

Facilitating the Implementation of the IFSB Standards Workshops

CORE PRINCIPLES FOR EFFECTIVE ISLAMIC DEPOSIT INSURANCE SYSTEMS

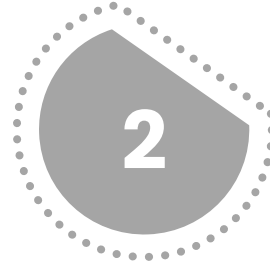
Ainaz Faizrakhman
Member of the Secretariat, Implementation
31 March 2022 | Online

Organised by:

Agenda



ABOUT STANDARD



OPERATING ENVIRONMENT



17 CPIDIS



SHARI'AH REQUIREMENTS

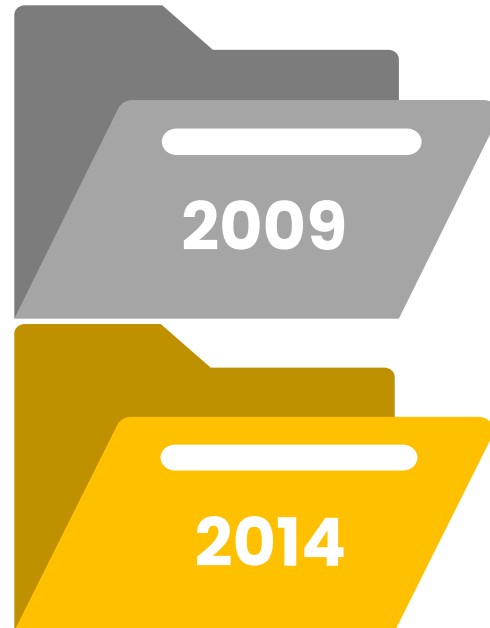


**CONSIDERATIONS FOR
INVESTMENT ACCOUNTS**

Background



Core Principles
for Effective
Deposit
Insurance
Systems



Methodology for assessing
compliance

Core Principles for regulation in the financial sector have become standard tools to guide regulatory and supervisory authorities (RSAs) in developing their regulatory regimes and practices.

General approach of CPIDIS

Principal objectives of depositor protection and financial stability are compliant with objectives of Shari'ah and IDIS.

01

02

Design features such as governance, membership, coverage, etc. are generally consistent but not fully applicable.



**16 Core Principles for
Effective Deposit
Insurance Systems –
November 2014**

Modifications required to take into account the Shari'ah requirements and heterogeneities of Islamic banking.

04

03

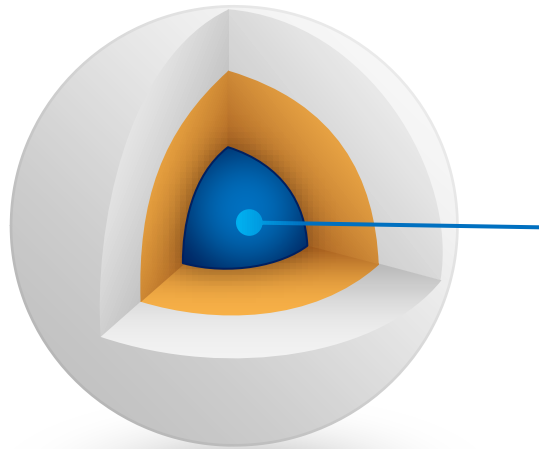
Moral hazard issues, operating environment and the other considerations discussed in the IADI CPs are also relevant to IDIS.



ISLAMIC FINANCIAL
SERVICES BOARD

**Identify areas the 16 IADI CPs not fully
applicable for Islamic finance and
Islamic deposit insurance**

Objectives of the CPIDIS



Objectives of the CPIDIS



Serve as a benchmark international framework to facilitate the development and implementation of effective IDIS;

