#IFDI2019

ICD-REFINITIV
Islamic Finance Development Report 2019

SHIFTING DYNAMICS

Islamic Corporation for the Development of the Private Sector

REFINITIV™

ICD - REFINITIV ISLAMIC FINANCE DEVELOPMENT INDICATOR

OVER +1,000 ISLAMIC FINANCIAL INSTITUTIONS

ICD Refinitiv Islamic Finance Development Indicator (IFDI) is a composite weighted index that measures the overall development of the Islamic finance industry by assessing the performance of all its parts in line with its inherent faith-based objectives.

The information is comprehensively gathered from a universe of 131 countries and measured across more than 10 key metrics including Knowledge, Governance, CSR and Awareness.

THE DATABASE WILL PROVIDE ISLAMIC FINANCE MARKET STAKEHOLDERS WITH

+7 years
Islamic finance industry financial data

+520
Islamic banks financial data across 72 countries

+330
Takaful Operators data across 47 countries

+12,000
Sukuk issuances data from over 24 countries and in more than 12 structures

+1,700
Islamic funds data from 28 jurisdictions

+1,100
Shariah scholars data and their board representation

+960
Islamic finance education providers data

+430
Islamic finance events information

We offer exclusive access to the complete Islamic finance database to Refinitiv Eikon users through the IFDI and Islamic Finance Overview pages.

To learn more

Please contact the Islamic finance team on
IFG@Refinitiv.com
Or visit Refinitiv Islamic finance website
www.refinitiv.com/en/islamic-finance

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EXECUTIVE INSIGHTS

FOREWORD

The Islamic Corporation for the Development of the Private Sector (ICD), the private sector development arm of the Islamic Development Bank (IsDB) Group, and Refinitiv, the leading global provider of financial markets data, are proud to present the findings of the seventh edition of the Islamic Finance Development Report: Shifting Dynamics. We hope that the analyses and information in the report, which is based on the Islamic Finance Development Indicator (IFDI), will serve as the most updated guide to the landscape of the Islamic finance industry for its various stakeholders.

The indicator remains the leading source for measuring the overall stance and development of the Islamic finance industry. Through the collation of industry statistics from 131 countries, the indicator measures each of the main Islamic finance sectors and asset classes, as well as management components such as governance and social corporate responsibility, and the surrounding ecosystem including the industry knowledge and awareness.

Demand has been growing for Shariah-compliant products and services since the Islamic finance industry was born in the 1970s, and today global assets reached US$ 2.5 trillion. We aim to continue supporting future growth through ICD's provision of Islamic finance for private sector projects and Refinitiv's solutions and insights.

Yet there remain challenges ahead for the industry given today's volatile global economic environment and sluggish growth. The global economy continues to be under significant stress, slowing down more than expected and raising fears of an abrupt downturn in economic activity. This is particularly marked in the main Islamic finance markets, many of which have seen a slowing of their economies. Additionally, Islamic banking, the largest sector of the industry in terms of assets size, is a victim to the same economic and social challenges that are impacting conventional banking around the world.

Nevertheless, the dynamics in the industry are also changing. The Sukuk product led the growth amongst all industry sectors. Global issuance surpassed the US$ 1 trillion mark in 2018 for the first time. Sukuk are a key aspect of the Islamic finance industry and are expected to play a still more prominent role in coming years. In fact, many markets are showing increasing interest in raising capital through sukuk structures, among both corporates and government agencies.

The industry and the surrounding ecosystem are also being continually reshaped by innovation, particularly in the areas of financial technology and sustainability. This is in line with the UN's Sustainable Development Goals (SDGs), and aligns with the strategies of both ICD and Refinitiv.

Ayman Sejiny
Chief Executive Officer,
Islamic Corporation
for the Development
of the Private Sector

Mustafa Adil
Head of Islamic Finance,
Refinitiv

EXECUTIVE SUMMARY

According to the **Islamic Finance Development Report 2019**, the Islamic finance industry's assets grew to US$ 2.5 trillion in 2018 from US$ 2.4 trillion in 2017, a rise of 3%. This growth was slower than in previous years, and was particularly noticeable in some of the industry's main markets where the wider economy is sluggish.

Iran, Saudi Arabia and Malaysia were the largest markets of the 61 countries that reported Islamic financial assets, with all three recording more than US$ 500 billion in assets. The countries which saw the fastest growth in assets were Morocco, Cyprus and Ethiopia.

Industry development slows, particularly in leading markets

The report also collates an annual score for the health of the industry across the globe. The Islamic Finance Development Indicator (IFDI) aggregates scores across five component areas – Quantitative Development, Knowledge, Governance, Corporate Social Responsibility, and Awareness – for 131 countries. There was a small gain in the IFDI scores in line with the growth in Islamic finance assets. Governance, Knowledge and Awareness improved the most in value, while growth in CSR and Quantitative Development were less strong.

Malaysia, Bahrain and the UAE continue to spearhead developments in the industry, while Uzbekistan and Ethiopia are among the biggest risers in the rankings as a result of improvements in their financial and supporting ecosystem metrics.

Despite slowing growth in other sectors, sukuk continues to power ahead

Growth in the industry's leading sector, Islamic banking, slowed to 2%, largely in line with slowing growth for the global economy. Islamic banking assets totaled US$ 1.76 trillion. Many Islamic banks or windows are also undergoing continuing transformation through either reorganization or consolidation. Despite the slowed growth, new banks and markets continue to enter the market, as seen in Ethiopia, Algeria and Afghanistan. Also, new liquidity tools are being developed to help grow existing Islamic banking markets, as seen in the UK and Pakistan.

Takaful and other Islamic financial institutions (OIFIs) account for the remaining share of Islamic financial institution assets with a respective US$ 46 billion and US$ 140 billion reported for 2018. Although, takaful grew a mere 1% and OIFIs even declined from 2017, both sectors are seeing transformational activities in their main markets that should lead to improved growth in coming years, particularly in Saudi Arabia and the UAE. Moreover, both sectors are taking in new entrants in new markets. Developments in InsurTech and FinTech are also set to transform these sectors.

In contrast with other sectors, the global slowdown did not impede the sukuk asset class from continuing its strong growth, rising 10% in 2018 to US$ 470 billion. Sukuk issuances during the year reached US$ 125 billion, a similar figure to the previous year. New innovative sukuk forms and structures emerged in 2018 and 2019 such as waqf, blockchain-based and gold-based sukuk. This is apart from green sukuk, which emerged in Malaysia in 2017 and has since expanded into new markets.

Islamic funds, which had a strong performance in 2017, declined to US$ 108 billion in 2018 as result of negative performances for most of the funds managed, in line with the global economic slowdown.

Government initiatives to expand industry continue

Governments also played their part in developing roadmaps and regulations in order to advance particular sectors of the industry and their supporting ecosystems. One such example is Indonesia's Masterplan of Sharia Economy 2019-2024, which encompasses a development framework, strategies and action plans designed to help the Islamic finance industry play a larger role in the country's economy. One particular focus of this strategy is Islamic finance education, where Indonesia already leads the world.

In terms of governance, governments are also enhancing their regulatory frameworks to benefit the industry. The UAE, for example, is working to improve Shariah oversight in areas such as Islamic banking and sukuk, while Malaysia is revising its takaful framework. Morocco, the Philippines and Bangladesh have introduced new Islamic finance regulations in 2019.

Much is being done to increase Awareness in the industry with the emergence of 'Islamic Finance Week' models, where several Islamic finance-related are brought together to increase participation in these events. Such mega-events were held in 2018 in the UAE, the UK and Kazakhstan.

Cross-border collaborations on Islamic finance between governments are another trend, with such partnerships being announced in 2019 between Turkey, Qatar and Malaysia and between Indonesia and Suriname.

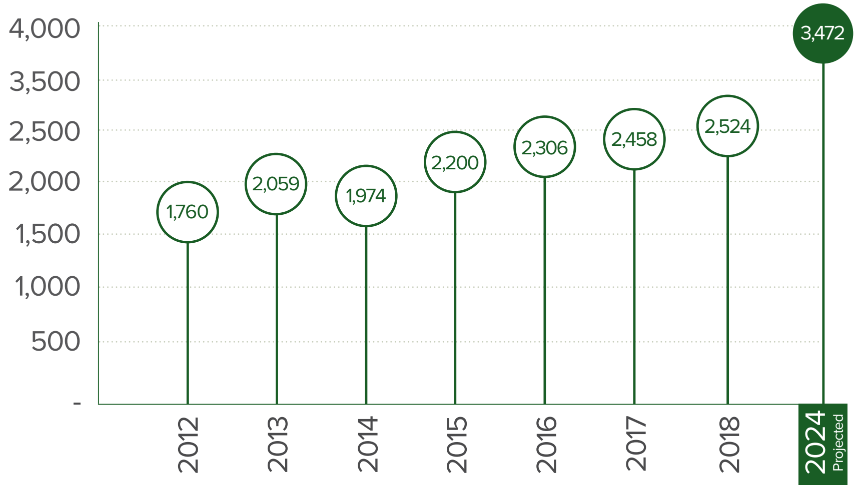
FinTech continues to shape the industry, with new developments in digital social finance

FinTech is another area that is actively changing the dynamics of the industry, as seen, for example, in the issuance of blockchain-based micro-sukuk and in the role of Islamic FinTechs in promoting the industry in the UK and the U.S. during 2018. Crypto-assets are also being looked into by Shariah scholars and regulators in developed Islamic finance markets such as Bahrain and Malaysia.

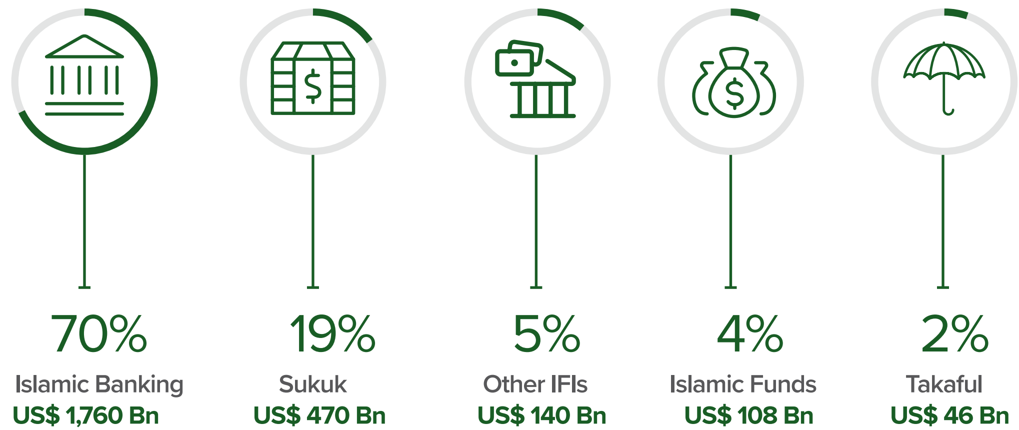
Digital platforms are also beginning to be developed for applications in Islamic social finance, which can help in achieving the UN's Sustainable Development Goals as seen in UNHR's successful collection of zakat funds digitally. In addition, Indonesia's National Committee for Islamic Finance has partnered a centralized QR code payment platform owned by four Islamic units of state-owned banks to develop a digital platform for distributing Islamic social finance funds and to help Islamic finance cooperatives better manage funds from zakat and waqf payments. Indonesia also saw the launch of the world's first blockchain-based crowdfunding waqf.

GLOBAL ISLAMIC FINANCE INDUSTRY LANDSCAPE

Islamic Finance Assets Growth 2012 - 2018
(US$ Billion)



Global Islamic Finance Assets Distribution 2018



What supported the growth of the global Islamic finance industry in 2018 ?

1,447
Islamic Financial Institutions

44
Countries with Islamic Finance Regulation

1,166
Shariah Scholars Representing Islamic Financial Institutions

US$ **639** Million
CSR Funds Disbursed by Islamic Financial Institutions

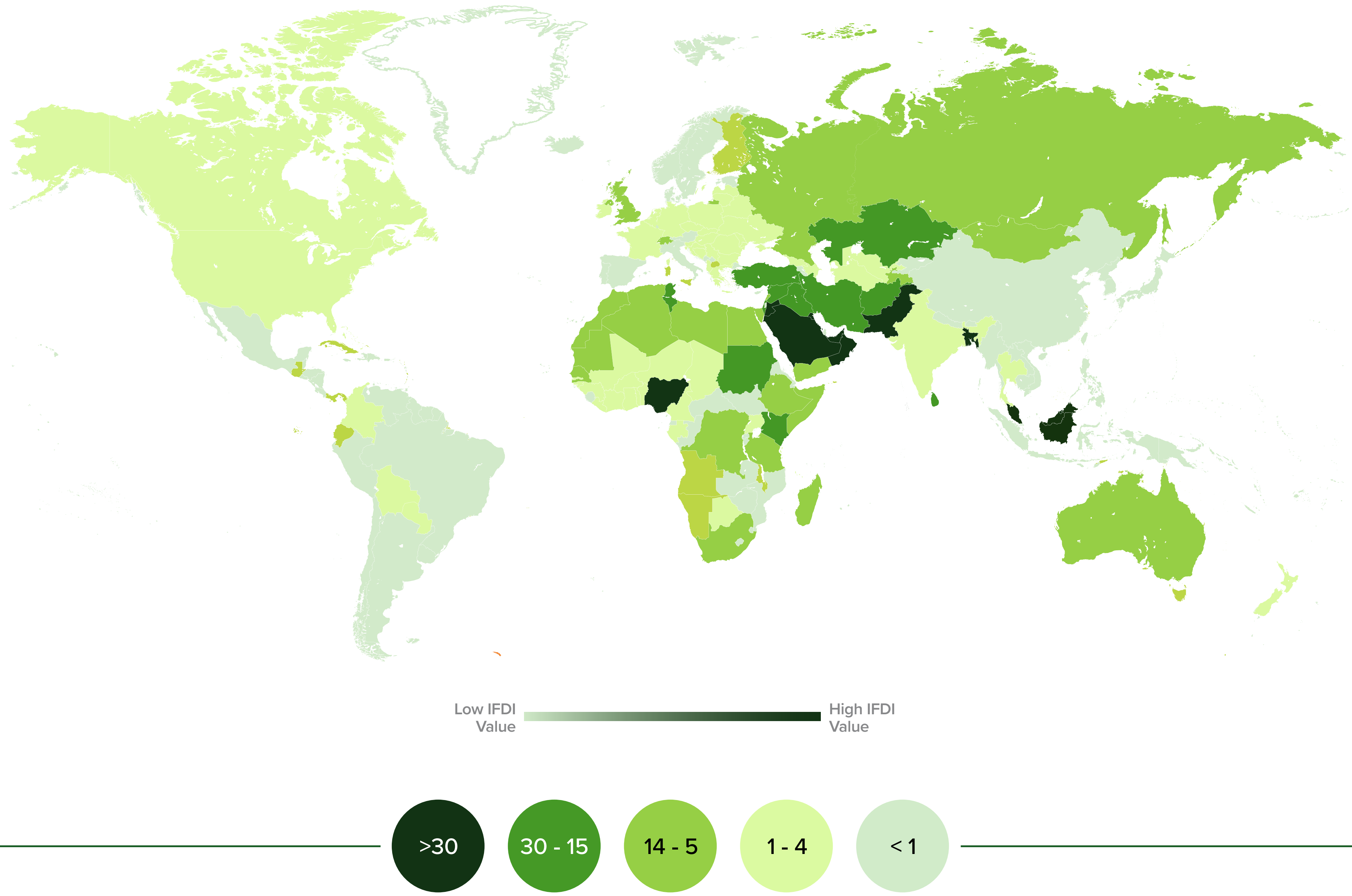
968
Islamic Finance Education Providers

2,550
Islamic Finance Research Papers

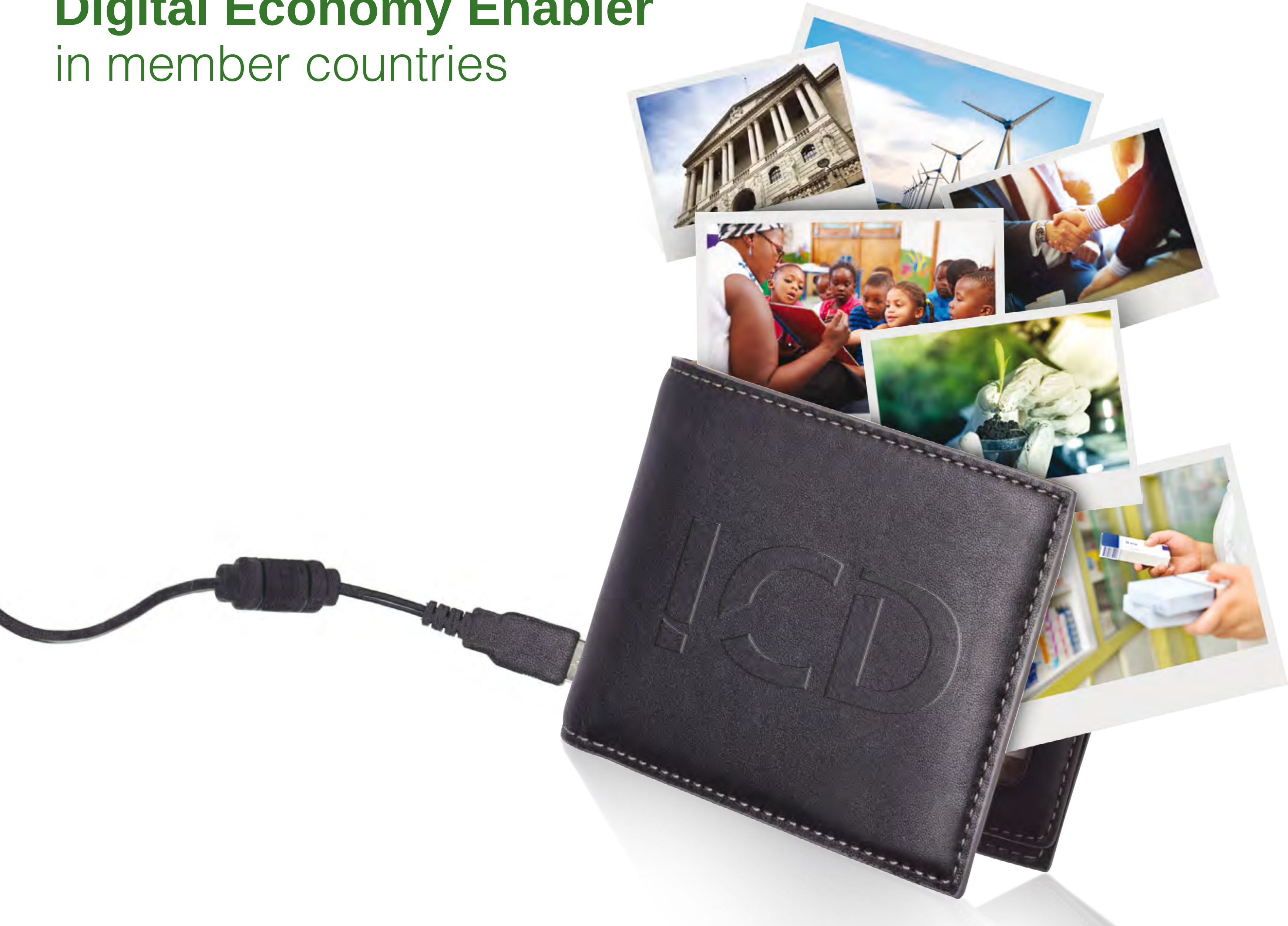
439
Islamic Finance Events

13,095
News Items on Islamic Finance

Islamic Finance Development Indicator 2019



Digital Economy Enabler
in member countries



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GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR

The Islamic Finance Development Indicator (IFDI) provides rankings and profiles for different Islamic finance markets around the world, drawing on instrumental factors grouped into five broad areas of development that are considered the main indicators. The indicator does not just focus on the overall size and growth of Islamic finance sectors in different countries; it instead evaluates the strength of the overall ecosystem that assists in the development of the industry based on 55 different metrics.

The five main indicators for the IFDI are weighted indices representing different sub-indicators, which are: Quantitative Development, Knowledge, Governance, Corporate Social Responsibility and Awareness. This chapter discusses the overall development of the Islamic finance industry through these indicators and highlights the top-ranked countries according to the IFDI. The full methodology is detailed in the appendix.

Top IFDI Markets 2019

Country	IFDI Value	Ranking: IFDI 2019	Quantitative Development	Knowledge	Governance	CSR	Awareness
Malaysia	115	1	1	1	1	11	1
Bahrain	71	2	4	6	2	7	3
United Arab Emirates	70	3	6	5	3	6	2
Indonesia	68	4	8	2	9	13	10
Saudi Arabia	60	5	5	8	20	2	7
Jordan	57	6	17	4	13	1	13
Pakistan	56	7	13	3	7	17	4
Kuwait	54	8	2	22	8	4	9
Oman	52	9	12	11	4	3	8
Brunei Darussalam	45	10	19	7	5	24	5
Qatar	44	11	11	17	15	5	6
Maldives	37	12	10	18	6	10	14
Bangladesh	33	13	7	19	12	12	24
Nigeria	32	14	25	12	10	9	41
Sri Lanka	30	15	14	13	16	8	23

The top three IFDI markets remain unchanged

Malaysia, Bahrain and the UAE remained the top markets in terms of Islamic finance development. Malaysia is a strong leader in terms of indicator value, sitting in pole position for all indicators other than CSR. Bahrain is particularly strong in Islamic banking and funds, backed by a comprehensive regulatory landscape, strong Shariah governance and a wide range of Islamic finance activities covered in the news. The UAE is among the strongest in the Knowledge category given the high number of Islamic finance education providers there, in Governance – with a strong showing in each of that category's sub-indicators – and in Awareness, due to the large number of news items and Islamic finance events hosted in the country.

Indonesia ranked fourth, on the back of its being home to the world's largest number of education institutions providing courses or degrees on Islamic finance and by the numerous research papers produced by those education institutions and other affiliations. Saudi Arabia remained in fifth position due to the continuation of large sovereign sukuk issuances, which in turn encouraged high corporate issuance, and the large amounts of CSR funds disbursed by its Islamic financial institutions.

