

POLICY RECOMMENDATIONS OF THE 4th MEETING OF THE FINANCIAL COOPERATION WORKING GROUP

The COMCEC Financial Cooperation Working Group (FCWG) successfully held its 4th Meeting on March 19th, 2015 in Ankara / Turkey with the theme of “Improving Banking Supervisory Mechanisms in the OIC Member Countries”. During the Meeting, the participants discussed some crucial policy issues in light of the main findings of the research report prepared specifically for the Meeting and the responses of the Member Countries to the policy questions that were sent by the CCO in advance of the Meeting. Accordingly, the working group has come up with the policy advices below.

Policy Advice 1. A credit risk data collection strategy for the OIC Member Countries needs to be developed for reducing risks during episodes of economic turbulence and risk assessment capacity of the OIC Member Countries should also be developed in line with the international best practices.

Rationale: For most OIC member states, credit risk appears to be the most important risk factor for the banking sector. Even though OIC member states reserved a significant amount of capital buffer against potential credit risk, they generally use standard risk weights which might understate the actual credit risks during episodes of economic turbulence. There is a need to develop a systematic credit rating methodology specifically designed for OIC Member Countries, since credit rating methodologies developed and implemented in Europe and in the US may not be well-suited given the peculiar aspects of the OIC economies. Therefore, to achieve a unified credit rating methodology, a unified credit risk data collection strategy needs to be developed among OIC member states. Both consumer and commercial credit risk data (both good and bad customer data) can be collected with a unified data collection framework. Furthermore, Member Countries and Institutions need to improve their credit risk assessment capacity in line with the international best practices.

Policy Advice 2. An Effective Deposit Insurance Scheme for the Banking Sector needs to be developed for achieving a higher degree of financial stability and financial inclusion.

Rationale: The recent crises in US and EU banking sectors have shown the importance of an effective deposit insurance scheme and paved the way for radical changes in insurance practices. Deposit insurance is critical to ensure depositors’ confidence and enhance depositor base, which is a necessary step to achieve a higher degree of financial stability and financial inclusion. Most OIC member states do not provide an explicit deposit insurance for customers. Member countries need to take necessary steps to establish and implement an effective deposit insurance scheme. Deposit insurance will improve soundness of banking system, as trust on the system by preventing bank-runs in the times of stress beside minimizing the amplification of shocks.

Policy Advice 3. A Regulatory and supervisory Framework needs to be developed specifically for Islamic Banking in order to benefit from the significant growth potential of Islamic Banking System.

Rationale: Islamic banking plays an important role in the banking sector of the OIC member states and exhibits a significant growth potential. Currently, Islamic banking is regulated and supervised under the regulatory and supervisory frameworks designed for the conventional banking system as there is no separate regulation scheme for Islamic banking. As functioning of conventional and Islamic banking are

significantly different, and considering the prominent growth prospects of Islamic banking, a regulatory and supervisory framework designed specifically for Islamic banking unfolds as a necessity. OIC member states should take the necessary actions to make regulation and supervision practices comply with the peculiarities in Islamic banking.

Instruments to Realize the Policy Advices:

- **COMCEC Financial Cooperation Working Group:** In its subsequent meetings, the COMCEC Working Group may elaborate on the above mentioned policy areas and the sub-areas in a more detailed manner.

- **COMCEC Project Funding:** Under the COMCEC Project Funding, the COMCEC Coordination Office calls for project each year. With the COMCEC Project Funding, the Member Countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. For the above mentioned policy areas and their sub-areas, the Member Countries can utilize the COMCEC Project Funding and the COMCEC Coordination Office may finance the successful projects in this regard. The projects may include seminars, training programs, study visits, exchange of experts, workshops and preparing analytical studies, needs assessments and training materials/documents, etc.

- **Capacity Building Activities:** With the COMCEC Coordination Office's resources and Member Countries' own resources, some capacity building 189 Annex 9 to OIC/COMCEC/31-15/REP and technical assistance programs on the aforementioned policy areas and their sub-areas can be organized in the Member Countries. These activities may include seminars, training programs, study visits, exchange of experts, workshops and preparing analytical studies, needs assessments and training materials/documents, etc.

- **Meetings of the initiatives under the COMCEC:** In its next meetings, the initiatives under the COMCEC may focus on the above mentioned policy areas.