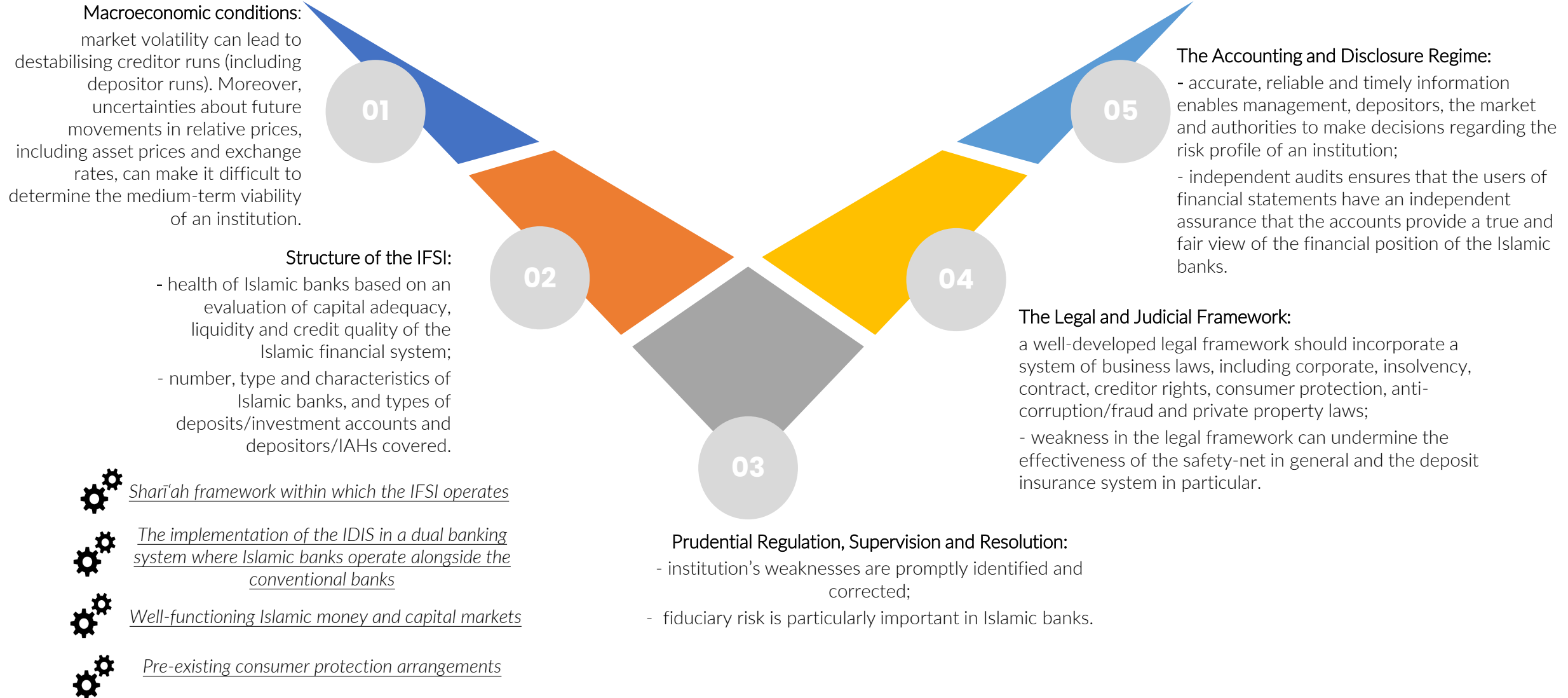


Enable existing IDIS to identify best-practice gaps in their current modalities; and

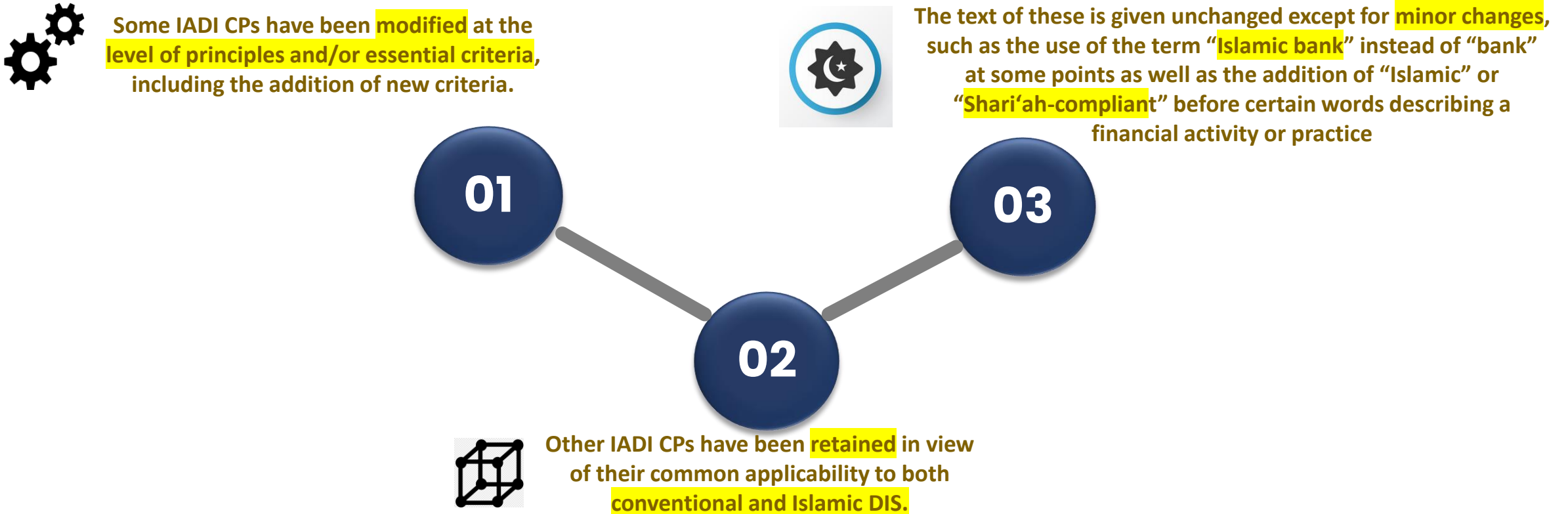


Facilitate an independent, third-party or self assessment of the compliance of an IDIS with CPIDIS.

Operating environment



Revisions at the level of Core principles



PUBLIC POLICY OBJECTIVES

MANDATE AND POWERS

GOVERNANCE

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CPIDIS 1: The principal public policy objectives for Islamic deposit insurance systems are to protect depositors and contribute to financial stability. These objectives should be formally specified and publicly disclosed. The design of the Islamic deposit insurance system should reflect the system's public policy objectives while being in conformity with Sharī'ah requirements.