Top Markets by Indicator

Top Countries	Quantitative Development	Knowledge	Governance	CSR	Awareness
1ST	Malaysia	Malaysia	Malaysia	Jordan	Malaysia
2ND	Kuwait	Indonesia	Bahrain	Saudi Arabia	UAE
3RD	Iran	Pakistan	UAE	Oman	Bahrain
4TH	Bahrain	Jordan	Oman	Kuwait	Pakistan
5TH	Saudi Arabia	UAE	Brunei	Qatar	Brunei

Top Markets by Sub-Indicator

SUB-INDICATOR

Quantitative Development

Islamic Banking
1st: Bahrain
2nd: Sudan
3rd: Iran

Takaful
1st: Saudi Arabia
2nd: Iran
3rd: Bangladesh

Other Islamic Financial Institutions
1st: Iran
2nd: Kuwait
3rd: Malaysia

Sukuk
1st: Malaysia
2nd: Bangladesh
3rd: Saudi Arabia

Islamic Funds
1st: Kuwait
2nd: Bahrain
3rd: Malaysia

Knowledge

Education
1st: Indonesia
2nd: Malaysia
3rd: Jordan

Research
1st: Malaysia
2nd: Indonesia
3rd: Pakistan

Governance

Regulations
1st: Malaysia, Pakistan, Bahrain, Indonesia, Nigeria, Qatar

Shariah Governance
1st: Bahrain
2nd: Malaysia
3rd: Sudan

Corporate Governance
1st: Malaysia
2nd: Oman
3rd: Brunei

CSR

CSR Funds
1st: Jordan
2nd: Saudi Arabia
3rd: Kuwait

CSR Activities
1st: Oman
2nd: Sri Lanka
3rd: Nigeria

Awareness

Seminars
1st: Malaysia
2nd: Brunei
3rd: Pakistan

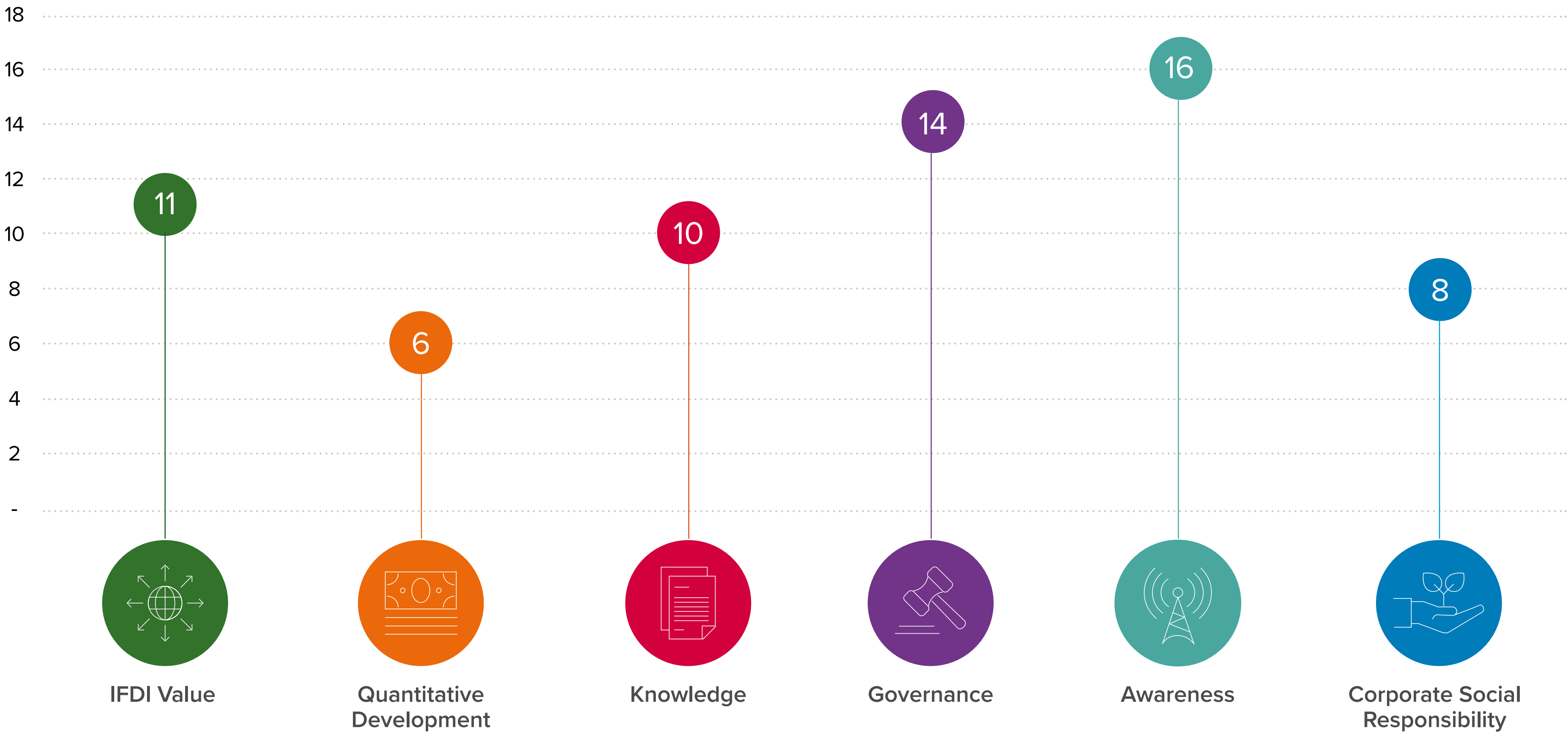
Conferences
1st: Malaysia
2nd: UAE
3rd: Bahrain

News
1st: UAE, Bahrain
2nd: Qatar
3rd: Oman

Slowed development of the overall Islamic finance industry according to IFDI 2019

The seventh annual Islamic Finance Development Indicator, which assesses the overall development of 131 countries with a presence in the Islamic finance industry, grew to 10.8 in 2019 from 10.3 in 2018. This growth was attributable to increases in indicator values for three of its main indicators: Knowledge, Governance, and Awareness. The other two component indicators, Quantitative Development and CSR, saw more marginal increases in their values due to the strong correlation between the performance of Islamic financial institutions and their CSR initiatives.

Islamic Finance Development Indicators 2019



[1] The indicator value for 2018 has been restated as part of an ongoing revision of the indicator and its data.

Quantitative Development edges higher through growth in Islamic banking, takaful and sukuk

The Quantitative Development indicator (QD), which measures the performance of the industry's five main sectors, – Islamic banking, takaful, other Islamic financial institutions, sukuk, and Islamic funds – grew only slightly, to 6 for IFDI 2019 from 5.8 the year before. Of the five sub-indicators, only Islamic banking, takaful and sukuk showed growth.

Despite the slower growth in Islamic banking assets, especially in the main markets, there were some noticeable improvements in other markets, which supported the rise in sub-indicator value. The addition of three new countries reporting Islamic banking assets – Suriname, Morocco and Ethiopia – improved their sub-indicator values. Ethiopia made a particularly marked contribution as it jumped from 44th to 32nd in the Islamic banking sub-indicator.

Other than this, an improvement in performance by Islamic financial institutions in certain countries pushed up some of the sub-indicators. Indonesia made a contribution as the average return on assets achieved by its Islamic banks was at the higher end of the spectrum. Other improved countries in the Quantitative Development indicator included Syria, where there was a sizeable increase in return on assets for Islamic banks and its sole takaful operator turned to profit in 2018. Rankings were also improved in countries where Islamic financial institutions turned to profit, such as Thailand, Singapore and Albania.

Sukuk also improved on the back of countries such as Kuwait, where there was an increase in sovereign sukuk issuances in 2018 to manage liquidity at Islamic banks, and Morocco, which issued its first sovereign sukuk. On the other hand, Islamic funds showed a small downturn due to negative average growth in fund values and a negative average cumulative performance in countries including Japan, Ireland and the U.S.

Enhanced corporate governance lifts Governance sub-indicator while CSR remains static

The Governance indicator – which is measured through three sub-indicators: regulations, Shariah governance, and corporate governance – edged up in value to 14 for IFDI 2019 from 13 for IFDI 2018. The rise was mainly driven by corporate governance, with improvements in disclosure by Islamic financial institutions in countries including Bangladesh, Bosnia and Herzegovina, Ethiopia, Syria and Kenya.

Regulations and Shariah governance, on the other hand, remained static. While some countries such as Suriname saw a rise in numbers of Shariah scholars, others such as Kuwait and Bangladesh reported fewer scholars which in turn led to a decline in the number of institutions with at least three Shariah scholars. On a positive note, this decline also reduced the number of scholars who were represented on five or more Shariah boards in these countries.

The Corporate Social Responsibility indicator is measured through the amount of CSR funds disbursed such as zakat and qardh, along with disclosure on 11 CSR activities including employees' welfare, zakat policy, and waqf policy. The CSR indicator's value remained static for IFDI 2019, with no notable changes in its sub-indicators' values. This is despite growth in CSR funds disbursed of 23%, as there was a decline in average CSR activities disclosure from 3.09 in 2017 to 2.44 in 2018. Syria and Oman showed the biggest improvements in score, with more CSR funds disbursed, while the Maldives, Kenya, India, Kazakhstan and Nigeria reported better CSR disclosure scores. Countries such as Sudan, however, saw less financial disclosure during 2018, which led to a lower CSR score.

Knowledge and Awareness gain as interestin industry grows

The Knowledge indicator – which assesses the degrees, qualifications and courses provided by Islamic finance education providers, as well as numbers of Islamic finance research papers produced – rose from 9 for IFDI 2018 to 10 for 2019. An output of 816 new research papers during 2018 pushed up the research sub-indicator's values for many countries including Spain, South Korea and Morocco. Education continues to be driven by the large numbers of Islamic education providers in Indonesia, Malaysia, Jordan, the UAE and Bahrain.

Awareness – which is measured through Islamic finance news items and events such as seminars and conferences – increased in value from 15 for IFDI 2018 to 16 for IFDI 2019. The News sub-indicator increased the most, with increases in news coverage in countries including Uzbekistan, Afghanistan, Tunisia, Tajikistan and the Philippines. The sub-indicator rose from 30 to 33.

The conferences and seminars sub-indicators each rose from 7 for IFDI 2018 to 8 for IFDI 2019. Despite a reduction in the overall number of conferences in 2018, some countries such as Pakistan, Saudi Arabia and Indonesia had large increases, while 12 new countries held conferences during the year. Seminars sub-indicator values increased in the U.S. and the UK as Islamic FinTechs ran campaigns to promote their services which in turn promoted the wider industry.

Outlook : Increased interest in non-core markets may improve IFDI scores in coming years

Despite the deceleration of growth in global Islamic finance assets and in some of the industry's main markets as shown in the Quantitative Development indicator, there may be growth in non-core markets in coming years. Announcements of interest in Islamic finance and the drawing up of roadmaps for its development in countries including the Philippines, Algeria and Indonesia suggest scores may rise more strongly. These developments may also lead to increases in Awareness through news and events, improvements in regulatory oversight, or an increase in Knowledge of the industry through education and research.

Institutions and regulators in Ireland may look into tapping potential demand from the Muslim community there for Islamic finance products such as mortgages that are already available in the UK and Canada. A survey conducted by Dublin-based law firm Philip Lee revealed sizeable demand for Islamic financial products in Ireland, and this could increase if the UK loses EU business following Brexit. On the other hand, another survey conducted by UK Islamic bank Gatehouse Bank sees huge opportunity in the UK given that almost half of British Muslim consumers do not use Islamic finance products.

On top of this, collaborations between governments to mutually develop the Islamic finance industry, such as those seen between Turkey, Qatar and Malaysia and between Indonesia and Suriname, are expected to further boost coming IFDI results. In addition, the continued support given by multilateral development institutions such as the Islamic Corporation for the Development of Private Sector (ICD) will ensure further such collaborations in the future.

INDONESIA : THE WAKE-UP GIANT

Dr. Sutan Emir Hidayat

Director, National Committee of Islamic Finance (KNKS)

About the Author :

Dr Sutan Emir Hidayat is Director of Islamic Financial Research and Education at the National Islamic Finance Committee (KNKS) in Indonesia.
He obtained his PhD and MBA from International Islamic University Malaysia. He has published research papers in international journals and edited papers for scientific journals.

Dr Sutan is also an Islamic finance journalist with articles published by Islamic Finance News and other sites, and has published two books as well as contributing chapters to several others. He has been recognized by IsFin as one of the 500 most influential personalities in the global Islamic economy.

Islamic finance in Indonesia is now more than two decades old and over that time it has grown at an increasingly rapid pace. Yet there is still enormous scope for increasing both the size of the industry and its impact on the national economy.

The landscape of the Islamic financial industry in Indonesia is quite different from other major players such as Malaysia and the countries of the GCC, where the focus is more on investment banking and capital markets. The Islamic financial market in Indonesia is much more complex because it is oriented towards retail and specialized segments. The structure of the market consists of several layers with still unclear, overlapping and interdependent boundaries.

According to the Indonesian Financial Services Authority (OJK), the market share of Islamic finance in Indonesia stood at 8.69% in 2019. However, it is important to note that this calculation considers only Islamic banking, Islamic capital markets, and Islamic non-banking financial institutions. It doesn't include the numerous Islamic microfinance institutions that play a much more important role in the Indonesian economy than Islamic banks, as around 76% of the Indonesian population remains unbanked.

A unique type of Islamic microfinance institution in Indonesia is the 'Baitul Mal wat Tamwil' (BMT), which roughly translates as 'House of Funds and Financing'. Most BMTs have been established in the form of Islamic cooperatives. The BMT combines both Islamic social and commercial finance under a single institution. Baitul Mal is the social finance part of BMT which manages zakat, waqf and other social religious funds, while Tamwil is the commercial side where various forms of financing are offered to BMT customers and members. This model works well particularly in poorer regions where many people are unbanked and has done much to improve people's lives. It is one which could be replicated in many other countries with large, unbanked Muslim populations.

Another important point of difference is that Indonesia has more regulations governing the Islamic finance industry than any other country. However, these regulations are scattered among different regulators. Central Bank of Indonesia has a role in payment system of Islamic banking institutions while Financial Services Authority (Otoritas Jasa Keuangan) has a function to regulate and supervise banking institutions, capital market, Islamic pension fund and other Islamic financial institutions. Other institutions also play an important role in Islamic banking such as National Shariah Council (Majelis Ulema Indonesia) which has the authority to issues fatwas related to Islamic banking and finance. It is also likely that Indonesia has the biggest number of Islamic financial institutions (both social and social financial institutions) and also the biggest number of Islamic financial retail consumers in any single market, but exact numbers are unknown due to data limitations. In addition, both the quantity and quality of human resources and information technology in Islamic banking have been too little to support development of e required products and services.

Despite these shortcomings, the Islamic financial industry in Indonesia has significant potential for growth. The sukuk market in Indonesia, for example, grew rapidly after the inauguration of Law Number 19 of 2008 on Sovereign Islamic Securities, which was followed by an initial sovereign sukuk issuance in the domestic market valued at IDR 4.67 trillion (US$ 300 million). After this, the Indonesian government through the Ministry of Finance continued to issue sovereign sukuk to finance infrastructure projects. In 2018, it issued sukuk with a 5-year tenor valued at US$ 1.25 billion to finance various green projects including renewable energy, making Indonesia the first country in the world to issue sovereign green sukuk. In February 2019, the government followed this with an issue of green sukuk valued at US$ 750 million with a five-and-a-half-year maturity, along with $1.25 billion of regular sukuk with a 10-year tenor. Both green sukuk issuances were oversubscribed, demonstrating the opportunities available to develop Indonesia's Islamic economy and finance industry.

In addition, a new financial instrument – cash waqf-linked sukuk (CWLS) – was launched in 2018 by the Indonesian Waqf Body and Ministry of Religious Affairs together with the Ministry of Finance and Bank Indonesia as an alternative financing source for public service building projects. The instrument enables the public to invest in cash waqf which are then placed in sovereign sukuk and the money invested allocated to government social projects such as schools, hospitals and mosques. This innovative structure makes good use of otherwise low-yielding or idle waqf funds, of which there are large amounts around the world. CWLS is another financial instrument in Indonesia that combines Islamic social and commercial finance.

To advance and promote the role of Islamic finance in Indonesia's economy, the government in 2016 launched its Masterplan for Indonesian Islamic Financial Architecture, and the following year established the National Committee of Islamic Finance, or Komite Nasional Keuangan Syariah (KNKS), to implement the masterplan's recommendations. A Masterplan for Indonesian Islamic Economy 2019-2024 (MEKSI) was then drawn up as a roadmap for the future.

The aim of this masterplan is for Indonesia to become the centre of the world's Islamic economy and thereby to develop as an independent, prosperous and civilized nation. The four key strategies for achieving this vision are to strengthen (1) the halal value chain; (2) Islamic finance; (3) micro, small and medium enterprises; and (4) the digital economy. In addition, the four fundamental strategies necessary to enable the development of the Islamic economy are to strengthen (1) regulation and governance; (2) public awareness and literacy; (3) research and development; and (4) the quality and quantity of human resources.

There are now numerous programs established through the KNKS to achieve MEKSI's vision. As part of its aim to strengthen the digital economy, KNKS recently formed a partnership with two Indonesian e-commerce start-ups – Tokopedia and Bukalapak – to build online halal marketplaces. The platforms allow users to locate and identify products with halal certification numbers. KNKS has also launched together with a joint venture of the country's four largest state-owned banks an Islamic digital payments platform: LinkAja Syariah. LinkAja provides a Shariah-compliant digital payments platform for food and beverages, electricity, fuel and other daily necessities. E-commerce and FinTech are likely to create an extensive digital economy in Indonesia as they connect the Islamic economic ecosystem with halal industry, resulting in the formation of a halal value chain.

With greater involvement of the Indonesian government in the Islamic financial industry, particularly through KNKS, the country's enormous potential in this area can be explored and unlocked. As such, Indonesia is awakening from its position as the sleeping giant of the global Islamic economy and can be expected to play a far more significant role in its development in coming years.

The Islamic financial market in Indonesia is much more complex because it is oriented towards retail and specialized segments.

ISLAMIC FINANCE OVERVIEW

To assess the **Quantitative Development** of Islamic financial institutions and markets, it is necessary to look at all the sub-sectors of the industry and review their quantitative dimensions. This chapter highlights the financial growth, depth and performance of the Islamic finance industry and its individual sectors. It will also look into key trends and opportunities across its five main sectors: Islamic banking; takaful; other Islamic financial institutions; sukuk; and Islamic funds.

QUANTITATIVE DEVELOPMENT OVERVIEW

The performance of the Islamic finance industry is measured through five sub-sectors Islamic banking; takaful; other Islamic financial institutions (investment companies, microfinance institutions, etc.); sukuk; and Islamic funds. Financial institutions are considered the backbone of the industry given their size and track record, while capital market asset classes such as sukuk and Islamic funds are its major investment instruments.

Industry growth slows to 3% in 2018

Growth in the Islamic finance industry moderated to 3% in 2018 from the previous year's 7%[2] as total assets grew to US$ 2.52 trillion from US$ 2.46 trillion. Growth in 2018 was the second slowest (after 2014) since the IFDI report was introduced in 2012.

Growth slows in each of the three largest Islamic finance markets

The slowdown in growth in 2018 can be largely attributed to slowdowns in each of the industry's three leading markets – Iran, Saudi Arabia and Malaysia – which between them accounted for 65% of global Islamic finance assets in 2018 and all of which have Islamic finance assets over US$ 500 billion.

Assets in Iran slipped 1% in value to US$ 575 billion as a result of the continued depreciation of the rial caused by U.S. sanctions, even though growth for the country's Islamic financial institutions was 17% in local currency terms. Iran's Islamic funds also declined in value from 2017, although sukuk outstanding increased significantly in line with a rise in sukuk issuances.

The second-largest market, Saudi Arabia, saw 6% growth in Islamic finance assets during 2018 to US$ 541 billion, a slight pullback from growth of 7% in 2017. The slowdown can be attributed to a decline in Islamic funds and lower growth in sukuk outstanding compared to the previous year. Saudi Islamic financial institutions had mixed results as the Islamic banking and takaful sectors grew while other Islamic financial institutions declined slightly.

Assets in Malaysia grew 5% to US$ 521 billion in 2018, compared with growth of 18% in 2017. The main drivers of growth in 2017, sukuk and Islamic banking, which accounted for 83% of total Islamic finance assets in 2018, did not grow so strongly in 2018. This is particularly true of sukuk, which jumped strongly in 2017 on the back of a surge in sovereign issuances, while the level of issuance was maintained in 2018. Other Islamic finance sectors saw a decline in assets over the year.

[2] Total Islamic finance assets for previous years were restated as part of an ongoing process while collecting data for the Islamic Finance Development Indicator.

Total assets held by Islamic financial institutions also saw subdued growth in 2018, and 49% of such institutions reported a decline in assets over the year. Assets held by the Islamic banking sector, which holds 70% of the industry total, grew 2% to US$ 1.76 trillion in 2018, while those of the industry's smallest sector – takaful, or Islamic insurance – grew 1% to US$ 46 billion. Assets held by other Islamic financial institutions declined 2% to US$ 140 billion.

Strong growth in sukuk matched by decline for Islamic funds

Among Islamic capital markets, the sukuk asset class accounted for the largest share of the total, with US$ 470 billion in assets. Sukuk grew 10% – the fastest of all sectors – as growth in sovereign and multilateral sukuk issuance to support government spending continued from previous years.

Islamic funds' assets, on the other hand, declined 10% to US$ 108 billion. This reflected negative performances in 24 of the sector's 28 markets. Moreover, 84 Islamic funds were liquidated or merged during 2018, with a total AuM of US$ 407 million.

Islamic banking the main driver for fastest-growing markets

Despite slower overall growth, there were notable improvements in some other Islamic finance markets. Of the 61 countries which contributed the US$ 2.52 trillion in total global assets, three of these were new, namely Morocco, Ethiopia and Suriname. Each of these countries was able to include assets held by newly established Islamic banks such as Morocco's Umnia Bank and Suriname's Trustbank Amana. Both opened in 2017. Morocco also issued its first sovereign sukuk in October 2018.

Morocco was one of the fastest-growing markets in 2018, along with Cyprus and Ethiopia. The exceptional growth of assets in Cyprus and Ethiopia was driven by their Islamic banking sectors.

Islamic capital markets expected to drive growth in coming years

Given developments in the different sectors of the Islamic finance industry and its surrounding ecosystem as outlined in this report, total Islamic finance assets are projected to grow to US$ 3.5 trillion by 2024, a compound annual growth rate (CAGR) of 5.5% from 2018. However, this forecast has been revised down from that provided in the 2018 Islamic Finance Development Report to reflect current and expected developments in both the main and smaller markets.

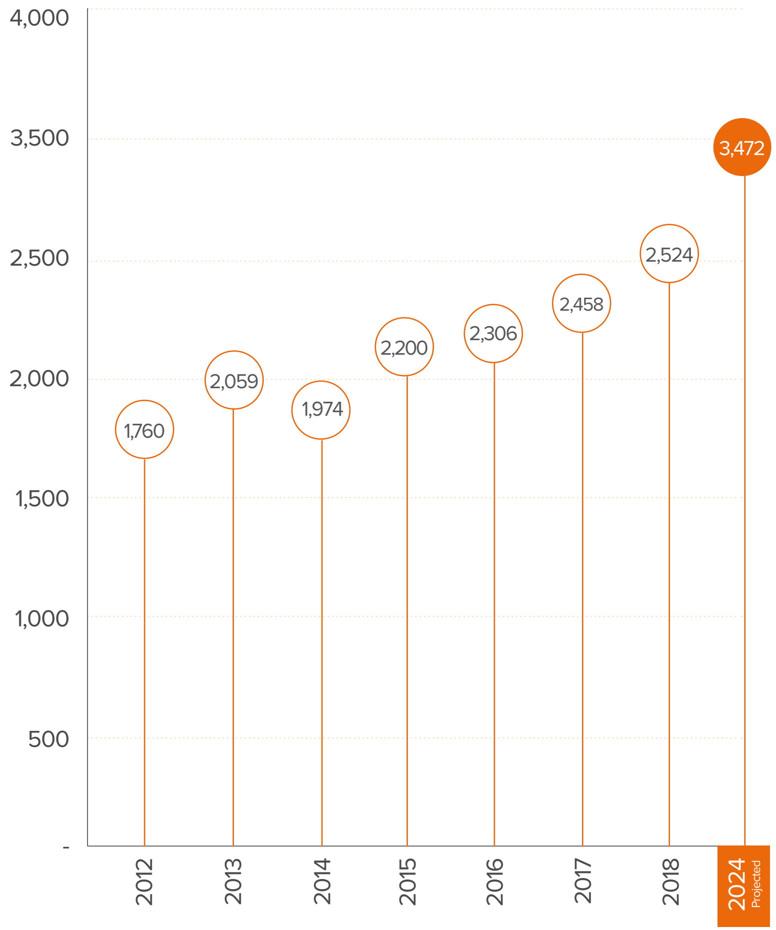
It is expected that sukuk and Islamic funds will show the strongest growth in coming years as they become part of the mainstream while Islamic financial institutions will maintain current levels of growth.

