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

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. DATA GAPS IN ISLAMIC FINANCIAL SERVICES INDUSTRY – A CASE FOR WORKING ON UNIQUE ELEMENTS
6. POSSIBLE COLLABORATION AND KEY TAKEAWAYS
**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.

Objectives of the PSIFIs

- 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

Compilation Methodologies

- Compilation Guide on PSIFIs, 2007
- Revised Compilation Guide on PSIFIs, 2011
- Supplement to Compilation Guide on PSIFIs, 2015
- Draft Compilation Guide on PSIFIs, 2017
<table>
<thead>
<tr>
<th></th>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IFSB’S MANDATE AND PSIFI PROGRAMME</td>
<td></td>
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<tr>
<td>2</td>
<td>EVOLUTION OF THE PROGRAMME: PREPARATION, TARGET, CAPACITY BUILDING, AND</td>
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<td>3</td>
<td>WHY THE INDICATORS ARE IMPORTANT FOR ISLAMIC FINANCIAL SERVICES INDUSTRY?</td>
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<td>4</td>
<td>WHAT ARE THE USES/IMPLICATIONS OF THE PSIFI DATA?</td>
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<td>5</td>
<td>DATA GAPS IN ISLAMIC FINANCIAL SERVICES INDUSTRY – A CASE FOR WORKING ON</td>
<td>UNIQUE ELEMENTS</td>
</tr>
<tr>
<td>6</td>
<td>POSSIBLE COLLABORATION AND KEY TAKEAWAYS</td>
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</tbody>
</table>
EVOLUTION OF THE PROGRAMME: PREPARATION, AND DEVELOPMENT

Phase I: 2004-2007
- Establishment of Task Forces for the project

Phase II: 2008-2013
- Undertaking a pilot study on the compilation of data and developing a standardised reporting template
- Organisation of capacity building programmes
- Publication of Compilation Guide (2007, 2011) for the indicators

OUTCOMES

<table>
<thead>
<tr>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>A list of 35 indicators for banking sector</td>
</tr>
<tr>
<td>Data and metadata templates</td>
</tr>
<tr>
<td>Compilation Guides, 2007 and 2011</td>
</tr>
<tr>
<td>Identified practical challenging uses getting feedback on Compilation Guides</td>
</tr>
<tr>
<td>Identified emerging issues in regular data collection and compilation received from survey findings</td>
</tr>
<tr>
<td>Developed outreach programme by organising capacity building workshops</td>
</tr>
</tbody>
</table>
**EVOLUTION OF THE PROGRAMME: IMPLEMENTATION AND ACHIEVEMENT**

- **Phase III: 2014-2016**

  - To target banking RSAs
  - To finalise list of indicators, and compilation guides
  - To organise capacity building programmes
  - To start regular collection, compilation and dissemination of indicators on Islamic banking sector of member jurisdictions

### Outcomes

<table>
<thead>
<tr>
<th>Key Targets</th>
<th>Achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Targeted countries</td>
<td>Banking RSAs from 17 countries</td>
</tr>
<tr>
<td>Task Force</td>
<td>Representatives form 17 RSAs and IMF, IDB, ADB</td>
</tr>
<tr>
<td>Indicators</td>
<td>A list of 35 indicators along with breakdown indicators for banking sector</td>
</tr>
<tr>
<td>Revision of Compilation Guide</td>
<td>• A Supplement to Compilation Guide (May 2015)</td>
</tr>
<tr>
<td></td>
<td>• A draft of revised Compilation Guide (ongoing)</td>
</tr>
<tr>
<td>Capacity Building</td>
<td>• Seven meetings of the Task Force</td>
</tr>
<tr>
<td>Collaboration</td>
<td>• The IMF, the IDB, and the ADB joined the Task Force.</td>
</tr>
<tr>
<td></td>
<td>• The IFSB and IMF had several meetings at the management level</td>
</tr>
<tr>
<td></td>
<td>• Organise a Joint IMF-IFSB-AMF Conference on Soundness Indicators</td>
</tr>
<tr>
<td>Dissemination platform</td>
<td>A dedicated PSIFIs web portal has been developed.</td>
</tr>
<tr>
<td>Data collection and dissemination</td>
<td>Regular PSIFIs data is being disseminated on the IFSB website. So far</td>
</tr>
<tr>
<td></td>
<td>dissemination covers ten quarters of data from Q4–2013 to Q3–2016.</td>
</tr>
</tbody>
</table>
PHASE IV (2017-2019)

Key Targets

1. Extending Outreach to Additional Countries in the Banking Sector
2. Expansion to Capital Market and Takāful Sectors
3. Capacity Building Programmes
4. Revision of the PSIFIs Compilation Guide 2017
5. Development of Web-based PSIFIs Database System

To be undertaken at a later stage
# KEY COMPONENTS OF PSIFIs PROJECT

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

## Banking RSAs of 21 Countries

<table>
<thead>
<tr>
<th>Region/ Group</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>G-20</td>
<td>Indonesia</td>
</tr>
<tr>
<td></td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td></td>
<td>Turkey</td>
</tr>
<tr>
<td></td>
<td>UK*</td>
</tr>
<tr>
<td>Emerging &amp; developing Asia</td>
<td>Bangladesh</td>
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<td></td>
<td>Brunei Darussalam</td>
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<td>Iran</td>
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<td>Malaysia</td>
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<td>Pakistan</td>
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<tr>
<td>Central Asia</td>
<td>Afghanistan</td>
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<td>Middle East</td>
<td>Bahrain</td>
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<td></td>
<td>Jordan</td>
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<td></td>
<td>Kuwait</td>
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<td>Lebanon*</td>
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<td></td>
<td>Oman</td>
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<td></td>
<td>Palestine*</td>
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<tr>
<td></td>
<td>Qatar*</td>
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<tr>
<td></td>
<td>United Arab Emirates</td>
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<tr>
<td>Africa</td>
<td>Egypt</td>
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<tr>
<td></td>
<td>Nigeria</td>
</tr>
<tr>
<td></td>
<td>Sudan</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
</tr>
</tbody>
</table>

*Joined in 2017 under Phase IV.

