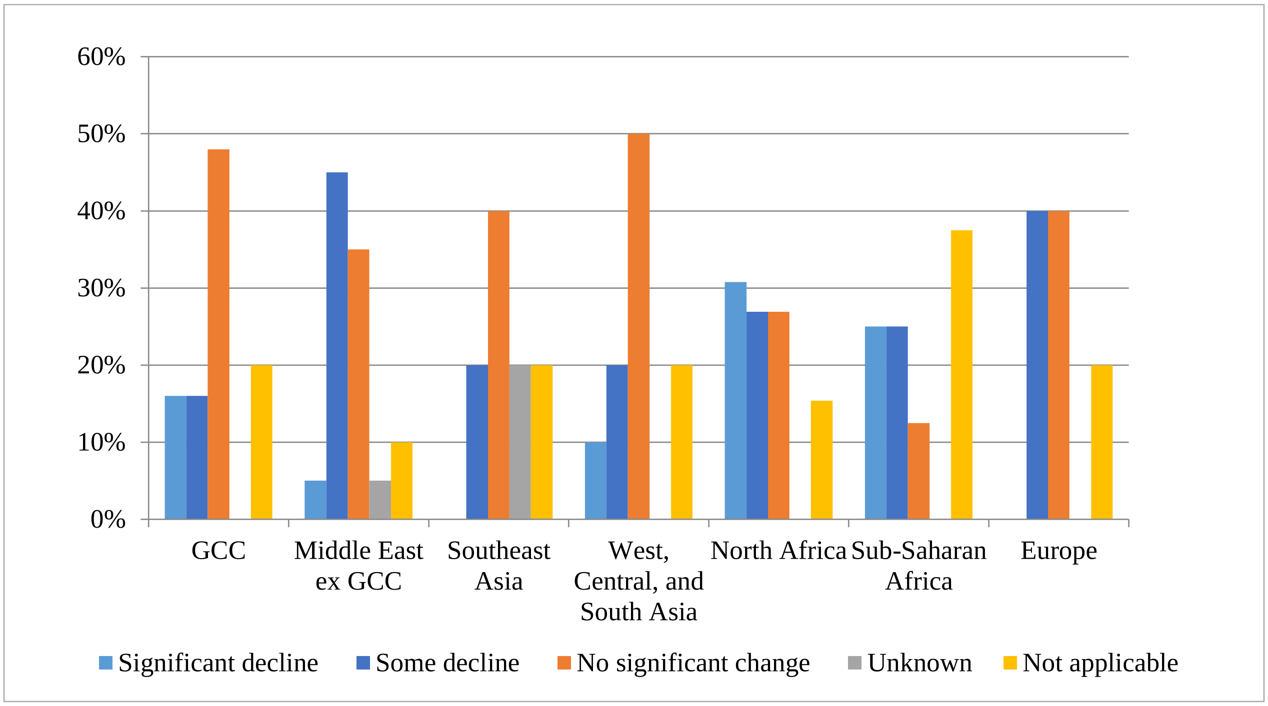
Last year, we asked Islamic banks to what extent the bank had experienced a decline in CBR as a result of 'de-risking' over the last five years. This year, to capture changes since the previous survey, we asked only about the extent to which they had experienced a decline over the last year. 27% reported some decline, and 16% a significant decline.

Figure 2. Decline in CBR Due to De-Risking



As last year, the areas where the most significant declines had occurred were North Africa and Sub-Saharan Africa. Some of the regional samples are relatively small, thus, data on this basis need to be treated with some caution.

Figure 3. Decline in CBR Due to De-Risking – Regional Breakdown (2019)