Global Islamic Finance Landscape

US$ 2.524 Trillion
Total Islamic Finance Assets in 2018

1,447
Total Islamic Financial Institutions* in 2018

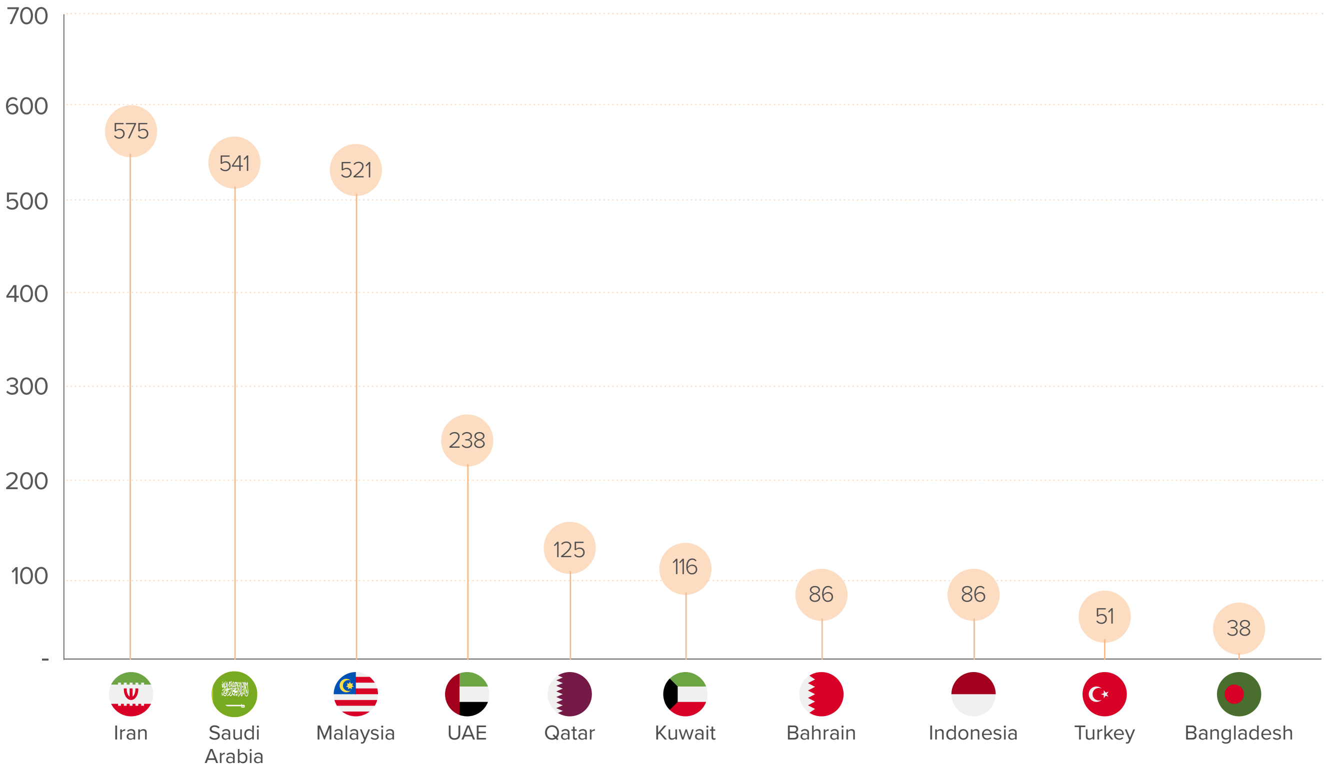
Islamic Finance Assets Growth 2012 - 2018
(US$ Billion)



Distribution of Global Islamic Finance Assets
*Including Windows

Sector / Asset Class	Size	Share of Islamic Finance Assets	Number of Institutions / Instruments	Number of Countries Involved
Islamic Banking	US$ 1,760 Billion	70%	520 Islamic Banks*	72
Sukuk	US$ 470 Billion	18%	2,887 Sukuk Outstanding	27
Other Islamic Financial Institutions	US$ 140 Billion	6%	592 OIFIs*	54
Islamic Funds	US$ 108 Billion	4%	1,701 Funds Outstanding	28
Takaful	US$ 46 Billion	2%	335 Takaful Operators*	47

Top Countries in Islamic Finance Assets 2018
(US$ Billion)



Top 3 Markets' Share of Global Islamic Finance Assets in 2018

Fastest Growing Markets in Islamic Finance Assets 2018

- Morocco
- Cyprus
- Ethiopia

Concentration of Islamic Finance Assets by Region 2018
(US$ Billion)

GCC	Southeast Asia	Other MENA	Europe	South Asia	Sub-Saharan Africa	Other Asia	Americas
1,123	621	620	79	67	7	3	3

Islamic Banking

US$ **1.760** Trillion

Total Islamic Banking Assets in 2018

520 Islamic Total Banking*

*Including Windows

301 Full-fledged Islamic Banks

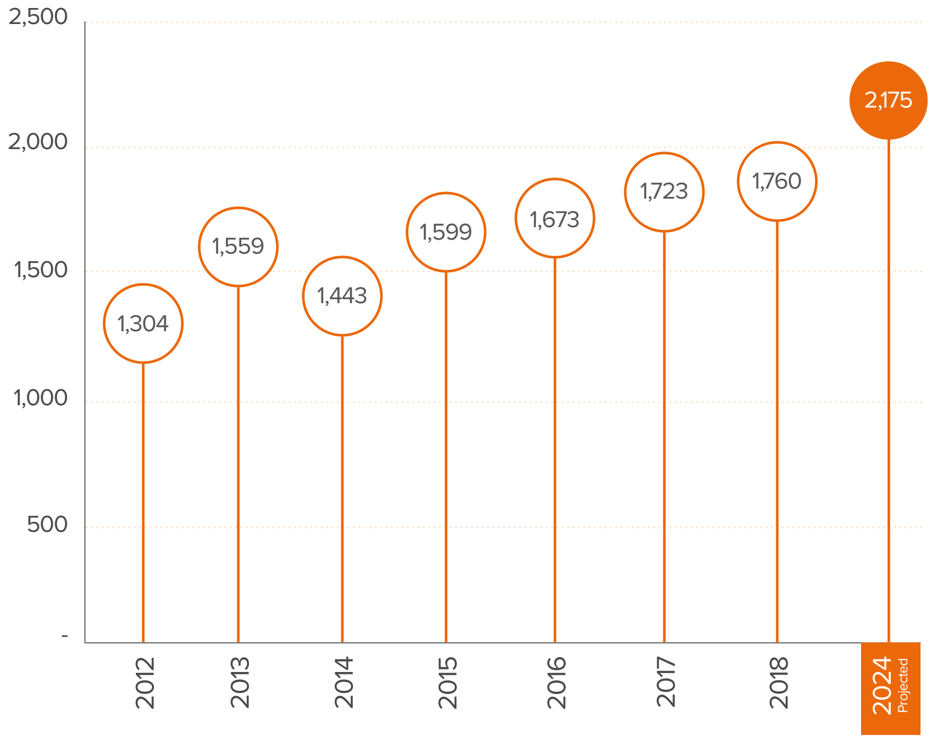
219 Windows

6%

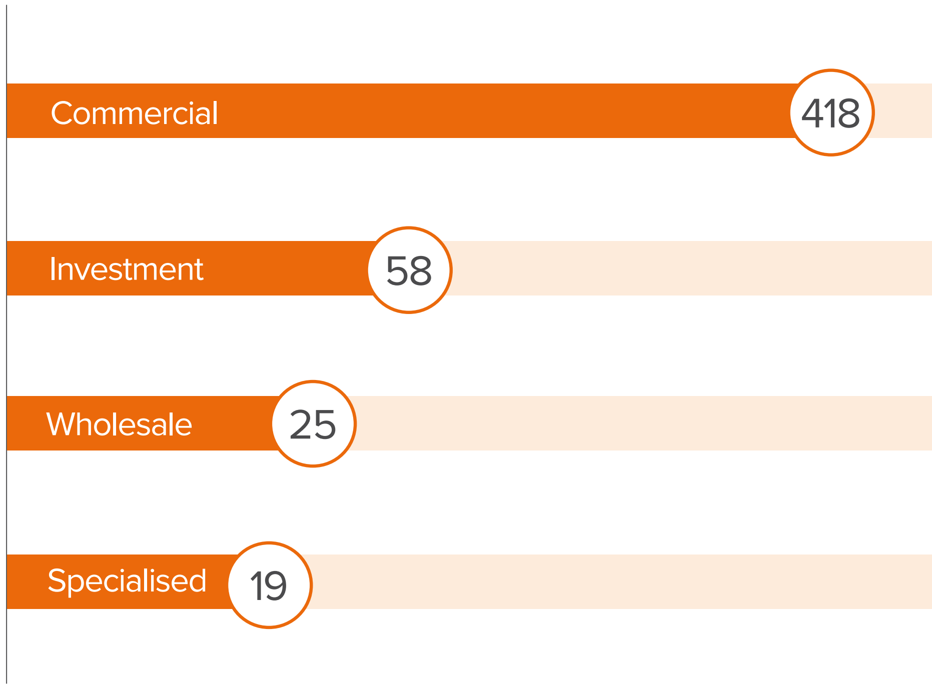
Share of Islamic Banking Assets in Total Global Banking Assets in 2018**

**In 45 countries that reported Islamic banking assets

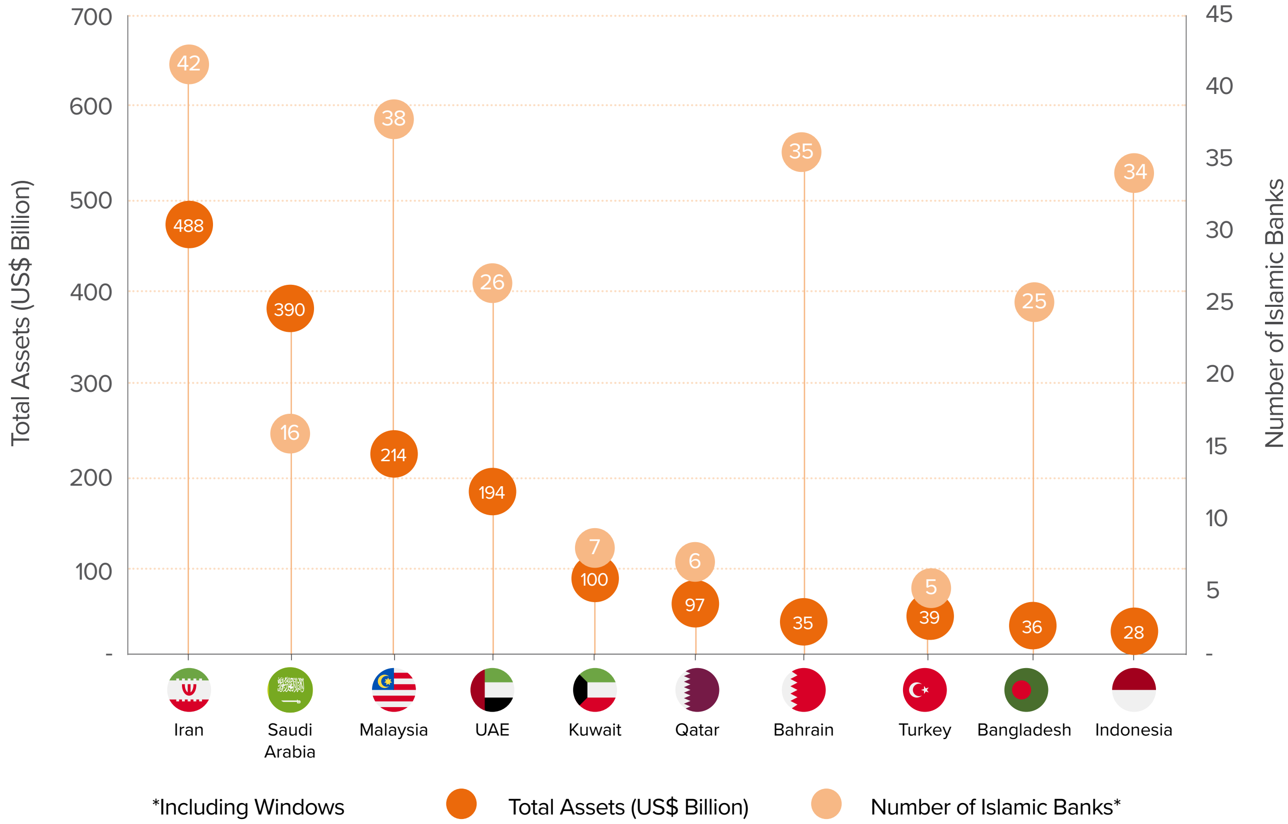
Islamic Banking Assets Growth 2012 - 2018
(US$ Billion)



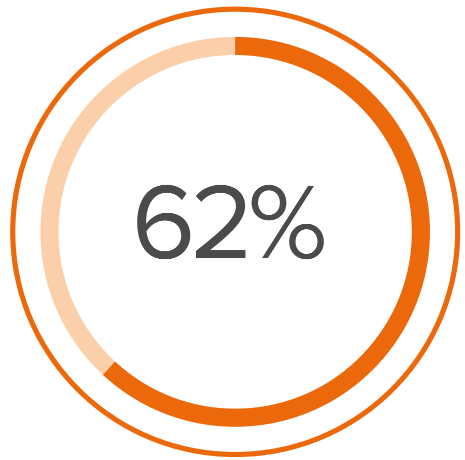
Number of Islamic Banks by Type 2018



Top Countries in Islamic Banking Assets 2018
(US$ Billion)



Top 3 Markets' Share of Global Islamic Banking Assets in 2018



Fastest Growing Markets in Islamic Banking Assets 2018

- Morocco
- Cyprus
- Ethiopia

Islamic Banking Assets by Region 2018
(US$ Billion)

GCC	Other MENA	Southeast Asia	South Asia	Europe	Sub-Saharan Africa	Americas	Other Asia
871	532	253	56	46	2	0.4	0.1

Different Islamic banking models adopted in new and existing markets

Islamic banking constituted 70% of global Islamic finance industry assets in 2018, or US$ 1.76 trillion. There are 72 countries around the world with Islamic banks, of which 61 reported their assets. A large majority of Islamic banks are commercial. Of the world's 520 Islamic banks, 219 are Islamic banking windows of otherwise conventional banks. Some countries only permit Islamic banking through such windows, although some of these are now beginning to allow full-fledged Islamic banks. One such example is the granting of a licence in 2018 to the Islamic Bank of Afghanistan, which had previously operated under a conventional licence as Bakhtar Bank.

Another example is Ethiopia, which is one of the fastest-growing Islamic banking markets due to strong performances by the interest free banking units of its conventional banks. Full-fledged Islamic banks were not permitted, however, but this changed in May 2019 with an announcement by the Ethiopian Prime Minister of government support for the formation of Islamic banks. This led to the granting of Islamic bank status to ZamZam Bank, which had failed to gain such permission in 2011, and to plans to form the country's second Shariah-compliant bank: Hijra Bank. Ethiopia had US$ 123 million in reported Islamic banking assets in 2018.

Elsewhere, Algeria has approved the creation of Islamic windows at its banks in order to boost the country's financial industry. Islamic banking was previously only permitted for foreign banks, mainly from the GCC. Islamic banking assets in Algeria were valued at US$ 3 billion in 2018.

Landscape in Qatar reshaping with creation of new Islamic banks

There are also developments in more established markets such as Qatar, the world's sixth-largest Islamic banking market, with US$ 97 billion in assets in 2018. The country is expected to add to its six existing full-fledged Islamic banks the world's largest energy-focused Islamic bank – Energy Bank. With a targeted capital of US$ 10 billion, Energy Bank will focus its business not just in Qatar, where massive reserves of liquefied natural gas already give it a powerful presence in the global energy market, but also on oil, gas and renewable energy sources overseas.

The industry in Qatar will also be shaped by the creation of a new Islamic bank as a result of a merger between Islamic Barwa Bank and the conventional International Bank of Qatar (IBQ) by the fourth quarter of 2019. IBQ's shareholders are hoping to see better shareholder value after the merger due to the historical outperformance of Islamic banks over conventional banks in Qatar. The new bank is expected to have total assets of US$ 22 billion.

Consolidations continuing among GCC Islamic banks and windows

The Islamic banking sector in the GCC continues to be shaped by a wave of consolidation either between conventional banks with Islamic windows or between full-fledged Islamic banks. As in the case with the newly merged bank in Qatar, Islamic banking remains intact in the new, larger bank where there is a merger between conventional and Islamic banks.

In May 2019, Abu Dhabi Commercial Bank (ADCB) merged with Union National Bank (UNB) and together acquired the full-fledged Islamic Al Hilal Bank. This resulted in the creation of ADCB Group, as part of which Al Hilal remained as a separate Islamic banking entity focused on retail customers with a Shariah-compliant mandate. The model follows Emirates NBD's Islamic banking subsidiary model with Emirates Islamic Bank. In addition, Dubai Islamic Bank plans to acquire another

Dubai-based Islamic bank – Noor Bank – which would lead to a more competitive Islamic banking market in the UAE, which had nine Islamic banks and 17 Islamic banking windows in 2018 and total assets worth US$ 194 billion.

Meanwhile, a planned buyout by Kuwaiti Islamic bank Kuwait Finance House of Bahrain's Ahli United Bank could create the GCC's sixth-largest bank, with US$ 100 billion in assets.

In Saudi Arabia, on the other hand, a planned merger between National Commercial Bank (NCB) and the conventional Riyad Bank could lead NCB to abandon its plan to convert to a full-fledged Islamic bank within five years of its 2014 IPO. Their conventional rivals with Islamic windows, Alawwal Bank and Saudi British Bank (SABB), have already merged in June 2019, creating the third-largest bank in the Kingdom.

New liquidity tools to boost Islamic banking in UK and Pakistan

The Bank of England in September 2018 announced the creation of a Shariah-compliant liquidity facility that for the first time will allow Islamic banks to hold sterling deposits at the central bank. This will provide Islamic banks in the UK with greater flexibility in meeting Basel III liquidity requirements and put them on a level playing field with conventional banks.

In Pakistan, the State Bank of Pakistan has launched three new Shariah-compliant refinance schemes to support banks in lending to small business, renewable energy, and agricultural projects. The facilities will be based on the risk-sharing mudaraba contract. The financing will be available for companies and consumers that want to set up renewable energy power projects. The scheme for the storage of agricultural produce will be available for setting up silos, warehouses and cold storage facilities. SMEs can access the scheme for the purchase of new plants and machinery. State Bank said the introduction of the three new schemes will level the playing field for Islamic financial institutions as the central bank already offers similar facilities for conventional banks. The move comes after Pakistan's Islamic banks have been demanding for tools to manage their excess liquidity through cheaper refinancing windows and after consumer demand for such financing facilities.

Takaful

US$ **46** Trillion

Total Takaful Assets in 2018

335

Total Takaful Operators*

213

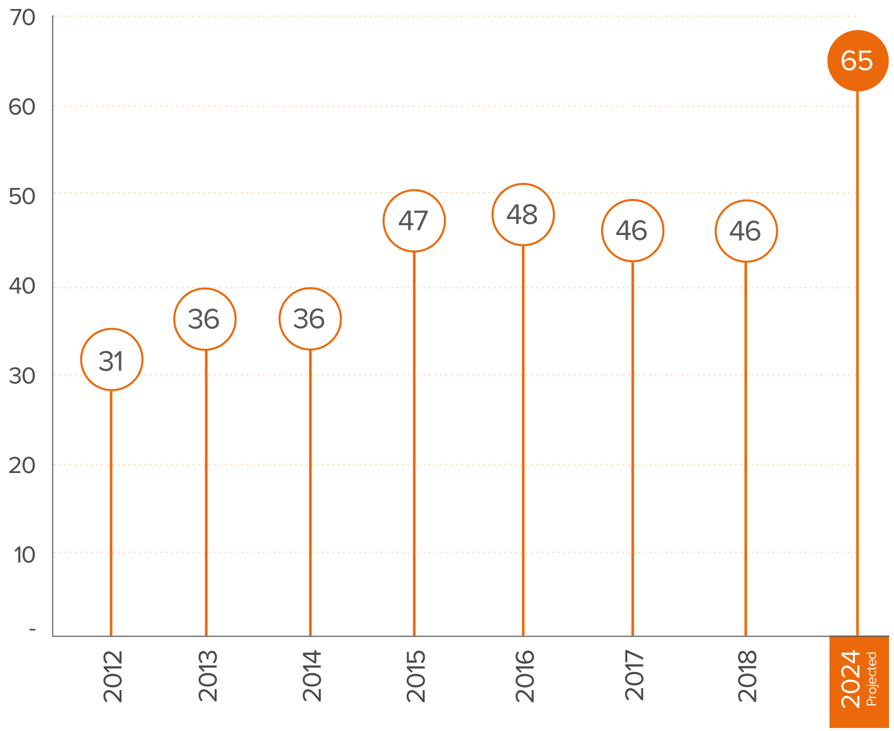
Full-fledged Takaful Operators

122

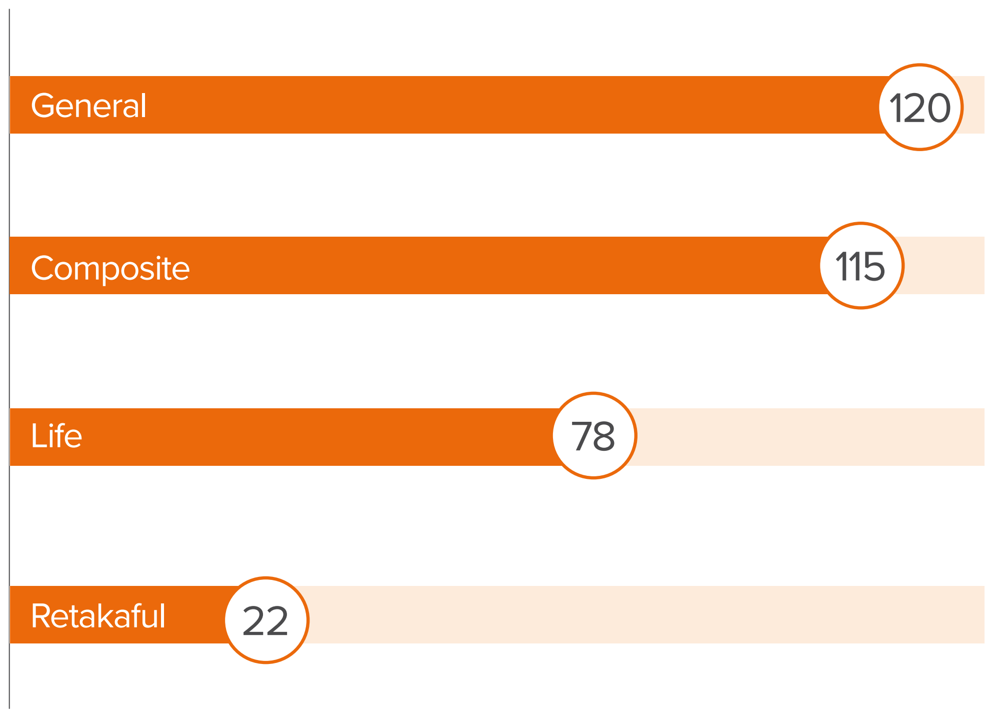
Windows

(*Including windows)