4 Essential
Criteria

- ❖ Modification to reflect the design features of an IDIS are Shari'ah-compliant
- ❖ Modification to incorporate feedback from the Shari'ah Board during review of an IDIS

CORE PRINCIPLES

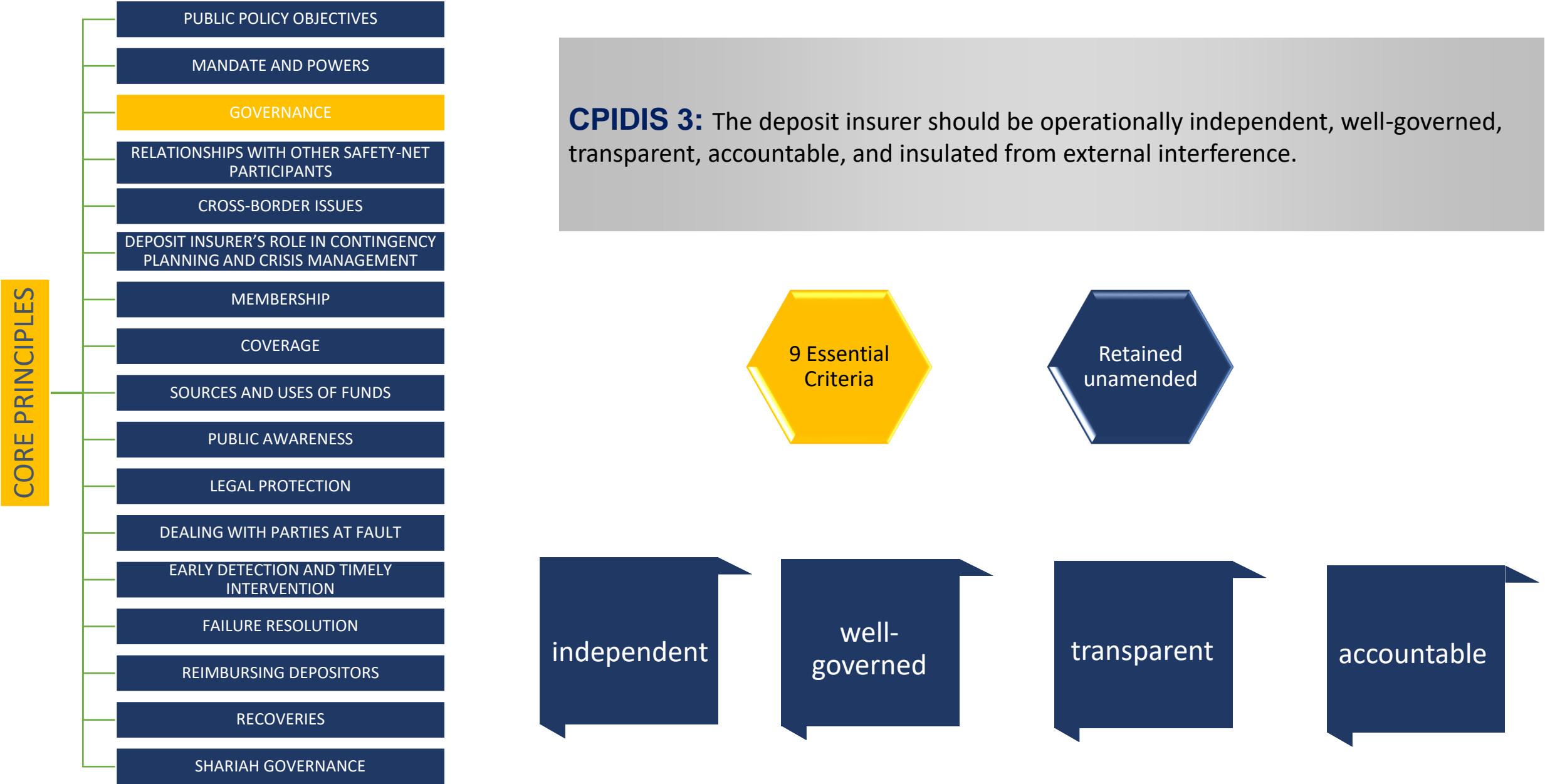
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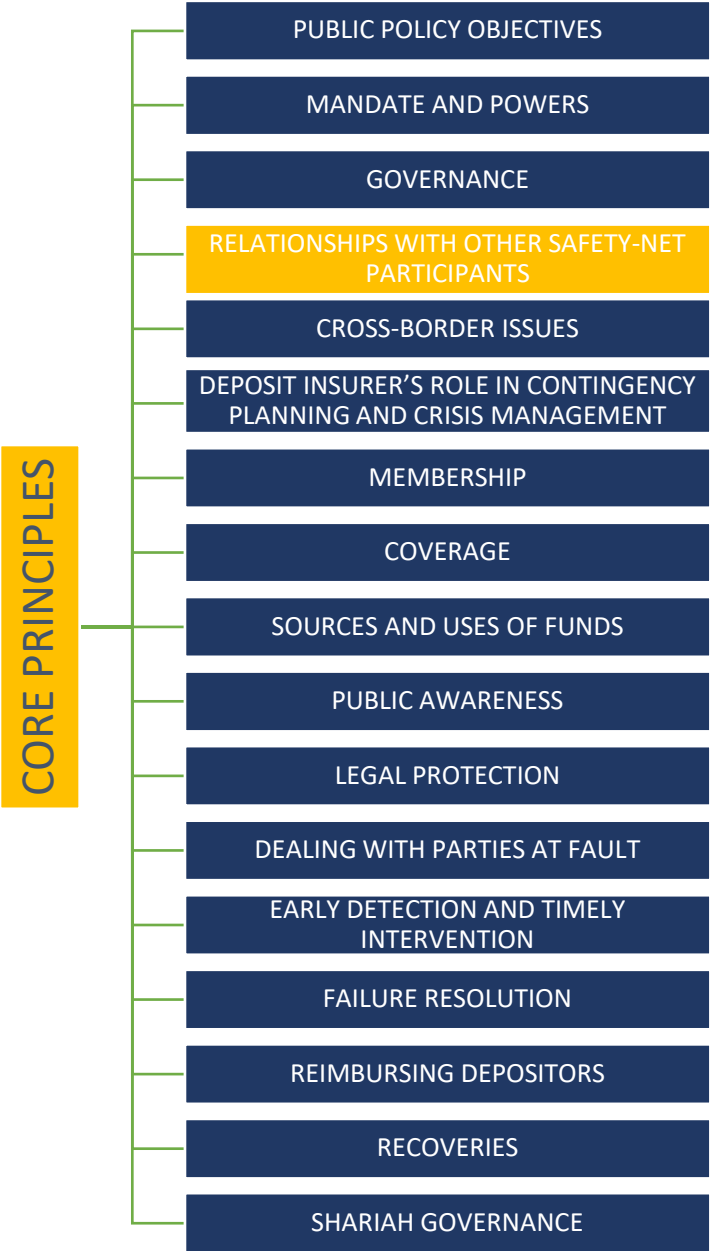
CPIDIS 2: The mandate and powers of the deposit insurer should support the public policy objectives and be clearly defined and formally specified in legislation.



