Undertake the Effective Pricing of Islamic Financing Receivables and Investments.

Asset Liability Management & Risk-Based Pricing for Islamic Banks

8th - 10th May, 2016, 9:00am – 5:00pm
Dubai, UAE

COURSE OVERVIEW

With the turmoil created by the global financial crisis and the advent of Basel III, the ability of Islamic banks to implement a robust risk management discipline is now considered one of the most important current needs. This course provides instruction in Asset Liability Management entirely within an Islamic banking context. It provides in-depth analysis of contemporary ALM issues facing Islamic banks and shares leading solution methodologies to measure and manage several well-known risk management challenges.

Going beyond ALM, but closely related to it, risk-based pricing of Islamic financial instruments ensures that shareholders and investors are sufficiently compensated for the risks to which they are exposed. Many of these risks are unique to Islamic banks due to their asset liability structures and the features of contracts used to originate investment and financing products. This course provides a toolkit of methodologies which can be applied by practitioners to price Islamic financing receivables and Sukuk investments to reflect the key inherent risks of these products.

This new, unique and cutting-edge course will include a high level of interactive discussion, analysis of case studies, and thorough instruction in techniques which can be applied by Islamic banks for their everyday financial management needs.
HIGHLIGHTS

• Addressing Asset Liability Management within an Islamic Banking Context
• Solutions to Manage Key Risk and Liquidity Management Challenges with Islamic Banks
• Identifying Risks Unique to Islamic Banks Due to ALM Structures
• Understanding Risk-Based Pricing of Islamic Financial Instruments
• Pricing Islamic Financing Receivables and Sukuk Investments

WHO SHOULD ATTEND?

• Chief Risk Officers
• Chief Financial Officers
• Financial Risk Managers
• Treasury and ALM professionals
• Risk Analysts
• Financial Analysts
• Credit Managers
• Credit Portfolio Managers
• Asset Managers
• Corporate bankers
• Retail bankers
• Supervisors, regulators and standard setters for the Islamic Financial Services Industry

KEY HIGHLIGHTS

• Identify, measure and manage risk in Islamic banks at financial product and balance sheet levels with a focus on market and liquidity risks.
• Apply analytic methodologies for the risk-based pricing of Islamic financial products, such as Islamic asset financing receivables and Sukuk investments.

COURSE OUTLINE

Day 1: Asset Liability Management in Islamic Banks

The Business Models of Islamic Banks
• Overview of the financial intermediation activities of Islamic banks
• Understanding the big picture
  o Balance sheet assets and funding sources
  o Off balance sheet sources and applications of funds
  o Sukuk and their tie back to the balance sheets of Islamic banks
• What are the main differences with conventional banks?

Overview of ALM in Islamic Banks
• Maturity and risk transformation in Islamic banks
• Why is ALM important for Islamic banks in particular?

Liquidity Risk Management in Islamic Banks
• Static Liquidity Gap Analysis: method and shortcomings
• Dynamic Liquidity Gap Analysis: simulation to quantify funding requirement
• What is the role of liquidity stress testing and how to make it useful?
• What can Islamic banks do to better manage their particular liquidity risks?
• Basel III and liquidity ratios for Islamic banks

Group Discussion:
• How can Islamic banks apply liquidity stress testing better?
  What's not right and how do we fix it?

Day 2: Asset Liability Management in Islamic Banks

Markup Risk Management in Islamic Banks
• Markup risk measurement approaches
  o Static re-pricing GAP analysis
    - Method: assigning assets and liabilities to re-pricing buckets
    - Illustration of the approach
    - How to interpret the numbers
    - What are the method's shortcomings?
  o Dynamic earnings at risk analysis
    - Method: a shortcut using deterministic yield curve changes
    - Illustration of the approach
  o Full simulation approach
    - How to set up full simulation
    - What does full simulation provide and is it worth doing?
Day 3: Risk-based Pricing of Islamic Financial Products

Risk-based Pricing of Islamic Receivables
- Why is the pricing of receivables an issue for Islamic banks?
- What are the implications of product pricing which is not risk sensitive?
- What is the role of competition between Islamic banks when it comes to pricing?
- What are the components of pricing in Islamic financing receivables?

Case Study: Pricing cost of funds refinancing risk

Group Discussion:
- Does the option of an obligor to defer payments with forgiveness need to be priced?

Risk-based Pricing of Sukuk
- Characteristics of Sukuk for our purpose
- How are they different to Conventional bonds?
- What is the investment strategy of Sukuk investors?
- How do practitioners currently price Sukuk?
- Why should Sukuk pricing be risk-based?

Case Study: Pricing credit risk in Sukuk Al-Ijarah

Group Discussion:
- What are the risks in Sukuk structures which are not being priced correctly?

Course Conclusion

COURSE OUTLINE CONT'D..

- Markup risk management
  - Importance of having a clear ALM objective
  - Common misunderstandings when interpreting the analyses
  - Structural versus hedging solutions
  - How to handle profit sharing investment accounts and displaced commercial risk

Currency Risk Management in Islamic Banks
- How does currency risk arise in Islamic banks?
- How can it be managed simply without the use of hedging?
- Practical applications of ‘Islamic derivatives’ to manage currency risk

Group Discussion:
- What is a sensible ALM objective for Islamic banks?
- Why do Islamic banks often not go much beyond static repricing gap analyses?

ALM Challenges for Islamic Banks
- What are the key ALM challenges which Islamic banks face?
- What are the most important advancements needed in ALM for Islamic banks?

ABOUT THE SPEAKER

Dr. Ken Baldwin
Former Director, Financial Policies & Planning, Islamic Development Bank

Dr. Ken Baldwin is CEO of Islamic Financial Analytics which provides training and advisory services in quantitative finance and risk management to the Islamic banking and finance industries. Dr Baldwin has worked as a practitioner in banking and finance for over 25 years in senior finance and risk management positions. Having graduated from Oxford University with a first class honors degree in physics, he qualified as a chartered accountant before joining UBS, and then later Credit Suisse, in derivatives risk and control functions based in London. He gained a PhD in the microeconomic theory of risk sharing in Islamic contracts and worked in the GCC for 15 years in Islamic retail and Islamic investment banks. Dr Baldwin built an ALM analytic technology platform for Abu Dhabi Islamic Bank, was the MENA regional head of quantitative analysis for Citigroup, and has worked in risk management roles for both conventional and Islamic private equity and venture capital institutions.

Dr Baldwin was most recently employed by the IDB in the Kingdom of Saudi Arabia where he was responsible for establishing the bank’s financial strategy and policies function, which provides risk-based financial strategy and balance sheet structuring to preserve the bank’s ‘AAA’ rating, as well as risk management and product pricing analytics support. Dr Baldwin has published quantitative finance articles in peer-reviewed academic journals including the Journal of Risk and has taught CFA and FRM.
BOOKING DETAILS

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