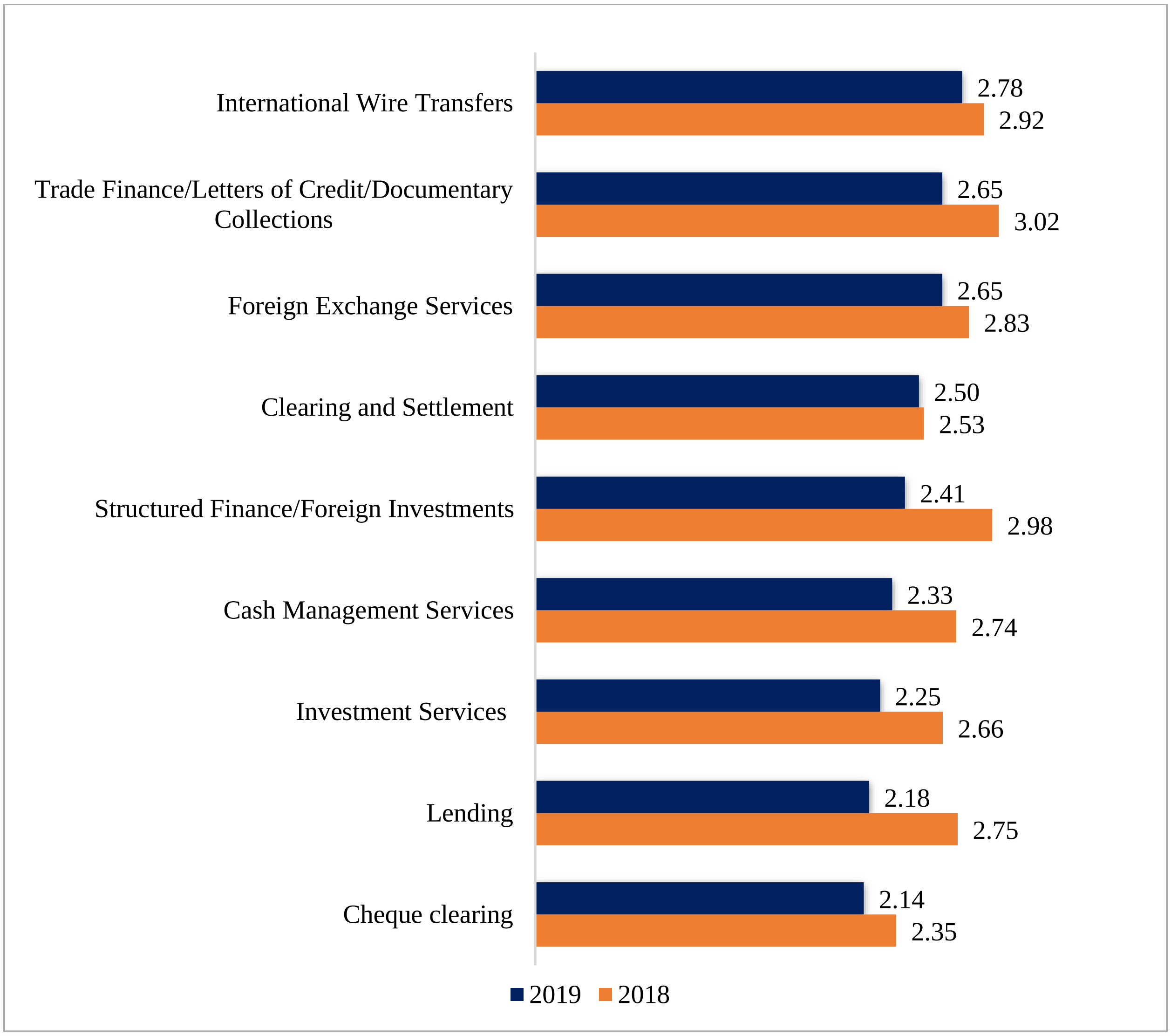


Again as last year, the survey asked to what extent a given set of products and services had been affected within the institution as a result of the closing of correspondent banking relationships. A score of 1 indicated no effect at all' while a score of 5 indicated that the area of business had been 'significantly affected.'

The service most affected was international wire transfers, followed by trade letters of credit / documentary collections and foreign exchange services. All the scores have eased from last year, especially that for structured finance/foreign investments.