❖ Modification to reflect where an IDIF is not owned by IDIS due to its Shari’ah-compliant design, the IDIS has clearly specified authorisation in legislation to utilise the funds for carrying out its duties.







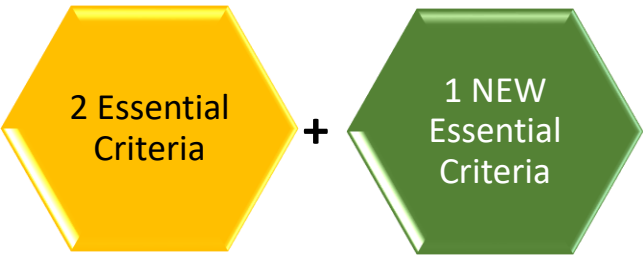
CPIDIS 4: In order to protect depositors and contribute to financial stability, there should be a formal and comprehensive framework in place for the close coordination of activities and information sharing, on an ongoing basis, between the deposit insurer and other financial safety-net participants.



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CPIDIS 5: Where there is a material presence of foreign **Islamic** banks in a jurisdiction, formal information sharing and coordination arrangements should be in place among deposit insurers in relevant jurisdictions.



❖ Addition to incorporate cross-border coordination arrangements that seek clarity regarding the type of Islamic deposits protected by the IDIS in each respective jurisdiction.

Information sharing arrangements and/or bilateral or multilateral agreements clarify the type of covered deposits, including, but not limited to, investment accounts,³³ and also differences in treatment (if any) due to different Sharī’ah interpretations by respective Sharī’ah boards

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CPIDIS 6: The deposit insurer should have in place effective contingency planning and crisis management policies and procedures to ensure that it is able to effectively respond to the risk of, and actual, **Islamic** bank failures and other events. The development of system-wide crisis preparedness strategies and management policies should be the joint responsibility of all safety-net participants. The deposit insurer should be a member of any institutional framework for ongoing communication and coordination involving financial safety-net participants related to system-wide crisis preparedness and management.

