

#IFI2021

# ISLAMIC FINANCE DEVELOPMENT REPORT 2021

# ADVANCING ECONOMIES

An LSEG Business

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# FOREWORD

This ninth edition of the Islamic Finance Development Report is arguably the most important since the study's inception in 2013 as it assesses the global industry's performance during the unprecedented COVID-19 pandemic year of 2020 when countries were hit by a barrage of socio-economic shocks and disruptions.

The report derives its analysis from the Islamic Finance Development Indicator (IFDI) based on statistics from 135 countries around the world. The database is not just limited to financial data for Islamic finance sectors and asset classes, but also includes other factors that contribute to the global industry's ecosystem: knowledge, awareness, governance, and corporate social responsibility.

Among the main findings of the year of assessment 2020 is that global assets for the industry maintained double-digit growth, rising 14% to \$3.374 trillion. This is down from 15% growth in 2019 but is an achievement considering the painful year the COVID-19 pandemic inflicted on our communities, societies, and economies.

We at Refinitiv, the world's largest provider of financial markets data and infrastructure, believe that the analyses and information provided in this report will serve as a vital reference point for the state of the global Islamic finance industry particularly during these times when severe challenges could make us lose sight of the forest from the trees. We believe that this report will allow Islamic finance stakeholders—including supranational regulatory bodies and national policymakers, as well as corporates, investors, and start-ups alike—gain a better understanding of the parts that make up the global picture. This picture is one that is dominated by key jurisdictions in the two biggest regions—the GCC and Southeast Asia—but our report also provides data and insights for the countries that are increasingly contributing to growth, such as Turkey, and those in South Asia, Central Asia, and North and Sub-Saharan Africa.

Across these countries and regions, we tracked the industry's growth as well as challenges such as those faced by corporates such as Garuda and Emirates REIT that have been forced to restructure and refinance large debts. The big sectors banking and sukuk typically get a lot of attention but the IFDI equally covers the smaller asset classes such as Islamic funds and takaful. Notably, we observed the increasing profile of fintech and ESG in the pandemic year of 2020.



# FOREWORD

What is clear to us is how quickly some regulators moved in 2020 and 2021 to facilitate the expansion of fintech and digital banking after a few years of cautious foundation-building and sandboxing. In this respect, Malaysia, Indonesia, Saudi Arabia, Bahrain and the UAE stand out. In these countries as well, Islamic financial instruments were utilized to help companies and governments reach their ESG and SDG goals, albeit at a nascent stage. For example, while Malaysia's and Indonesia's sovereigns continued to issue green or ESG-linked sukuk across 2020 and 2021, in September last year Saudi Electricity Co raised funding from a green sukuk and in the month after, Abu Dhabi-based Etihad Airways issued the first-ever transition sukuk that was designed to manage the airline's shift towards a decarbonized economy. Outside of these countries, what also stood out in 2020 were the first green sukuk out of Sudan and Turkey, both of which were corporate sales. Another milestone for the Islamic finance industry was when Ethiopia's first Shariah-compliant bank started operating in mid-2021 after it received its license from the country's banking regulator in the fourth-quarter of 2020.

What these firsts indicate is that the Islamic finance industry continues to attract new players and evolve its products and services to become a more active participant in the world's march towards achieving climate goals and SDGs. These examples may be few and far between for now but they were bright lights for the industry in a year battered by the COVID-10 pandemic storm. There is still a lot of ground to cover as Shariah-compliant fintech, and ESG and SDG-linked instruments still constitute a small proportion of Islamic financial assets but many first steps have been taken that put the industry in a good position to continue to progress on a positive footing.

We are confident that our work through this annual IFDI report will also continue to help the industry track and document the continuous development of the global Islamic finance industry.



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# EXECUTIVE SUMMARY



2020 was a brute of a year. When COVID-19 was declared a pandemic by the World Health Organization on March 11, many around the world were bracing themselves for a crisis that could potentially paralyze finance, with flashbacks to 2007-2009. As it turned out, our economies were in for a much, much rougher ride. Global GDP growth was -3.2% and the performance of the three most advanced Islamic finance jurisdictions (according to IFDI 2021) ranged from -5.6% for Malaysia, -4.1% for Saudi Arabia and -2.1% for Indonesia, says IMF data. The coronavirus in 2020 killed at least 1.7 million people and the crisis shut shops, schools and borders, with lockdowns emptying streets, and social and religious spaces, while at the same time making very heavy demands on our hospitals and frontline workers. But if there was a silver lining for the finance industry from the last global financial crisis, it was that governments and authorities had learned a lot of lessons.

Substantial stimulus packages were quickly rolled out and pandemic-era rules for banks and other financial institutions kicked in. Concerns included defaults that could strain banks' capital positions and profitability, and extraordinary measures were put in place to ensure that banks could prioritize lending and support businesses and individuals through the crisis. These moves were applied evenly for conventional as well as Shariah-compliant banks, which hold around 70% of the world's Islamic financial assets. By the end of 2020, the profitability of these Islamic banks were indeed pushed down under the weight of heavier non-performing loans but the sector stood its ground, registering a year-on-year double-digit growth in assets of 14%. Sukuk, the second-biggest sector in Islamic finance, grew by 16% in 2020, a nudge up from 14.7% in 2019, driven by the GCC and Southeast Asia.



## ECOSYSTEM GROWTH IN KEY MARKETS

But these top-line numbers are but one indicator of how the world's Islamic finance industry is developing. As a barometer of the state of the global Islamic finance industry, the IFDI measures not only Quantitative Development but also Knowledge, Governance, Corporate Social Responsibility, and Awareness. What we tracked in 2020 was an intense focus on Governance as regulators made efforts to balance leeway between a safe set of hands, as well as a flurry of events as reflected in the Awareness indicator.

A notable move came in February, just before the coronavirus situation escalated to become a pandemic, when Saudi authorities strengthened Shariah governance measures for local banks. Since the release of its Vision 2030 roadmap in 2016, the Kingdom's efforts at weaving Shariah compliance into the fabric of its financial system became clear last year when a number of policies and initiatives came together, including Islamic home mortgages. At the same time, consolidation in the banking and insurance sector moved quickly forward. Saudi Arabia's Islamic finance assets soared by 18% in 2020 to \$826 billion and with developments in Governance as well as its leading position on the CSR indicator, the Kingdom's IFDI score rose from 64 in 2019 to 74 in 2020, pushing it from fifth into third place behind Malaysia and Indonesia. If Saudi Arabia continues on this growth momentum, we may see it overtake Indonesia that currently lies in second with an IFDI score of 76.

But Southeast Asia's biggest economy itself is on an upward trajectory, ranking first with Malaysia on Knowledge as it works hard to uplift academic and industry know-how, and improve Islamic finance literacy for its citizens. In the last three years or so Indonesia substantially upped its Islamic finance game, and indeed its Islamic Economy, coordinated by a central government committee that has a direct line to both the country's Vice President and President. Similar to Saudi Arabia, Indonesia is taking a whole-of-economy approach to boost its Islamic finance development by increasingly closing the gaps between its massive halal industry and its Shariah-compliant banking and vibrant fintech sectors.





## FOCUS: FINTECH, ESG

Indeed, the top countries on IFDI 2021--Malaysia, Indonesia, Saudi Arabia, Bahrain, and the UAE--are all heavily invested in the expansion of their fintech sectors for several reasons, including financial inclusion and accessibility to a fast-growing digital ecosystem. With the pandemic accelerating the digitization of finance, Islamic fintech grew in visibility across these countries by continuing to provide services for businesses and individuals such as payments, financing, crowdfunding, wealth management, and integration with e-commerce, as well as getting into buy-now-pay-later and pushing forward with newer developments such as asset tokenization. It feels like only yesterday when financial authorities in these countries were introducing "sandboxes"; in 2020, Islamic fintech start-ups won not-insignificant venture capital investments and started to make moves to expand across borders. We expect more developments to report on in next year's IFDI report as the central banks of Malaysia and Saudi Arabia award their first digital banking licences. Outside of the top five Islamic finance jurisdictions, Islamic fintechs coming out of the UK and USA continue to attract attention, and eyes are also turned to newer entrants from Pakistan and Central Asia.

At the same time, some of the key Islamic finance jurisdictions have not let up on sustainability and ESG policies and initiatives. Looking back at 2020, Malaysia, Indonesia, and Saudi Arabia are notable actors, all leveraging sukuk to finance social and green projects. We expect these markets to continue expanding the nascent Islamic ESG space, and doing so beyond the Islamic capital market. Notably, the multilateral Islamic Development Bank has led by example when in the first half of 2021 it issued the world's first-ever Secured Overnight Financing Rate (SOFR)-linked sukuk. During this year as well, Malaysia made progress in its Value-Based Intermediation framework, introducing it beyond banking and into the takaful sector.

## GROWTH IN AN UNPRECEDENTED YEAR

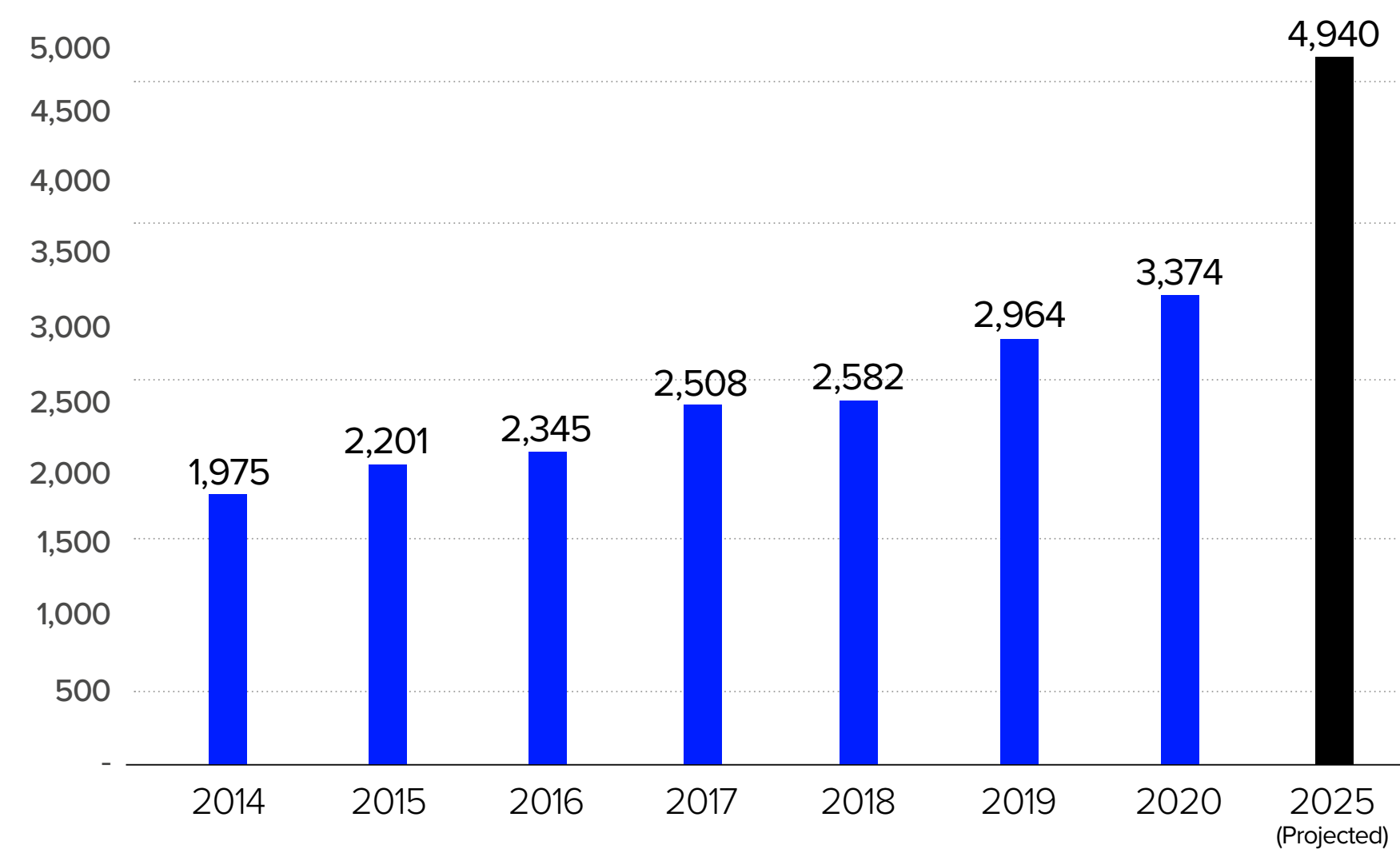
Considering all of these, the IFDI score for the year of assessment 2020 for 135 countries is 11, up by a hair's breadth from 10.8. Growth, albeit ever so slim. Growth achieved in an unprecedented pandemic year.

And things are looking up. The IMF's July outlook projects global GDP growth of 6% in 2021, moderating to 4.9% in 2022 on the strength of vaccination campaigns. For the global Islamic finance industry, 2020 was the year key jurisdictions accelerated digitization, which pushed fintech into the foreground even more. This sector, and increasingly important sustainability drives, will be key to more growth and developments in 2021 and beyond.

