



# Risk assessment for Islamic banking implementation in Russia

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- Key aspects of Islamic banking implementation
- Legal status of financial products
- Correlation between different market participants' interests
- Risks specific to Russia



# Key aspects of Islamic banking implementation

- Terminology (law, financial organizations, agreements)
- International recognition
- Defining legal status of the products
- “Islamic windows”
- Abuse prevention
- Ethics (shariah) control
- Legislation flexibility (possibility of making amendments)
- Market participants’ involvement (consideration of different players’ interests)
- Raising financial awareness
- Consumer protection

# International recognition



International standards (AAOIFI)



Comprehensible ethics (shariah)  
control

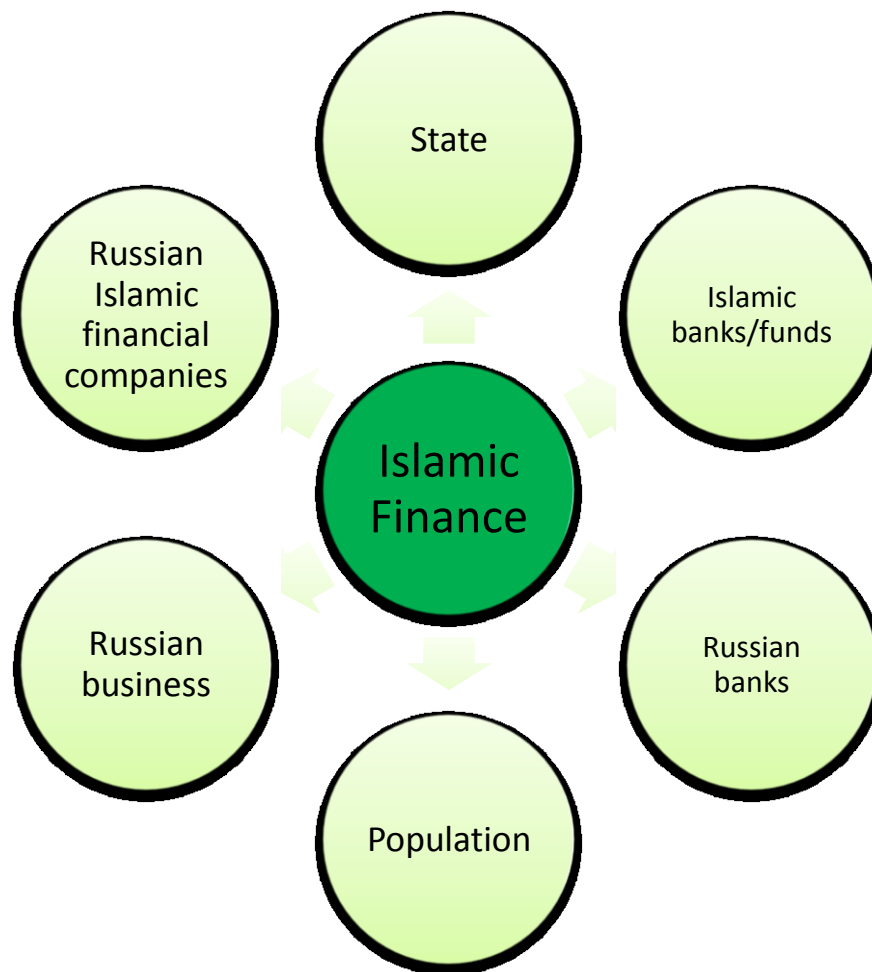


Active membership in IDB group



Statements of leaders/large-scale  
projects with state guarantee

# Consideration of market players' interests



# Islamic banks and Islamic windows

	Full-fledged Islamic Banks	Islamic windows
Number of players	Very small. 1-2 for the first several years	Large number of players in banking tools
Resource consumption	Very high consumption (BBI)	Lower consumption
Phasing	No phased transition	Phased transition Law: 5-10 years
Return on investment	Time limit for return	Considerable time reserve
Reputation risks	+ a) net assets - b) market entry risk	a) mixing assets b) Shariah compliance risk c) Social risk (affiliated branch closing) d) Clients' and employees' mindset risk
GCC investors	Attractive for investors: Novations and development of Gulf countries' banking culture	Not attractive for Islamic investors
Practical use in countries	Kazakhstan, Malaysia (before 1993), Bosnia	Malaysia (after 1993) Bahrain, Russia

# Islamic banks and Islamic financial companies

	Islamic banking	Islamic financial companies (non-banking)
Capability of attracting investment	Attracting big investors	Accumulating assets at microlevel
Startup process	Complicated, long	Relatively simple and short
Reserve insurance	Special conditions	-
Loans (qard)	Operating accounts. Plastic Special conditions	+(according to the rules)
Placement (qard)	Special tools and conditions	Special conditions
Special conditions (mudarabah)	Special tools and conditions	Special conditions
Murabahah	Special tools, trade license	Double taxation exemption (VAT)
Musharahah	Special conditions (Permit for equity holding)	+ Facilitating registration of ownership
Mudaraba (project funding)	Special conditions	+
Currency exchange	+	-
Cash and settlement service	+	Contract with cash processing centre

## Risks specific to Russia

- Reputation risk (non-conformance to standards, inadequate ethics control)
- Investment risk
- Risk related to change of business owner
- Political risk (especially when dealing with Gulf countries)
- Existence of business elements contradicting shariah (in particular, in terms of financial indicators)
- Mindset differences



# International Forum

## «Islamic Finance and real sector of economy»

May 21, Crocus Expo



### **1. Islamic finance and private equity funds as a tool of attracting investment into Russian economy**

- Creating favourable investment climate for investors
- Systems of cross-border payments with OIC countries
- Prospects of establishing Islamic banking industry in Russia
- Practical implementation of Islamic finance and investment products in different sectors of economy.