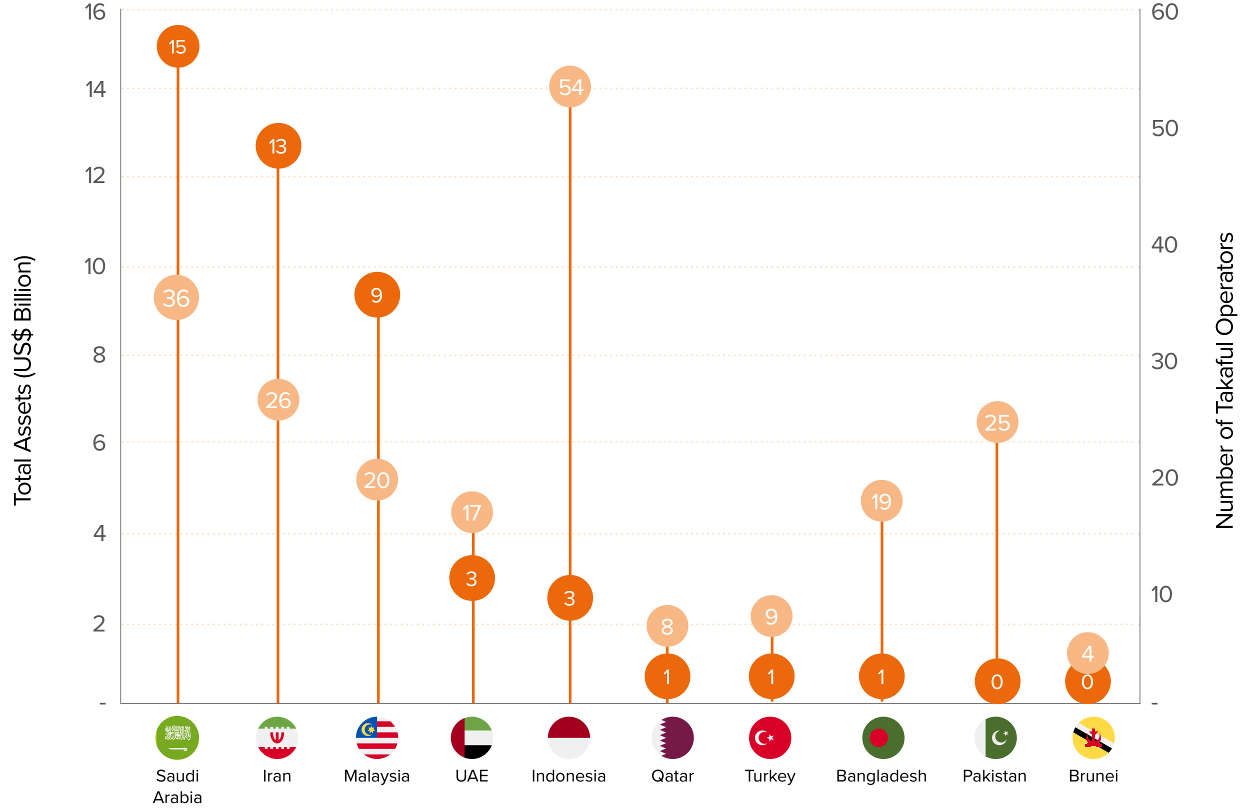
Takaful Assets Growth 2012 - 2018
(US$ Billion)



Number of Takaful Operators by Type 2018



Top Countries in Takaful Assets 2018



Top 3 Markets' Share of Global Takaful Assets in 2018

Fastest Growing Markets in Takaful Assets 2018

- Maldives
- Pakistan
- Brunei

Takaful Assets by Region 2018
(US$ Billion)

GCC	Other MENA	Southeast Asia	South Asia	Europe	Americas	Sub-Saharan Africa
19	13	12	1	1	0.001	0.004

Change in capital requirements may impact Saudi takaful market

Assets held by the global takaful sector totalled US$ 46 billion in 2018, unchanged from the year before. Saudi Arabia remained the largest market, with total assets of US$15 billion, up 4% from 2017. Although the average return on assets for Islamic insurers in Saudi Arabia was reported at 1%, almost a third of Saudi takaful companies reported losses in 2018. Industry net profits tumbled 38% from 2017 due to slowing economic activity and an outflow of expatriate workers caused by new government policies such as higher taxation on foreigners and 'Saudization', which requires a certain proportion of posts to be filled by Saudi nationals. This is in addition to new rules that no-claims discounts should be offered on individual mandatory motor insurance. Insurers' performances are expected to pick up again, however, after the introduction of driving licences for female drivers in 2018, which led to an increase in motor insurance policies.

The market's future performance may be affected if the Saudi Arabian Monetary Authority (SAMA) goes ahead with plans to increase the minimum capital requirement for insurers in Saudi Arabia from SAR 100 million to SAR 500 million. Given the accumulated losses that have already eroded capital buffers and resulted in licence suspensions for some takaful operators, the new regulation could necessitate insurers needing either to leave the market, raise new capital, or look to consolidate. Solidarity Saudi Takaful and Aljazira Takaful Taawuni have already signed an agreement to assess a potential merger, as have MetLife AIG ANB Cooperative Insurance and Walaa Cooperative Insurance.

Another move which if enacted would have an impact on the takaful market is opening it to foreign insurance operators, which would increase competition in the Saudi market while potentially introducing new ideas and technology.

Regulatory changes could reshape UAE takaful sector

The UAE is the 4th-largest takaful market globally, with 17 operators and assets totalling US$ 3 billion in 2018. Total net income slipped in 2018 as the market is highly competitive market in the UAE, with six insurance operators in a relatively small country, while some of the takaful operators are relatively new to the market and are thus still burdened with high start-up costs, such as Orient UNB Takaful. Still, takaful firms in the UAE have benefitted from regulatory changes such as health insurance now being mandatory in Dubai and Abu Dhabi (and may soon be mandatory in the other emirates) as well as minimum pricing for motor insurance.

On top of this, new solvency requirements introduced in January 2018 may mean takaful companies will have to increase capital or seek consolidation, as may happen in the Saudi market. It was reported in July 2019 that 40% of takaful operators in the UAE fall short of the new solvency requirements. There has been no consolidation activity yet, however. A mooted takeover by Takaful Emarat of Al Hilal Takaful was called off in April 2019.

New legislation encouraging new takaful entrants in Africa

Sub-Saharan Africa had 20 takaful operators across nine countries in 2018. Tanzania may soon be added to their number after three insurance firms applied for takaful licences in 2019. This follows the recent introduction of a regulatory framework for takaful in the country and is aimed at boosting Tanzania's Islamic banking industry, which has until now been unable to offer Shariah-compliant insurance products.

Nigeria in September 2019 granted licences to two new takaful operators, Cornerstone Takaful Insurance and Salam Takaful Insurance, bringing the total number of takaful insurers in the country to four.

The approvals were granted as the government seeks to increase insurance penetration in the country. Nigeria's stock exchange meanwhile exempted takaful firms from requirements for insurance companies to raise minimum paid-up capital levels. It also announced that it will introduce derivatives for takaful products.

Legislation enacted in Morocco in August 2019 allowed insurance companies to launch units providing family and general takaful. Three companies are reported to have approached the regulator to open takaful operations: Royal Moroccan Insurance, Wafa Assurance and Atlanta Assurance.

InsurTech a new trend among takaful firms

Takaful firms are beginning to develop their own insurance technology, or 'InsurTech', platforms, to the benefit of both Islamic insurers and their consumers. Three takaful operators in the UAE – Dubai Islamic Insurance & Reinsurance Co., Noor Takaful, and National Takaful Co. – in August 2019 signed up to an integrated blockchain platform developed by B2B start-up Addenda. The platform streamlines transactions between takaful and conventional insurance companies and allows them to settle outstanding claims and payments among each other. The technology will thus allow insurers to manage and reduce costs as claim response times are slashed from days to minutes and the overhead required to handle claims by 30%.

In Bahrain – home to 10 takaful operators with a total US$ 338 million in assets – the central bank in August took the first step towards encouraging the adoption of InsurTech by issuing a set of 'Insurance Aggregators' rules. These will allow insurance brokers to provide platforms for price comparisons of insurance policies and to facilitate the purchase of policies on behalf of the operators.

Malaysia, the third-largest takaful market globally, with assets amounting to US$ 9 billion, is also working to regulate the insurance and takaful aggregation business, and has released an exposure draft on this in June 2019. The companies to be regulated include those under a regulatory sandbox such as RinggitPlus and GoBear. Apart from aggregation platforms, takaful operators can also benefit from online payment systems, such as Malaysia's Zurich Takaful using Souqa FinTech's PayHalal system, which gives consumers easier Shariah-compliant payment options.

Other Islamic Financial Institutions

US$ **140** Billion

Total OIFI Assets in 2018

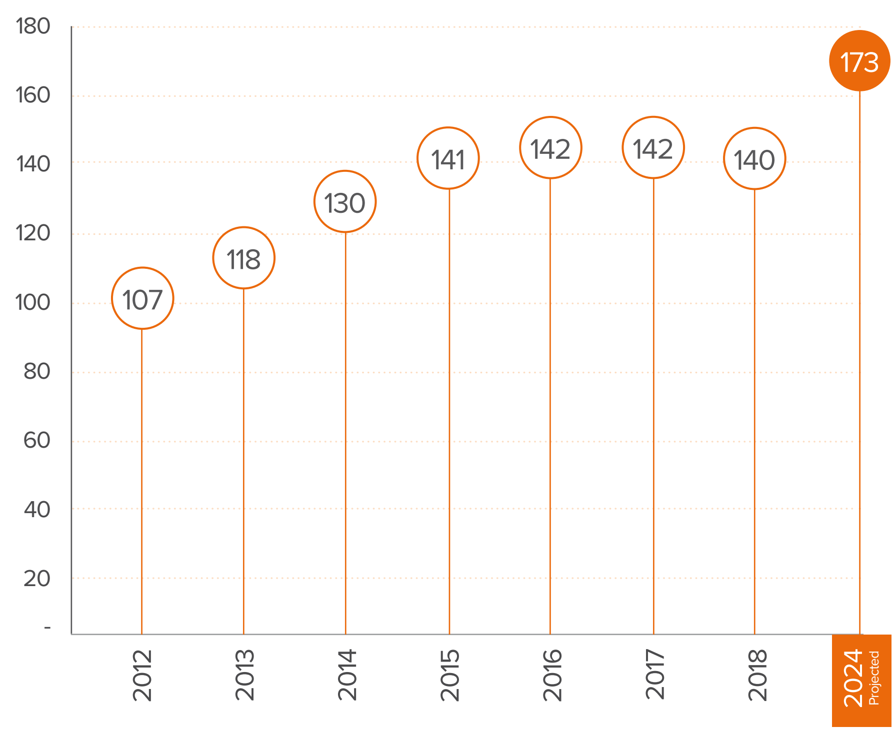
592
Total OIFIs*

465
Full-fledged OIFIs

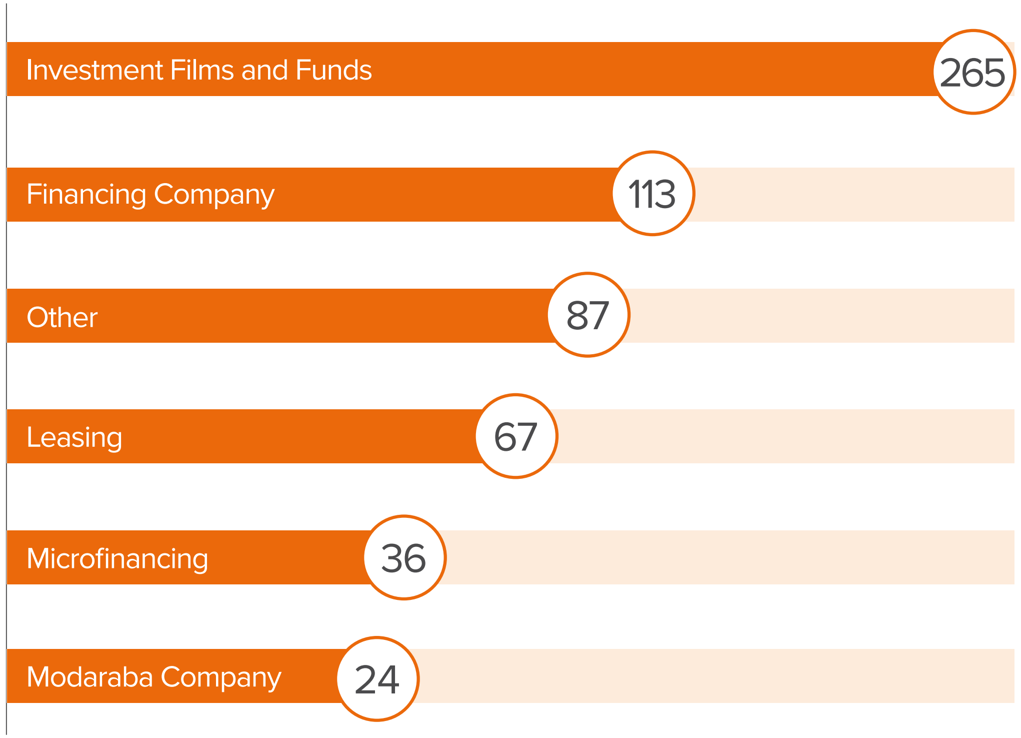
(*Including windows)

127
Windows

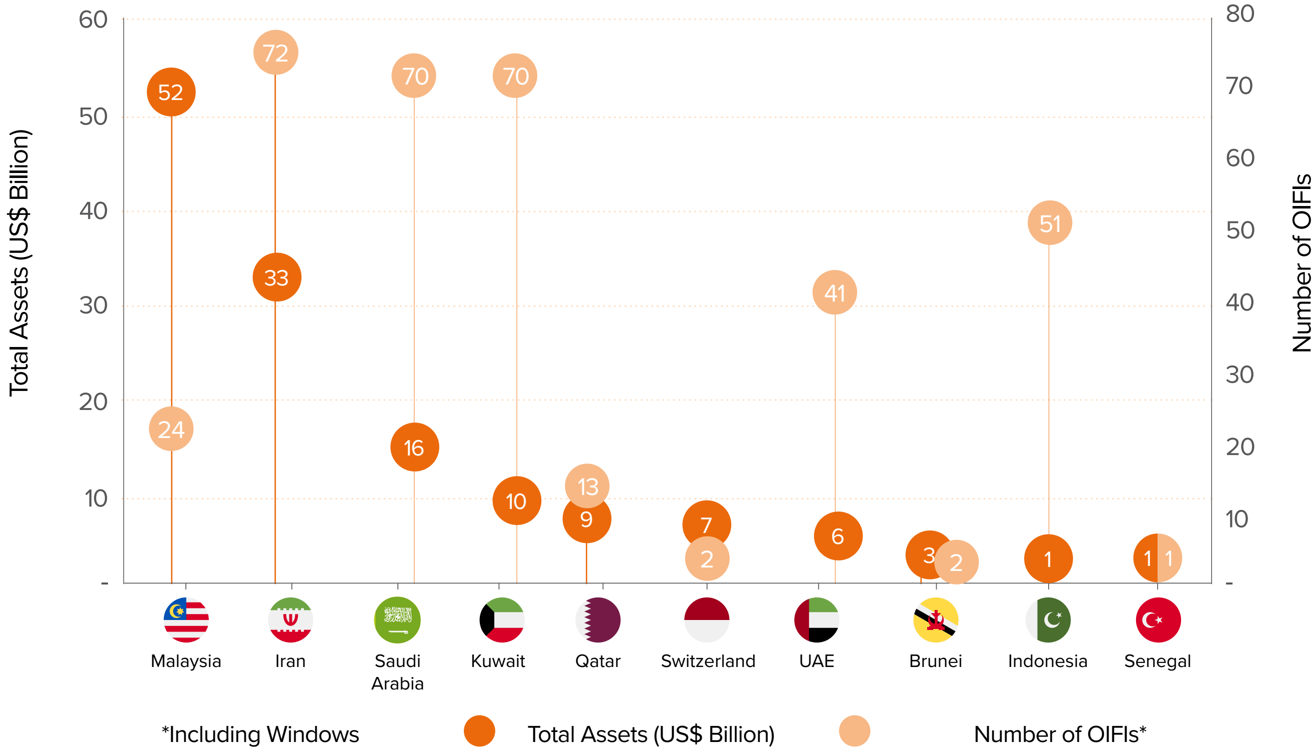
OIFI Assets Growth 2012 - 2018
(US$ Billion)



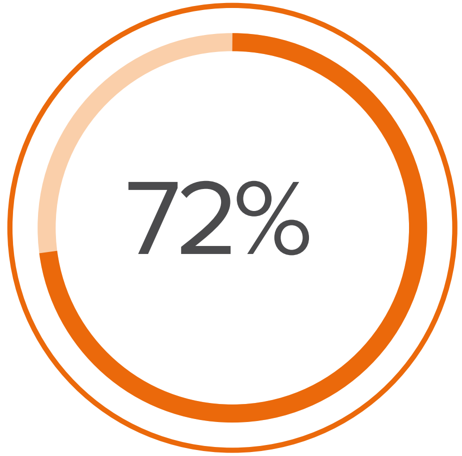
Number of OIFIs by Type 2018



Top Countries in OIFI Assets 2018



Top 3 Markets' Share of Global OIFI Assets in 2018



Fastest Growing Markets in OIFI Assets 2018

- Australia
- Egypt
- Maldives

OIFI Assets by Region 2018
(US$ Billion)

Australia sees rapid growth in OIFI sector assets

The 'other Islamic financial institutions', or OIFI, sector – which consists of financial institutions other than Islamic banks and takaful operators such as financing, mortgage, leasing and factoring companies – had US$ 140 billion in total assets in 2018. This sector is the only way to tap into Shariah-compliant financial products in countries such as India where regulators have yet to sanction Islamic banking.

The same is true of countries where there is too little interest for a sizeable Islamic finance industry to take root. One such is Australia, where the first foray into the Islamic finance industry was the establishment of the Muslim Community Co-operative (MCCA) in the 1980s, followed by Islamic Cooperative Finance Australia and Iskan Finance. The first products offered were Islamic mortgages, followed by Shariah-compliant auto financing, investment funds and business financing. Only the conventional National Australia Bank offers an interest-free financing scheme aimed at low-income borrowers. With no revision of the banking framework on the horizon that will allow Islamic banking licences, it seems these OIFIs will continue be the main financial servers of the Shariah-conscious Muslim population in Australia.

The OIFI sector is proving more popular in Australia than in other markets, with the country recording the largest percentage growth of OIFI assets in 2018. A sizeable increase in mortgage finance retail receivables seen by MCCA pushed the country's Islamic finance assets total to US$ 36 million in 2018.

Islamic FinTech operators expanding in new markets to meet untapped demand

Islamic FinTech firms dominate the OIFI sector. Growth in this area is continuing not just in terms of the number of players but also in the expansion of those companies into overseas markets. Wahed Invest, which launched its robo-advisory services first in the US and then the UK, is also looking to tap other well-developed Islamic finance markets in the GCC and Southeast Asia. The markets it is looking to expand in – Indonesia, Bahrain, the UAE and Saudi Arabia – have each taken steps to develop their FinTech industries through regulatory sandboxes. The company received an experimental permit from the Saudi Capital Markets Authority to test its robo-advisory services in July 2019 under the name Wahed Capital.

The expansion is not limited to Muslim-majority countries. Wahed Invest is also looking to tap into India, which is home to 172 million Muslims but because of regulatory restrictions, it does not host a single Islamic bank. However, there are 14 OIFIs in the country, with a total US$ 12.59 million in assets, so there is likely substantial demand for products offered by Islamic FinTech financing or investment providers. Wahed Invest is also targeting Nigeria, which is among the world's fastest-growing Islamic finance markets according to our indicator.

Another U.S.-based Islamic wealth management company with a robo-advisory solution that is looking to expand into other markets is ShariahPortfolio. This firm is considering expansion into Canada given Islamic finance's growth in Western countries, as well as core markets such as the GCC and Southeast Asia. ShariahPortfolio will also offer its services to institutional clients such as conventional financial firms that want to add Islamic financial products to their offer.

Mixed performances in UAE OIFI market as oil, property continue to take a toll

Performances have been mixed in the GCC. In the UAE, where an array of 41 OIFIs focused on real estate, retail financing, leasing and other areas contributed US$ 6 billion in assets in 2018, some companies reported profits and steps to diversify and expand their offerings, but others are still suffering from the slowing of the economy in the wake of the oil price crisis.

One such is Dubai-based mortgage provider Amlak Finance, which began restructuring US$ 1.2 billion in debt in July 2019, following a 2014 restructure of US$ 2.7 billion in loans, as it seeks to adapt to adverse market conditions. The company suffered from the 2008 property market crash in some areas of the UAE and was exposed to the 2014 slump in oil prices that led to slower economic growth and softened prices in the property market by 27% since 2014. Although the company saw a 5% increase in rental income, it swung to a US$ 74 million loss in 2018, while total assets dropped 11%. The loss is due to impairment charges related two real estate projects that undergoing uncertainty in completion.

Another UAE-based company, Mawarid Finance, which provides Islamic finance services including working capital, goods, auto and other types of finance, reported a net loss of US$ 39 million in 2018, though narrower than its loss from the previous year, and a 12% reduction in its balance sheet. The results were impacted by fair value losses in investment properties and other segments caused by the stuttering UAE economy in the wake of oil and property price shocks. Despite this, the company continued with plans to expand through the acquisition of a software development company.

On a more positive note, Dubai-based Aafaq Islamic Finance, which offers a number of services including payment and online solutions, is betting on the growing demand for Islamic finance by planning for an IPO in 2020. The company reported a 172% rise in profit in 2018 on the back of gains for its Shariah-compliant investments and strong demand for its Islamic finance products.

Increased role for Islamic financing companies in transforming Saudi housing sector

Despite a marginal decline in Saudi OIFI assets to US$ 16 billion in 2018, this could change given the government's aim to double the size of the mortgage market within the next five years. The plan aims to increase home-ownership among Saudi citizens, and Islamic financing companies as well as banks will have an active role in achieving this aim. One such is Saudi Real Estate Finance Company, which aims to create a secondary mortgage market in the country that will inject liquidity by providing warehousing facilities and acquiring mortgage loans. The company aims to refinance 20% of home loans in Saudi Arabia in the next decade. Mortgages underwritten by finance companies totalled US$ 664 million in 2018.

BAHRAIN : UNLOCKING POTENTIAL THROUGH FINTECH

Khalid Hamad

Executive Director
of Banking Supervision,
Central Bank of Bahrain

About the Author :

Mr. Khalid Hamad has held several senior posts at the Central Bank of Bahrain (CBB). His current responsibilities include supervision of all banking institutions, including Islamic banks, licensed by the CBB, as well as inspection of all financial institutions, comprising banks, insurance firms, investment companies, and capital market players.

Mr. Hamad began his career in 1987 with the Bahrain Monetary Agency, the predecessor of the CBB. From 1990 till 2003, he served as Acting Director, Inspection, and then as Director, Banking Supervision. In 2003, he joined Ernst & Young in Bahrain, serving as Senior Consultant on Risk Management & Regulatory Services. He rejoined the CBB in his current post in February 2006.