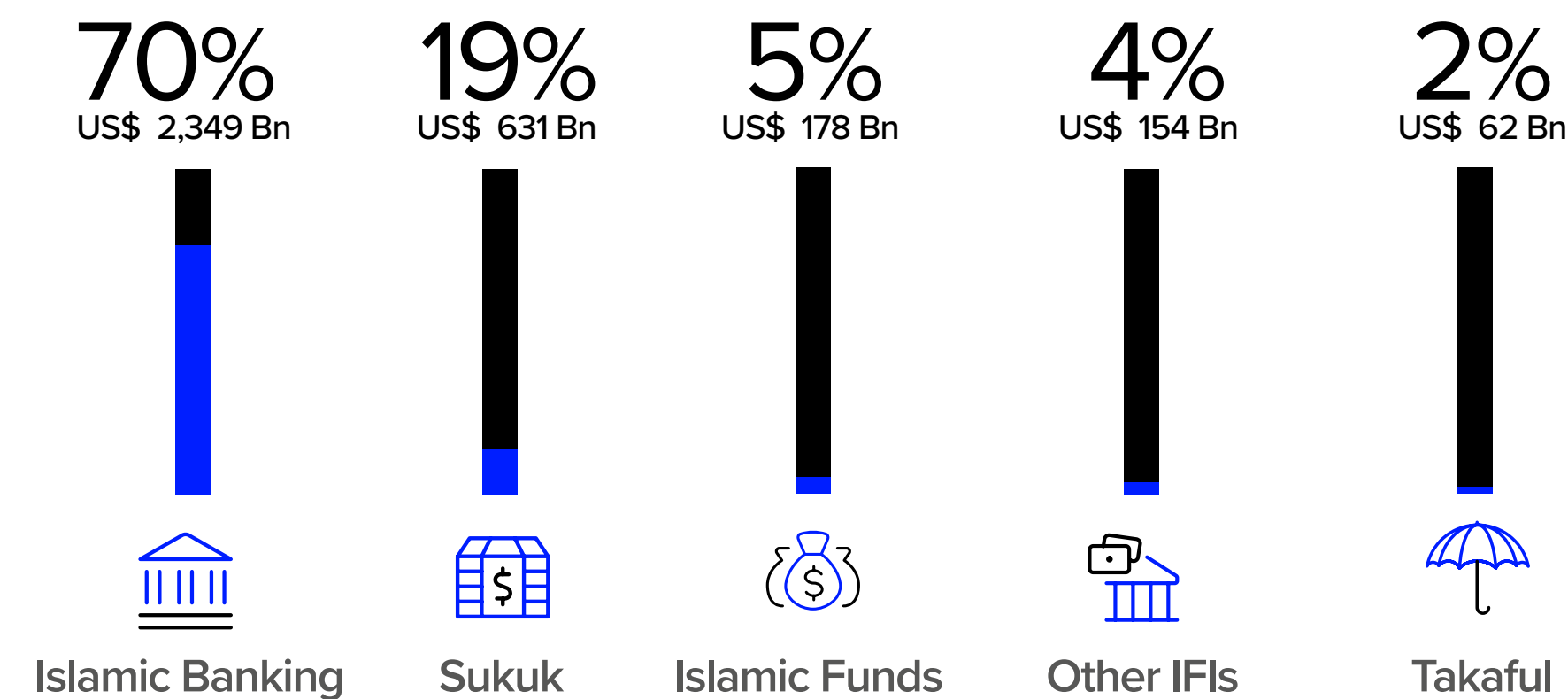
IFDI projects the size of the Islamic finance industry to rise from \$3.374 trillion in 2020 to \$4.94 trillion in 2025, an average growth of 8% in the next five years.

# GLOBAL ISLAMIC FINANCE INDUSTRY LANDSCAPE

Islamic Finance Assets Growth (2014 - 2020, USD Billion)



Islamic Finance Assets Distribution (2020, USD Billion)



Components of the Global Islamic Finance Industry in 2020

 **1,595**  
Islamic Financial Institutions

 **47**  
Countries with Islamic Finance Regulation

 **1,008**  
Islamic Finance Education Providers

 **2,878**  
Islamic Finance Research Papers

 **1,235**  
Shariah Scholars Representing Islamic Financial Institutions

 **USD 1.28 Billion**  
CSR Funds Disbursed by Islamic Financial Institutions

 **844**  
Islamic Finance Events

 **11,856**  
News on Islamic Finance



# WHAT WAS THE IMPACT OF COVID-19 SINCE 2020?

## Global Economy and Finance Industry

### Risks Faced

- New outbreaks
- Uneven recovery
- Uncertainty in duration of the pandemic
- Cybersecurity threats

### Direct Impact

- Lower interest rates
- Oil price and foreign exchange volatility
- Declined productivity
- Accelerating inflation
- Stress in supply chains
- Funding disruption

### Emerging Trends and Tools for Adaption

- Fintech and digitization
- ESG
- Mergers and acquisitions
- Timely policy measures

## Islamic Finance Industry and its Ecosystem

### Islamic Financial Institutions

- IFI profits hit by pandemic
- Double-digit growth in Islamic banking and takaful assets that was met with similar growth in liabilities
- Islamic banks followed central banks' policy of moratorium on financing
- Some takaful business lines were impacted such as travel and property
- Some specialized OIFIs experienced difficulties with real estate sectors being hit

### Islamic Capital Markets

- Unprecedented growth in sukuk to meet funding gaps along with growth in sukuk funds
- Real estate funds hit by pandemic
- Growth of ESG-related sukuk and Islamic funds





## KNOWLEDGE

COVID-19 actively covered  
in Islamic finance research

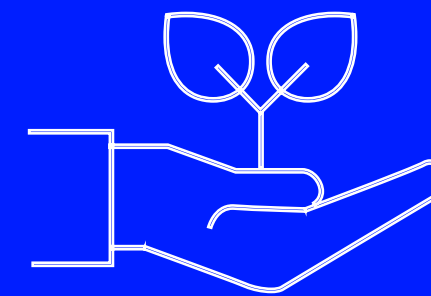
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Islamic finance education  
moved online



## GOVERNANCE

Shariah scholars and standard  
setting organizations played role  
in mitigating COVID-19 issues  
such as financing moratorium



## CSR

Greater focus on employee welfare  
and customer experience

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Mandatory zakat funds  
decreased while voluntary  
charity amount increased



## AWARENESS

93% of Islamic finance  
events moved online

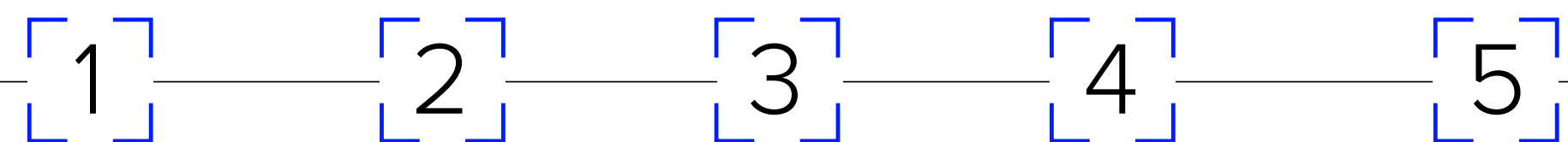
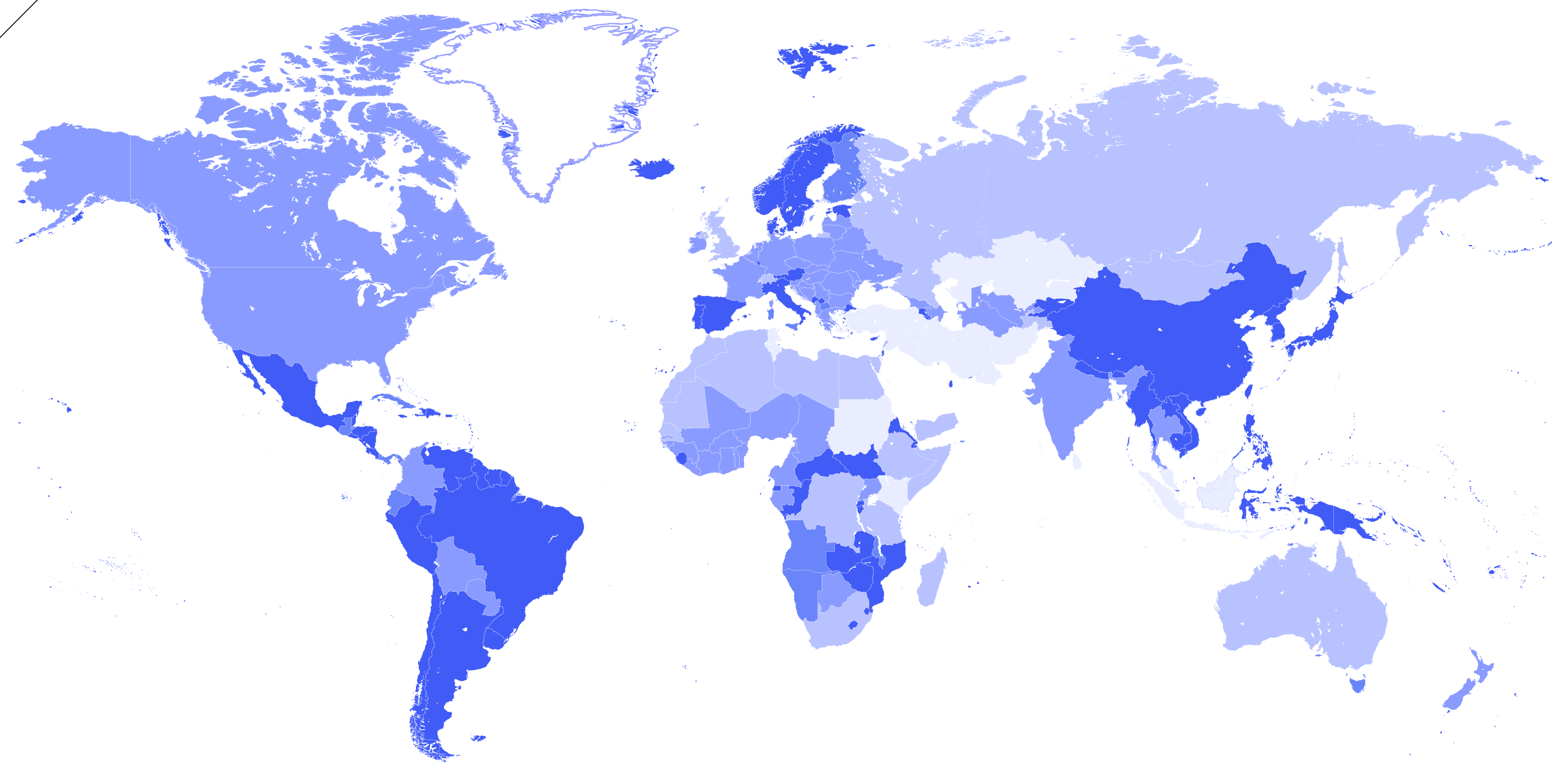
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Number of seminars rose while  
conferences decreased



# Islamic Finance Development Indicator 2021

Most Developed Countries In Islamic Finance



Low IFDI Value   High IFDI Value

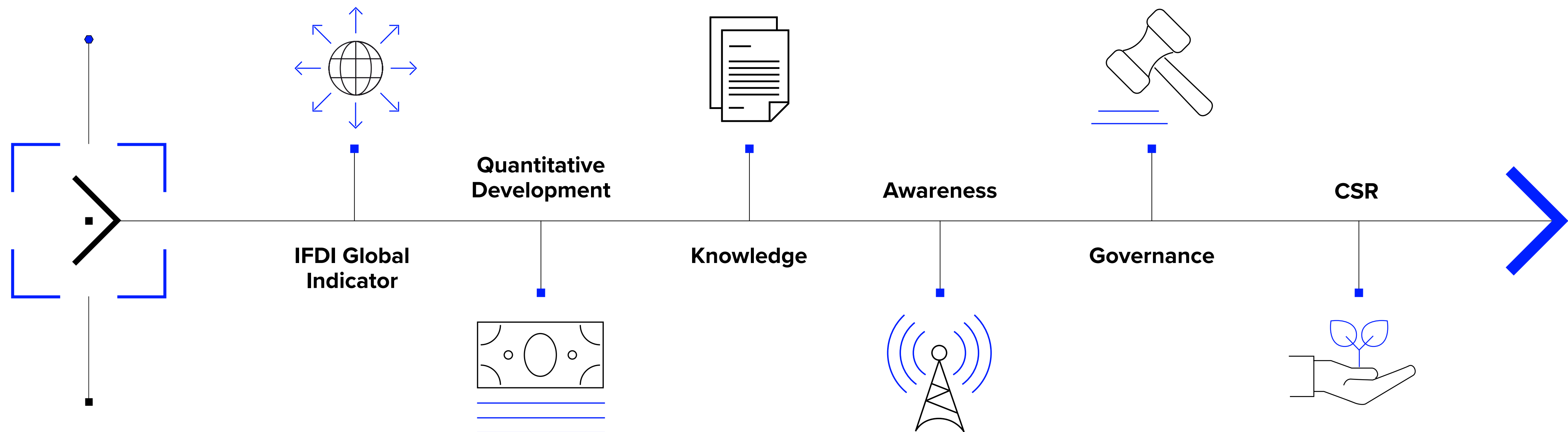
# GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR

The **Islamic Finance Development Indicator** (IFDI) provides Islamic finance's different stakeholders such as governments, financial institutions and education providers with a detailed analysis of the key factors driving development and growth in the global industry. The indicator is the absolute barometer of the state of the Islamic finance industry during the pandemic in 2020 and provides performances and rankings for 135 countries around the world.

