General Council for Islamic
Banks And Financial Institutions

Affiliated Institution to the OIC
Established under Royal Decree No 23 -2001

CIBAFI

المجلس العام للبنوك
والمؤسسات المالية الإسلامية

مؤسسة منتمية لمنظمة التعاون الإسلامي
تأسست بمرسوم ملكي رقم ٢٣ لسنة ٢٠٠١م

Ref. No.: 0720/2457/RE
15th July 2020

Dietrich Domanski
Secretary General
Financial Stability Board
Bank for International Settlements
Cenatralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Mr. Domanski,

Correspondent Banking

The General Council for Islamic Banks and Financial Institutions (CIBAFI) presents its compliments to the Financial Stability Board (FSB).

CIBAFI is an international body representing Islamic financial institutions (IFIs) globally, who offer financial services and products complying with Islamic rules and principles (Shariah). CIBAFI acts as the voice of the Islamic finance industry and has a membership of over 130 banks and non-bank financial institutions, both large and small, from 34 countries and jurisdictions.

CIBAFI greatly appreciates the work that the FSB and other global bodies continue to do to address issues in correspondent banking. I wrote to you on this subject last year, when I mentioned that correspondent banking is an issue of particular importance to our members, few of whom have a global reach and most of whom are in emerging or developing markets. They are therefore very dependent on relationships with other banks to be able to provide

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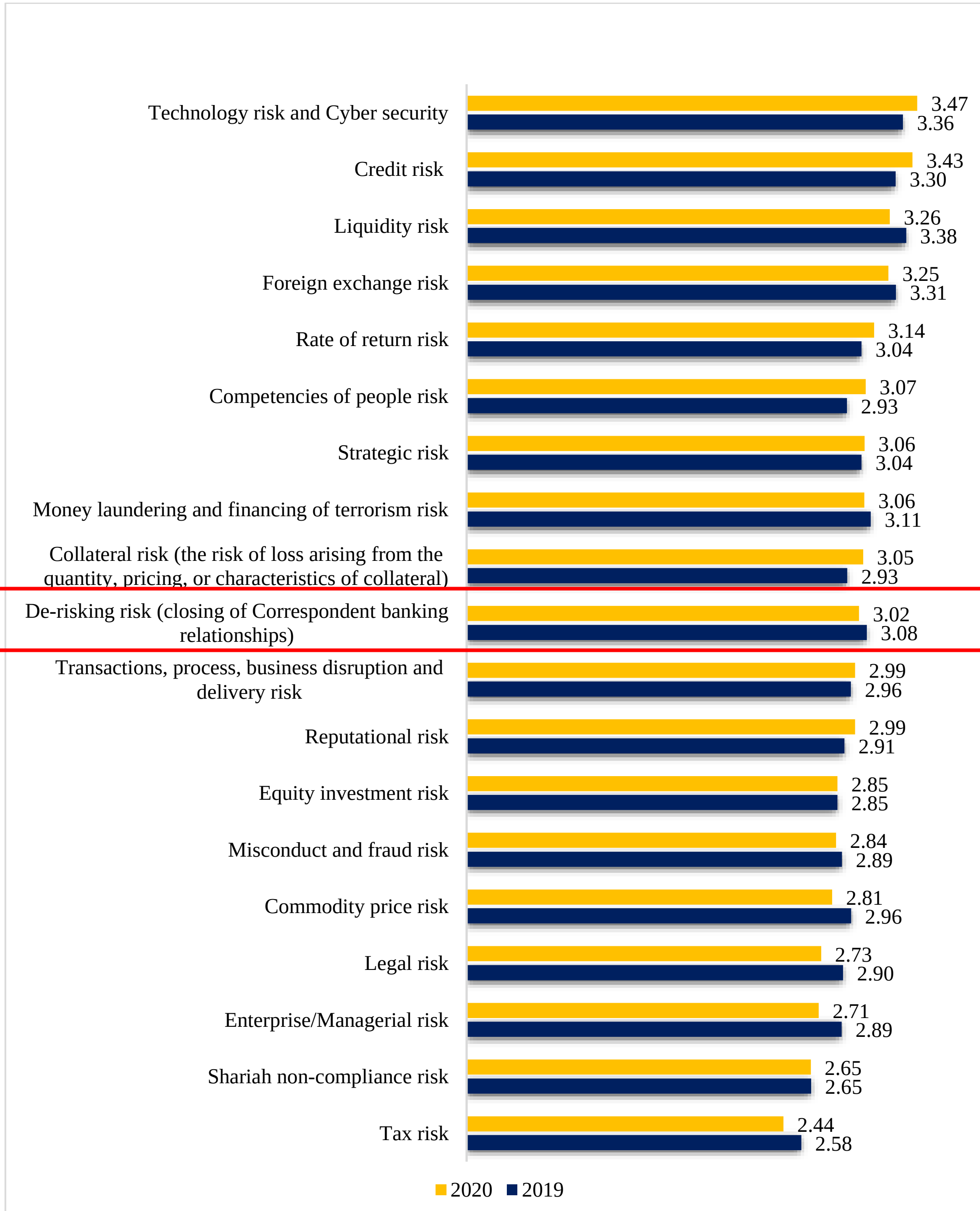
Tel: +973 17 357 300 Fax: +973 17 324 902 P.O. Box 24456 Manama, Kingdom of Bahrain
C.R. No 47423 www.cibafi.org Email: cibafi@cibafi.org

