
Developing a Regulatory Framework for Islamic Finance in Europe - Challenges & opportunities -

July 08, 2008



Moody's Analytics

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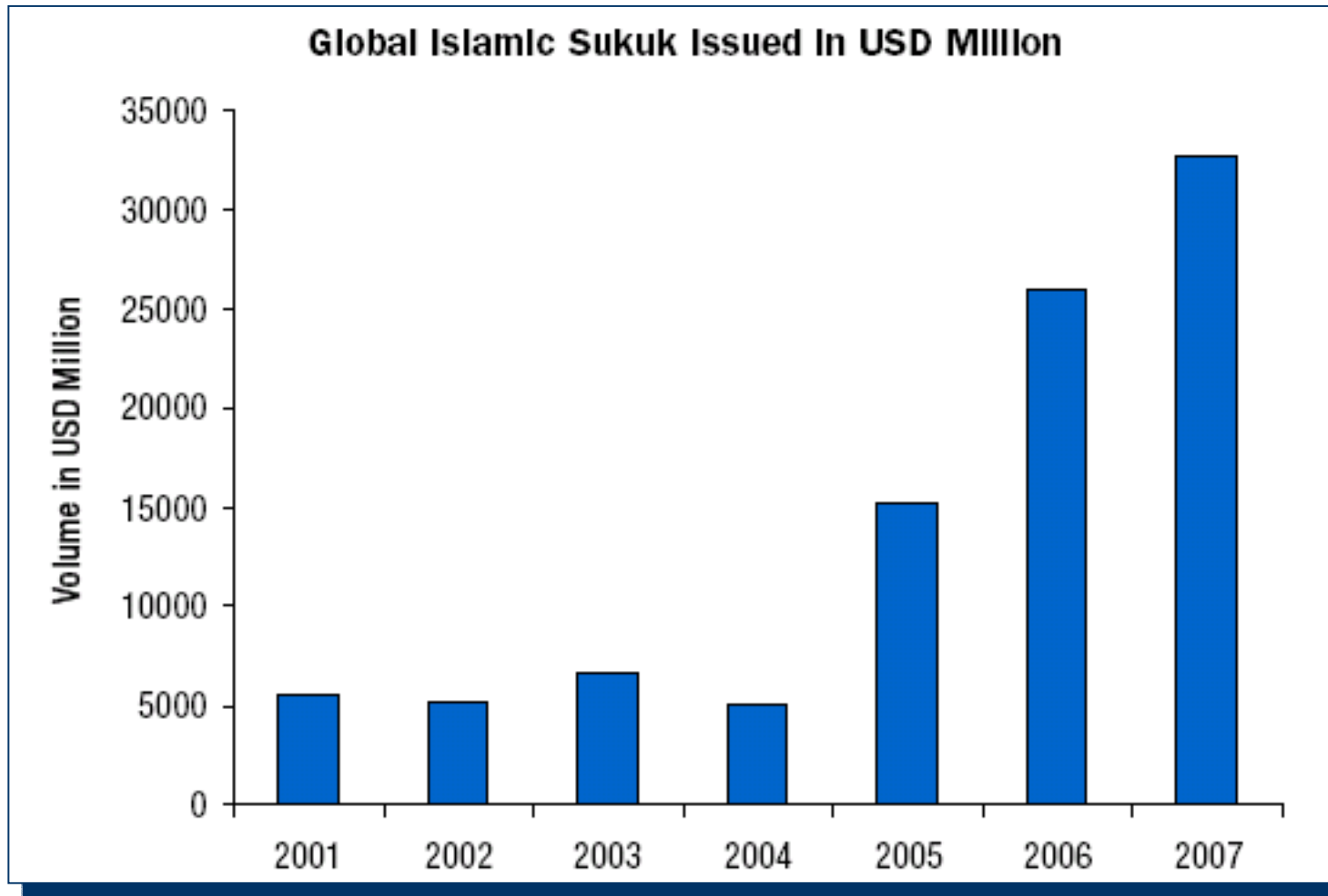
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Islamic Finance – a fast growing market segment

- Islamic finance only emerged ca. 30 years ago but has grown significantly in the last years (ca. 15% p.a. between 2005-2007)
- Today the Islamic finance industry has reached around US\$700bn¹.
- Still it represents only a small part of world finance industry but the growth is expected to show no signs of slowing.



¹ Islamic Financial Services Board estimate



Prudent risk management is a global challenge

- Risk management is at the heart of banks' financial intermediation process.
- Islamic financial institutions, like their conventional banking peers, face similar challenges in adequately
 - defining,
 - identifying,
 - measuring, and
 - mitigating risks across business lines and asset classes.
- The actual risks albeit may differ



Key differences in risk profiles

- The main differences between risk profiles of an Islamic and those of a conventional bank relate to five key areas:
 - the range of asset classes found in Islamic banks;
 - the relatively weak position of investment account holders;
 - the importance of the Shari'ah supervisory board and the bank's ability to provide the board with adequate information as well as abide by its rulings;
 - rate-of-return risk;
 - new operational risks



Possible impact on regulatory framework in Europe

- The new Basel II capital accord aims to be wide and flexible enough to encompass the needs of banks worldwide
- In the UK the Financial Services Authority authorised established conventional banks and an Islamic bank to offer Islamic Financial Products. There is a similar discussion in France.
- In 2005 the IFSB released its adjustments to the Basel II capital accord – namely an adjusted regulatory capital adequacy ratio



Moody's related research

Special Comments

- Risk Issues at Islamic Financial Institutions (January 2008)
- Islamic Finance in France: Strong potential, but key obstacles persist (July 2008)

Special Reports

- 2007 Review and 2008 Outlook: Islamic Finance (February 2008)