It draws on five indicators that are the main drivers of development in the industry: Quantitative Development, Knowledge, Governance, Corporate Social Responsibility, and Awareness. By measuring changes in these indicators over time and across different countries, the IFDI provides a vital tool in guiding policy within the industry. The IFDI also gives an indication of the strength of the ecosystem behind the industry's overall development as well as the size and growth of the different Islamic finance sectors within the many countries where it has a presence.

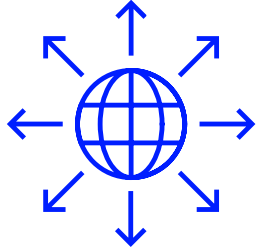
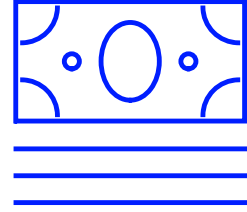



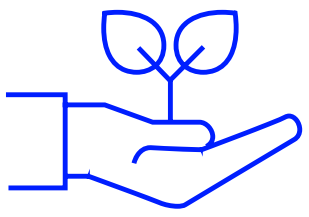















The methodology for the indicator is detailed in the appendix. In addition, the IFDI database on Refinitiv's Eikon offers a wealth of additional information on the indicator and its rankings. To learn more on the indicator, visit <https://www.refinitiv.com/en/products/eikon-trading-software/islamic-finance/islamic-finance-database>

This chapter investigates the top-ranking countries according to IFDI and summarizes the current state of the global Islamic finance industry through these indicators.





# TOP IFDI MARKETS AND GLOBAL AVERAGE IFDI VALUES FOR 2021

|  |         | Indicator Value   |   |   |   |   |   |
|--|---------|---|---|---|---|---|---|
| Country  | Ranking |  |  |  |  |  |  |
|  |         | IFDI 2021   | Quantitative Development  | Knowledge   | Governance  | Awareness   | CSR   |
|  Malaysia             | 1       | 114   | 98  | 200   | 89  | 152   | 32  |
|  Indonesia            | 2       | 76  | 27  | 200   | 65  | 56  | 33  |
|  Saudi Arabia         | 3       | 74  | 74  | 66  | 54  | 54  | 119   |
|  Bahrain              | 4       | 64  | 36  | 79  | 89  | 67  | 48  |
|  United Arab Emirates | 5       | 53  | 34  | 71  | 76  | 44  | 39  |
|  Jordan              | 6       | 50  | 14  | 76  | 58  | 16  | 88  |
|  Pakistan           | 7       | 46  | 22  | 85  | 66  | 43  | 16  |
|  Kuwait             | 8       | 44  | 47  | 18  | 77  | 29  | 51  |
|  Oman               | 9       | 40  | 16  | 46  | 74  | 34  | 28  |
|  Maldives           | 10      | 35  | 22  | 25  | 68  | 20  | 42  |
|  Qatar              | 11      | 35  | 27  | 25  | 58  | 34  | 30  |
|  Brunei Darussalam  | 12      | 34  | 13  | 59  | 60  | 28  | 11  |
|  Nigeria            | 13      | 33  | 5   | 24  | 57  | 11  | 68  |
|  Bangladesh         | 14      | 31  | 13  | 25  | 72  | 10  | 32  |
|  Turkey             | 15      | 27  | 15  | 27  | 50  | 14  | 29  |
| Global Average   |         | 11  | 6   | 12  | 15  | 16  | 7   |

# ISLAMIC FINANCE STANDS ITS GROUND AMID THE PANDEMIC STORM

The IFDI 2021 indicator score looks at key metrics that shaped the pandemic year of 2020 for 135 countries. While there were movements in scores and ranking among countries and different indicators, the overall global IFDI indicator score improved slightly to 11.0 for 2021 from 10.8 for 2020. If anything, this nudge up indicates the continued strength and development of the Islamic finance industry despite the unprecedented challenges caused by the pandemic for most of 2020.

The Knowledge and Governance indicators improved compared to the previous year but Awareness declined. Quantitative Development and CSR indicators stayed constant. The reasons for the movements of each of these indicators are assessed separately and in detail throughout this report.

# SAUDI ARABIA CLIMBS INTO THE TOP THREE ON IMPROVED GOVERNANCE

The Southeast Asian nations Malaysia and Indonesia retained their top rankings for the second year in a row. Indonesia jumped into the top three last year and for IFDI 2021 Saudi Arabia made the same upward move. This pushed down both Bahrain and the UAE into fourth and fifth respectively, from third and fourth. We noted in last year’s report that Saudi Arabia had the biggest opportunity to improve its ranking if it boosts areas in which it lags; the Kingdom in 2020 introduced new Islamic finance regulations that strengthened its Governance indicator score. The Middle East’s biggest economy also improved on its Quantitative Development, Awareness and Knowledge, and keeps its place as the leader on the CSR indicator.

Other countries with notable improvements in IFDI rankings and scores include Ethiopia, India and Uzbekistan.

## TOP COUNTRIES BY INDICATOR

### IFDI 2021



### Knowledge



### Awareness



### Quantitative Development



### Governance



### CSR





# WEAKER PERFORMANCE STALLS QUANTITATIVE DEVELOPMENT DESPITE GROWTH IN DIFFERENT SECTORS

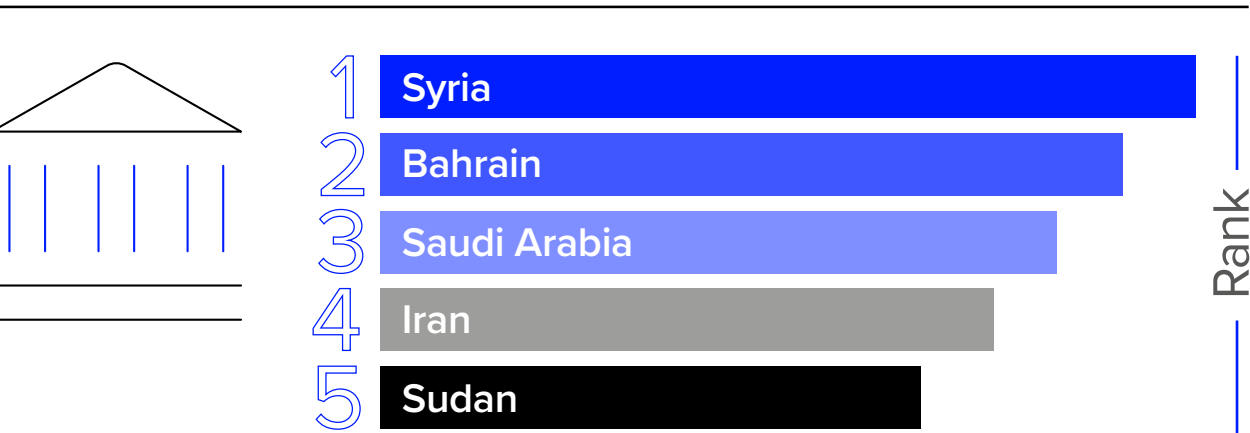
Despite the pandemic challenges that impacted profitability, which the IFDI measures via return on assets (ROA), the total assets of Islamic financial institutions continued to rise during 2020, with some sectors posting double-digit growth in certain countries. Yet, the increase in assets was only enough to offset the drop in profitability but not outpace it. As a result, the Islamic banking, takaful and other Islamic financial institutions sub-indicator scores were almost flat compared to the previous year's.

Similarly for the Islamic capital market, the double-digit growth for sukuk and Islamic funds was not enough to boost their sub-indicator scores. For instance, the average cumulative performance of Islamic funds for some countries was impacted negatively, dragging down their sub-indicator scores. Meanwhile, sukuk issues during 2020 stayed constant in the dominant markets of the GCC and Southeast Asia, keeping the sector's indicator scores relatively flat compared to the previous year.

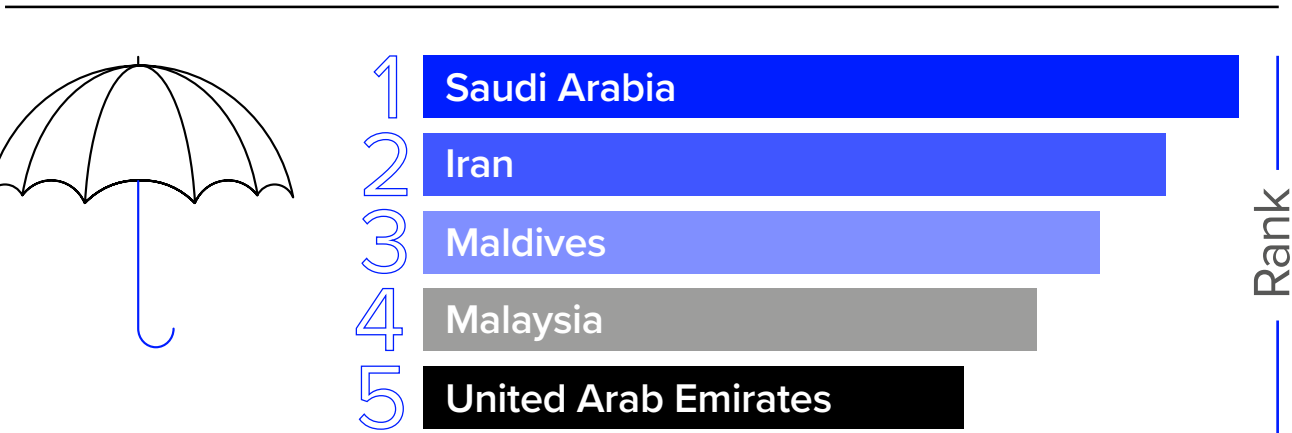
The countries with the most notable upward movements in their Quantitative Development indicator scores and rankings, because of improvement in some of their sub-indicator components, are India, Australia, Pakistan and Ethiopia.