Mr. Hamad is Chairman of the International Islamic Financial Market (IIFM), and Chairman of the Waqf Fund for Research, Education and Training in Islamic Finance. He has also served on a number of national and regional committees, including the GCC Banking Supervision Committee, the Arab Committee on Banking Supervision, and the Offshore Group of Banking Supervisors.

Mr. Hamad has a Bachelor's Degree in Business Administration from the University of Portland, USA, and a Strategic Leadership and Executive Management Program certificate from the University of Columbia, New York.

We are witnessing a significant moment in the history of the financial sector. It is being transformed and reshaped due to the headwinds coming from technology, with large tech firms entering the financial sector, and demand for a better customer experience, especially from millennials. Financial technology, or FinTech, is forcing a fundamental rethink and paradigm shift in business models of banks and other financial institutions. Business models are being challenged and transformed at a speed that is unprecedented. It is possible for a traditional business to do nothing wrong and still find itself out of business within a short period of time. In such a scenario it is of critical importance that the entire ecosystem works in harmony to achieve the desired results. In other words, the regulator, the industry and the tech companies ought to work hand in hand to adopt new technologies and serve the customers better while maintaining stability and mitigating risks.

When we embarked on this journey the fundamental question facing us was how to balance regulatory prudence and conservatism with the innovation and change being brought about via FinTech? At the CBB we have had to go through a paradigm shift in our thinking and approach to risk management, whereby without lowering our guard against future risks we decided to embrace the FinTech phenomenon, promote innovation and eliminate, as much as possible, barriers to entry for FinTech companies and any opportunities for regulatory arbitrage. We are open to new ways of doing business made possible by FinTech. We are also open and ready to provide regulatory solutions for the new risks being posed to the system. In other words, we decided to embrace innovation and manage the resulting risks rather than stifle innovation in order to keep the risk paradigm unchanged.

There are several important steps that the Central Bank of Bahrain has undertaken in the last five years that make it the most proactive and tech-friendly central bank in the region, such as launching a regulatory sandbox in 2017. We have so far authorized 35 companies for the sandbox, of which two have graduated.

In 2016, we set up a dedicated Fintech & Innovation Unit at the CBB to undertake research as needed and recommend policy action, in addition to supervising the regulatory sandbox companies. The unit also plays an important role in building the FinTech ecosystem of Bahrain by collaborating with both private and public organizations, such as the EDB and BFB, amongst others. We are in the process of enhancing this unit further. Another important role the unit assumes is to collaborate with other international regulators to share experiences and work on solving policy challenges, which fosters more regulatory harmonization.

To help financial institutions reduce operational costs and encourage local and foreign investment we further enhanced our rules on outsourcing of financial services. Today almost all the banks utilize the services of third-party processors. We also allowed financial institutions to use cloud computing in 2017 for the same purpose and in line with the Government of Bahrain's Cloud First policy.

In line with our objective to further enhance financial inclusion in Bahrain we issued crowdfunding rules in 2017 – both equity and debt-based – and for conventional as well as Shariah-compliant segments. We modified these rules in 2018 in line with market feedback. Through this initiative we aim to enhance financial inclusion to where we expect it to be.

Another step we took was the introduction in late 2018 of Open Banking rules which require banks to open up their Application Programming Interfaces (APIs) for licensed third parties in order to offer integrated account information services and payment initiation services. Startups and technology firms have challenged established financial institutions by offering specific, niche services to consumers and businesses, and we want to encourage this by removing obstacles from their path to access potential customers. We have mandated all retail banks in the Kingdom to be open-banking compliant in 2019.

We have also introduced a similar set of rules for insurance aggregation, allowing insurance aggregators to provide price comparisons and facilitate the purchase of policies from several insurance licensees using their online or mobile app platform. This will save the customer the hassle of going through individual insurance companies in search of the right policy and the cheapest price. We recently licensed our first insurance aggregator in the Kingdom.

This year we also introduced rules on digital financial advisory, also known as robo-advisory, and have issued rules on crypto-asset services covering trading, dealing, advisory, portfolio management and custodial services.

Also, under the direction of the CBB, the BENEFIT Company launched this year a nationwide e-KYC solution. This will reduce operational cost for banks and facilitate their compliance with KYC, or Know Your Customer, rules. It will also speed up the process of opening new accounts and maintaining ongoing compliance. BENEFIT is also working on a tokenization project endorsed by the CBB to make still more secure the use of cards for payment.

Sukuk

US$ **470** Billion

Total Sukuk Value Outstanding in 2018

2,887

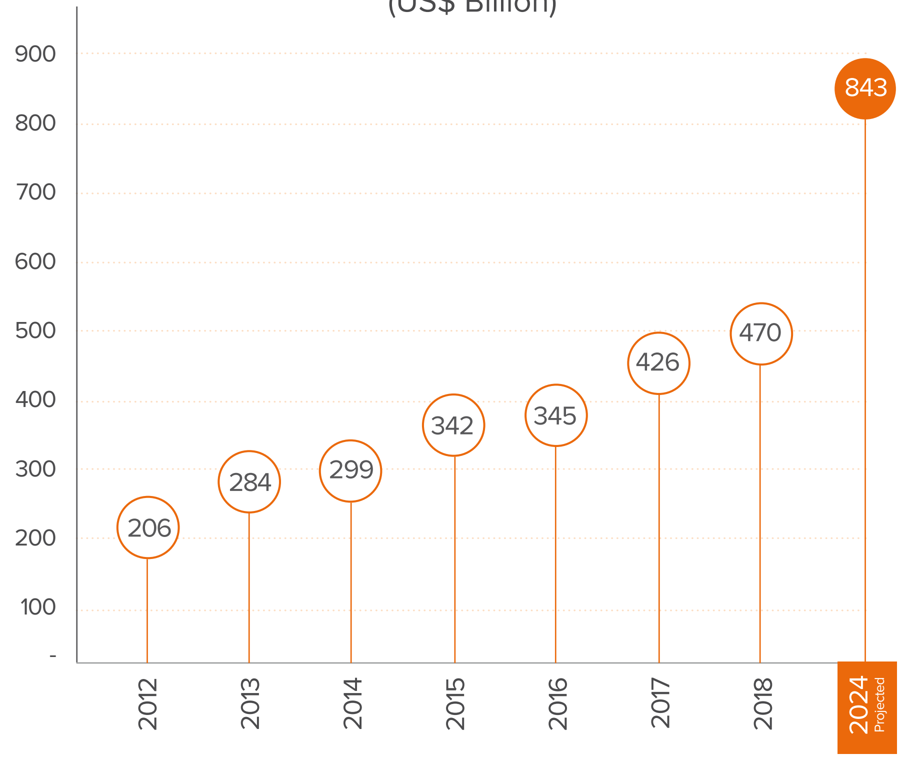
Number of Sukuk Outstanding in 2018

319 Sovereign

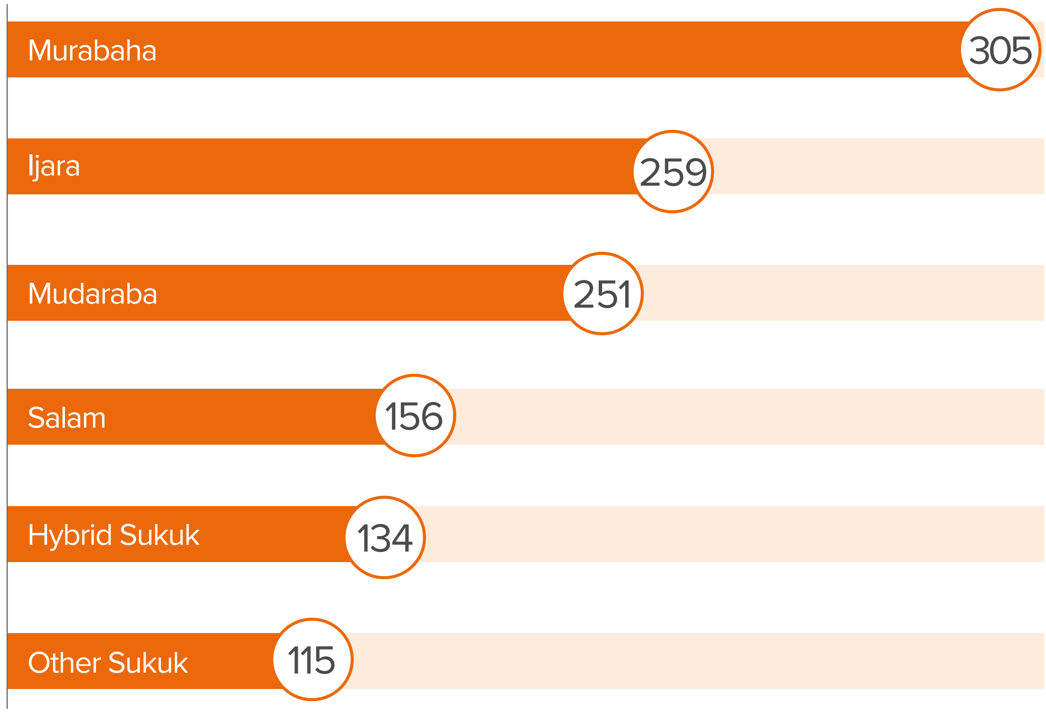
193 Quasi-Sovereign

2,375 Corporate

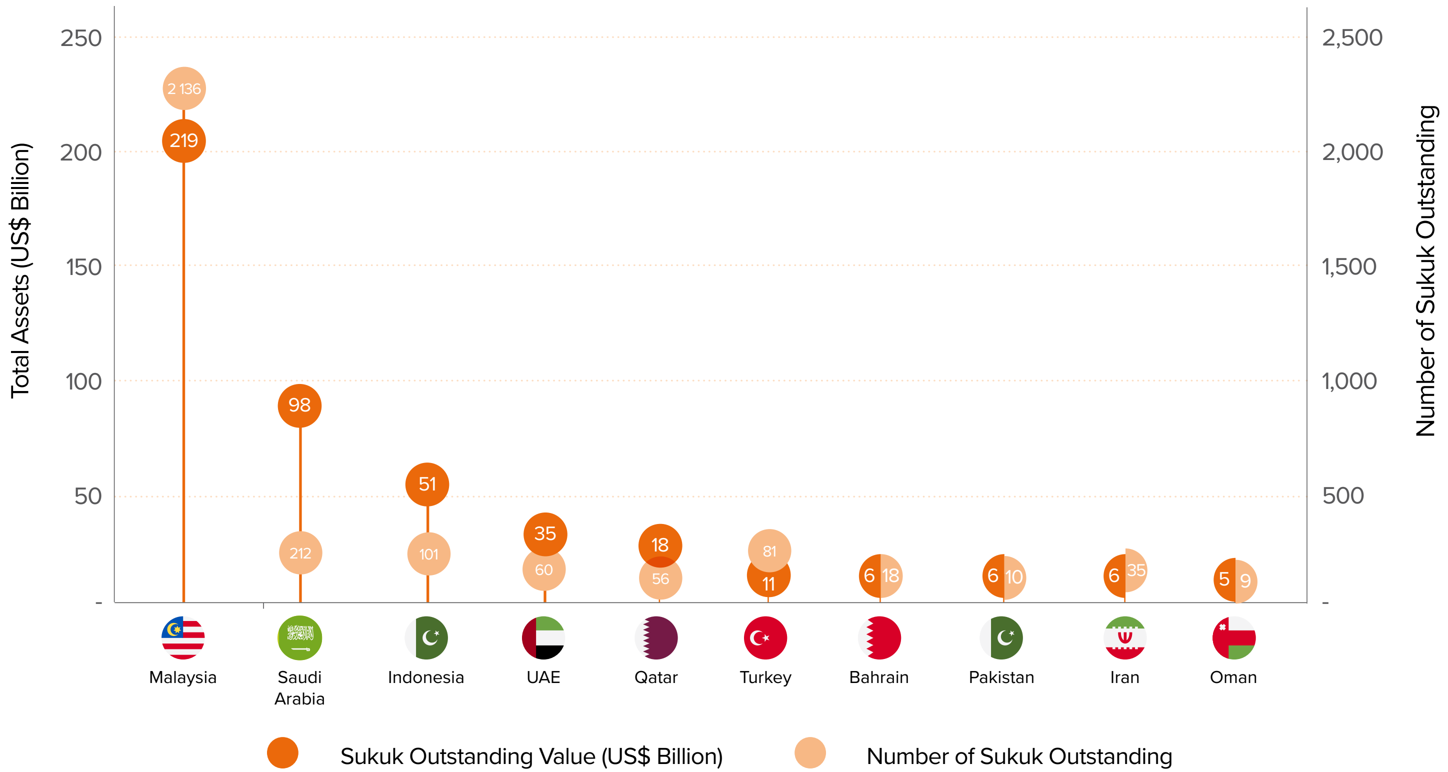
Sukuk Value Outstanding Growth 2012 - 2018
(US$ Billion)



Number of Sukuk Issued by Structure 2018



Top Countries in Sukuk Outstanding 2018



Top 3 Markets' Share of Global Sukuk Outstanding in 2018

Fastest Growing Markets in Sukuk Assets 2018

- Kuwait
- Iran
- Nigeria

Sukuk Value Outstanding by Region 2018
(US$ Billion)

Southeast Asia	GCC	Europe	South Asia	Other MENA	Other Asia	Sub-Saharan Africa	Americas
270	168	13	7	6	3	2	0.27

US$ 1 trillion sukuk issuance milestone reached in 2018

In 2018, cumulative issuance of sukuk crossed the US$ 1 trillion mark since the first issuance in 1996. Almost half of these were within the last five years alone, showing just how strongly sukuk are growing in popularity. As of the end of 2018, outstanding sukuk were valued at US$ 469.7 billion across 2,887 sukuk. Sukuk issuances during the year reached US$ 124.8 billion, a similar level to the previous year. However, issuances as of the third quarter of 2019 indicate growth has gained momentum, backed by an extensive government and corporate issuance pipeline from the GCC and Malaysia.

The Saudi and Malaysian governments were the largest issuers in 2018, at US$ 17.1 billion and US$ 13.9 billion, respectively. Malaysia maintained its lead position in terms of issuances, boosted by the return of short-term murabaha sukuk from Bank Negara Malaysia. The central bank resumed sukuk issuances after a three-year hiatus. It issued US$16.1 billion in short-term sukuk during the second half of 2018.

Sukuk market developing the fastest in Saudi Arabia

Saudi Arabia emerged as a contender in the sukuk market during 2018, driven by a government sukuk program that also spurred greater corporate issuance. The government launched its sukuk program in 2017 to diversify funding in the state budget. It plans to raise US$31.5 billion in 2019. The program has so far focused on developing the domestic sukuk market and as such the government has reduced issuing conventional sovereign bonds. In July 2018, Saudi Arabia launched a new 'primary dealer' scheme for local-currency government sukuk, under which five local banks buy the sukuk directly from the government and then make a market by quoting two-way prices to other investors. The scheme is aimed at increasing demand and widening the range of investors holding the sukuk.

With various tenors of up to 30 years, the Saudi government's program is helping to establish a domestic benchmark sukuk yield curve. This has already led to growing numbers of corporates such as Saudi Telecom Company (STC), Savola and Al Marai issuing sukuk in 2019. Saudi Real Estate Refinance Co. is also expected to become an active issuer in the domestic market with its own SAR 11 billion (US$ 2.9 billion) sukuk program. In addition, Saudi regulators introduced a number of incentives in 2019 for corporate sukuk issuers and investors to encourage further issuances and increase trading activity in the secondary market. Corporates now benefit from lower regulator fees for new and repeat issuers as well as smaller face values for sukuk from SAR 1 million to SAR 1,000 to offer easier access for retail investors. Lower trading commissions in addition to zero tax/zakat on investments in domestic sovereign sukuk also promise a more active and liquid secondary market.

Green sukuk expanding to new markets

Green sukuk issuance began in Malaysia in 2017 with the debut issuance by renewable energy company Tadau Energy. The first such issuance outside Malaysia came in 2018 when an Indonesian sovereign green sukuk raised US$ 1.25 billion. A subsequent US$750 million issue in 2019 made the Indonesian government the largest issuer of green sukuk to date. The trend continues to grow in 2019 with the first green sukuk issued in the GCC region by Majid Al Futtaim Group.

Renewable energy has become central to many national power strategies and the numerous mega projects now underway or planned are likely to lead to further green sukuk issuances, particularly within the GCC. This will capitalize on interest from a broad range of institutional investors, particularly from non-OIC countries, as demand grows for sustainable and responsible investments. Government support has been integral in encouraging green sukuk issuance. Malaysia operates a grant scheme for external review fees, while Indonesia has established a regulatory framework for green bonds and sukuk. The Dubai Islamic Economy Development Center (DIEDC) is working to promote green sukuk issuance in the UAE and develop certification standards aligned with the Climate Bonds Standard and Certification Scheme.

First blockchain-based sukuk may power growth of micro-sukuk

In October 2018, microfinance investment fund Blossom Finance announced the introduction of 'SmartSukuk' – the first blockchain-based sukuk. Smart Sukuk follow a standardized automated issuance process through a dedicated platform that uses Ethereum smart contracts. The blockchain technology powering the issuance makes the issuance process cheaper, more efficient and more accessible to customers. The initial tranche of the mudaraba sukuk was issued in October 2019, raising US$ 5 million for a six-month tenor. The proceeds of the sukuk were channelled to 80 microfinance institutions in Indonesia, which in turn will fund micro businesses and social enterprises. This new type of sukuk will potentially enable microfinance institutions globally to issue micro-sukuk, raising much smaller amounts than in standard sukuk issuance while maintaining low costs.

Indonesia and Turkey rethinking sukuk structures to utilize idle assets

A new concept in the structuring of sukuk emerged in 2018 which enabled governments to raise funds by leveraging mostly idle real and financial assets. Indonesia and Turkey have pioneered the issuance of sovereign waqf-linked and gold-backed sukuk, respectively, offering a more cost-effective alternative for tapping international debt markets while deepening the domestic market. Governments of countries facing volatile exchange rates and high-risk premiums could replicate these models given that individuals in these countries are likely to hold gold as a safeguard from currency fluctuations.

Indonesia launched the first waqf-linked sovereign sukuk in October 2018, raising US$ 1.64 billion. The sukuk aims to mobilize cash funds from waqf (endowment) assets, which typically generate little or no income. The proceeds will be used to finance social assistance projects such as rebuilding affordable homes for victims of earthquakes. The structure of this sukuk stipulates that the principal investment will be returned to the waqf fund in full, and the profit payments will be reinvested to manage the waqf assets.

Indonesia also has a new US$ 1.4 million waqf-linked sukuk issuance in the pipeline for 2019, targeting a wider investor base (both retail and institutional). Global waqf assets are estimated at US$ 1 trillion in cash, real estate and commercial businesses. The benefit of this innovative use of sukuk is two-fold: low-cost financing for government social programs and efficient management of waqf funds. The replication of this model across other Islamic finance jurisdictions would help ease the burden of social development programs, especially those with low-income populations and high government debt and cost of borrowing.

Daunted by high yields in international debt markets, the Turkish government issued the first sovereign gold-backed sukuk in October 2017 in a step to reduce its cost of funding. These sukuk have reduced the government's cost of financing to 1-1.2%. They have also helped bring gold assets into the financial system and boost government reserves. This type of ijara sukuk accepts investments in physical gold, capitalizing on an unutilized stock of over 3,500 tons held by households. The principal is repaid in physical gold bars and the profit payments are disbursed in Turkish lira, subject to zero tax. By January 2019, the government had raised a total of 4.31 tons of gold solely from retail investors. In February, investment in these sukuk was opened to institutional investors, raising 24.2 tons of gold in that month alone.