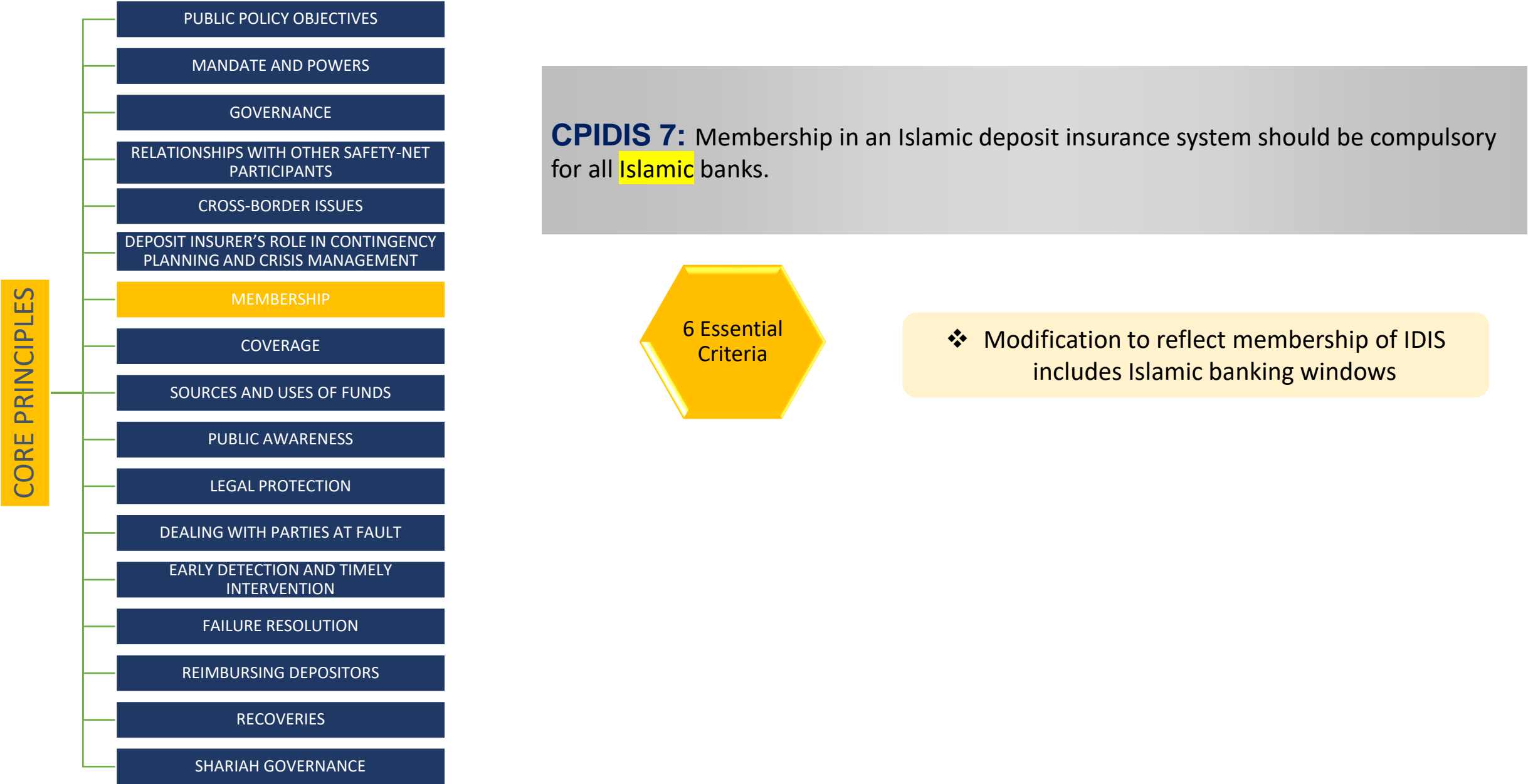
5 Essential
Criteria

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1 NEW
Essential
Criteria

❖ Addition to reflect the IDIS is compliant with Shari'ah rules and principles in its contingency planning and crisis management

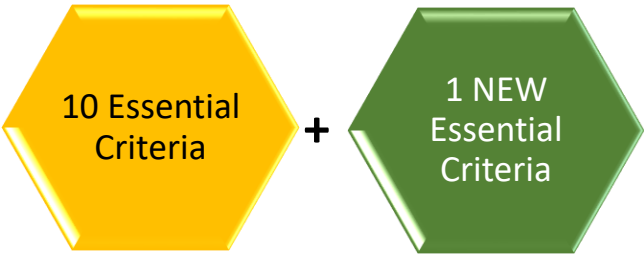
The deposit insurer complies with Shari'ah rules and principles in its contingency planning and crisis management activities, as reviewed and endorsed by the Shari'ah governance system outlined in CPIDIS 17.



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CPIDIS 8: Policymakers should define clearly the level and scope of coverage. Coverage should be limited and credible, and cover the large majority of depositors, but leave a substantial amount of deposits exposed to market discipline. Coverage should be consistent with the **Islamic** deposit insurance system’s public policy objectives and related design features.



- ❖ Addition to incorporate clarity on protection status for “investment accounts” when offered by Islamic banks
- ❖ Modification to reflect equality in coverage limit when a single DIS offers both CDIS and IDIS.

The coverage status of investment accounts is clearly and publicly defined based on public policy objectives. If an investment account is covered, the deposit insurer ensures appropriate design features are in place for such coverage in line with the Sharī’ah rulings of the relevant Sharī’ah