## QUANTITATIVE DEVELOPMENT SUB-INDICATORS 2021

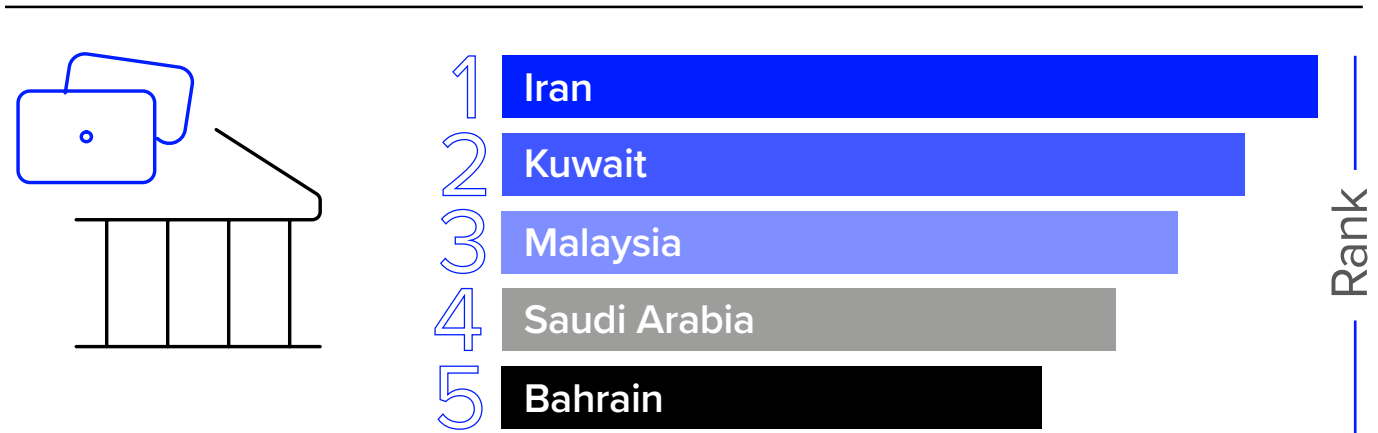
Islamic Banking



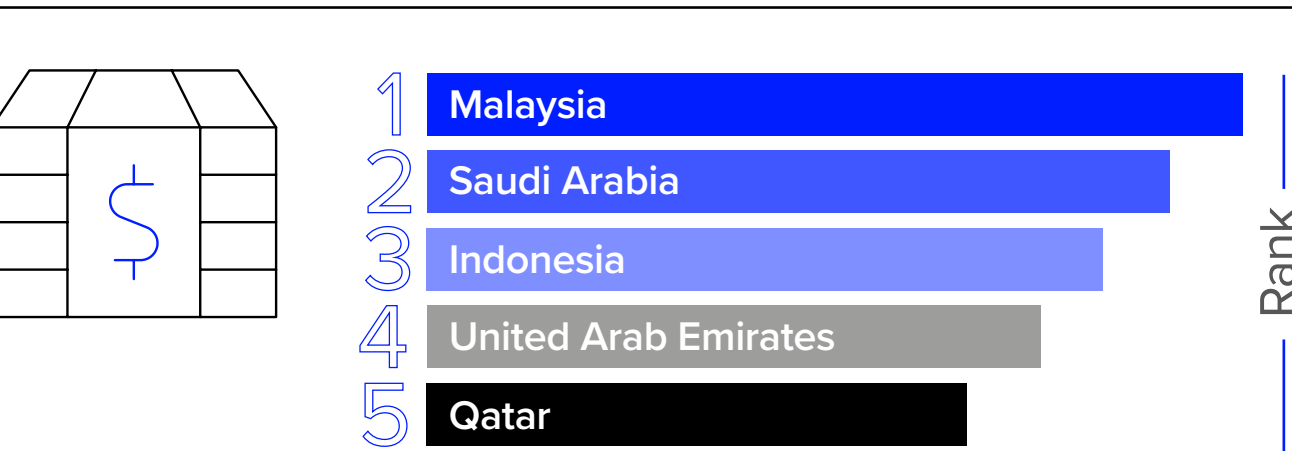
Takaful



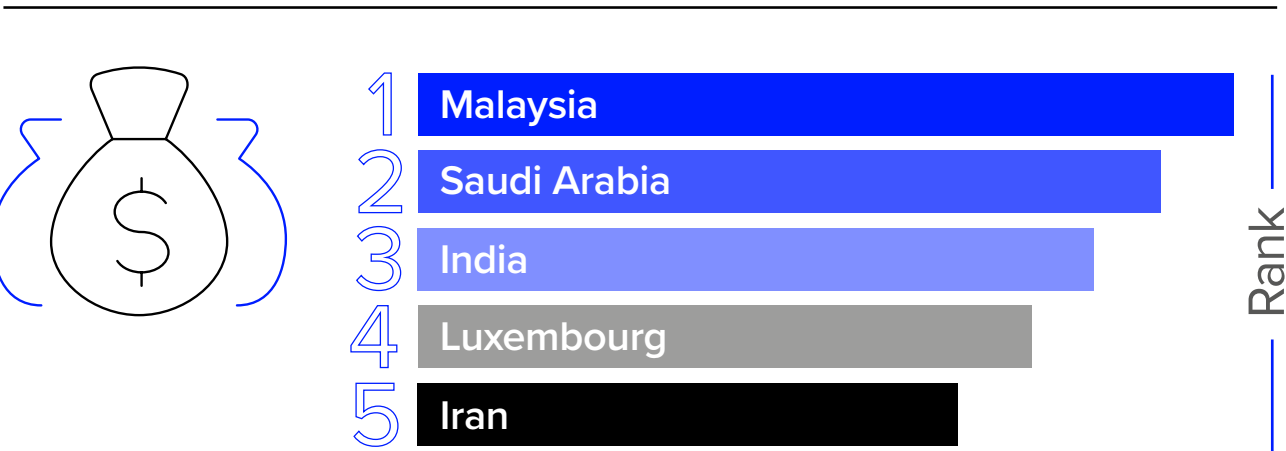
OIFI



Sukuk



Islamic Funds



## TWO SOUTHEAST ASIAN NATIONS RANK FIRST IN ISLAMIC FINANCE KNOWLEDGE

The Knowledge indicator score improved compared to the previous year, driven mainly by the growth in Research, which reflects the increase in output between 2018 and 2020 (Note: IFDI considers three years of output for the Research sub-indicator instead of one year for all other sub-indicators). Among the countries that published a lot more Islamic finance research papers is Indonesia, that notably had an uptick in English journal articles. The country's higher number of research papers is in line with its large pool of Islamic finance education providers, which is in line with the government's National Sharia Economy and Finance Committee's (KNEKS) implementation of the Islamic Economic Masterplan 2019–2024.

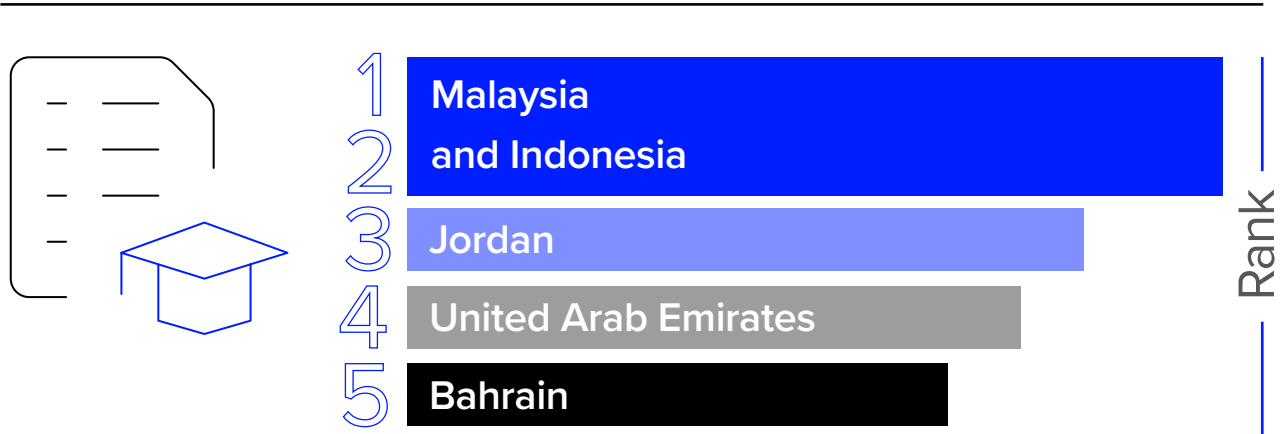
Given these developments, Indonesia climbed up the rankings for both Education and Research, joining Malaysia at the top with the maximum indicator score of 200, and cementing Southeast Asia's leading position on the Knowledge indicator. Other countries with notable improvement in Islamic finance knowledge are Saudi Arabia, Brunei and Uzbekistan.

## ISLAMIC FINANCE AWARENESS IMPACTED NEGATIVELY, ESPECIALLY EVENTS

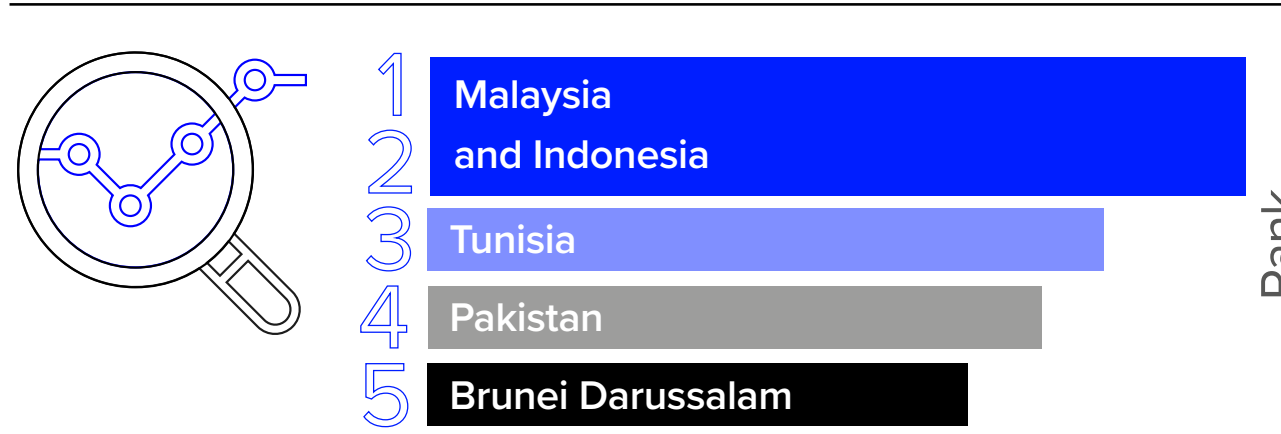
The Awareness indicator score, as measured by the number of seminars, conferences and news stories, dipped in the pandemic year. In absolute numbers, Islamic finance seminars (that host an audience smaller than 100) increased during the year but the sub-indicator's score dropped as its average global score considers all 135 countries, many of which did not hold any seminars in 2020. While smaller events continued, especially online where it was easier for organizers to leverage existing tech to reach smaller groups, the pandemic shuttered large-scale events, causing the number of Islamic finance conferences to plunge significantly. As a result, the Conferences sub-indicator score fell in concert. The score for News, the last sub-indicator for Awareness, increased. Among the few countries that improved on their Awareness indicator scores are Saudi Arabia and Egypt.

## KNOWLEDGE AND AWARENESS SUB-INDICATORS 2021

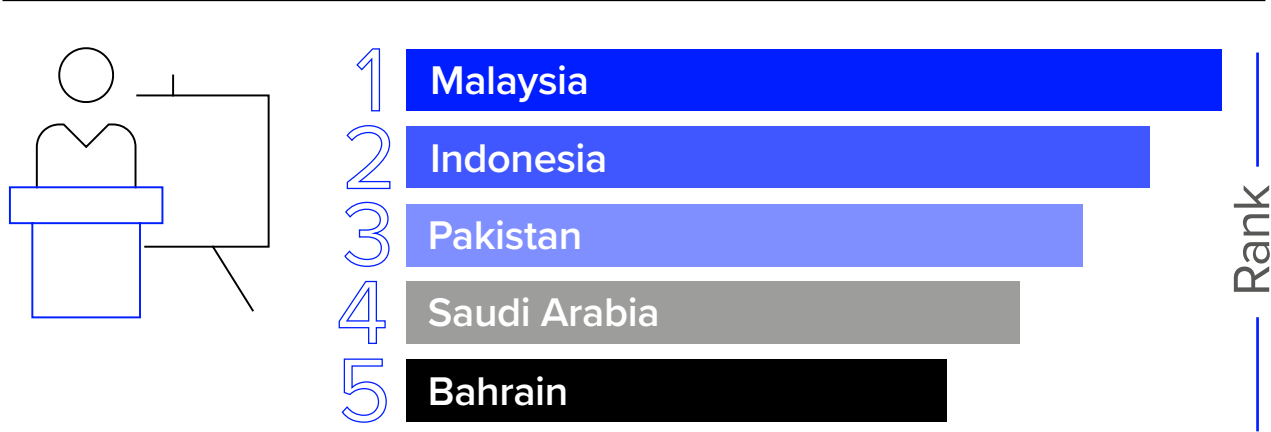
Education



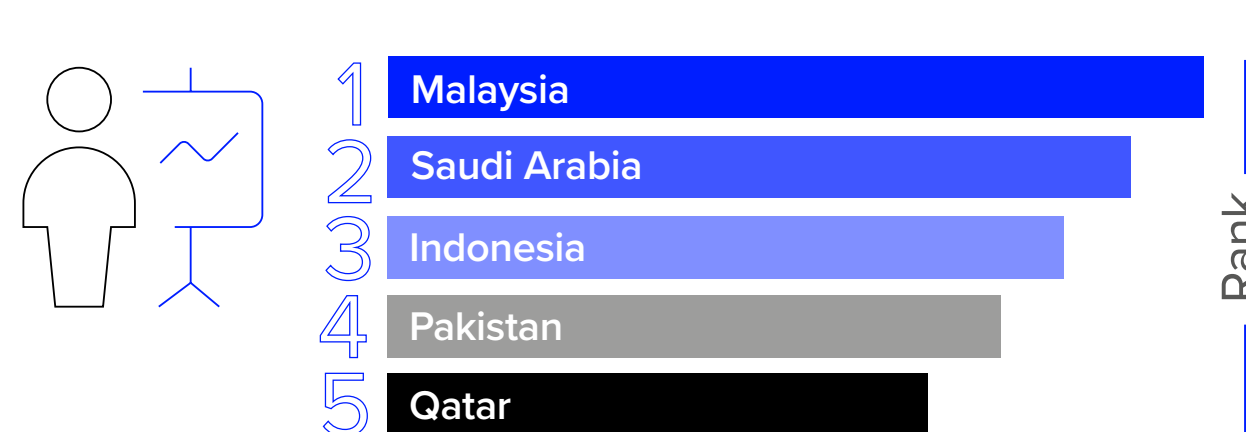
Research



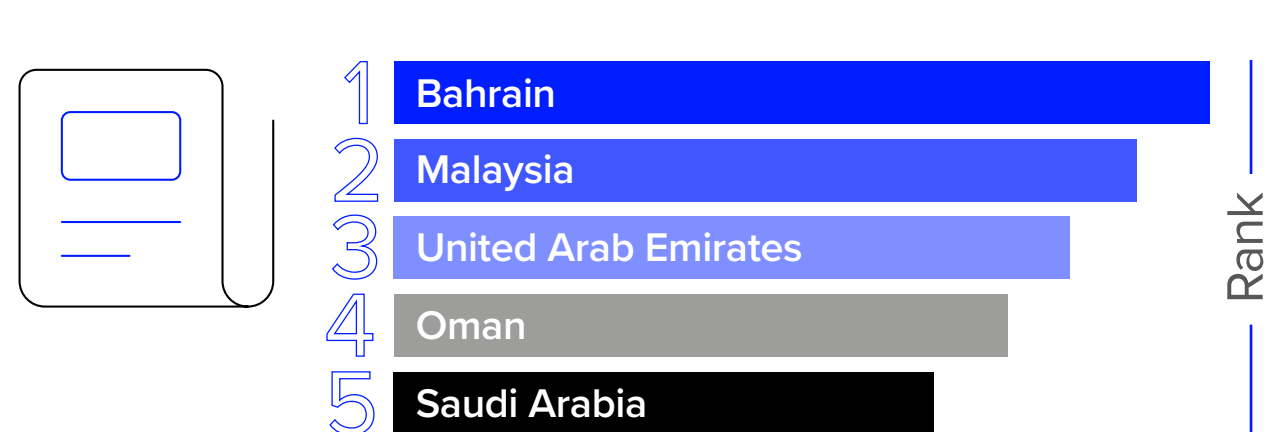
Seminars



Conferences



News





# REGULATION AND SHARIAH GOVERNANCE LIFT ISLAMIC FINANCE GOVERNANCE INDICATOR

During the year of assessment, more regulators introduced new Islamic finance rules and guidelines, pushing up the score on the Governance indicator. This is especially true in the key market of Saudi Arabia as well as in newer Islamic finance jurisdiction Kazakhstan. The Governance indicator was also given a boost by an increase in the number of Islamic financial institutions with Shariah board members.