## 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

## 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 Sukūk holdings to capital
- Value (or percentage) of Shari‘ah-compliant financing by economic activity
- Value (or percentage) of gross NPF by economic activities
- Value (or percentage) of returns by major type of Shari‘ah-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 Zakat
- Value (or percentage) of financing by type of Shari‘ah-compliant contract
- Assets held by D-SIBs
PSIFI DISSEMINATION ON THE IFSB WEBSITE

PSIFI Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Islamic Banking Data</th>
<th>Islamic Windows Data</th>
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<tbody>
<tr>
<td>Afghanistan</td>
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<td>Bahrain</td>
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<td>Pakistan</td>
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<td>Philippines</td>
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<td>Qatar</td>
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<td>Saudi Arabia</td>
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<td>South Africa</td>
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<td>Sudan</td>
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<td>Syria</td>
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<td>Thailand</td>
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<td>Turkey</td>
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<tr>
<td>United Arab Emirates</td>
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</tbody>
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Calendar of Events

- 10 Oct 2019 | Kuala Lumpur, Malaysia
- 11 Oct 2019 | Jeddah, Saudi Arabia
- 12 Oct 2019 | Dubai, United Arab Emirates
- 13 Nov 2019 | Kuala Lumpur, Malaysia
- 16 Nov 2019 | Jeddah, Saudi Arabia
- 17 Nov 2019 | Kuala Lumpur, Malaysia
- 18 Nov 2019 | Jeddah, Saudi Arabia
- 19 Nov 2019 | Kuala Lumpur, Malaysia
- 20 Nov 2019 | Jeddah, Saudi Arabia
- 21 Nov 2019 | Kuala Lumpur, Malaysia

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 the Islamic financial services industry. The database provides 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. PSIFs cover aggregated data of Islamic banking institutions at the country level, compiled by the regulatory and supervisory authorities (RAs) of the participating countries. Separate data are provided on standalone Islamic banks and Islamic windows of conventional banks in jurisdictions, where available.

Who is involved in the PSIFI Project?

Article 4 of the PSIFs Agreement mandates the IFSB to establish a global database of the Islamic financial services industry. To undertake 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 of the IFSB. The IFSB has also closely worked with the IMF in all phases of this project.

PSIFI Website

About PSIFI

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

MAIN STRENGTH OF THE DATABASE: A COMPREHENSIVE REVIEW PROCESS
WHY THE INDICATORS ARE IMPORTANT FOR ISLAMIC FINANCIAL SERVICES INDUSTRY?

IFSB’S MANDATE AND PSIFI PROGRAMME

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

WHAT ARE THE USES/IMPLICATIONS OF THE PSIFI DATA?

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

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

Therefore, PSIFIs:

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

PSIFIs identify unique risks in Islamic finance

- Rate of Return Risk
- Shariah Non-compliant risk
- Displaced Commercial Risk
- Equity Investment Risk

Therefore, PSIFIs are used for financial sector surveillance in:

- Financial sector stability
- Macroeconomic stability
- Unique risk management of IIFS
# THE ULTIMATE OBJECTIVES AND IMPACT OF PSIFI

## 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

## Impact
- Implementation of IFSB Standards
- Compliance in Consistency
- Soundness
### Core

**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

### Additional

- 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

### Structural

- Total Revenues
- Earnings before taxes and Zakat

---

**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**

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

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

- 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

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

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

- FC denominated funding to total funding
- FC financing to total financing
- Shari‘ah-compliant financing by economic activity
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6. POSSIBLE COLLABORATION AND KEY TAKEAWAYS
WHAT ARE THE USES/IMPLICATIONS OF THE PSIFI PROGRAMME?

Uses of PSIFIs Data: Some References


WHAT ARE THE USES/IMPLICATIONS OF THE PSIFI PROGRAMME?

**PSIFIs Downloads**

- **2016H**: 11470
- **2016A**: 15567
- **2017H**: 23469

Number of Download Hits
**EXAMPLES: USES OF PSIFI DATA**

*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
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
www.ifsb.org
EXAMPLES: USES OF PSIFI DATA

Islamic Banking Sectoral Composition of Financing and NPF by Country

Jordan

Malaysia

Oman

Saudi Arabia

Source: Figures are prepared based on information from Islamic Financial Services Industry Stability Report 2017
www.ifsb.org
Examples: Uses of PSIFI Data

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

Source: Islamic Financial Services Industry Stability Report 2017

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

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

Islamic Banking Cost-to-Income by Country

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

Source: Islamic Financial Services Industry Stability Report 2017

Source: Islamic Financial Services Industry Stability Report 2017
EXAMPLES: USES OF PSIFI DATA

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

- Real Estate
- Manufacturing
- Household/Personal
- Wholesale, Retail and Trade
- Construction
- Agriculture
- Other

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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6. POSSIBLE COLLABORATION AND KEY TAKEAWAYS
## DATA GAPS IN ISLAMIC FINANCIAL SERVICES INDUSTRY –  
**A CASE FOR WORKING ON UNIQUE ELEMENTS**

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

- Communication between organisations to find out appropriate strategies on possible collaboration.
- Organise joint seminar/conference.
- Active participation in WG/Meetings organised by different organizations for database programmes.
- Use of web linkage of database by other organisations.

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.
Thank you

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