



ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

PSIFI Brief

27 April 2015

What does PSIFIs stand for?

Prudential and Structural Islamic Financial Indicators

What are PSIFIs?

PSIFIs are a set of indicators on the financial soundness and growth of the Islamic banking systems. These indicators are the first set of internationally comparable measures of the soundness of Islamic banking systems. The PSIFIs capture information on the *size, growth and structural features* of Islamic banking systems and on their *macroprudential condition* by looking at measures of their capital, earnings, liquidity, and exposures to various types of risks. They also cover the indicators on capital adequacy and liquidity that are based on newly issued IFSB Standards to complement international regulatory reforms under the Basel III regime.

The indicators are part of an international effort involving the IFSB and other organisations to construct a comprehensive picture of Islamic financial activity. Because of the rapid growth of Islamic finance in many jurisdictions, such information is increasingly needed to understand the structure, soundness, and growth of the Islamic finance component within the entire financial systems.

Who is involved in the PSIFIs Project?

Article 4 of the IFSB Articles of Agreement mandates the IFSB to establish a global database of the Islamic financial services industry. In undertaking this task, the IFSB has benefitted from the Technical Assistance from both the Islamic Development Bank and the Asian Development Bank. The current phase of the project is being undertaken with the assistance from the latter. (See Appendix 1 – *History of the PSIFIs Project*)

Why are PSIFIs important?

The PSIFIs provide statistics useful to financial sector supervisors and policy-makers; fund providers and investors; academics and researchers; international financial press and media as well as the general public. Many of the PSIFIs are parallel to the widely used IMF Financial Soundness Indicators (FSIs) on the strength or vulnerabilities of financial systems, but are customised to the specific characteristics of Islamic banking. As such, they will serve to highlight the role of Islamic banking within national economies and permit comparisons between the conventional and Islamic banking systems. (See Appendix 1 – *History of the PSIFIs Project*)

Which countries are contributing to the IFSB PSIFIs?

At present, RSAs from 15 countries are contributing to the IFSB PSIFIs. These countries are: Afghanistan, Bahrain, Bangladesh, Brunei, Egypt, Indonesia, Jordan, Kuwait, Malaysia, Nigeria, Oman, Pakistan, Saudi Arabia, Sudan, and Turkey.

What type of data is presented in the PSIFIs?

PSIFIs cover only aggregated data of Islamic banking institutions at the country level, compiled by the national regulatory and supervisory authorities (RSA) of the participating countries.

- PSIFI data is provided for various types of **prudential indicators** (PIFI) covering capital adequacy, leverage, nonperforming financing, earnings, liquidity, and foreign currency exposure as well as **structural indicators** (SIFI) focusing on items such as number of branches, employees and size of total assets, funding and financing portfolios.
- The database also includes **metadata** which provides information on the design and specification of data elements.

The full set of data with metadata is available on the PSIFIs portal at the IFSB website <http://psifi.ifsb.org>.

(See Appendix 2 – **Complete List of PSIFIs**)

How is the PSIFI Database structured?

The Indicators are subdivided into two parts: The first set refers to stand-alone Islamic banks . these are separately incorporated, or are independent subsidiaries of other banks. The second set refers to Islamic windows of conventional banks . which refers to the Islamic finance activity of conventional banks. Depending on bank practices or national accounting guidance, data on activity of windows can be either segregated from the conventional bank activity or intermixed with conventional banking activity such as in the form of capital adequacy or liquidity ratios, which apply at overall bank level in most jurisdictions. In some countries, windows are not permitted or data on windows are lacking.

The data and metadata is being disseminated separately for each country/jurisdiction. In addition to viewing the information, users have the option to download the data in Microsoft Excel format. Some exhibits and aggregate data are also provided on the webpage for selected indicators. (See Appendix 2 – **Complete List of PSIFIs**)

Going forward, the IFSB plans to continue to collect, compile and disseminate the data from these jurisdictions on a quarterly basis. The coverage is also planned to be expanded to other jurisdictions and sectors such as *Takāful* and Islamic capital markets. The IFSB also intends to build an automated web-based system in due course that will provide more-user friendly platform for viewing, searching and storing the data.



Appendix 1: History of the PSIFI Programme

The Prudential and Structural Islamic Financial Indicators (PSIFIs) were created as a parallel system to the IMF Financial Soundness Indicators (FSIs) with appropriate adaptions for Islamic finance. Following the Asian Financial Crisis in the mid-1990s, the IMF began developing a set of indicators of the soundness of financial systems, called Financial Soundness Indicators, or FSIs. These indicators were intended to measure the strengths or vulnerabilities of financial systems as a whole as opposed to looking at the condition of individual banks.

Two sets of FSIs were developed after an extensive period of consultation and development. A set of so-called *core indicators* was created that captured the most important measures of financial strength of the banking sector. The IMF urged all countries to compile the core set. A second set of *encouraged indicators* that also captures important information, but might not apply in all countries or might be difficult to compile was also developed. Countries were encouraged to compile these indicators whenever relevant and feasible.