Additionally, two countries--Kuwait and Algeria--introduced centralized Shariah boards. The Corporate Governance sub-indicator score, on the other hand, nudged down as many institutions failed to report the required disclosure items as outlined by IFDI.

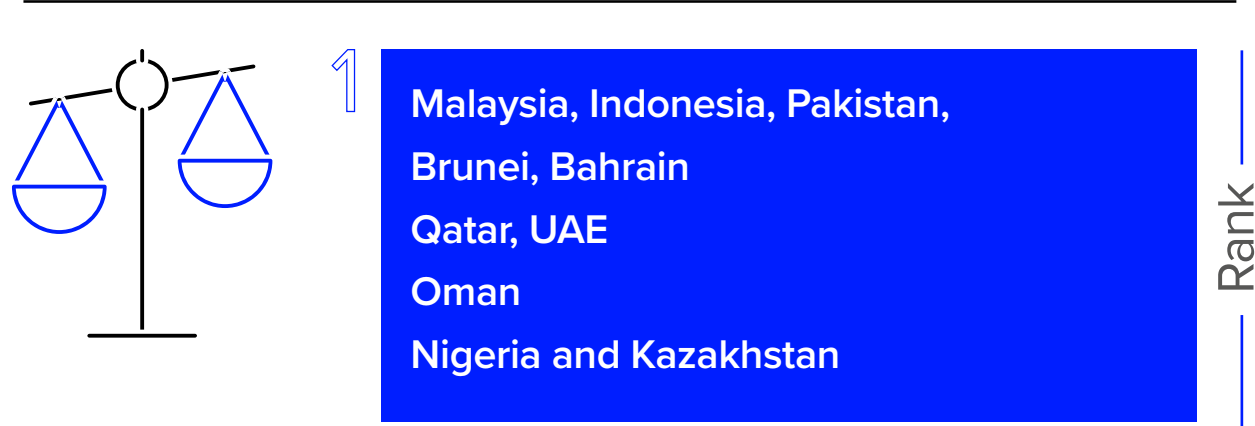
# SOME COUNTRIES STOOD OUT IN CSR DESPITE ITS GLOBAL SCORE REMAINING CONSTANT

The two sub-indicators that contribute to the overall CSR indicator score stayed relatively flat. Still, there were notable improvements in some markets. Iraq, Egypt, Palestine and Sri Lanka improved their scores on the CSR Funds sub-indicator as more institutions reported their charity and Zakat funds disbursed.

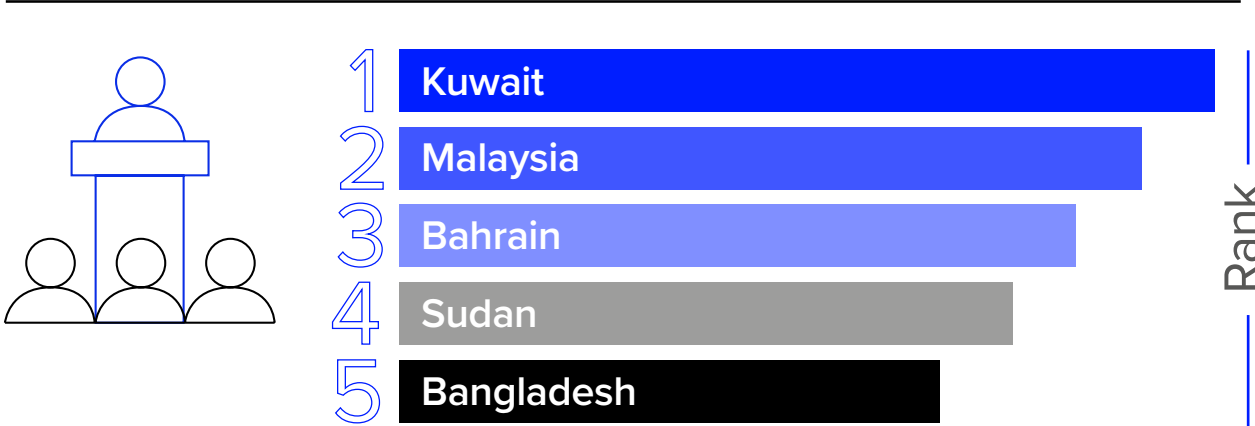
On the CSR Activities sub-indicator, the global average for CSR disclosure remained low but some countries stood out, including Nigeria and the Maldives that are ranked among the top five. While not in the top five, Indonesia showed improvements in its CSR Activities with Islamic financial institutions reporting more items in their sustainability reports; the pandemic pushed them to cover some of the specific CSR activities outlined by IFDI, such as employee welfare and par excellence customer service.

## GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY SUB-INDICATORS 2021

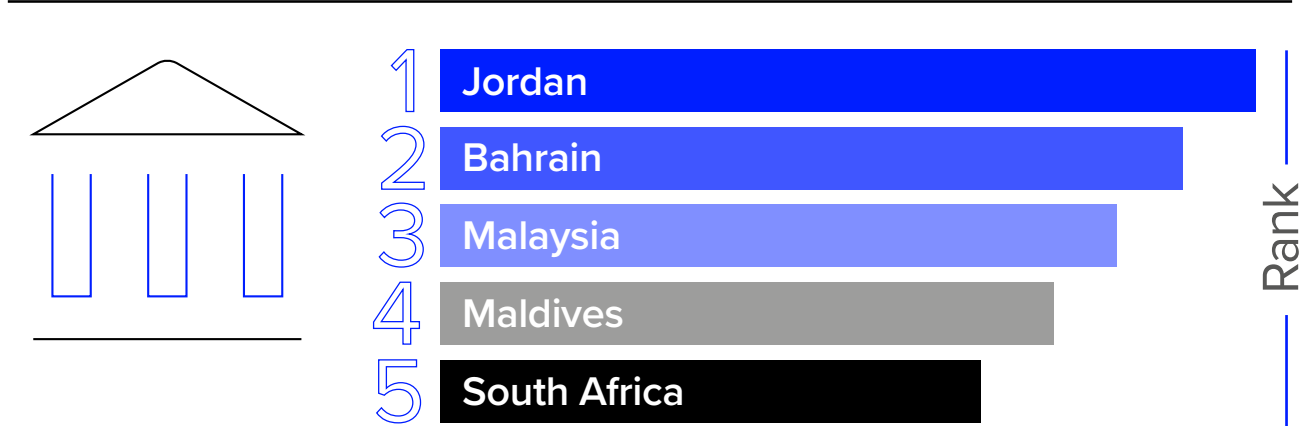
### Regulation



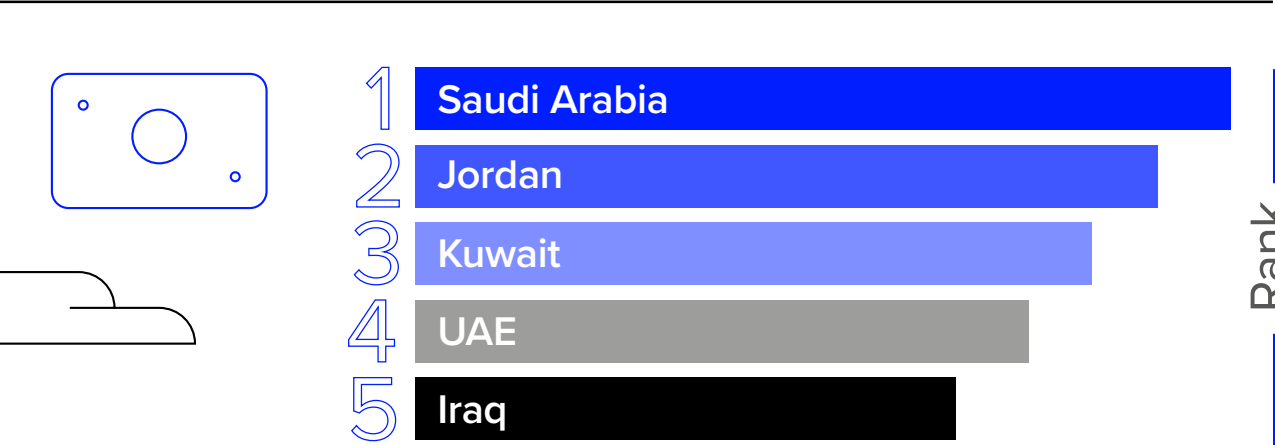
### Shariah Governance



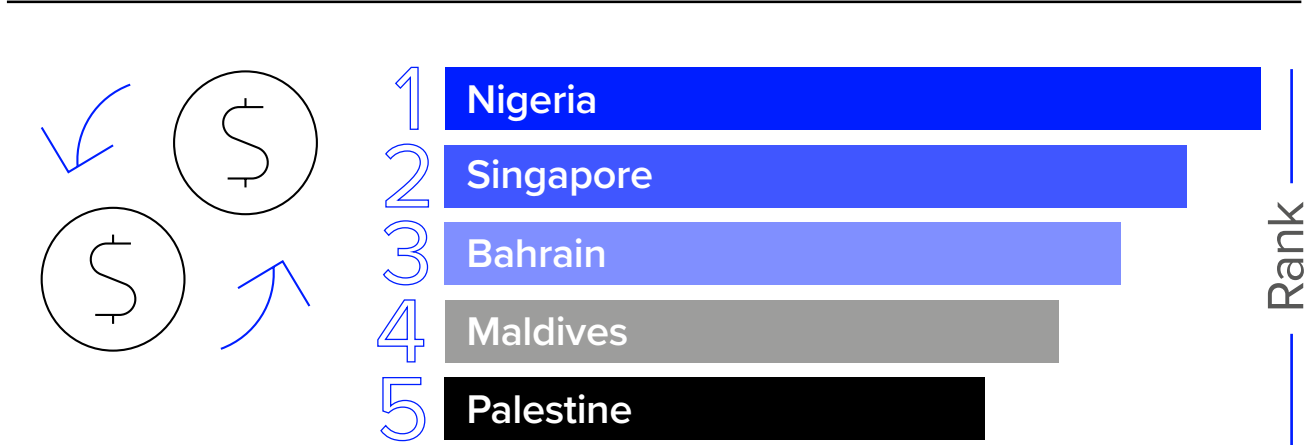
### Corporate Governance



### CSR Funds



### CSR Activities



# VALUE-BASED INTERMEDIATION: THE NEXT FRONTIER FOR SUSTAINABILITY



**Nor Shamsiah Mohd Yunus**  
Governor of Bank Negara Malaysia

**Ms. Nor Shamsiah** is the ninth Governor of Bank Negara Malaysia (BNM), the central bank, assuming office on July 1, 2018. She chairs the Monetary Policy Committee, the Financial Stability Committee, the Financial Stability Executive Committee and BNM's Board of Directors. Ms. Nor Shamsiah joined BNM in 1987 and has served in various areas including prudential regulations, financial intelligence and enforcement, talent management, finance and supervision. She was involved in the financial sector resolution initiatives during the Asian financial crisis that erupted in 1997. As Deputy Governor from 2010 to 2016, she also represented BNM in the Basel Committee on Banking Supervision and the Financial Action Task Force. Ms. Nor Shamsiah also served as Assistant Director of the Monetary and Capital Markets Division of the International Monetary Fund. She graduated from the University of South Australia with a Bachelor of Arts in Accountancy and is a Certified Practising Accountant.

