

# Welcoming Remarks

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**The European Challenge**  
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*Excellencies, distinguished guests, ladies and gentlemen,*

السلام عليكم ورحمة الله وبركاته and a very good morning to all of you.

It is my honour and privilege to welcome you to the **2<sup>nd</sup> Islamic Financial Services Forum: The European Challenge** this morning.

This Forum is the result of joint collaboration between the Deutsche Bundesbank, the Financial Stability Institute and the Islamic Financial Services Board (IFSB). On behalf of the IFSB, I wish to extend our sincere thanks to the Financial Stability Institute for kindly agreeing to co-organise this Forum with us, and to the Deutsche Bundesbank for supporting the Forum. We have indeed enjoyed working with both these esteemed organisations in organizing the Forum.

This is the IFSB's second forum in Europe, the first of which was held in Luxembourg in November 2005. It is pertinent on this occasion to note the developments of the IFSI in Europe over these past two years, and the challenges faced by the industry in the way ahead.

Over the last few years, as many of you may have witnessed, the growth of the IFSI was driven by market players not only from the Middle East and Asia, but also from Europe. The issuance of Euro 100 million sub-sovereign Sukuk by the German state of Saxony-Anhalt in 2003 is a good example. Since then a number of European banks have embarked on numerous initiatives to tap the IFSI. This suggests that Islamic finance, despite its unique characteristics, is diverse in its application and has universal appeal as a viable alternative means of financing. However, it is important to note that Islamic finance is not merely about fund raising to finance big infrastructure projects. A key aspect of Islamic finance is financial inclusion, enabling members of the community to benefit from the financial system.

Growing interest among new market players in offering Islamic financial services, as well as the diversification and innovations being introduced by existing players, pose a major challenge for national supervisory and regulatory authorities. Despite having its own nomenclature, the IFSI operates within the existing global financial infrastructure. The interlinking of the IFSI with the conventional financial system subjects it to similar risks and challenges, and may still affect financial markets (albeit in a relatively minor way) should any adverse conditions occur. Thus, it is necessary that there be a set of prudential standards that cater for the specificities of Islamic finance.

To that effect, the IFSB has issued five Standards and Guidelines covering the areas of capital adequacy, risk management, corporate governance, supervisory review process and transparency and market discipline. Over the past 18 months, we have also expanded our efforts to include *Shari'ah*-compliant related issues within the

Islamic capital markets and insurance segments of the industry. We believe that these efforts will largely contribute to promoting the soundness and stability of the IFSI, to improving the supervision of IIFS, and most importantly, to providing a level playing field for these institutions that enables them to achieve their full potential in domestic and global markets.

In its preparation of prudential standards for the IFSI, the IFSB, does not attempt to reinvent the wheel. Rather, it is mandated to adopt existing globally acceptable standards, for example Basel II, and adjust them to the specificities of the IIFS. This approach is adopted to bring about the seamless integration of the IFSI into the mainstream market. For the IFSB, the application of its standards should not compromise, but rather **complement**, the existing supervisory practices.

The discussions in this Forum should firstly provide delegates with a better understanding of the intricacies of the IFSI, and secondly cast light on the operational aspects of the IFSB standards, which will be discussed in tomorrow's sessions.

Allow me now to draw your attention to a document which we feel is very important at this stage of the industry's development. In May 2007, the IFSB together with Islamic Research and Training Institute at the Islamic Development Bank published the **Islamic Financial Services Industry Development: Ten-Year Framework and Strategies**. This document (which is downloadable from the IFSB website) sets out the development needs of the IFSI and will serve as both a blueprint and a roadmap for developing a comprehensive financial architecture and infrastructure for

the IFSI over the next decade. The Framework addresses the pertinent issues and challenges facing the respective market segments of the IFSI and has identified 13 recommendations. The Framework is not meant for the IFSB or IDB/IRTI members only, but for all participants in the IFSI.

Before I end my welcoming remarks, I would like to touch on the growing membership of the IFSB. Two weeks ago, the IFSB Council admitted 13 new members, bringing the total membership to 150 organisations. This comprises 37 regulatory and supervisory authorities, 5 international intergovernmental organisations (including, of course, the Bank for International Settlements), and 108 market players and professional firms operating in 31 jurisdictions. The continuous additions to the IFSB membership of organisations across multiple jurisdictions demonstrate the interest of the industry in, and its appreciation of, the work of the IFSB. With this increasing membership, the IFSB looks forward to more members participating in the working groups, responding to surveys, providing feedback on exposure drafts, and attending and participating in the various workshops, seminars and forums such as today.

On that note, I wish everyone a very successful Forum.

Thank you for your attention.