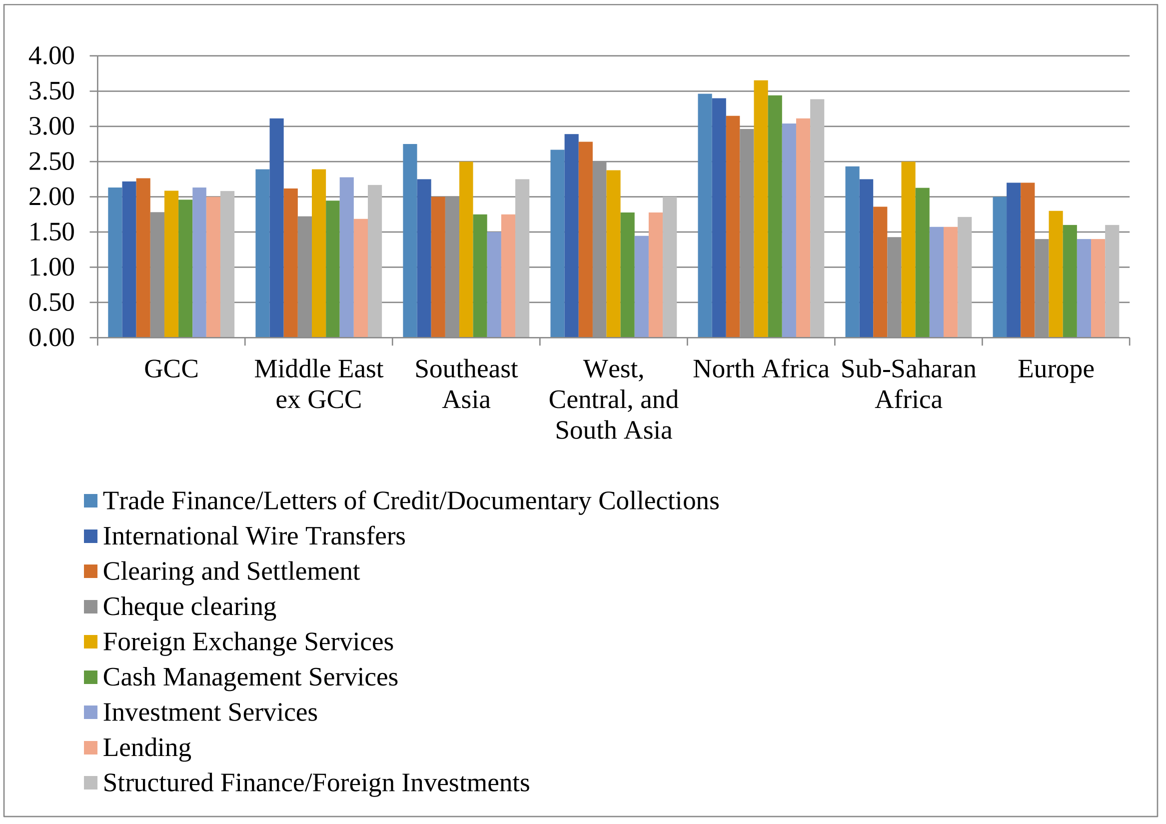
هاتف: ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس: ٩٠٢ ٣٢٤ ١٧ / ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ ص.ب: ٢٤٤٥٦ المنامة مملكة البحرين
Tel: +973 17 357 300 Fax: +973 17 324 902 P.O. Box 24456 Manama, Kingdom of Bahrain
C.R. No 47423 www.cibafi.org Email: cibafi@cibafi.org

Figure 4. De-risking Effects on Products and Services



The regional picture is consistent with what one might expect from responses to the earlier questions, with North Africa returning the highest scores overall. There are, however, some local variations. For example, wire transfers stand out particularly strongly as an affected sector in the Middle East excluding the GCC.

Figure 5. De-risking Effects on Products and Services – Regional Breakdown (2019)



The differences between large and small banks do reveal some new information.

Figure 6. De-risking Effects on Products and Services – Small Banks (2019)