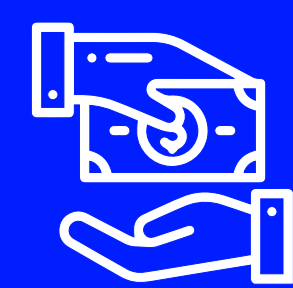
Islamic finance is founded on the intended outcomes of Shariah or Maqasid Shariah, which promotes value creation and the prevention of harm. The concept of vicegerency on earth in the Quran, which asserts mankind's responsibility to take on custodianship over resources on earth and preservation of wealth, resonates well with sustainability principles that advocate businesses to create positive impact to the environment, economy and society. These shared values put Islamic finance naturally at the forefront to drive the sustainability agenda. In Malaysia, this is evident from the adoption of Value-based Intermediation, or VBI, by Malaysian Islamic banks since 2017 and more recently by the takaful operators.

VBI reflects the Islamic financial industry's strategic endeavour to realise positive and sustainable impact. It is supported by four underpinning thrusts: entrepreneurial mindset, community empowerment, good self-governance, and best conduct. The industry adopts a whole-of-organisation approach in materialising VBI values in institutional conduct and practices, as well as in solutions and processes. We have seen a positive momentum from the Islamic banking industry since the issuance of the strategy paper in 2017<sup>1</sup>, intermediating over \$38.6 billion worth of VBI-related transactions as at December 2020 (Figure 1).

<sup>1</sup> Source: Bank Negara Malaysia (2017). Value-based Intermediation: Strengthening the Roles and Impact of Islamic Finance.  
<https://www.bnm.gov.my/documents/20124/761682/Strategy+Paper+on+VBI.pdf/b299fc38-0728-eca6-40ee-023fc584265e?t=1581907679482>



# FIGURE 1 : IMPACT OF VBI<sup>2</sup>



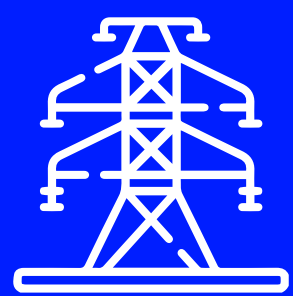
**1 OUT OF EVERY 3 IBIS’  
DEPOSITS AND INVESTMENT  
ACCOUNTS ARE VBI-ALIGNED**  
Worth RM36.8 billion



**1 OUT OF EVERY 10  
FINANCING APPROVED  
BY IBIS ARE VBI- ALIGNED**  
Worth over RM94.2 billion



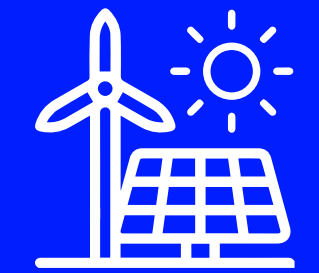
**NEARLY 35,000 DESERVING  
FAMILIES NOW OWN AFFORDABLE  
HOMES IN OVER 190 PROJECTS.**  
Through almost RM20 billion more financing



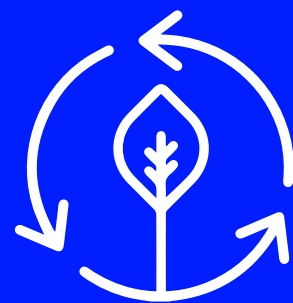
**OVER 1000 PUBLIC INFRASTRUCTURE  
ACCOUNTS SUPPORTED FOR BETTER  
LIVING STANDARDS**  
Through RM 24.1 billion additinal financing



**100,000 SMEs  
& Micro-SMEs supported**  
With over RM40 billion  
financing provided



**4500+ more renewable  
energy & green projects  
to conserve our environment**  
Via more than RM8.8 billion financing



**Nearly ½ (by value) and 2/3  
(by portfolio) of COP members’  
investment portfolio are in SRI,  
SDG, ESG, green, renewable  
and similar VBI-aligned initiatives**  
Worth approximately RM24.6billion



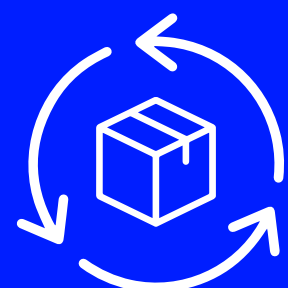
**1800+ accounts in 450+ zakat,  
waqf, charities and sadaqah  
initiatives professionally managed**  
Worth RM190 million

<sup>2</sup> Source: Association of Islamic Banking and Financial Institutions (2020). Intermediating Beyond Profits: Inaugural Islamic Banking Industry VBI Preview Report 2017-2020.  
<https://aibim.com/contents/upload/Inaugural-Islamic-Banking-Industry-Value-based-Intermediation-Preview-Report-2017-2020.pdf>



The devastating effects of the COVID-19 pandemic on the economy and society created opportunities for Islamic financial institutions (IFIs), that during this period piloted social and impact-driven solutions anchored by the VBI aspiration (Figure 2).

## FIGURE 2 : VBI-ALIGNED OFFERINGS



**ITEKAD, A BLENDED MICROFINANCE PROGRAMME FOR B40**

Combining social finance instrument (waqf, zakat, sadaqah), microfinancing and capacity building assistance to empower B40 micro-entrepreneurs to generate sustainable income.



**THE SOCIAL IMPACT DEPOSIT**

An Islamic fixed deposit account that enable customers to provide financial relief for voluntarily foregoing a portion of their returns to those whose income are affected by Covid-19 pandemic.



**NON-DEBT TRADE FINANCE SOLUTIONS  
(EG INVOICE FINANCING)**

To address cashflow constraints of SMEs without increasing gearing of business



**FINANCIAL PACKAGES FOR HALAL BUSINESSES  
WITH VALUE ADDED SERVICES**







Custom Financial solutions that are bundled with complementary value-added services e.g. application for halal certification, business advisory and market access to assist halal entrepreneurs.

The Islamic banking industry, via the VBI Community of Practitioners (COP), has contributed in supporting the transition towards the sustainability agenda. In a number of instances, the VBI COP members have been empowered to lead sustainability efforts at their respective financial groups. The VBI COP is also actively involved in spearheading the development of key guiding documents to complement the broader industry's responses to climate change. This year, the VBI COP issued six VBI sectoral guides that complement the Climate Change and Principle-based Taxonomy (CCPT) that Bank Negara Malaysia (BNM) issued in April 2021. At the granular sector level, these guides serve as impact-based risk management toolkits for palm oil, renewable energy, energy efficiency, manufacturing, construction and infrastructure, and oil and gas.

In a similar vein, VBI COP members are working closely with the regulators (BNM, the Securities Commission Malaysia and Bursa Malaysia) via the Joint Committee on Climate Change (or JC3) to strengthen financial system resilience to climate risk, and to drive sustainable finance. Efforts are underway to develop institutional technical knowledge and capacity to effectively implement the CCPT and to prepare for mandatory adoption of recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD). The Islamic banking industry has also supported approximately 4,500 renewable energy and green projects worth more than \$2.2 billion.

The issuance of the VBI for Takaful (VBIT) Framework in June this year marks the application of VBI principles to the takaful industry. The framework, which is also applicable to the insurance sector, infuses VBI principles into business operations and solutions that promote financial resilience. The alignment between the underlying thrust of VBIT with the Principles of Sustainable Insurance (PSI) opens the door for greater collaboration between the insurance and takaful operators and global practitioners to address the distinctive needs of the economy and society. Some notable examples are affordable coverage for lower-income groups against adverse life events and farming communities against adverse weather conditions. Figure 3 highlights some VBIT solutions.

# FIGURE 3 : VBIT ALIGNED PROTECTION SOLUTIONS

| FINANCIAL RESILIENCE   | COMMUNITY EMPOWERMENT  |
|--|--|
| <div></div> <div>Affordable life protection coverage for low income family</div>            | <div></div> <div>Charity giving, allow participants to donate a sum covered</div>                                 |
| <div></div> <div>Inclusive protection for disabled person from zakat and charity fund</div> | <div></div> <div>Equip community with financial knowledge on Takaful</div>  |
| <div></div> <div>Crops Takaful coverage for farms and plantations</div>                    | <div></div> <div>Coverage with health programme package that rewards customers for making healthy choices.</div> |

In taking the progress of VBI further forward, the Malaysian financial industry is enhancing its governance structure and ramping up talent acquisition to improve delivery of the value-based solution. These involve the appointment of Chief Sustainability Officers and the formation of a special committee on sustainability. Increasingly, efforts are being undertaken to enhance transparency and disclosure of sustainability-linked practices via sustainability reports which will provide greater accountability and improve activism by a wider group of stakeholders. This will encourage improved cultural and behavioural shifts in business operation to be aligned with sustainable practices.

The growing momentum of sustainability on both the domestic and international fronts provides a great opportunity for Islamic finance to demonstrate its value proposition. The encouraging progress of VBI implementation by IFIs underscores their commitment for positive value creation in financial intermediation. We envision the IFIs to build on this experience and further lead sustainability initiatives within the financial sector. This in turn will further sharpen IFIs’ edge to capitalise on the growing opportunities on this front. BNM is committed to support this progress by providing an enabling regulatory environment to scale up VBI practices by the financial industry.



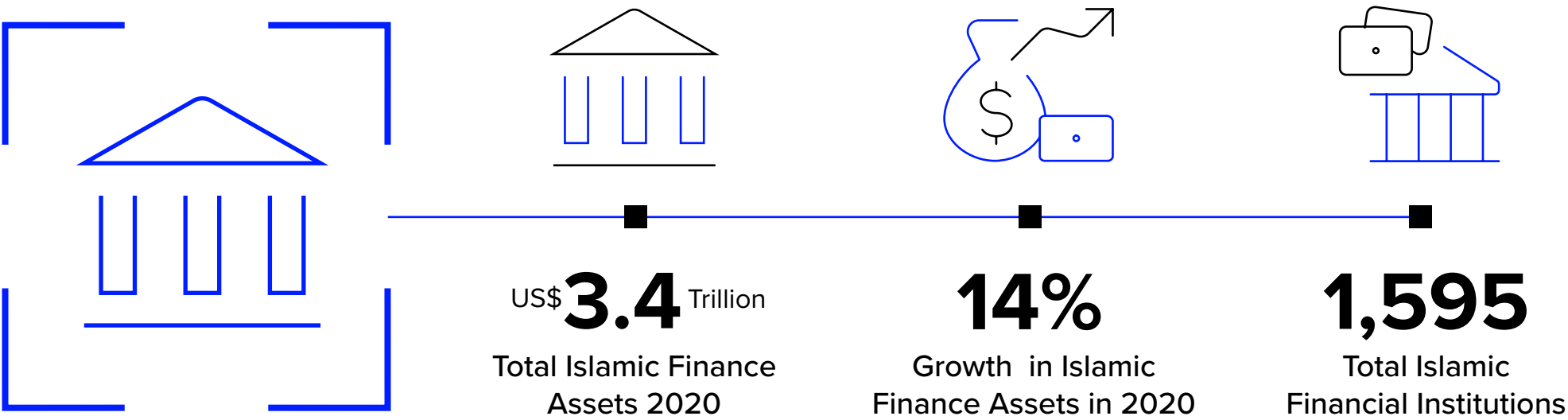
# Islamic Finance Overview

Measuring the Quantitative Development of Islamic financial institutions and Islamic capital markets means looking at all the sub-sectors of the industry and reviewing their quantitative dimensions in terms of size and performance.