Islamic Funds

US$ **108** Billion

Total Islamic Funds Outstanding Value in 2018

1,701

Number of Islamic funds Outstanding in 2018

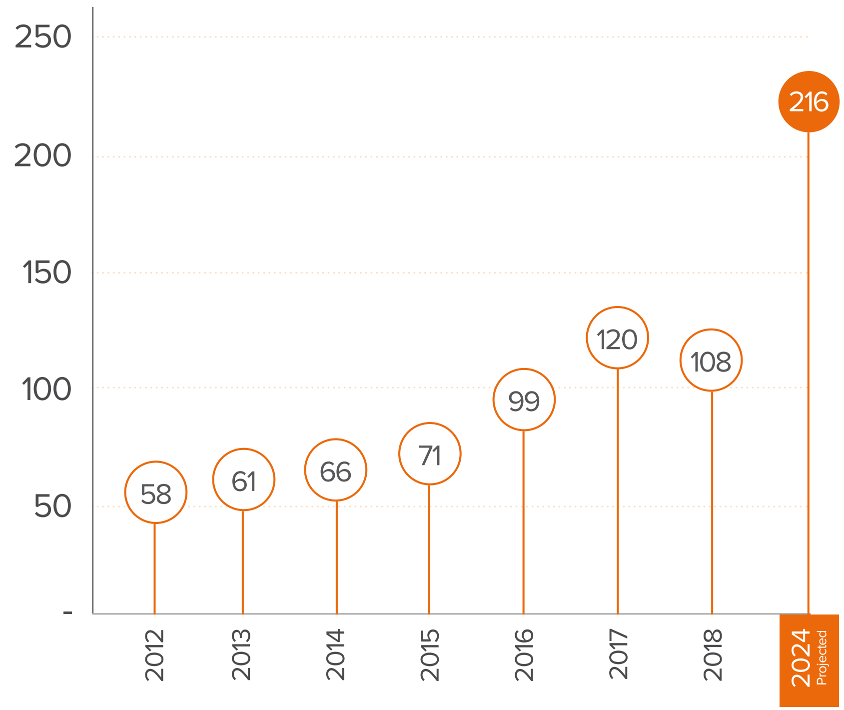
176

Islamic Funds Launched in 2018

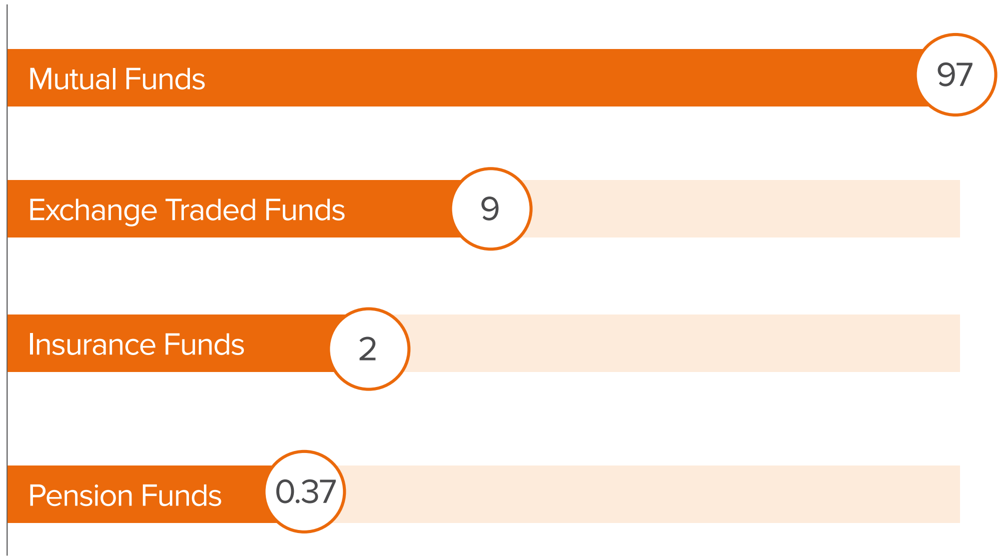
89

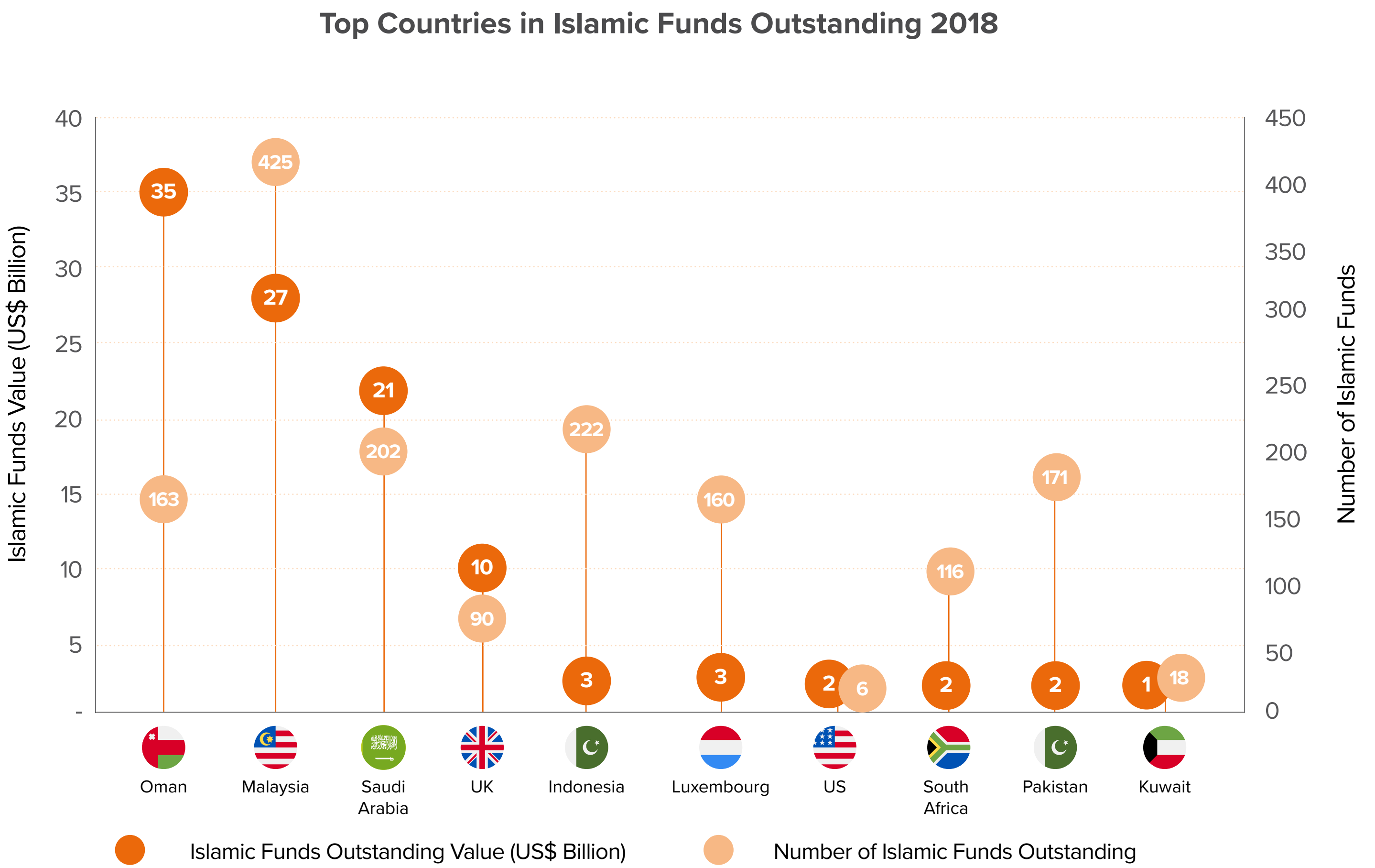
Islamic Funds Closed in 2018

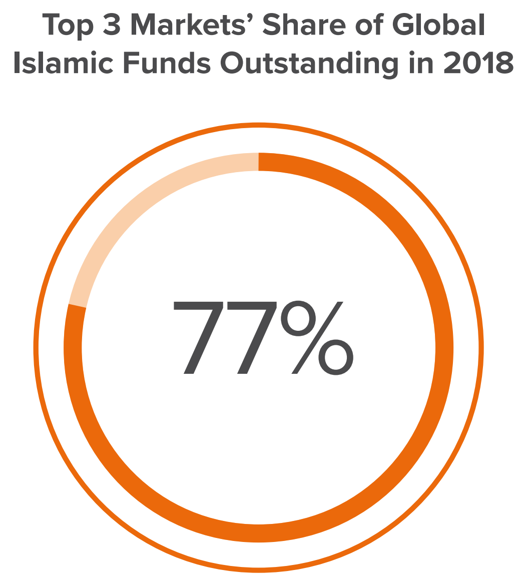
Islamic Funds Assets Growth 2012-2018
(US$ Billion)



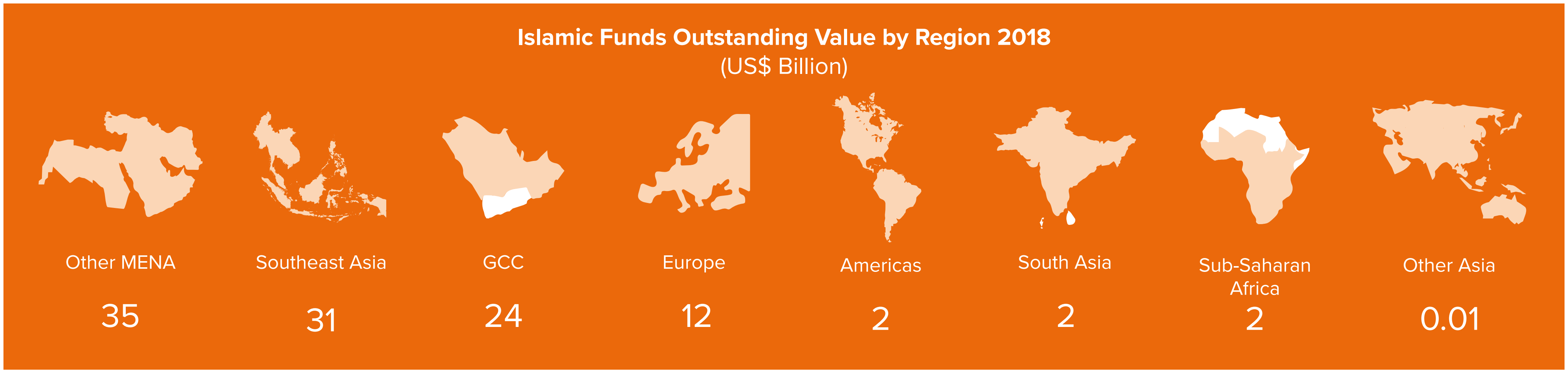
Islamic Funds Outstanding Value by Universe 2018
(US$ Billion)




Top Countries in Islamic Funds Outstanding 2018
Islamic Funds Value (US$ Billion)
Number of Islamic Funds
40
35
30
25
20
15
10
5
-
450
400
350
300
250
200
150
100
50
0
35
163
425
27
21
202
10
90
222
3
160
3
2
6
116
2
171
2
1
18
Oman
Malaysia
Saudi Arabia
UK
Indonesia
Luxembourg
US
South Africa
Pakistan
Kuwait
Islamic Funds Outstanding Value (US$ Billion)
Number of Islamic Funds Outstanding


Top 3 Markets' Share of Global Islamic Funds Outstanding in 2018
77%


Fastest Growing Markets in Islamic Funds Assets 2018
$
Qatar
Oman
Indonesia


Islamic Funds Outstanding Value by Region 2018
(US$ Billion)
Other MENA
35
Southeast Asia
31
GCC
24
Europe
12
Americas
2
South Asia
2
Sub-Saharan Africa
2
Other Asia
0.01

2018 sees the weakest performance in Islamic funds in a decade

As at the end of 2018, total assets under management (AuM) for Shariah-compliant investment funds were valued at US$108 billion, down from US$120 billion in 2017. These include Shariah-compliant mutual funds, pension funds, insurance funds and ETFs.

By far the weakest performance in the last decade, overall Islamic AuMs fell 10% during 2018, compared to 23% growth in 2017. This is mainly the result of subdued global economic conditions in addition to the poor performance of Asian equities during 2018. Malaysia and Indonesia are the two largest Islamic funds markets, and both their stock markets suffered losses in 2018.

Iran, Malaysia and Saudi Arabia remained the largest Islamic funds markets, collectively accounting for 77% of global AuM. Each saw a reduction in value of AuM during 2018. The UK and Indonesia have crept into the top five markets, replacing the U.S. and Luxembourg.

Indonesia was the largest issuer of Islamic funds in 2018, with 59 new Shariah-compliant mutual funds launched. In 2015, Indonesia's financial services regulator first allowed investment managers to include offshore assets in their mutual funds in order to achieve wider diversification. As a result, Indonesia has seen the launch of more than 40 new Islamic mutual funds each year since. Between 2015 and 2018, the number of Islamic funds in Indonesia increased from 82 to 222. Total AuM rose more than threefold during this time, to US$2.97 billion from US$808 million in 2015, despite poor overall performance over 2018.

Expanding investor base for GCC Islamic investments

The trends that began to emerge in the Islamic funds market during 2018 indicate that their investor base will no longer be limited to Shariah-compliant investors. Several GCC stock indices, including of Shariah-compliant equities, were upgraded to emerging market status on major global indices such as the MSCI Emerging Market Index and the FTSE Russell Global Equity Index. Five of the six countries of the GCC also received a similar upgrade on the JP Morgan Emerging Market Bond Index. These upgrades are expected to attract greater demand for GCC-based Shariah-compliant equities and sukuk from international investment funds.

Recent sovereign sukuk issuances in the region have also attracted sizeable demand from foreign pension and insurance funds. Growing SRI and green sukuk issuances will also provide a larger base for establishing Islamic ESG funds, targeting investors with socially responsible mandate in addition to traditional Shariah-compliant investors.

Islamic ETFs set to enter new territory

ETFs have captured over US$3 trillion in AuM globally, but they remain a niche market in the Shariah-compliant space. In a market dominated by mutual funds, there have been only a handful of Islamic ETFs, and these have been concentrated in Malaysia.

ETFs mostly follow passive strategies, making them low-cost investments in addition to being more accessible to retail investors. This should potentially allow Islamic fund managers to tap new clients through ETFs: investors from developed markets seeking exposure to emerging markets, and retail investors.

The issuance of the world's largest single-country Islamic ETF in 2018 suggests this type of fund may soon become mainstream. The Al Rayan Qatar ETF (QATR), with initial assets of US$120 million, was launched by Islamic bank Masraf Al Rayan as part of Qatar's drive to increase foreign investment from Southeast Asia, the UK and Europe among others. The ETF tracks the QE Al Rayan Islamic Index of Sharia-compliant stocks in Qatar. The Qatar Stock Exchange announced in 2019 that it will launch a second Shariah-compliant ETF, based on assets outside Qatar.

Islamic ETFs also started to emerge outside OIC jurisdictions in 2019. The first of its kind in the U.S., the Wahed FTSE USA Shariah ETF was launched by Wahed Invest in July 2019. The fund tracks the FTSE USA Shariah Index, comprising U.S. large- and mid-cap companies classified as Shariah-compliant.

Shariah ESG investment on the rise in Malaysia in line with Value-based Intermediation initiative

Investment strategies with an ESG component are becoming more prevalent globally. Because Islamic investments have much in common with socially responsible investments including those with an ESG mandate, this has allowed Islamic investment managers to tap a wider investor base, including socially responsible investors outside Islamic jurisdictions who are seeking to diversify their holdings.

Shariah-compliant managers in Malaysia have already begun to incorporate ESG components into their funds. BIMB Investment Management, a unit of Bank Islam Malaysia, has incorporated over 250 ESG metrics into its investment processes since 2015. Also, in line with Bank Negara Malaysia's Value-based Intermediation (VBI) initiative to align Islamic finance with responsible investing, Malaysian bank HSBC Amanah launched its first ESG Islamic structured product in Malaysia in June 2019. The ringgit-denominated instrument is linked to the Hang Seng Corporate Sustainability Index, with 100% principal protection if held to maturity.

Islamic funds riding the sukuk wave

As the Islamic funds markets remains a minute fraction of the global funds industry, asset managers are faced with a shortage of Shariah-compliant investments, especially outside Malaysia and Indonesia. However, this may change as jurisdictions such as Saudi Arabia and Qatar work to deepen their Islamic financial markets. The recent surge in both government and corporate sukuk issuances has expanded the Islamic investment pool for both Saudi and GCC-focused funds.

In August 2019, Al-Bilad Investment Company received regulatory approval for its Al-Bilad Sovereign Sukuk ETF. Emirates NBD Capital also said it was looking into launching a sukuk ETF on the back of increased GCC issuance. In 2018, Swiss private bank Lombard Odier established its debut Shariah-compliant investment fund, which includes sukuk investments. The bank largely serves GCC clients, with a focus on Saudi Arabia.

ISLAMIC FINANCE GATEWAY

Islamic Finance Gateway (IFG) provides you the opportunity to be part of an exclusive Islamic finance community and receive the latest industry updates in a digestible and succinct format suitable for the busy professional.

IFG is part of Refinitiv, formerly the Financial & Risk business of Thomson Reuters, is one of the world's largest providers of financial markets data and infrastructure. Serving more than 40,000 institutions in over 190 countries, we provide information, insights, and technology that drive innovation and performance in global markets. Our 160-year Reuters heritage of integrity enables customers to make critical decisions with confidence, while our unique open platform, best-in-class data, and cutting-edge technology bring greater opportunity to our customers. By advancing our customers, we drive progress for the entire financial community.

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ISLAMIC FINANCE ECOSYSTEM

Measurement of the development of the Islamic finance industry goes beyond just measuring core business components such as financial performance. There is also a need to investigate the industry's infrastructure, including its management components (**Governance** and **Corporate Social Responsibility**) and industry ecosystem (**Knowledge** and **Awareness**) to see whether it is heading in the right direction, whether globally or in individual countries. This chapter investigates the other elements deemed important for the development of the industry and will look into key trends and opportunities within each element.

GOVERNANCE OVERVIEW

Governance provides an important indicator of the health of the Islamic finance industry's infrastructure. Appropriate controls maintain consumer and investor confidence in the industry. Indeed, recent scandals and the collapse of financial institutions whether in leading Islamic finance regions or elsewhere show that strong governance and regulations will provide legitimacy to Islamic financial institutions' operations. Governance is assessed through regulations, corporate governance, and Shariah governance.

UAE introduces sweeping improvements to Shariah regulatory framework

In 2018, 44 countries had regulations covering the Islamic finance industry. Six of those countries had a comprehensive regulatory system covering each of six sectors – accounting, Islamic banking, Shariah governance, takaful, sukuk, and Islamic funds – while the rest covered one or more of the sectors.

One of those 44 countries is the UAE, while its regulatory framework did not cover all aspects of the industry, it is working to improve its existing regulatory framework. A new banking law that came into force in September 2018 created a Higher Shariah Authority while specifying that each Islamic financial institution will have to establish an approved, internal Shariah supervisory committee and internal Sharia auditing processes. In May 2019, the UAE also introduced new regulations governing takaful, under which reinsurance companies will be able to accept retakaful business. Retakaful units will need to comply with existing takaful regulations and ensure a complete separation between reinsurance and retakaful businesses. Such move may lead to launch of retakaful subsidiaries in the UAE.

Lastly, the UAE has introduced new regulations around sukuk issuance both inside and outside the country following the Dana Gas sukuk scandal that rocked the Islamic finance industry in 2017. The new law stipulates that issuance disclosure should specify mechanisms to resolve disputes in case the sukuk should become no longer Shariah-compliant. It also requires that any fatwa resolution must be supported by legal evidence and disclosure.

Malaysia revises takaful regulations, gives greater authority to central bank's Shariah board

Another country that has reviewed its Islamic finance regulatory framework is Malaysia, which has regulations covering each of the six sectors of the industry. The country's central bank, Bank Negara Malaysia, has established a revised takaful operational framework that will come into force in July 2020 with the purpose of fostering innovation, safeguarding the interests of takaful participants, and increasing participation. It will also provide greater clarity around several Shariah standards in the takaful models and will govern the ways in which takaful funds are managed.

Malaysia has also seen a landmark ruling by its Federal Court in April 2019 that decisions made by Bank Negara's central Shariah board can be binding on civil courts despite the board not being a judicial body. The ruling will allow civil courts and arbitrators to rely on a single authority rather than various, competing sources in the interpretation of Islamic principles. The ruling was stemmed from a civil lawsuit filed in 2013 by Malaysia's Kuwait Finance House against JRI Resources.

Islamic finance regulations introduced in several new markets in 2019

The number of countries with regulations in individual Islamic finance sectors is also growing. The approval in July 2019 by Morocco's parliament of a new law that will allow insurers to establish takaful windows is likely to lead to the development of an Islamic insurance industry in the country. This follows the granting of licences for Islamic – or 'participatory' – banks and windows in Morocco in 2017. The new law will also allow participatory banks to offer family and general takaful. Morocco's neighbour, Algeria, is also looking into enacting a takaful law by year-end covering family takaful and Islamic windows.

In South Asia, Bangladesh's Securities and Exchange Commission (BSEC) approved regulations in May 2019 applying to investment sukuk structured in line with Shariah rules. Sukuk issuance in Bangladesh was previously limited to short-term sovereign Islamic bonds and murabaha bonds issued by Bangladesh's Islamic banking pioneer, Islami Bank Bangladesh.

Elsewhere, the Philippines announced a law in August 2019 aimed at broadening the country's Islamic finance industry under the supervision of the central bank. Currently there is only one Islamic lender in the country: Al-Amanah Islamic Investment Bank. The new law will also allow conventional banks to operate Islamic windows. The move is hoped to attract foreign investors and to raise financial participation among the Muslim population. A working group has been set up to develop the required regulatory framework.

Crypto-assets beginning to be considered by Shariah scholars and regulators in developed Islamic finance markets

Cryptocurrencies remain a leading topic of debate within the Islamic finance industry, especially among Shariah scholars. In Malaysia, which has the world's highest concentration of Shariah scholars, the concept of halal cryptocurrencies has been broadly supported, although some scholars say they need to understand the technology better if they are to properly rule on it. The Malaysian government is working to introduce regulatory requirements for the issuance of initial coin offerings and for digital asset exchanges.

Another market with a large number of Shariah scholars, Bahrain, issued rules on crypto-assets in Febraury 2019. The Middle East's first Shariah-compliant cryptocurrency exchange, Rain, was granted a licence in August 2019 after graduating from the Central Bank of Bahrain's regulatory sandbox. The rulings on crypto-assets are intended to help Bahrain keep up with other global financial centres and give it a lead in the Islamic FinTech race. This will also be supported by Bahrain FinTech Bay's launch of a dedicated Islamic finance centre in partnership with the Accounting and Auditing organisation for Islamic Financial Institutions (AAOIFI), the Islamic Corporation for the Development of the Private Sector (ICD), Al Baraka Banking Group, Al Salam Bank, Arcapita, and Bahrain Institute of Banking and Finance (BIBF).

Islamic Finance Governance

Accounting
31 Countries

Islamic Banking
40 Countries

Shariah Governance
30 Countries

44 Countries
Have Islamic Finance Regulation in 2018

Sukuk
19 Countries

Takaful
20 Countries

Islamic Funds
13 Countries

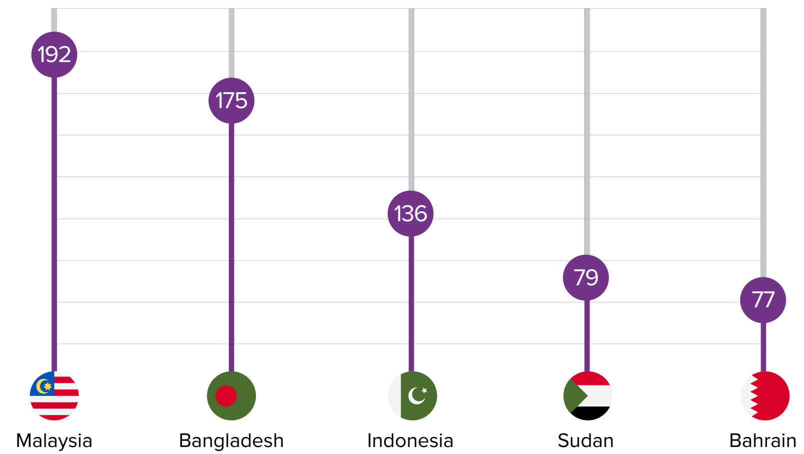
Countries with a Full Set of 6 Islamic Finance Regulations 2018

Bahrain · Indonesia · Malaysia · Nigeria · Pakistan · Qatar

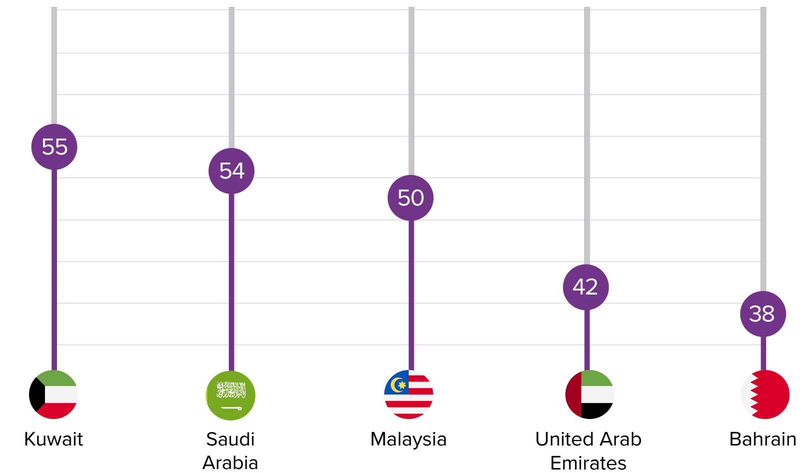
1,166 Shariah Scholars

Representing Islamic Financial Institutions

Top Countries by Number of Shariah Scholars 2018



Top Countries with IFIs Represented by at Least 3 Shariah Scholars 2018



12

Countries with
Central Shariah Board

770

Number of Islamic Financial Institutions that
Reported Financials

339
Banks

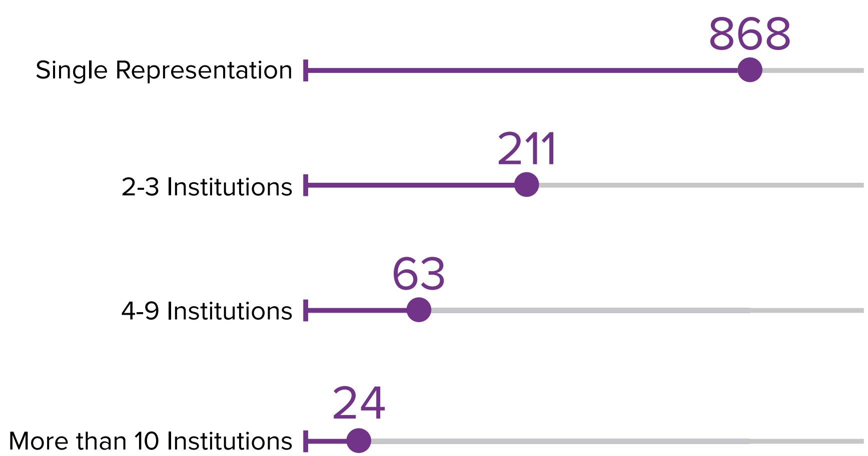
188
Takaful Operators

243
OIFIs

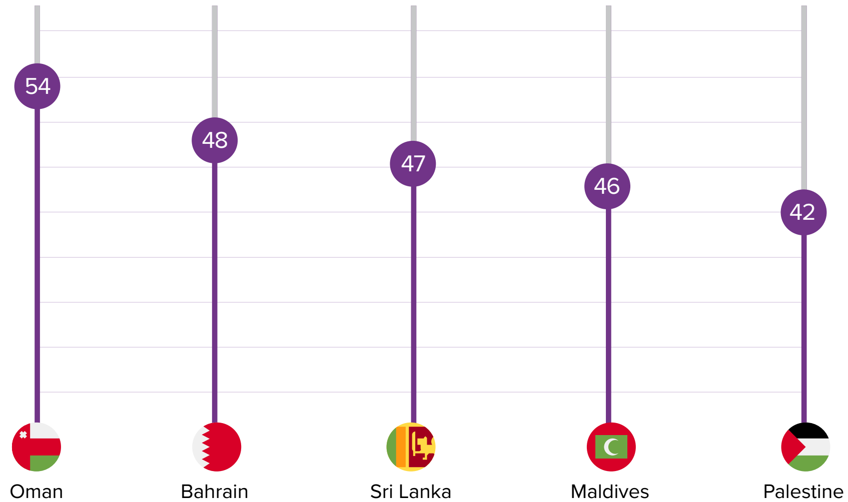
30

Out of 70 Items Average Global
Financial Reporting Disclosure Index

Global Islamic Finance Shariah Scholar Institutional Representation 2018



Top Countries in Average FRDI Score 2018*



*The Disclosure Index covers 70 items that need to be disclosed in 2018 annual or financial reports of Islamic Financial Institutions

CSR OVERVIEW

Corporate Social Responsibility (CSR) is assessed through two components: disclosed CSR activities and CSR funds disbursed. CSR activities are measured using an index derived from information provided in Islamic financial institution annual reports and based on the AAOIFI Governance Standard for Islamic Financial Institutions No. 7. CSR funds include charity, zakat and qard al-hasan (benevolent interest-free loans) disbursed by these institutions.