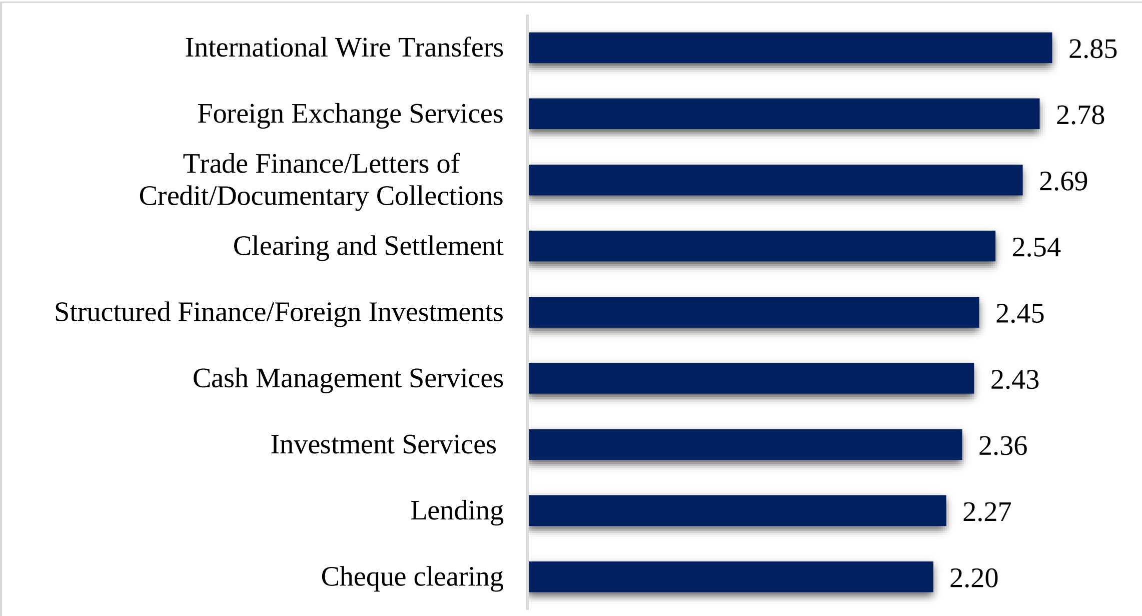
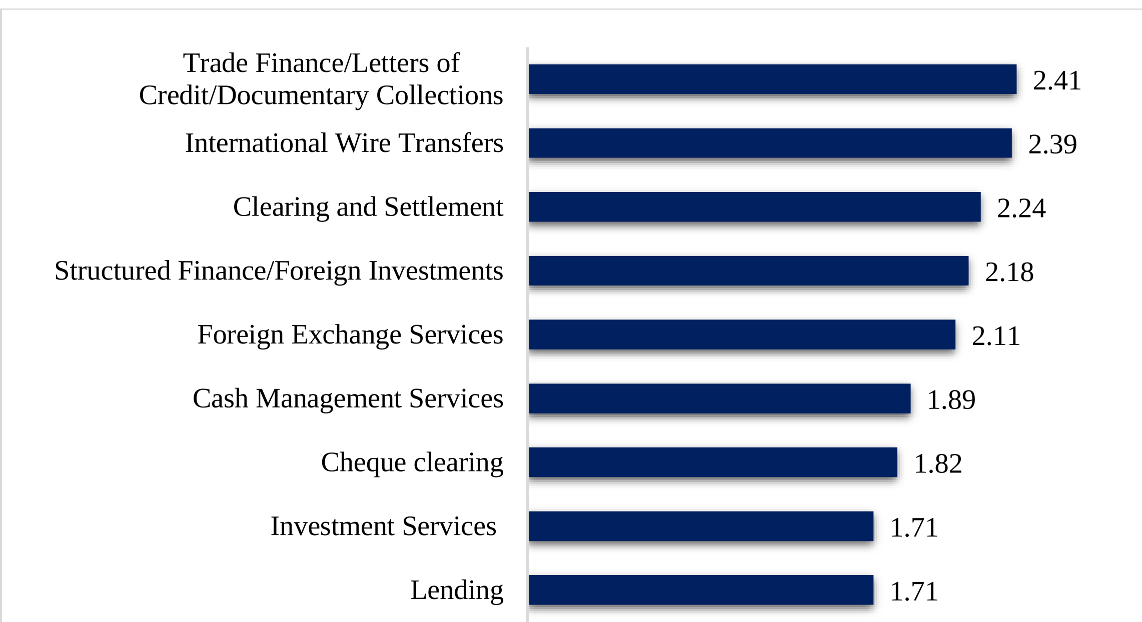


Figure 7. De-risking Effects on Products and Services – Large Banks (2019)



As one might expect, small banks are hit more severely overall by de-risking, but also the impacts fall most severely on different products and services. This is particularly conspicuous in the case of foreign exchange services, which come second in the ranking for small banks, but only fifth for the larger ones.

Impacts at this level suggest that, for most banks, it will be possible to take strategic actions to mitigate risks, and some banks have commented on how they are doing this. Unsurprisingly, a number of the actions involve seeking new correspondent banking relationships, across a range of geographies. One bank, however, discussed its efforts to improve the AML/CFT environment to global standards, confirming the view that perceived weaknesses in that environment are a driver of de-risking. However, while banks can improve their own AML/CFT systems, they may of course suffer as a result of perceived weaknesses at national level, which in many cases will be beyond their power to address.

We should be happy to give you more detail of the survey results and comments, and to co-operate in any future work in which our participation might be helpful. Although its severity seems to be easing, the decline in correspondent banking remains an issue which could impact severely on some of our members, and CIBAFI therefore very much welcomes the priority which it continues to hold on the international agenda.

The General Council for Islamic Banks and Financial Institutions avails this opportunity to renew to the Financial Stability Board the assurance of its highest respect and consideration.

With highest regards and best wishes.

Yours sincerely,

Abdelilah Belatik
Secretary General

هاتف: ٣٠٠ ٣٥٧ ١٧ ٩٧٣+ فاكس : ٩٠٢ ٣٢٤ ١٧ / ٣٠٧ ٣٥٧ ١٧ ٩٧٣+ ص.ب: ٢٤٤٥٦ المنامة مملكة البحرين
Tel: +973 17 357 300 Fax: +973 17 324 902 P.O. Box 24456 Manama, Kingdom of Bahrain
C.R. No 47423 www.cibafi.org Email: cibafi@cibafi.org

CC to:

Morten Bech
Head of Secretariat
Committee for Payments and Market Infrastructures

William Coen
Secretary General
Basel Committee on Banking Supervision

Appendix

Table 1. Geographical Distribution of Respondents

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**