basic international services to their customers. Some have suffered particularly from de-risking by international banks because of the countries in which they are based.

In my letters in 2018 and 2019, I passed on to you some information on this subject from CIBAFI's Global Islamic Bankers' Survey (GIBS) 2018 followed by an update in 2019. I am now in a position to update this information based on the 2020 survey, which will be published this month and which was conducted in late 2019 and early 2020. This survey attracted 101 responses, from institutions in 35 countries. (Geographical distribution is attached to this letter in the appendix.)

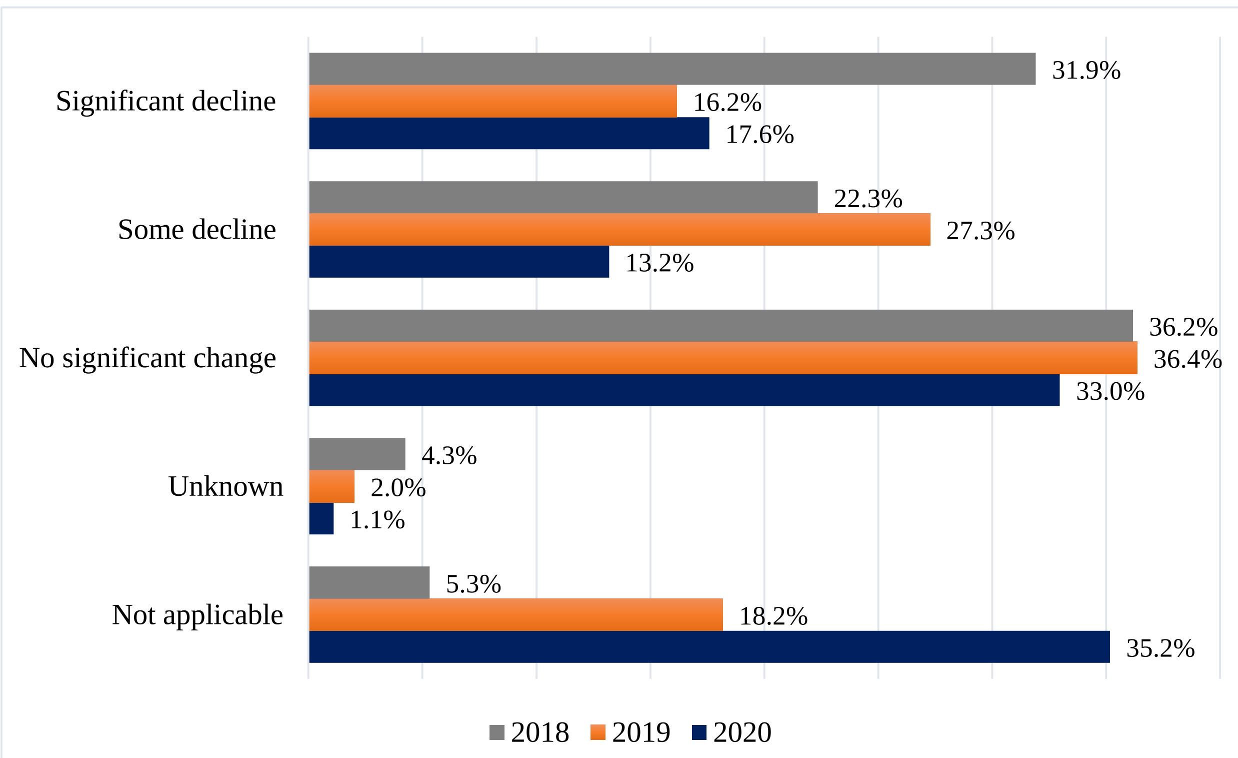
Part of the survey is a "risk dashboard", in which we ask banks to rate the importance to them of a number of specific risks. In the 2018 edition, for the first time, we included among them "de-risking risk", i.e. the risk posed by the closure of correspondent banking relationships. We included this risk both in 2019 and in this year's survey, and this year overall it scored tenth of the 19 risks listed, down from sixth in the previous survey. Last year, de-risking risk was scored at 3.08, and this year the score slipped only slightly to a still-significant score of 3.02