CSR funds could be boosted after settlement of zakat dispute between GAZT and Saudi banks

Saudi Arabia remains the largest market in terms of CSR funds distributed by its Islamic financial institutions, especially zakat funds, which amounted to US$ 211 million in 2018. In all, 78 percent of funds distributed were disbursed by the country's Islamic banks, 11 percent by other Islamic financial institutions, and the rest by takaful operators.

In March 2019, the Kingdom's General Authority of Zakat and Tax (GAZT) issued a law specifying zakat rules on financing activities by companies licensed by the Saudi Arabian Monetary Authority (SAMA). The Zakat By-Law also rules that zakat on sukuk issued locally by the Ministry of Finance is borne by the government.

The law also states that the size of a bank's taxable asset base that is subject to a 2.5% zakat levy will be between four and eight times net profit, which could lead to banks paying as much as 10% to 20% of net profit in zakat. This follows a longstanding dispute between the GAZT and 12 Saudi banks which was ultimately resolved in 2018 by a settlement of SAR 17.9 billion (US$ 4.8 billion) for extra zakat covering the years back to 2002. The highest amount was paid by Saudi Arabia's largest Islamic bank, Al Rajhi, with a payment of SAR 5.4 billion (US$ 1.4 billion). The payments will be spread over a number of years in order to prevent them from affecting the banks' liquidity or profitability.

Imposition of responsible finance principles in Saudi Arabia could boost CSR disclosure

Although Saudi Arabia is ranked the world's first in terms of CSR funds disbursed, it is not among the top ranked countries in terms of CSR disclosure. This might change, however, after SAMA in August 2018 began to insist that financial institutions in the Kingdom comply with its responsible lending principles so as to meet the needs of all segments of society. The principles can be seen as an equivalent of AAOIFI's requirement of disclosure of policy for dealing with clients which stipulates "the due process and responsible terms and conditions under which credit is extended to clients, including the process by which the client's ability to repay and the effect on the client's financial and overall well-being is assessed".

SAMA fined 16 institutions for violations of these principles. Of those fined, 11 are full-fledged Islamic institutions and others have Islamic windows. Some are among the largest banks in the country, but most are under the category ‘other Islamic financial institutions’. The violations related to debt burdens imposed on consumers being disproportionate to their monthly incomes.

New digital solutions in Indonesia for Islamic social finance

Digitalization continues to transform Islamic social finance. In Indonesia, where Islamic financial institutions disbursed US$ 16 million in CSR funds in 2018, digitalization is one of the National Committee for Islamic Finance’s (KNKS) priorities, and this includes Islamic social finance vehicles such as zakat, waqf, infaq and sadaqa. KNKS has developed a digital platform to distribute Islamic social finance funds with LinkAja – a centralized payment platform owned by four Islamic units of state-owned banks. Besides digitizing the sadaqa donation system used by mosques, the platform will help Islamic finance cooperatives better manage and distribute funds from zakat and waqf payments.

One new development in 2018 was the acceptance of zakat payments in the form of cryptocurrencies. In response to consumer demand, Islamic finance microfinance firm Blossom Finance’s Jakarta office began accepting payments made directly via the blockchain to a wallet address held at a cryptocurrency exchange in Indonesia. The funds are then distributed via an Islamic financial cooperative to any of the 87 microfinance institutions Blossom has partnered with.

Technology also being developed for UN zakat funds and waqf

Technology has also been developed outside Indonesia for handling zakat payments. The United Nations refugee agency’s Refugee Zakat Fund has developed an online portal for users to dedicate their zakat funds, 100% of which are guaranteed to reach the people they are intended for. As of August 2019, the fund had raised US$ 38.1 million.

The CSR activity least addressed by technology so far has been waqf, or Islamic endowments, according to the CSR Disclosure Index, but this could be set to change. In February 2019, Singapore-based FinTech firm Finterra launched the world’s first blockchain crowdfunding platform: Waqf Chain. The platform is aimed at bringing more liquidity into Islamic endowments by allowing waqf boards, corporate CSRs and others to publish details on their projects in order to get funding. Organizations will be able to develop and generate revenue from the assets registered under the waqf, pay expenses, and then repay the investors who crowdfunded the project. The concept is similar to the Nawri crowdfunding platform focused on the Middle East.

The Waqf Chain platform is expected to increase the use of waqf by Islamic financial institutions, which can contribute by setting up a Waqf Chain account and then gathering deposits from donors to be deposited into a dedicated saving account for waqf initiatives. The platform will ensure transparency and security for both institutions and donors.

The initiative was first piloted in Malaysia and has been promoted in the GCC as well as through the International Waqf and Blockchain Forum in Bahrain in October 2018 and Oman’s Islamic FinTech Forum in June 2019. This demonstrates the linkages between the Awareness and CSR components of the IFDI that can further the Islamic finance industry’s development.

Islamic Finance Corporate Social Responsibility

US$ **639** Million

Total **CSR Funds Disbursed** by IFIs in 2018

US$ **531** Million

Zakat and Charity Funds Disbursed by IFIs

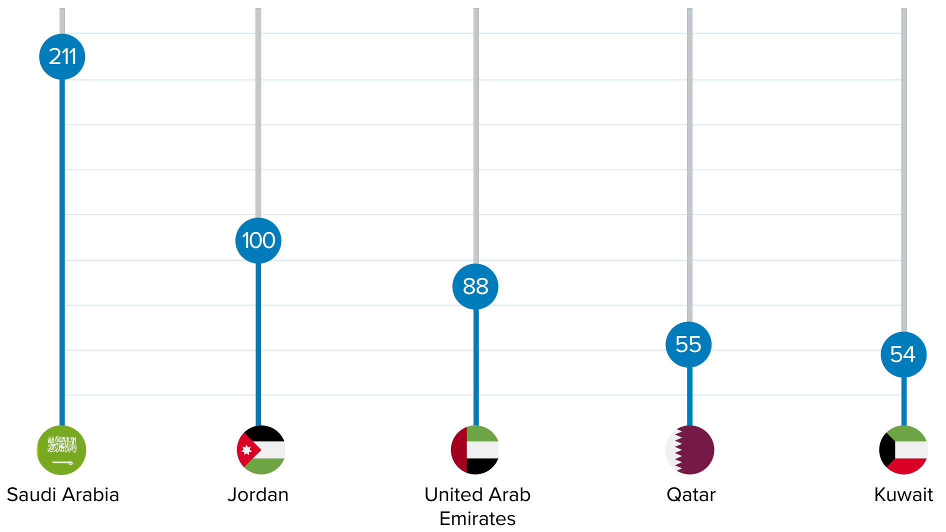
US$ **108** Million

Qard al-Hasan Funds Disbursed by IFIs

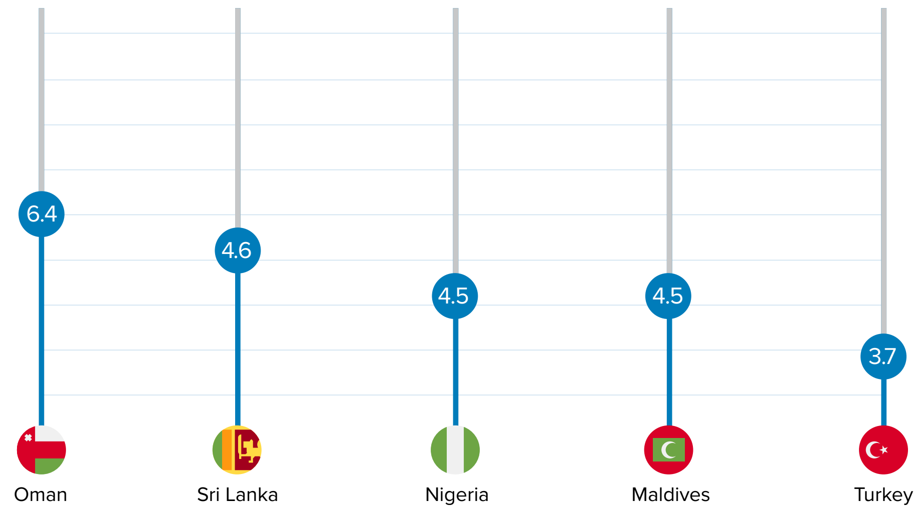
2.44

Average CSR Activities Disclosure by IFIs in 2018

Top Countries in CSR Funds Disbursed 2018
(US$ Million)

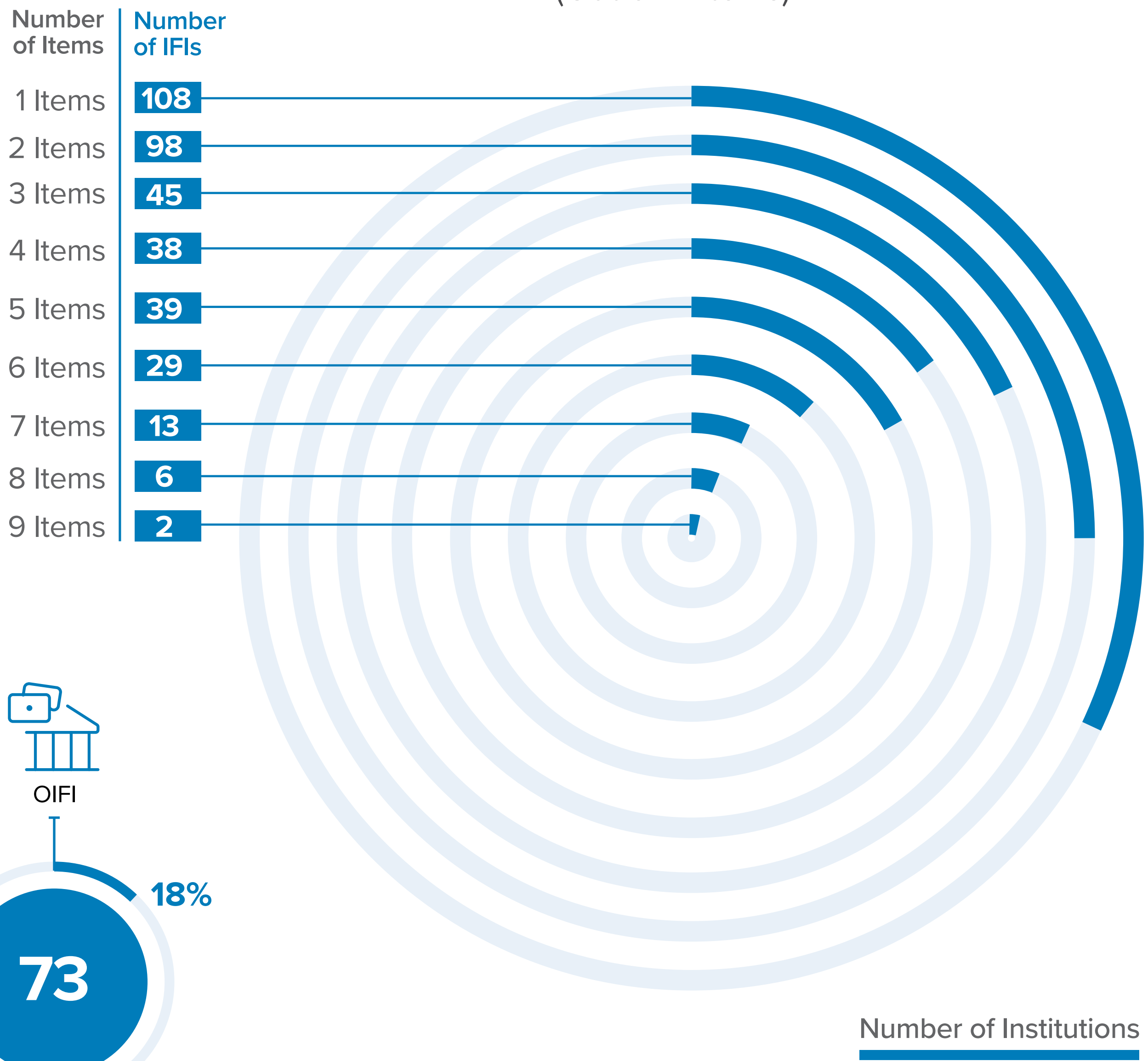


Top Countries in CSR Disclosure Index Score 2018
(Out of 11 Items)

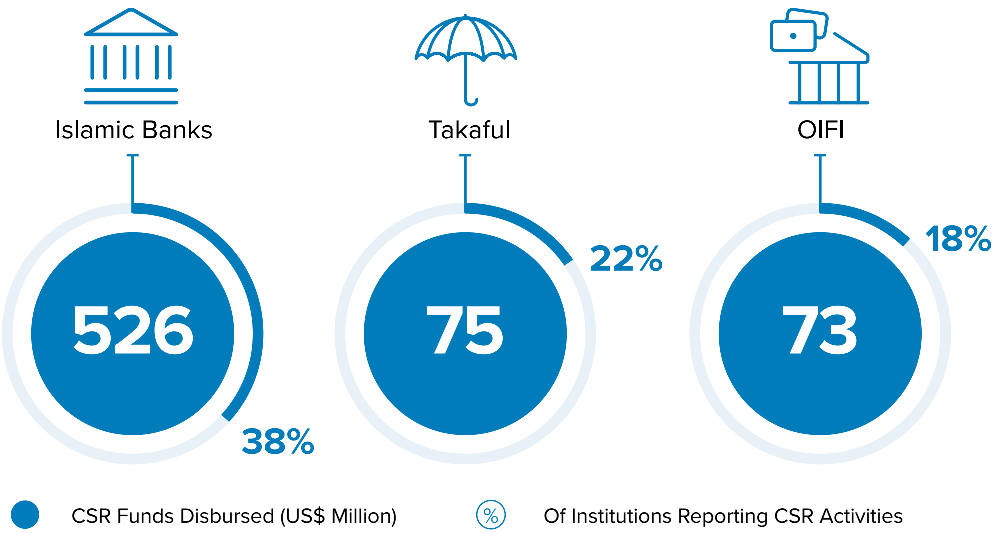


* The CSR Disclosure Index covers 11 items that need to be disclosed in annual or financial reports

CSR Disclosure Scores by IFIs 2018
(Out of 11 Items)



CSR Performance by IFIs 2018



KNOWLEDGE OVERVIEW

Islamic finance knowledge is assessed through education and research, which are the main building blocks for any knowledge-based industry. These are the input factors needed to achieve depth and efficiency in the Islamic finance industry and provide the foundation on which a fully qualified workforce can spur economic growth.

Islamic finance education in Indonesia to further development despite its being the largest globally

By 2018, there were 968 Islamic finance education providers across 90 countries. Indonesia had the most providers, while Malaysia had the second most. Given the high number of education providers, mainly universities, Malaysia and Indonesia also lead in terms of the number of Islamic finance research papers published in the period 2016 to 2018. The reason Indonesia is in second place in this area is that the IFDI covers English-language papers only, while a large number of papers produced in Indonesia were in the local language.

There were 355 Islamic finance education providers in Indonesia in 2018. Indonesia's lead in this area is due to its government's long-term vision to raise financial inclusion levels among the world's largest Muslim population by promoting the development of Islamic financial products. The country has been trying for some time to grow its Islamic banking assets' share of total banking assets beyond 5%. The newly launched KNKS considers education an important pillar in achieving this target.

The KNKS in May 2019 signed a MoU with six education institutions, including five universities, to develop education and research in the field of Islamic economics as part of its Masterplan for Indonesian Islamic Economy 2019-2024. The masterplan pointed to the opportunity that exists to grow literacy in Islamic finance in Indonesia due to the large number of universities and other educational institutions, particularly Islamic institutions.

However, it also noted that the number of higher education institutions teaching Islamic economics is still small, and that it considered most of the courses provided by universities to be of insufficient quality. It also found that because study programs are frequently named differently by different educational bodies, this is too confusing for prospective employers. Added to this, the limited number of professional certification providers is also an issue for human resources. To tackle these issues, the government has begun developing national curriculum standards for Islamic economics programmes that will improve the quantity and quality of courses. The committee also set out action plans to develop Islamic finance and economics under its masterplan as described in the table on the following page.

Main Strategies for Literacy Development, HR, and Research and Development for Islamic Economics and Finance

Strategy	Main Areas Covered by the Strategy
Strategy 1: Increasing the Effectiveness and Engagement of Islamic Economy Industry Actors in Improving the Quality of Human Resources	Increasing the effectiveness of Islamic economic industries in improving the quality of HR. Increasing the involvement of industry players in the Islamic economy in improving the quality of HR
Strategy 2: Improving the Quality and Quantity of Human Resources at Islamic Economics-Based Educational Institutions	Increased Islamic economic literacy. Drawing up a standard curriculum for Islamic Economics.
Strategy 3: Improving the Quality of Human Resources in the Religious Institutions of Islamic Economics	A common vision for the development of Islamic economics in Islamic organizations.
Strategy 4: Quality and Quantity Improvement in Islamic Financial Human Resources	Regulation that makes it easier for Islamic economics actors to compete against conventional systems. Increased competency of Islamic financial human resources to be more competitive.

Source: Indonesian Islamic Economic Masterplan 2019 - 2024

Pakistan short of Islamic finance education needed to meet future demand

Pakistan is ranked third in Islamic finance research and fifth in the number of Islamic finance education providers, with 148 research papers and 41 education providers in 2018. There are 18 universities in Pakistan offering Islamic finance courses, while several offer Islamic finance as elective subjects and some make it a core requirement for business degrees. Islamic finance degree and other qualification providers totalled 25 in 2018. Universities mostly offered Master's-level degrees.

However, there are still too few entry-level professionals with an education in Islamic finance. Given the State Bank of Pakistan's (SBP) aim of increasing Islamic banking's share of the country's banking market to 20% and the expansion of branch networks in the country, it is estimated that an additional 3,000 to 4,000 professionals will be required by the industry over the next five years. There will need to be more Islamic finance educational institutions offering entry-level degrees and more universities providing Islamic finance as mandatory courses in business degrees if this demand is to be met.

Islamic banking and finance education promoted through waqf in the UAE

The UAE is ranked fourth in terms of Islamic finance education provision, with 49 providers in 2018. Of these, 12 provide Islamic finance degrees, mostly at Master's level. In order to boost the study of Islamic banking and finance in the UAE, one of the Islamic finance degree providers, Ajman University, launched a waqf fund together with Dubai-based Islamic bank Noor Bank amounting to AED 3.2 million (US$ 871,000) in August 2019. The fund will support four scholarships at undergraduate or postgraduate level and one professorship.