The IFSB sought to compile a parallel set of indicators - Prudential and Structural Indicators for Islamic Financial Institutions (PSIFIs) to understand the resilience of the Islamic financial system in countries while capturing information on the unique characteristics of Islamic finance. The IFSB reviewed the FSIs and developed its own indicators, drafted a *Compilation Guide* in 2007 that defined the methodology to compile the indicators, and carried out a pilot project with four countries. Later, the IFSB issued its *Revised Compilation Guide* in 2011 to incorporate the Basel II developments and corresponding IFSB standards.

During the Global Financial Crisis (GFC), the G20 countries conducted a review of statistical gaps that contributed to the crisis. One of the top recommendations called for increased compilation of FSIs and a review and expansion of the indicators. The review updated the FSIs to reflect the strengthening of the Basel supervisory regime and to provide expanded coverage of nonbank financial subsectors such as insurance. In 2013, the IMF released *Modifications* to the current list of FSIs that brought in new Basel-related indicators, changed some existing indicators, and increased coverage of nonbank institutions. The IMF is now conducting training in the new set of FSIs and is actively working to increase country participation in the Programme.

In 2014, the IFSB started the new phase of its Programme as part of its initiatives to enhance the supervisory framework for the IIFS that incorporates new IFSB standards adapting Basel III framework and current supervisory best practices at the global level. Accordingly, after the approval of the IFSB Council in March 2014, a Task Force on PSIFIs was established that comprises two country compilers from each participating jurisdiction. The objective of this phase is to extend the outreach and build a global prudential database on Islamic finance providing accurate, reliable and updated information on the soundness and structure of the industry. The three major components of the programme are: i) accurate and timely compilation of the indicators, ii) preparation of written *metadata* that describe the methodology and procedures used in each country to compile the indicators, and iii) setting up a system to receive data from countries and disseminate it to the public on the IFSB website.

This programme also includes a capacity building component that aims at organising workshops for the country compilers to provide an insight into the methodology and compilation practices of PSIFIs, which facilitates a consistent understanding of the programme's data requirements and procedures and help the participating countries improve their data collection and dissemination platforms for Islamic banking industry. The Task Force on PSIFIs has also updated the list of indicators included in the *IFSB Revised Compilation Guide 2011* after thorough deliberations to incorporate newly issued IFSB Standards and global regulatory developments.

In preparation for regular compilation of PSIFIs, a Coordinated Compilation Exercise (CCE) has been undertaken, in which each country compiles a set of macro-level key indicators for the same time period so that the results can be compared and analysed. The CCE permits countries and the IFSB Secretariat to test their procedures, evaluate results, and possibly change methods and procedures. Based on the CCE, the initial indicators as of December 2013 were compiled and discussed in the Task Force meetings held during 2014. After the review of the results by the Secretariat and series of consultations with the compiling jurisdictions, the data has been finalised and being uploaded on the IFSB website. In the coming periods, quarterly data for 2014 will be made available for a regular issuance on a periodical basis.

Core Prudential Islamic Financial Indicators (PIFIs)	
Capital Adequacy (Basel and IFSB Standard)	
CP01	Capital adequacy ratio (CAR)
CP02	Tier 1 capital to RWA
CP03	Common Equity Tier 1 (CET1) capital to RWA
Asset Quality	
CP04	Gross nonperforming financing (NPF) ratio
CP05	Net nonperforming financing (net NPF) to capital
CP06	Provisions for net NPF
Earnings	
CP07	Return on assets (ROA)
CP08	Return on equity (ROE)
CP09	Net profit margin
CP10	Cost to income
Leverage	
CP11	Capital to assets
CP12	Leverage
Liquidity	
CP13	Liquid assets ratio
CP14	Liquid assets to short-term liabilities
CP15	Liquidity coverage ratio (LCR)
CP16	Net stable funding ratio (NSFR)
Sensitivity to Market Risk; Other	
CP17	Net foreign exchange open position to capital
CP18	Large exposures to capital
CP19	Growth of financing to private sector
Additional Prudential Islamic Financial Indicators (PIFIs)	
AD01	Income distributed to investment account holder (IAH) out of total income from assets funded by profit-sharing investment accounts (PSIAs)
AD02	Total off-balance sheet items to total assets
AD03	Foreign-currency denominated funding to total funding
AD04	Foreign-currency denominated financing to total financing
AD05	Value of <i>Sukuk</i> holdings to capital
AD07	Value (or percentage) of <i>Shari'ah</i> -compliant financing by economic activity
AD08	Value (or percentage) of gross NPF by economic activity
AD09	Value (or percentage) of returns by major type of <i>Shari'ah</i> -compliant contract
Structural Islamic Financial Indicators (SIFIs)	
1	Number of Islamic banks/ Number of Islamic windows
2	Number of employees
3	Total assets
4	Total funding/liabilities
5	Total revenues
6	Earnings before taxes and <i>Zakat</i>
7	Value (or percentage) of financing by type of <i>Shari'ah</i> -compliant contract