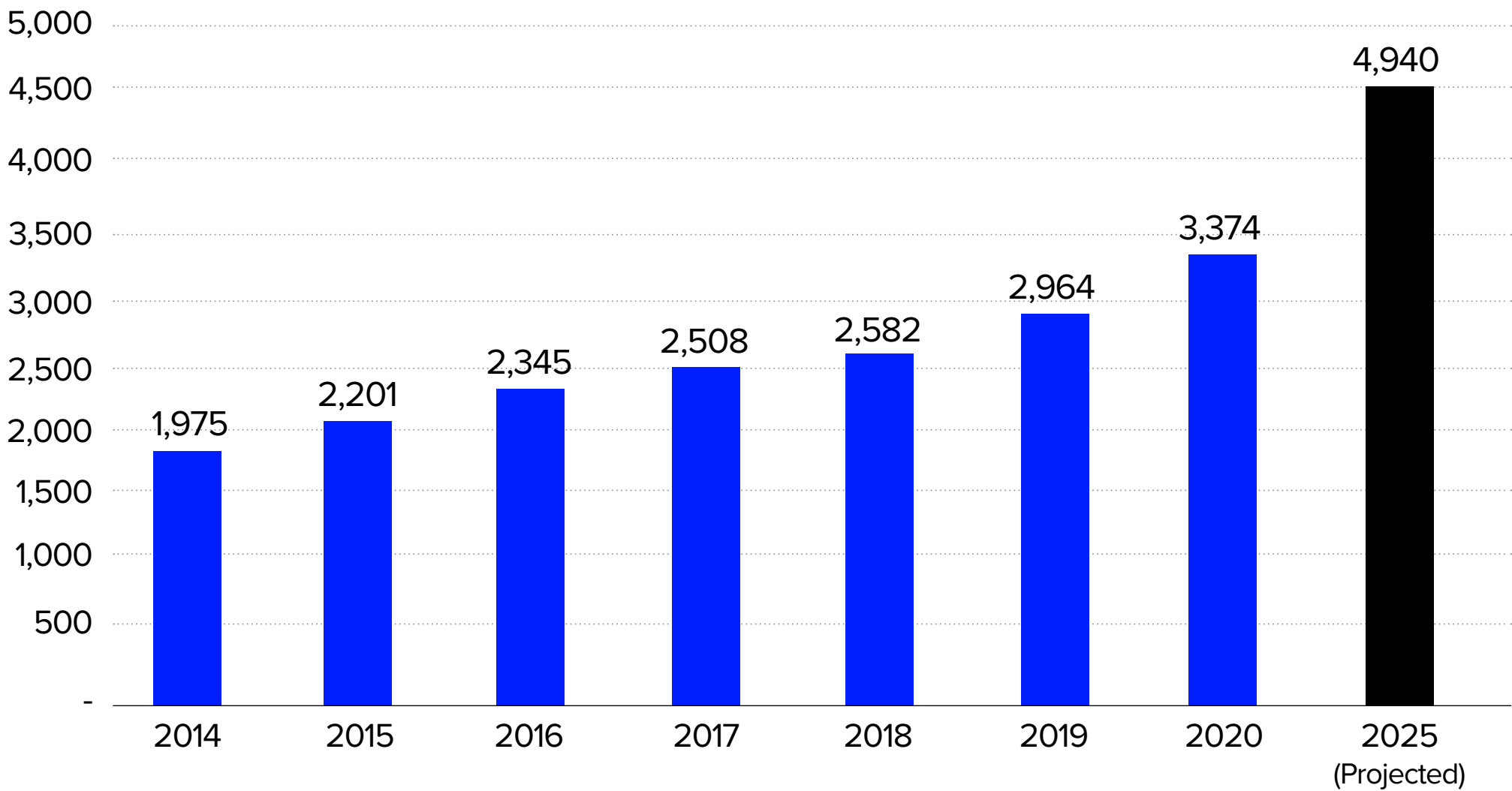
This chapter not only highlights the financial growth, depth and performance of the overall Islamic finance industry during 2020 but investigates its different sub-sectors as well and across different regions. It expands analysis by looking at key trends and opportunities across its five main sectors: Islamic Banking, Takaful, Other Islamic Financial Institutions, Sukuk, and Islamic Funds. Islamic financial institutions are considered the backbone of the industry given their size and track record, while capital market asset classes, including sukuk and Islamic funds, are important investment instruments.



# GLOBAL ISLAMIC FINANCE LANDSCAPE



Islamic Finance Assets Growth (2014 - 2020, USD Billion)

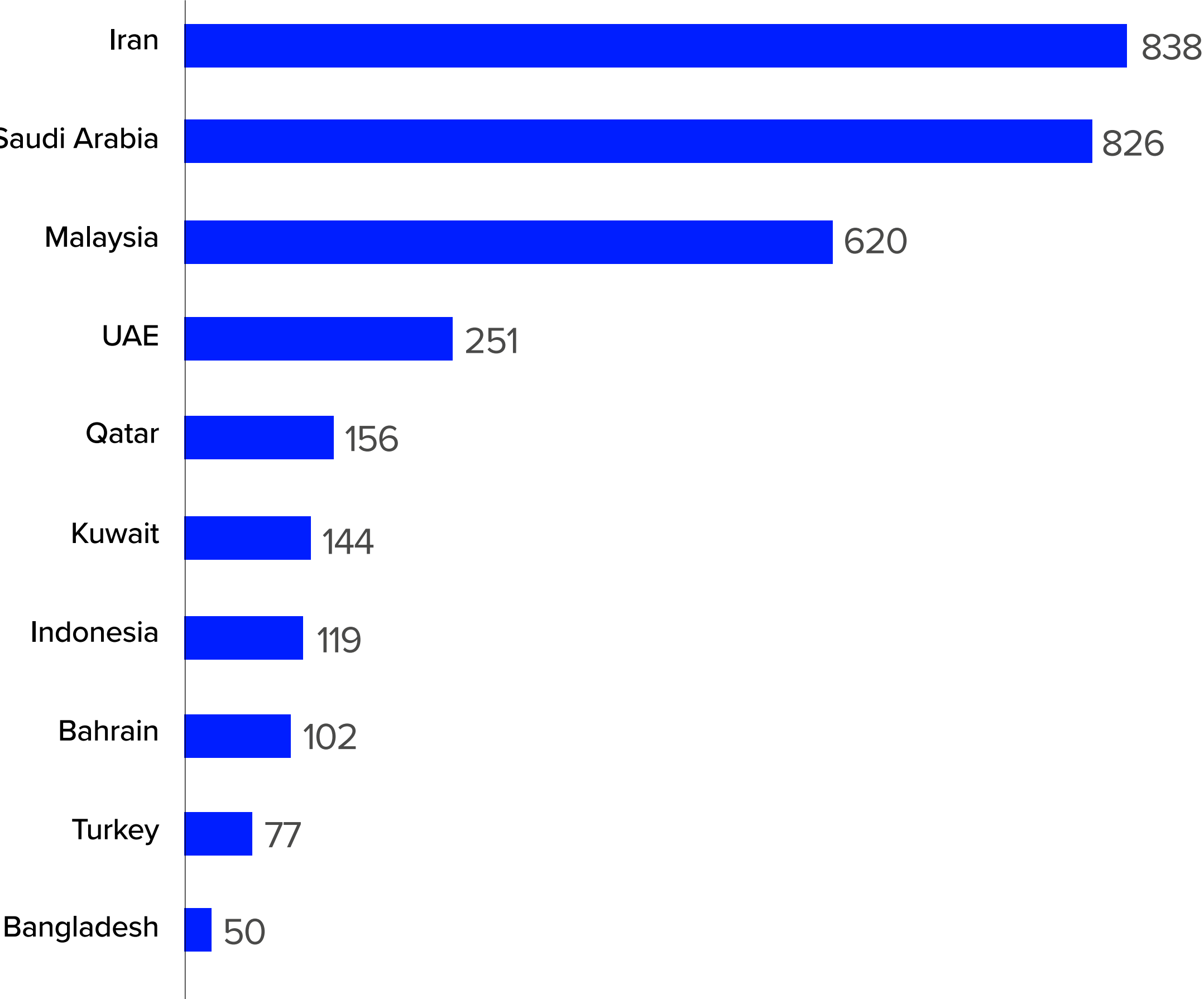


Islamic Finance Distribution (2020)

|                 | Total Assets (USD Billion) | Share (%) | Number of Institutions / Instruments |
|-----------------|----------------------------|-----------|--------------------------------------|
| Islamic Banking | 2,349                      | 70%       | 527                                  |
| Sukuk           | 631                        | 19%       | 3,805                                |
| Other IFIs      | 178                        | 5%        | 1,698                                |
| Islamic Funds   | 154                        | 5%        | 745                                  |
| Takaful         | 62                         | 2%        | 323                                  |



Top Countries in Islamic Finance Assets (2020, USD Billion)



Islamic Finance Assets by Region (2020, USD Billion)

| Region               | Islamic Finance Assets (USD Billion) |
|----------------------|--------------------------------------|
| GCC                  | 1,499                                |
| Other MENA           | 902                                  |
| Southeast Asia       | 754                                  |
| Europe               | 119                                  |
| South Asia           | 87                                   |
| Sub - Saharan Africa | 8                                    |
| Americas             | 3                                    |
| Other Asia           | 1                                    |

## A BRAVE NEW WORLD FOR ISLAMIC FINANCE POST-PANDEMIC

2020 was one of the most challenging years for the global economy. When COVID-19 first reared its head in the first-quarter of the year, governments were faced with unknown unknowns that very quickly transitioned into managing risks that could potentially spiral to more substantially cripple physical operations and supply chains. As countries closed their borders and imposed physical lockdowns to try to limit the spread of the virus, we became familiar with the terms "essential services" and "frontline workers" that were critical for our day-to-day living, and indeed for many of us across countries, for our survival.

As many social and economic activities moved online, we encountered other risks, including technological and data disruptions that could equally be caused by nefarious agents as well as companies' own limited capabilities and capacities. These piled on the challenges that also included operational risks from remote working for a lot of employees, and shifting customer behaviors that are still impacting financial institutions. The global crisis also fueled oil price volatility and exerted pressures on the real estate sector in some Islamic financial markets.

In response to these staggering situations, regulators designed and introduced support measures that have helped financial institutions mitigate the unprecedented challenges.

In spite of the scale of the challenges, the Islamic finance industry posted a double-digit growth for the second year in a row, albeit by a slower 14% compared to 15% in 2019, to reach \$3.4 trillion by the end of 2020. The countries with the biggest increases in Islamic finance assets were Afghanistan, Australia, Egypt, Ethiopia, Morocco, and Tajikistan. Islamic banking was the main driver of growth in these countries.

## DOUBLE-DIGIT GROWTH FOR ALL BUT ONE SECTOR

All but one Islamic financial sector posted double-digit growth in 2020. The Other Islamic Financial Institutions sector was worst-hit, with specialized companies impacted by the plunge in oil prices and pressure on real estate.

The strong growth of the largest Islamic banks in the GCC, Iran and Malaysia lifted the Islamic finance industry as a whole. The total liabilities of these banks expanded, markedly with sukuk issues, as they took advantage of the low interest rate environment to meet their capital adequacy requirements. The sukuk sector proved to be resilient despite the global uncertainties, recovering well from the initial shock in the first-quarter of 2020. GCC issuers were especially responsible for the growth of the sukuk sector. Islamic banking and sukuk are the two biggest sectors that contributed to the expansion of the global Islamic finance industry. They held assets of around \$2.3 trillion and \$631 billion, respectively.

The upward movement of smaller asset classes also contributed to the development of the global industry in 2020. Particularly, the expansion of the Islamic funds sector may have slowed from 30% in 2019 to 22% in 2020, but it posted the highest growth rate among asset classes, reaching \$178 billion last year. Malaysia and Saudi Arabia led the growth in this sector. In other areas, Takaful grew by 16% to \$62 billion in 2020, largely attributed to developments in Turkey, Iran, Saudi Arabia and Southeast Asia.



## STRATEGIC MOVES BY TURKEY, SAUDI ARABIA AND INDONESIA TO DRIVE THEIR ISLAMIC FINANCE INDUSTRIES FORWARD

The global Islamic finance industry is expected to continue on its growth trajectory, especially considering 2020's achievements and developments so far in 2021, to reach an estimated total global assets of \$4.9 trillion by 2025. This represents an average growth of 8% in the next five years. Some of the largest Islamic finance markets will drive this forward.

Turkey has the potential to really spur the growth of the industry in the coming years. The country's participation finance industry expanded by 21% in 2020 and the outlook is positive, considering strong government backing. In February 2021, a dedicated department for Islamic finance was set up within the Presidential Finance Office to develop strategies for the industry and raise awareness of it through partnerships with other organizations such as in the private sector and universities. This is among other initiatives started in 2020, such as creating a legal infrastructure for Islamic banks to help provide services for customers.

Saudi Arabia has the potential for even more growth. The Kingdom is currently second only to Iran as the largest Islamic finance market by assets, growing by 18% to \$826 billion in 2020. The Saudi Central Bank already pays close attention to the industry. Islamic banking is a high-growth area for Saudi Arabia and the sector has been further strengthened with stricter Shariah governance measures and industry consolidation. In addition, the Other Islamic Financial Institutions sector is benefiting from the entrance of more Islamic fintech players and other types of businesses such as Islamic mortgage refinancing.

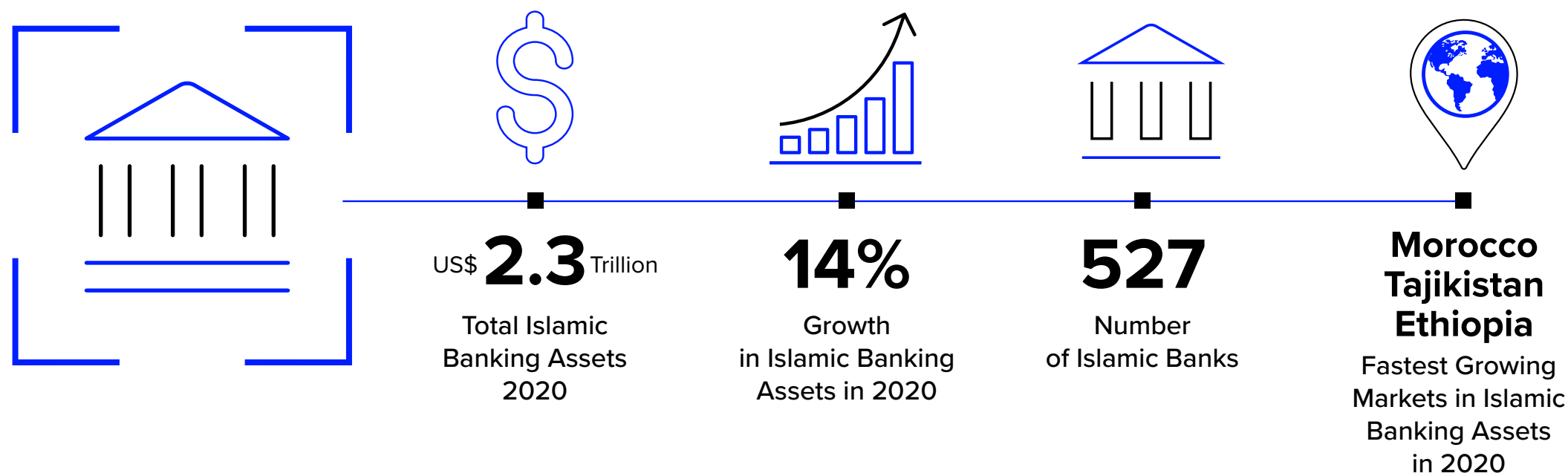
Indonesia, the seventh biggest market by assets, grew by 14% to \$119 billion in 2020. It has the advantage of high-level, extensive, and coordinated government oversight in the hands of the KNEKS that has a direct line to both the country's President and Vice President. Indonesia's short- to mid-term top-line strategy is to convert more of its regional banks to become Shariah-compliant. The country has already seen a large shift in its Islamic banking landscape when Bank Syariah Indonesia was formed in February 2021 as a result of a merger of three state-owned banks. Prior to this, two banks were also converted to become fully Islamic. The country also plans to have more Islamic micro-finance institutions and has already started providing Islamic pension funds that will further develop its Islamic capital market.