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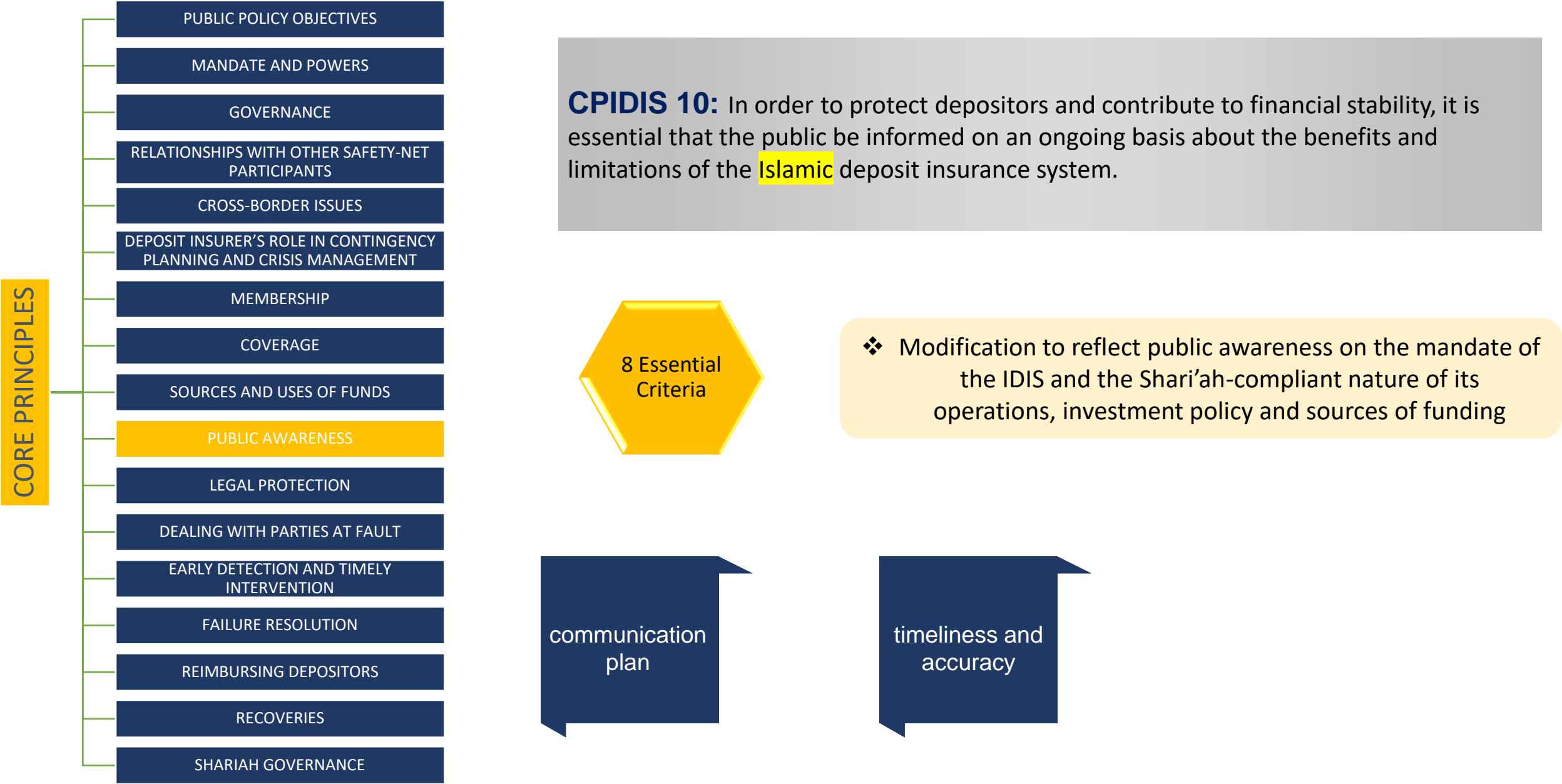
CPIDIS 9: The deposit insurer should have readily available funds and all funding mechanisms necessary to ensure prompt reimbursement of depositors' claims, including assured liquidity funding arrangements. Responsibility for paying the cost of deposit insurance should be borne by Islamic banks and, where applicable, IAHs.

10 Essential
Criteria

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3 NEW
Essential
Criteria

- ❖ Addition to incorporate clarity on sources of funds for protection of investment accounts.
- ❖ Modification to reflect initial/seed-funding from CDIS to IDIS and its repayment without any interest payment on principal.
- ❖ Modification to reflect need for Shari'ah-compliant arrangement for sources of emergency funding.
- ❖ Modification to reflect the target fund-size for IDIS to be determined separately from CDIS
- ❖ Modification to reflect need for Shari'ah-compliant arrangements for investment of IDIF.
- ❖ Modification for accounting for sound and responsible Shari'ah-compliant arrangement of IDIF, and proper separation of records and expenditure allocations for CDIF and IDIF, when maintained by a single deposit insurer.
- ❖ Modifications to reflect funds placed by the IDIF with central bank(s) is through a Shari'ah-compliant mechanism