Figure 1. Global Islamic Banking Risk Dashboard



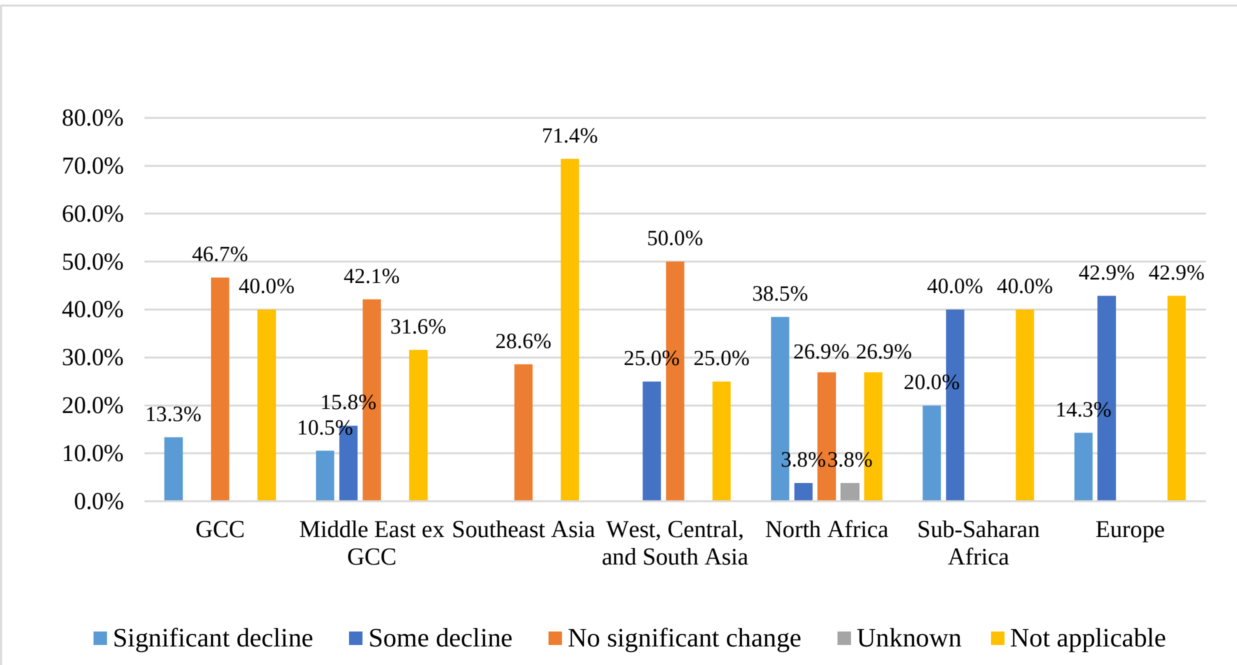
In the last two years, we asked Islamic banks to what extent the bank had experienced a decline in correspondent banking relationships (CBR) as a result of 'de-risking' over the last five years. This year, to capture changes since the previous surveys, we asked only about the extent to which they had experienced a decline over the last year. 13.2% reported some decline, and 17.6% a significant decline. This year there has been a substantial increase in those responding "not applicable". A significant proportion of these banks are smaller subsidiaries or Islamic windows (of conventional banks) that participated in the survey, and these do not have exposure to CBR.

Figure 2. Decline in CBR Due to De-Risking



This year, the area where the most significant decline had occurred is North Africa. A total of 38.5% of Islamic banks from North Africa region reported a "significant decline" in CBR which means the majority of respondents have experienced negative effects as a result of de-risking over the last year.