### **2. Practical aspects and development problems of Islamic finance in Russia**

- Banking business diversification and gaining competitive advantages
- Challenges of Islamic funding implementation
- Means of involving the funds of population and business into the real sector of economy
- Means of funding small and medium enterprises

### **3. Investment potential of Russian regions**

# Russian Association of Experts on Islamic Finance



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# Thank you for your attention

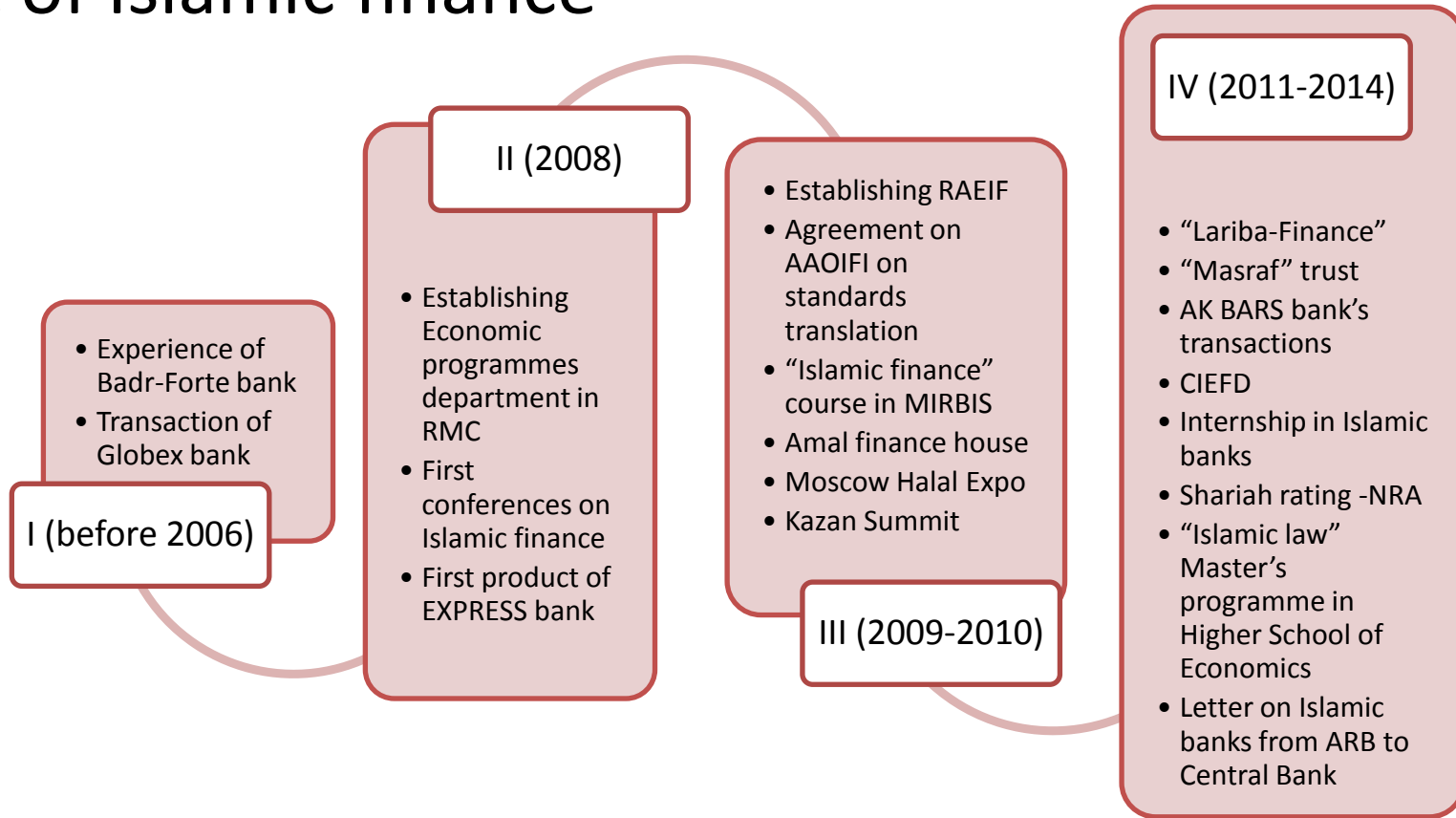


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# Russia: integration into international market of Islamic finance



# Country assessment in terms of Islamic finance development

## Legal framework for Islamic finance

Effective laws on Islamic banking  
Effective amendments to certain acts  
No legal framework

## Development stage

- Uncontrolled stage
- Implementation stage
- Growth stage

## Shariah control system

- Centralized
- Non-centralized
- Combined

## Islamic windows functioning

- Permitted
- Forbidden
- No regulation

## Zakat regulation

- State regulation
- Local regulation
- Specialized funds