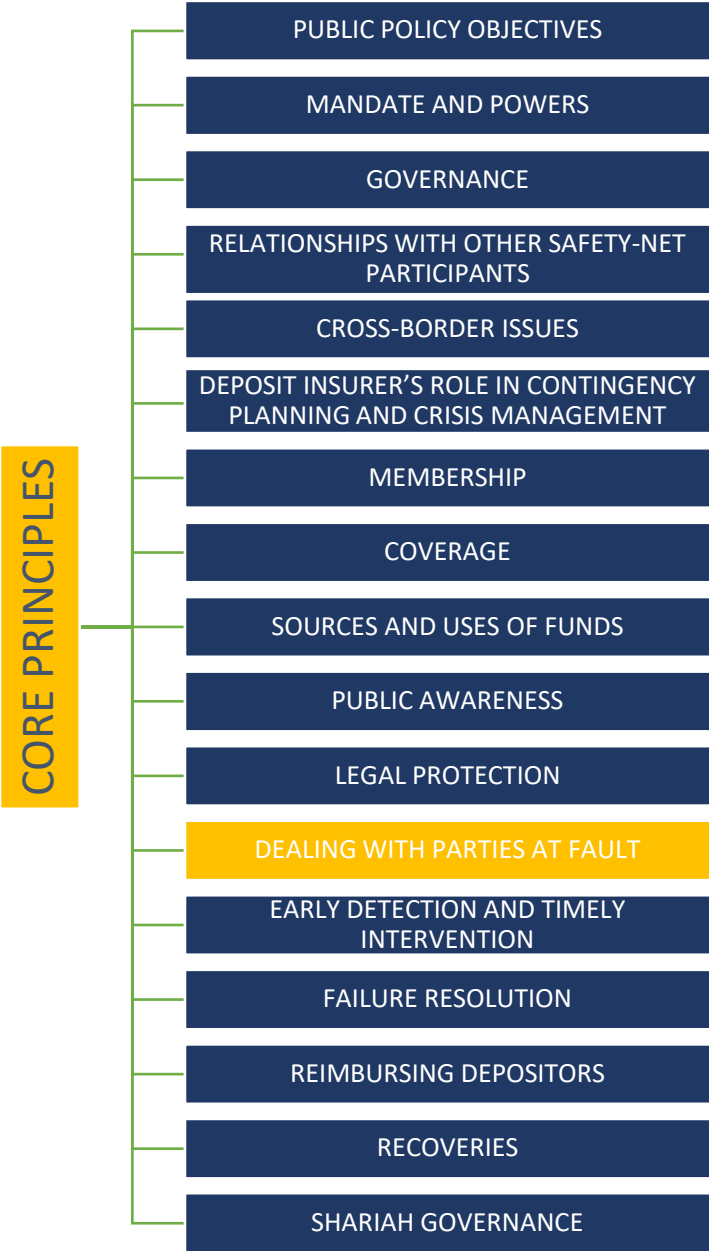




CPIDIS 11: The deposit insurer and individuals working both currently and formerly for the **Islamic** deposit insurer in the discharge of its mandate must be protected from liability arising from actions, claims, lawsuits or other proceedings for their decisions, actions or omissions taken in good faith in the normal course of their duties. Legal protection should be defined in legislation.

4 Essential
Criteria

- ❖ Modification to incorporate the role of Shari’ah Advisors / Shari’ah Board Members for legal protection.



CPIDIS 12: The deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in an **Islamic** bank's failure.



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CPIDIS 13: The deposit insurer should be part of a framework within the financial safety-net that provides for the early detection of, and timely intervention in, troubled **Islamic** banks. The framework should provide for intervention before the **Islamic** bank becomes non-viable. Such actions should protect depositors and contribute to financial stability.



- ❖ Modification to reflect other risks specific to Islamic banks and used to trigger timely intervention or corrective action



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CPIDIS 14: An effective failure resolution regime should enable the deposit insurer to provide for protection of depositors and contribute to financial stability. The legal framework should include a special resolution regime.

9 Essential
Criteria

- ❖ Modification to reflect resolution regime complies with Shari'ah framework as applied in the jurisdiction.
- ❖ Modification to reflect Shari'ah-compliant resolution options available to the IDIS.
- ❖ Modification to reflect depositor hierarchy in resolution procedures complies with Shari'ah rules and principles



CPIDIS 15: The Islamic deposit insurance system should reimburse depositors' insured funds promptly, in order to contribute to financial stability. There should be a clear and unequivocal trigger for protected depositor reimbursement.



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CPIDIS 16: The deposit insurer should have, by law, the right to recover its claims including claims of the Islamic deposit insurance fund under its management, in accordance with the statutory creditor hierarchy.

5 Essential
Criteria

- ❖ Modification to account for IDIS design where IDIF is not in ownership of IDIS, but the IDIS has rights to recover claims of the IDIF under its management (i) by being recognised as a creditor through subrogation; (ii) by having same rights in law as that of a creditor or depositor in estate of failed Islamic bank; (iii) by having right to access information from the liquidator

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CPIDIS 17: The Islamic deposit insurance system should have in place a comprehensive and properly functioning Shari'ah governance system.