Islamic Finance Knowledge

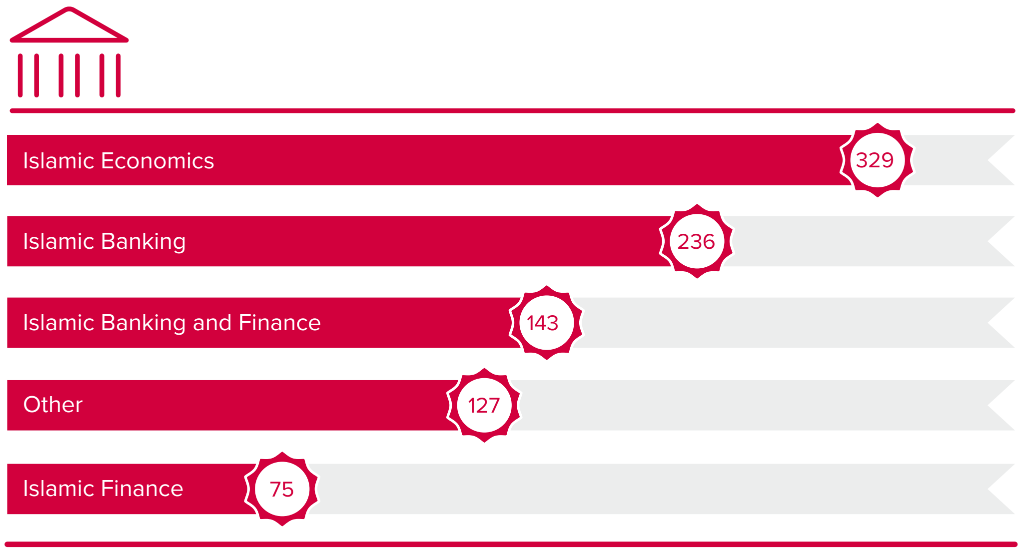
968
Education Providers in 2018

371
Degree Providers

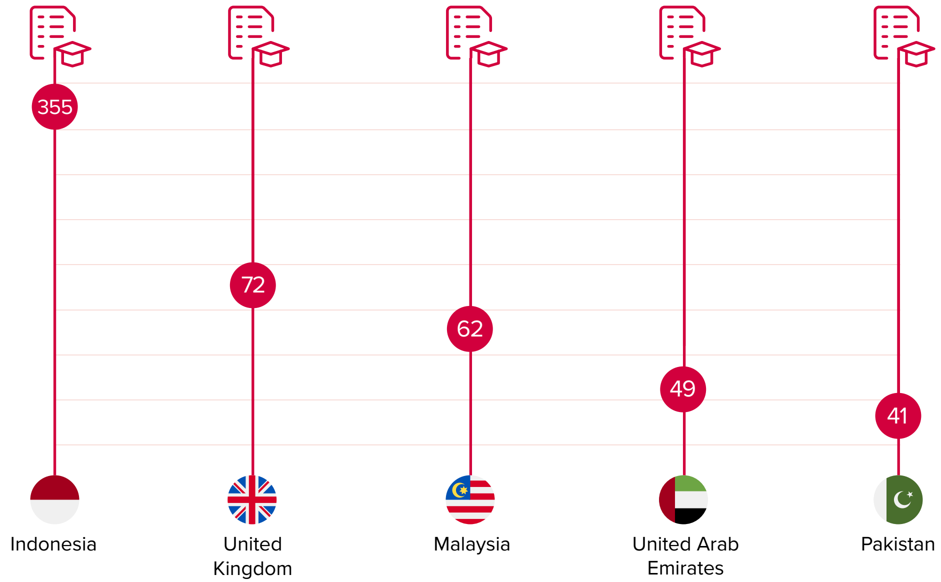
152
Qualification Providers

445
Course-Only Providers

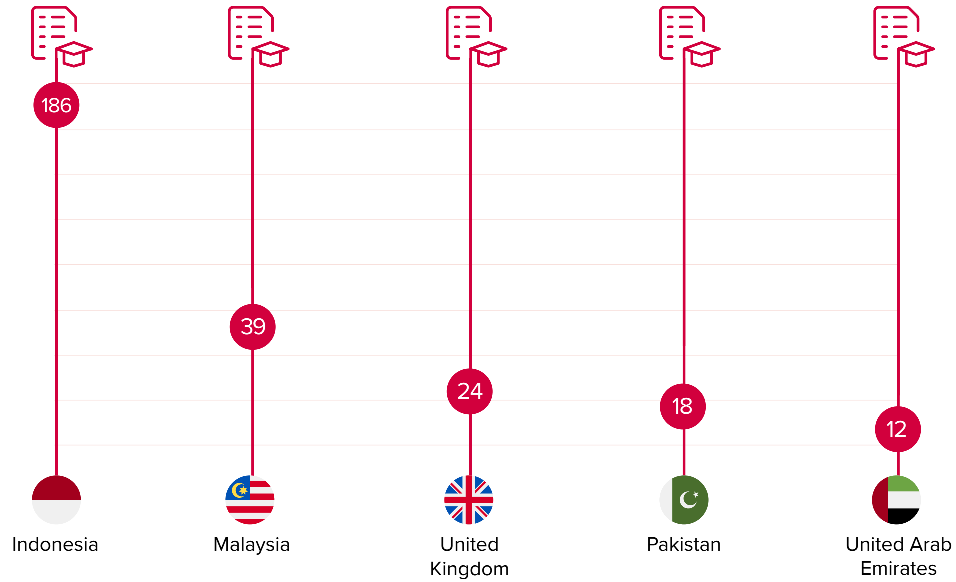
Top Covered Degree Subjects by Islamic Finance Education Providers 2018



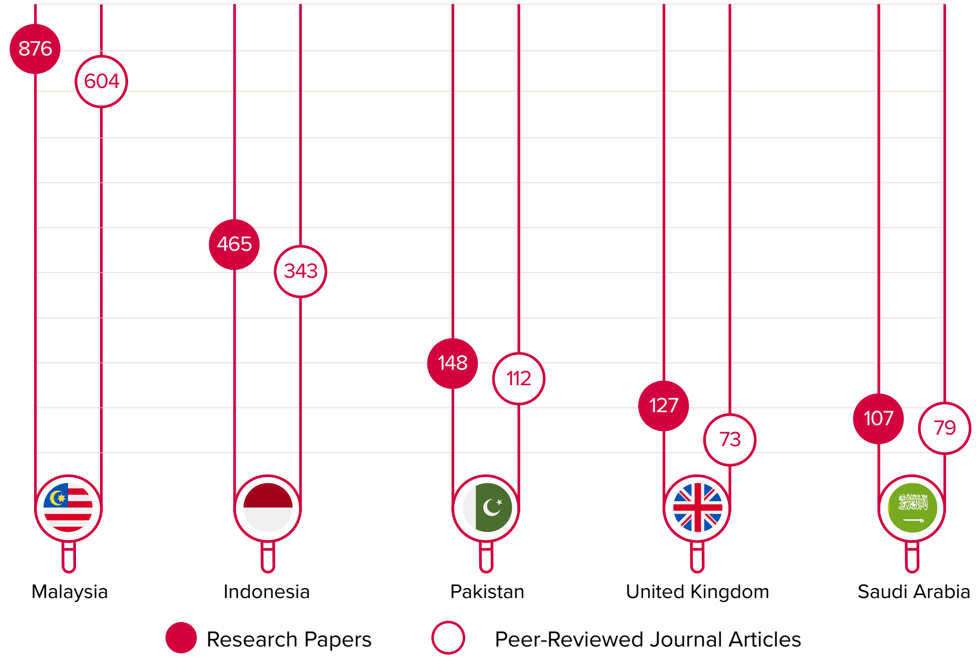
Top Countries by Number of Islamic Finance Education Providers 2018



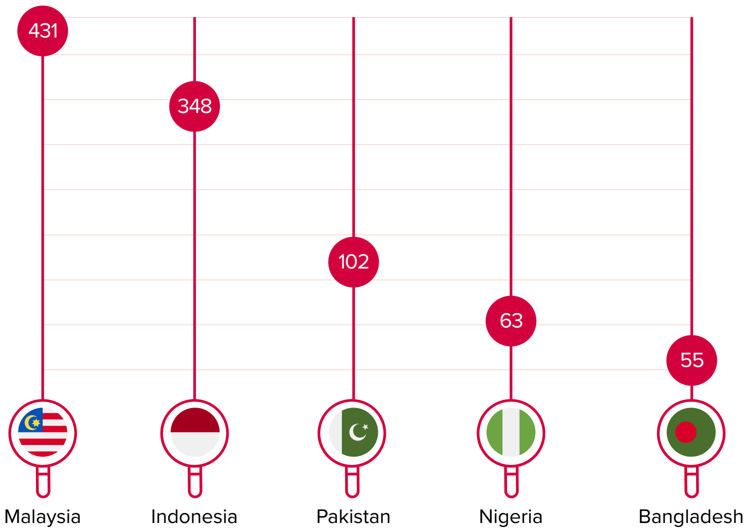
Top Countries by Number of Islamic Finance Degree Providers 2018



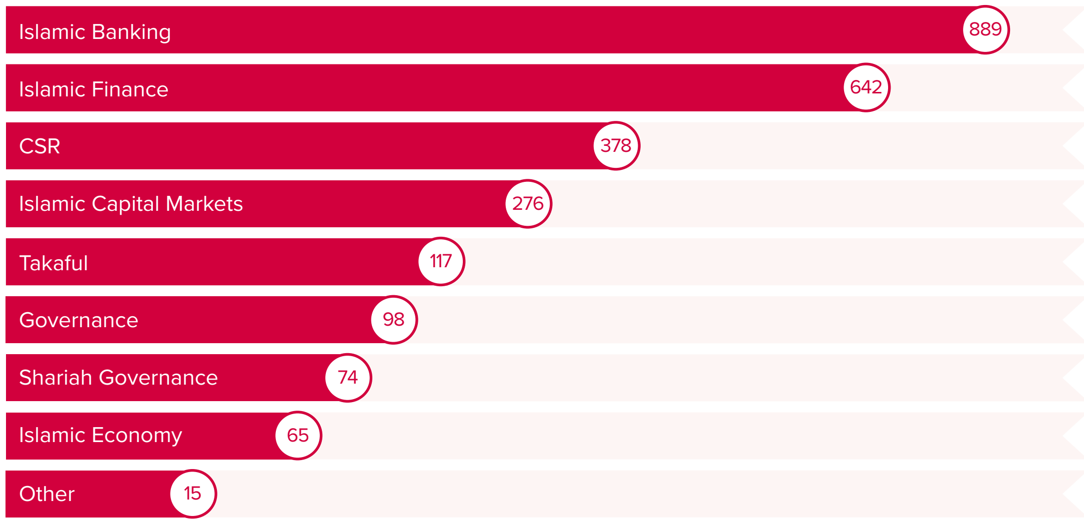
Top Countries with Affiliations Producing Research Papers between 2016 and 2018



Top Countries Covered in Islamic Finance Research Papers 2018



Top Topics Covered in Islamic Finance Research Papers 2018



AWARENESS OVERVIEW

Awareness is measured by assessing three components : conferences, seminars, and news volume. A rise in the number of any of these components will contribute to the growth of the Islamic finance industry in the relevant country and will improve the quality of products and services offered by its institutions.

Developments in Islamic banking driving news in Central Asia

In 2018, Islamic finance-related news was published in 69 countries around the world. While some regions such as the GCC and countries such as Malaysia, Indonesia and Pakistan continue to dominate the news given the high number of news items on their Islamic finance institutions and the steady stream of developments in the industry announced by their governments, other countries saw a marked rise in Islamic finance-related news during 2018.

There was a spate of news covering developments in Islamic banking in Central Asia. In April 2018, Afghanistan approved its first full-fledged Islamic bank, Islamic Bank of Afghanistan, which previously operated as a conventional bank. The conversion is hoped to encourage Muslims to take up banking services in a country where only 15% of adults have bank accounts, a topic that has also been the subject of extensive news coverage. Other than Islamic Bank of Afghanistan, there are eight conventional banks in the country offering Islamic products and services.

Meanwhile, Tajikistan's first Islamic bank opened for business in September 2019. The bank was renamed Tawhidbank after it converted from a conventional bank, Sohibkorbank, with the help of the ICD. Tajikistan already has two other Islamic financial institutions: a leasing and a microfinancing company that are both full-fledged Islamic.

Tajikistan's neighbour, Uzbekistan, is considering introducing Islamic banking and establishing an Islamic finance institution in order to tap into foreign markets and capital. Before then, the country's only Islamic financial institution was an Islamic leasing company. Also, the country's largest bank – Ipak Yuli Bank – is planning to set up an Islamic window with the help of the ICD, while the ICD has also signed Shariah financing agreements with six Uzbekistani banks that will help them offer Islamic finance products of their own.

Uganda and Guyana the subject of news in 2018

In Africa, there was a resumption of news on the Ugandan Islamic banking sector. Three years after the passing of Islamic banking laws, Uganda announced a framework for the implementation of Islamic banking by October 2018. But before this could happen, banks petitioned the Ugandan government to review some of its regulations such as the requirement to have a Shariah board for each Islamic bank, which some said would be too costly, proposing instead that the government set up a single, centralised Shariah board.

Finally, Guyana in South America made news in June 2018 when it obtained financing from the Islamic Development Bank (IsDB). This is in addition to IsDB's role of helping to promote the industry in Guyana. Its neighbour Suriname saw its first Islamic bank become operational in 2016.

FinTechs boosting Islamic finance awareness in the West

Europe and the Americas hosted 76 Islamic finance events in 2018, amounting to 17% of the global total (up from 12% in 2017). The biggest contributors to this rise were Islamic FinTech companies, namely Wahed Invest, based in the U.S., and Yielders, based in the UK. These companies hosted a number of seminars and workshops introducing the concept of halal or Islamic investments across different assets.

These awareness campaigns will provide Muslim communities in these countries with an opportunity to invest in a halal manner. Many Muslims in the U.S. and UK feel excluded from mainstream financial services as the Islamic financial institutions there mostly focus on high-net-worth individuals and institutional clients. The U.S. is home to 3.5 Muslims, while the UK has a Muslim community of around 2.5 million.

The Islamic FinTechs' campaigns may also appeal to non-Muslim investors because of the concurrent promotion of ethical investments at some of the events. Apart from the events it hosted, Wahed Invest has also promoted Islamic finance in the UK through an advertising campaign across London's transport network. Although the campaign specifically promoted the company, it could also have kindled interest among the public in learning about the wider industry.

Countries with strategic interest in Islamic finance adopt 'Islamic Finance Week' model

With many countries around the world competing to become regional Islamic finance hubs, some are seeking to distinguish themselves by pooling several Islamic finance-related events in the form of an 'Islamic Finance Week' or 'Islamic Economy Week'. This style of event, which was staged in the UK, UAE and Kazakhstan in 2018, is testament to the importance attached to Islamic finance in these countries by their governments, which organized or took part in these events.

The UAE, for example, performed more strongly in the IFDI Awareness rankings after it hosted 13 events during its Islamic Economy Week. The events included workshops, seminars, a two-day summit and an awards event. Its flagship event, the Global Islamic Economy Summit, attracted more than 2,000 delegates.

Kazakhstan's AIFC Islamic Finance Week had workshops, training sessions, an 'Annual Islamic Finance Day', and other side events which attracted a total of 100 participants. The IFN UK Islamic Finance Week had a main event and three focused breakout sessions covering the strongest areas of the UK Islamic finance industry: investment management, real estate, and Islamic FinTech. The event attracted 400 attendees.

Islamic Finance Awareness

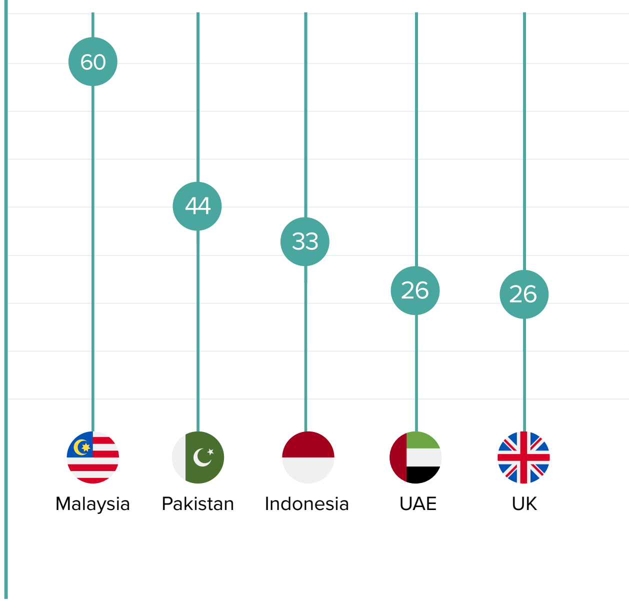
439 Events in 2018

137 Conferences

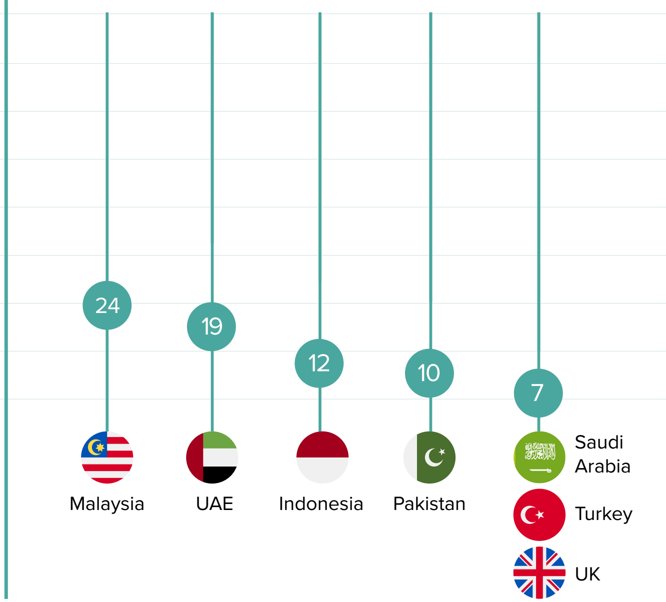
302 Seminars

13,095 Islamic Finance News Published in 2018

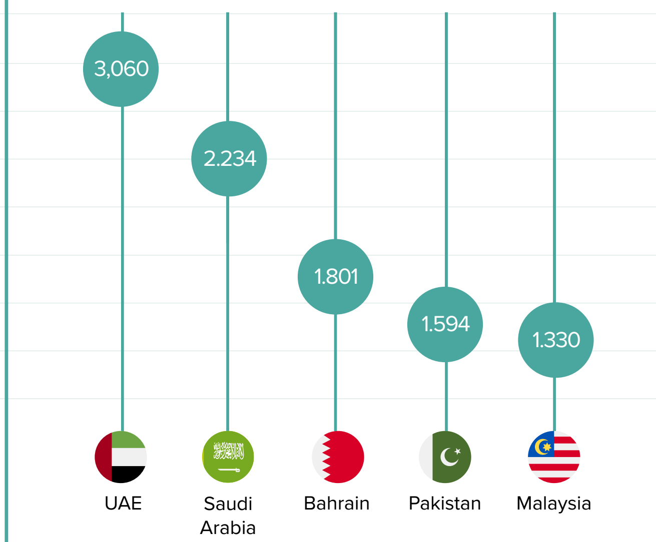
Top Countries that Hosted Islamic Finance Seminars 2018



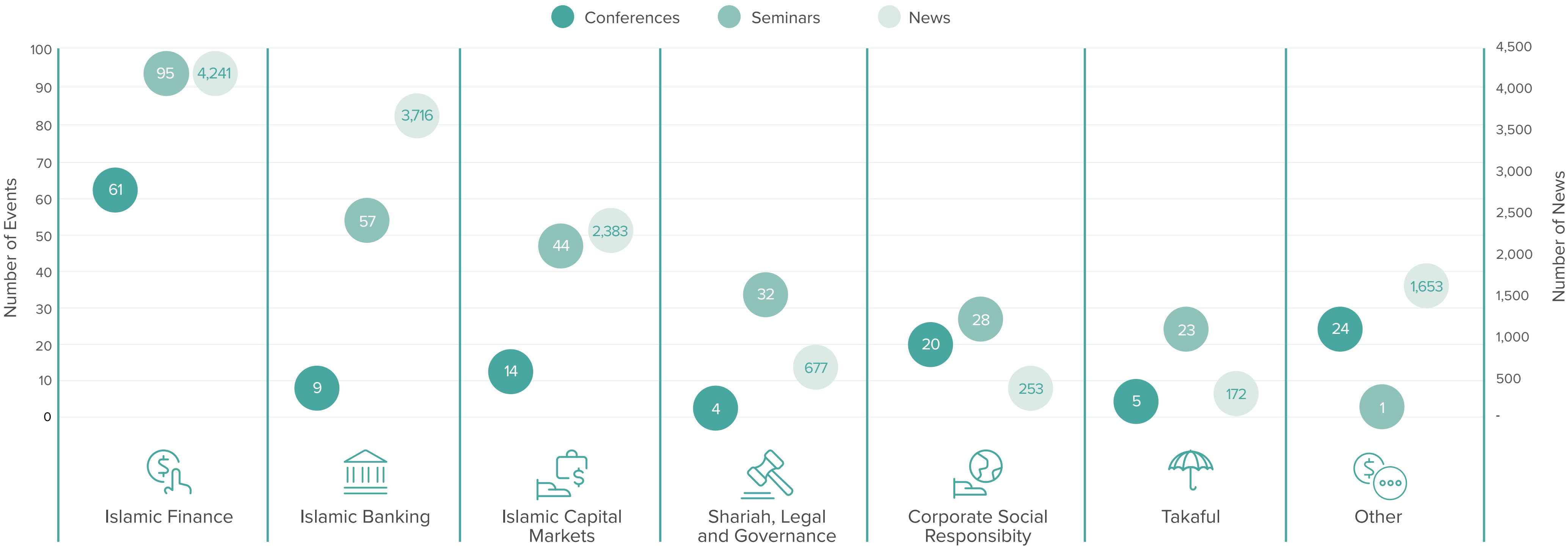
Top Countries that Hosted Islamic Finance Conferences 2018



Top Countries Covered in Islamic Finance News 2018

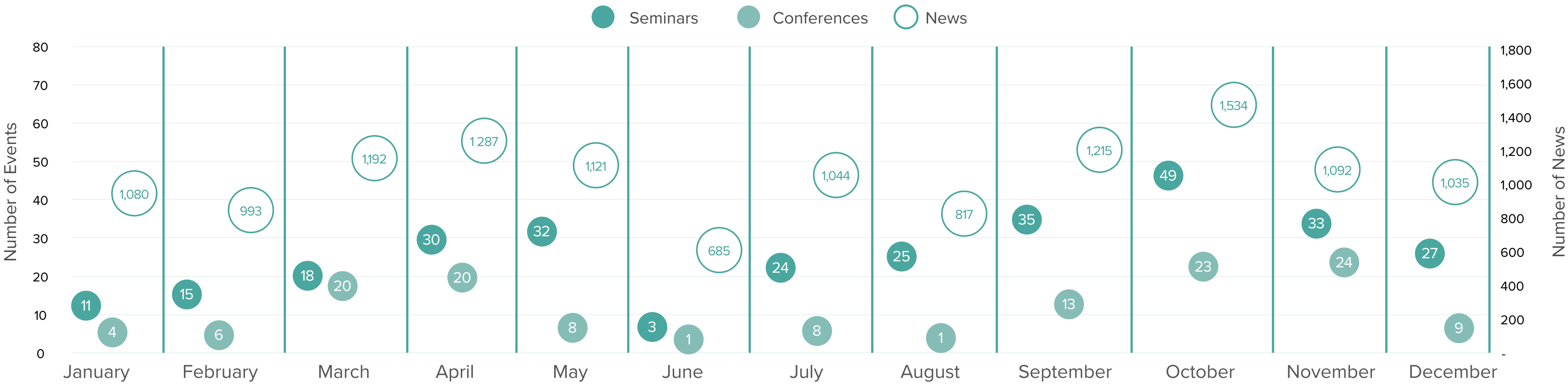


Islamic Finance Awareness by Type 2018



*Other include Islamic Accounting, Islamic Economy, Education, Events, OIFI, Islamic Fintech

Islamic Finance Awareness by Month 2018



METHODOLOGY AND APPENDIX

Concept and Background

The Islamic finance industry operates within a wider financial environment that is always evolving. For the industry to prosper it therefore will need to constantly advance and innovate, not merely to maintain the strength of the core industry but to stay ahead of the curve. Islamic financial institutions, market players, regulators and other authorities have made determined efforts to seek one another out in order to improve industry cooperation and alignment. Thus, reliable information and data are essential to the success of these efforts.

The Islamic Finance Development Indicator is the definitive barometer of the state of the industry across its fundamentals. It introduces a new way of measuring development by combining data on different elements of the industry into a single, composite indicator. The index assesses the performance of each of the industry's key areas in line with its inherent faith-based objectives, with data for their national and industry-level components. The different components that make up the Indicator – Quantitative Development, Governance, Corporate Social Responsibility, Knowledge and Awareness – are of fundamental importance to the development of a global industry. The optimal level of development in any of the indicators or sub-indicators is pegged to a maximum value of 200.

The data employed in the Islamic Finance Development Indicator (when aggregating data and computing indicator values) are based only on publicly disclosed information. This ensures both reliability and consistency in the results.

Key Objectives

The indicator is a product of a number of key indicators and sub-indicators measuring particular aspects of the industry.

Breaking down the data into these different areas reveals the disparities and movements that are less visible in the wider-ranging, aggregated numbers.

Global Indicator Level

- Present one single indicator to show the pulse of the global Islamic finance industry's overall health
- Provide an indicator that is reliable and unbiased
- Inform Islamic finance stakeholders and investors about the industry's performance
- Gauge future industry growth

Country Indicator Level

- Assess the current state and growth potential of Islamic finance within each country
- Highlight the performance of Islamic finance institutions in particular markets
- Track progress and provide comparisons across different countries and regions
- IFDI 2019 Covers 131 countries with a presence in Islamic finance either directly or in other metrics related to the industry.

Specific Indicator Level

- Measure growth within different key areas of the industry
- Enhance Islamic finance market transparency and efficiency
- Identify issues that are preventing growth within the industry
- Help market players formulate practical solutions to face current obstacles
- Assist in setting new targets, goals, standards for Islamic finance institutions and regulators

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