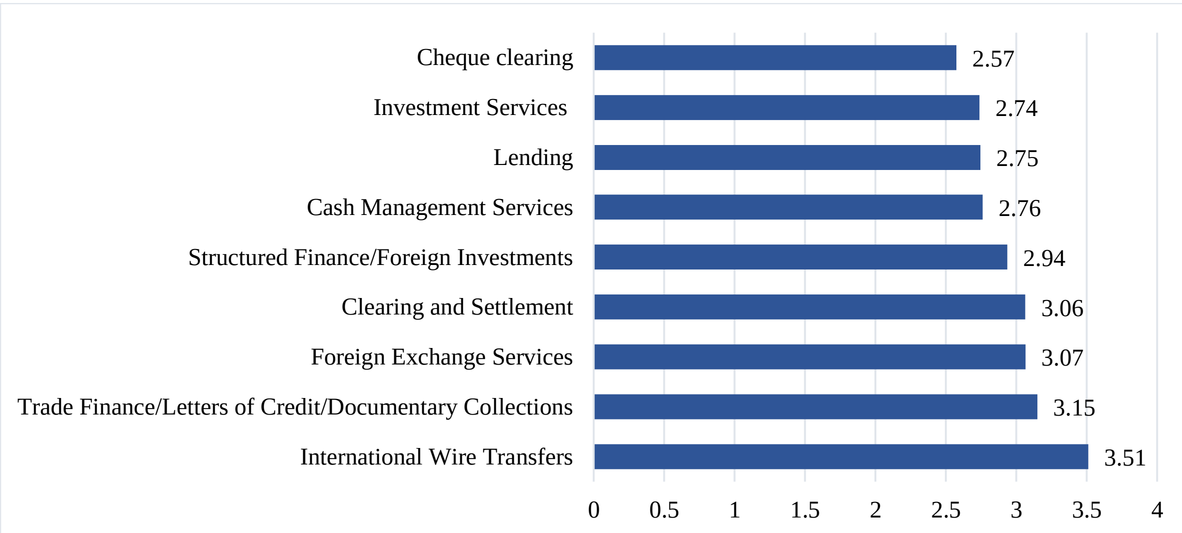
Figure 3. Decline in CBR Due to De-Risking – Regional Breakdown (2020)



Again as last year, the survey asked to what extent a given set of products and services had been affected within the institution as a result of the closing of correspondent banking relationships. A score of 1 indicated no effect at all' while a score of 5 indicated that the area of business had been 'significantly affected.'

The findings show that the top affected banking service for this year was International Wire Transfer with the highest score of 3.51, followed by Trade Finance/Letter of Credits/Documentary Collections with a score of 3.15 and Foreign Exchange Services tied for the third most affected with a score of 3.07. This pattern is very similar to last year's.

Figure 4. De-risking Effects on Products and Services



The regional picture is consistent with what one might expect from responses to the earlier questions, with North Africa returning the highest scores overall. There are, however, some local variations. For example, cheque clearing stands out particularly strongly as an affected sector in Southeast Asia.

Figure 5. De-risking Effects on Products and Services – Regional Breakdown (2020)