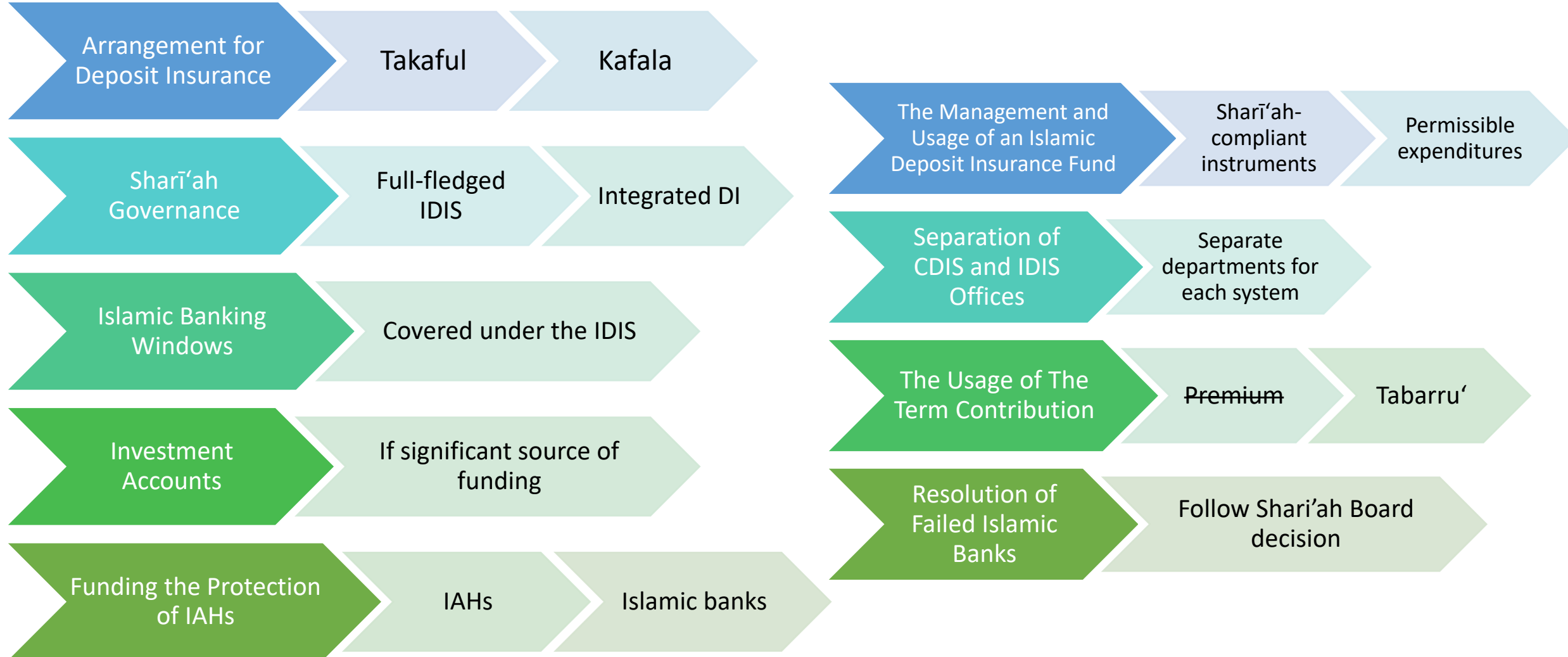
Shari'ah
governance
system

Shari'ah Board
competent &
independent

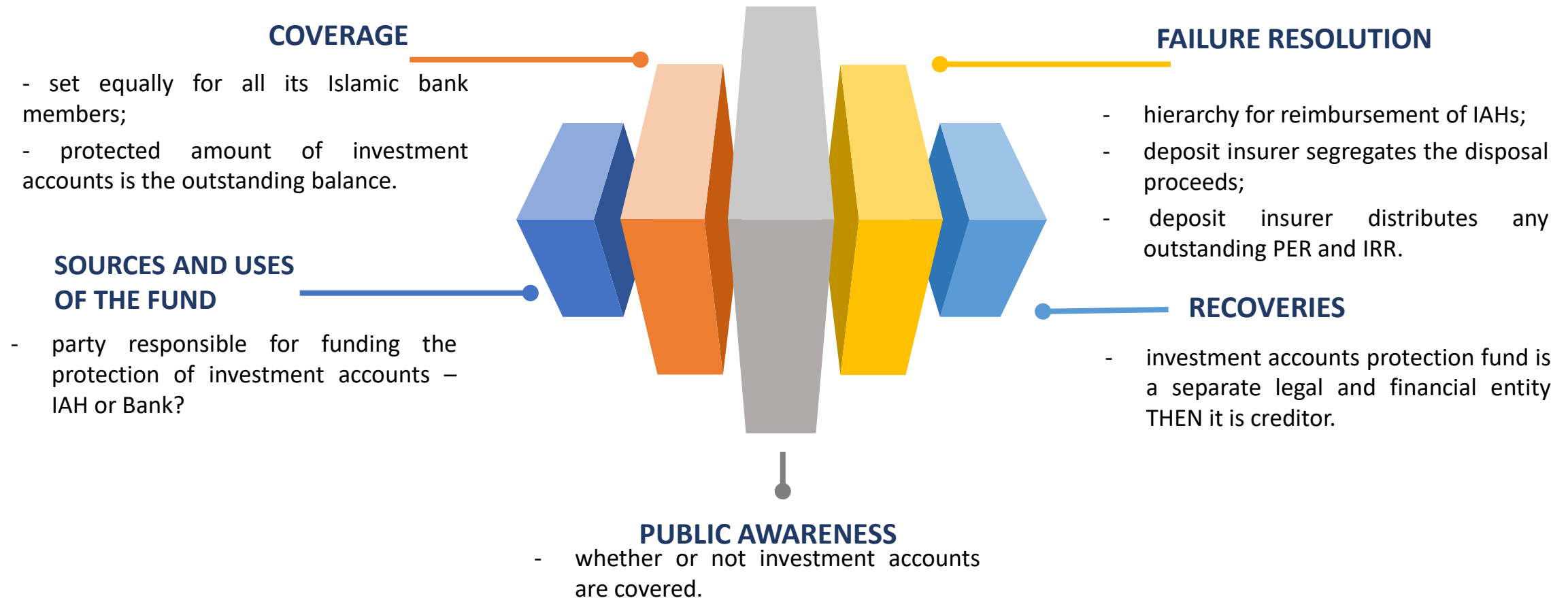
Disclosures to
stakeholders

Activities are
Shari'ah
compliant

Shari'ah requirements and specificities for IDIS design



Key considerations for Investment Accounts under an IDIS



Facilitating the Implementation of the IFSB Standards Workshops

Thank you

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