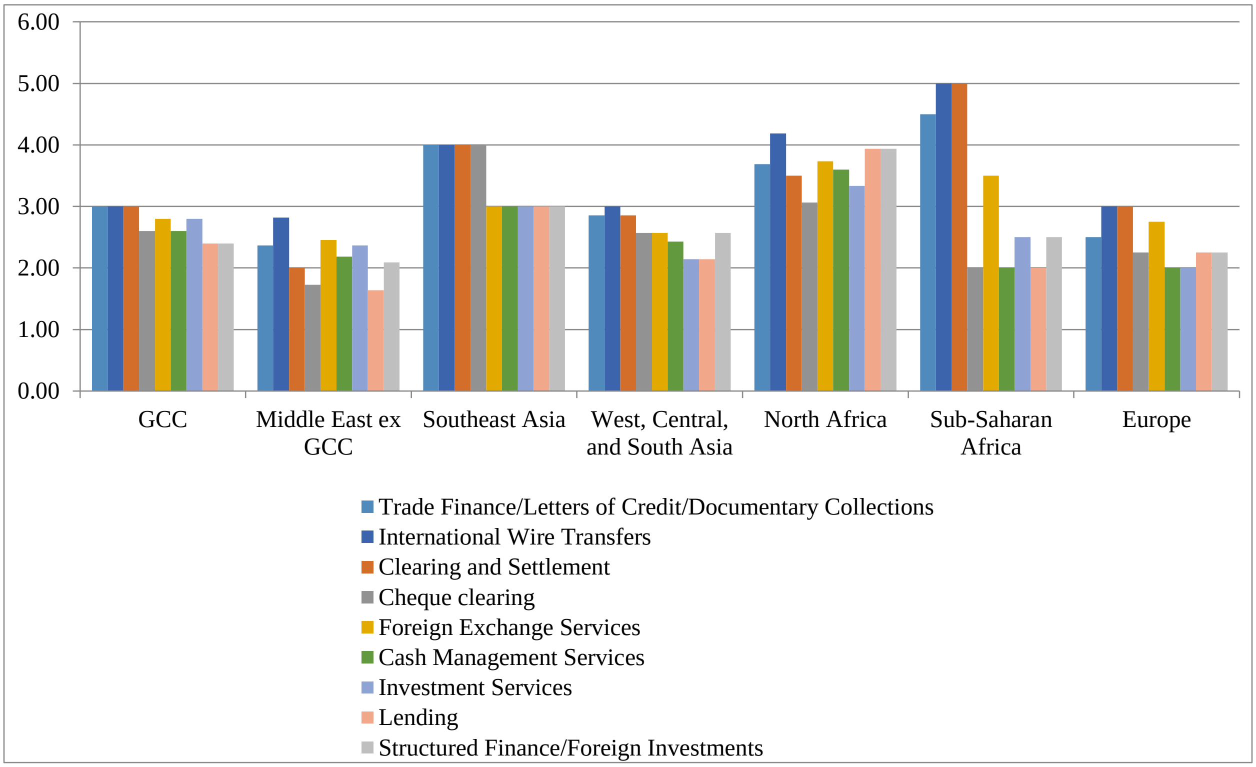


Figure 6. De-risking Effects on Products and Services – Small Banks (2020)

Figure 7. De-risking Effects on Products and Services – Large Banks (2020)

As one might expect, small banks[1] are hit more severely overall by de-risking, but also the impacts fall most severely on different products and services. This is particularly conspicuous in the case of cheque clearing, which came fifth in the ranking for large banks[2], but last for the small ones.

It is encouraging that Islamic banks continue to undertake various measures to mitigate the de-risking risk. Banks have commented on their efforts to ensure compliance with KYC and AML related policies, and to make these known to global correspondent banks. One member bank explained that it was opening nostro accounts at new entities in different

[1] Bank's total asset less than 5 billion USD
[2] Bank's total asset over 5 billion USD

currencies to serve the clients. Some do, however, face particular problems because of the jurisdictions in which they are located, Sudan being an obvious example.

We should be happy to give you more detail of the survey results and comments, and to co-operate in any future work in which our participation might be helpful. Although its severity seems to be easing, the decline in correspondent banking remains an issue which could impact severely on some of our members, and CIBAFI therefore very much welcomes the priority which it continues to hold on the international agenda.

The General Council for Islamic Banks and Financial Institutions avails this opportunity to renew to the Financial Stability Board the assurance of its highest respect and consideration.

With highest regards and best wishes.

Yours sincerely,

Dr. Abdelilah Belatik
Secretary General

CC to:

Carolyn Rogers
Secretary General
Basel Committee on Banking Supervision

Appendix

Table 1. Geographical Distribution of Respondents

Group	Region	Countries from which banks responded	Number of banks in this group that responded
Group 1	GCC	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE	16
Group 2	Middle East ex-GCC	Egypt, Iraq, Jordan, Palestine, Syria, Yemen	22
Group 3	Southeast Asia	Malaysia, Indonesia	7
Group 4	West, Central, and South Asia	Afghanistan, Bangladesh, Pakistan, Sri Lanka	14
Group 5	North Africa	Algeria, Libya, Morocco, Sudan, Tunisia	27
Group 6	Sub-Saharan Africa	Djibouti, Guinea, Kenya, Mauritania, South Africa, Nigeria, Somalia, Burkina Faso	8
Group 7	Europe	Bosnia Herzegovina, Germany, Turkey, UK	7
Total number of countries and banks		**35 Countries**	**101 Islamic Banks**

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Tel: +973 17 357 300 Fax: +973 17 324 902 P.O. Box 24456 Manama, Kingdom of Bahrain
C.R. No 47423 www.cibafi.org Email: cibafi@cibafi.org