## DIGITIZATION AND SUSTAINABILITY WILL DRIVE PROGRESS

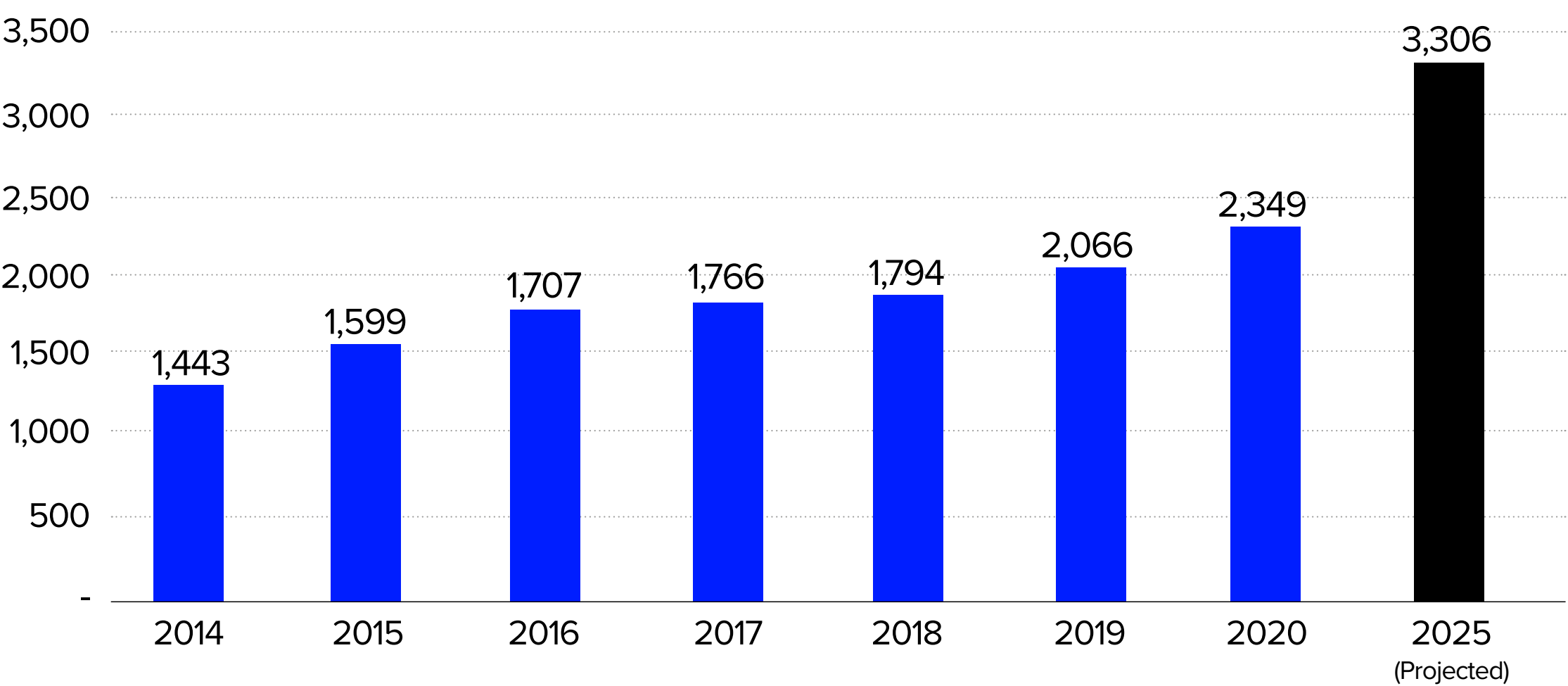
2020 was mostly spent on mitigating the adverse impacts of COVID-19 on Islamic financial institutions, especially Islamic banks. Many IFIs scrambled to stay ahead by introducing new digital services. During the pandemic crisis, another area of the industry that grew in prominence is Islamic fintech, that is increasingly challenging traditional banks. Many institutions have woken up to the benefits of partnerships, especially to widen their target markets.

Another emerging trend since the coronavirus outbreak is Islamic sustainable finance. Going by the book, Islamic finance has a natural link with social and responsible finance given the 'Maqasid al Shariah'. More sustainability-driven Islamic capital market products such as sukuk and Islamic funds were launched in 2020 and so far in 2021. Meanwhile, Islamic banks are ramping up their green finance offerings.

# ISLAMIC BANKING



Islamic Banking Assets Growth (2014 - 2020, USD Billion)

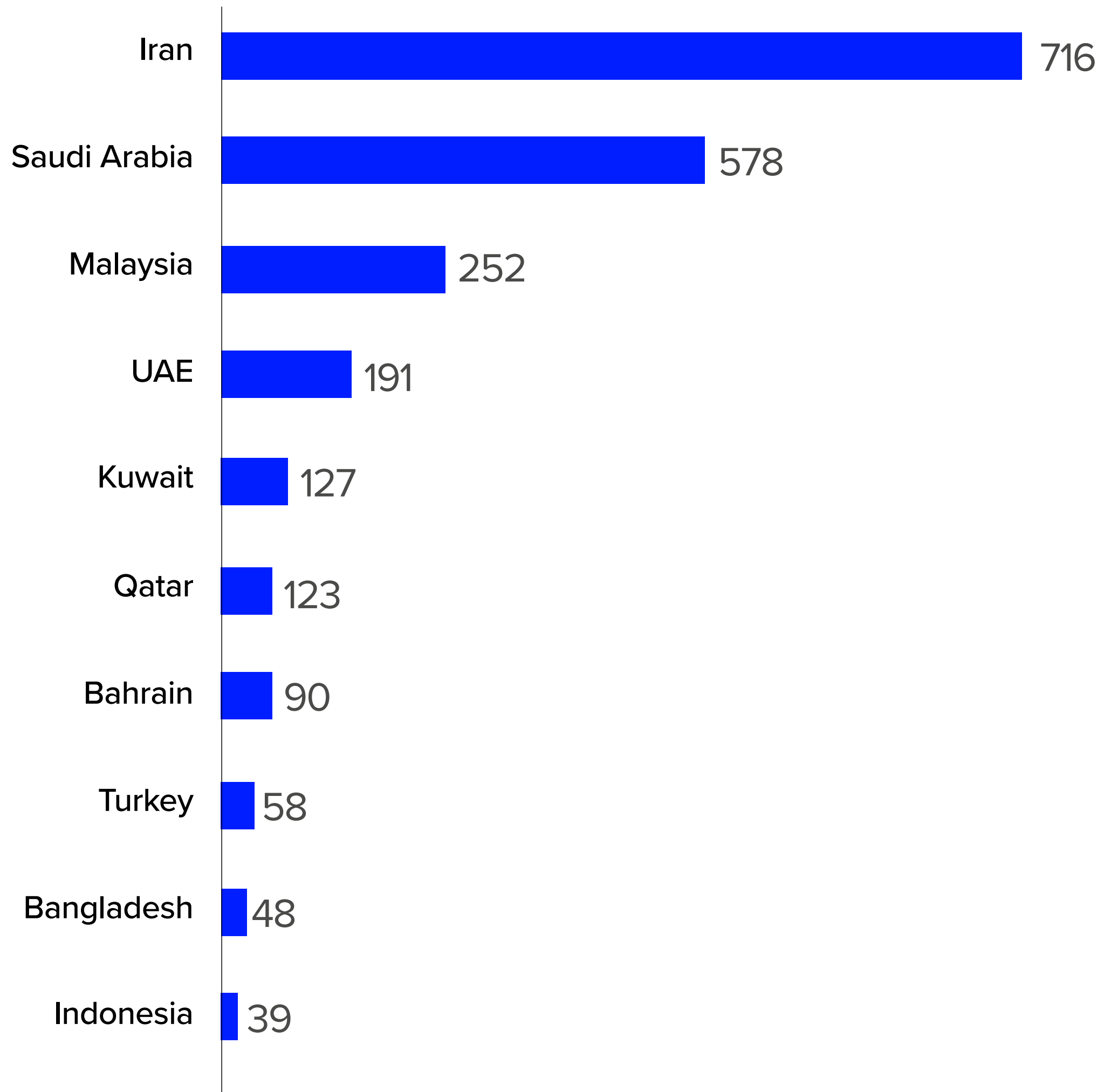


Islamic Banking Assets by Region (2020)

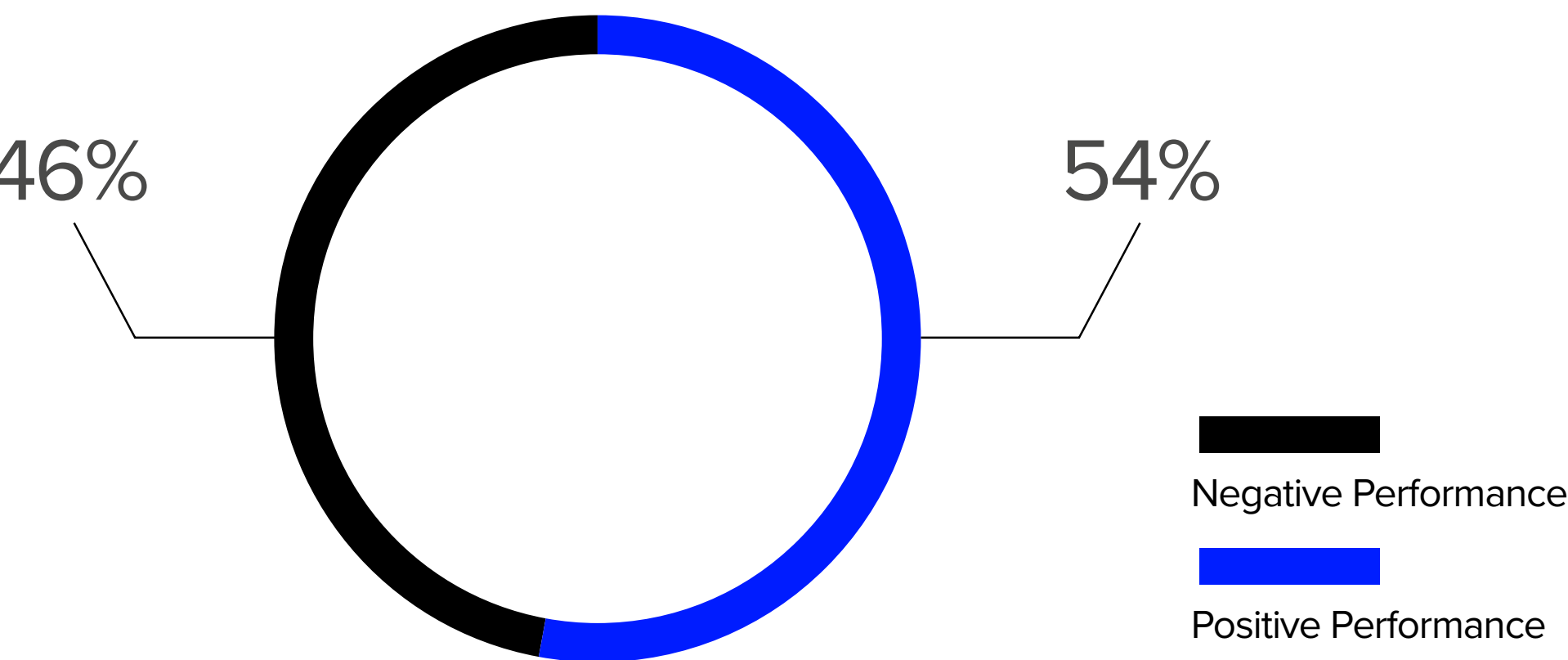
| Region               | Islamic Banking Assets (USD Billion) |
|----------------------|--------------------------------------|
| GCC                  | 1,122                                |
| Other MENA           | 777                                  |
| Southeast Asia       | 301                                  |
| South Asia           | 78                                   |
| Europe               | 67                                   |
| Sub - Saharan Africa | 3                                    |
| Americas             | 0.4                                  |
| Other Asia           | 0.2                                  |



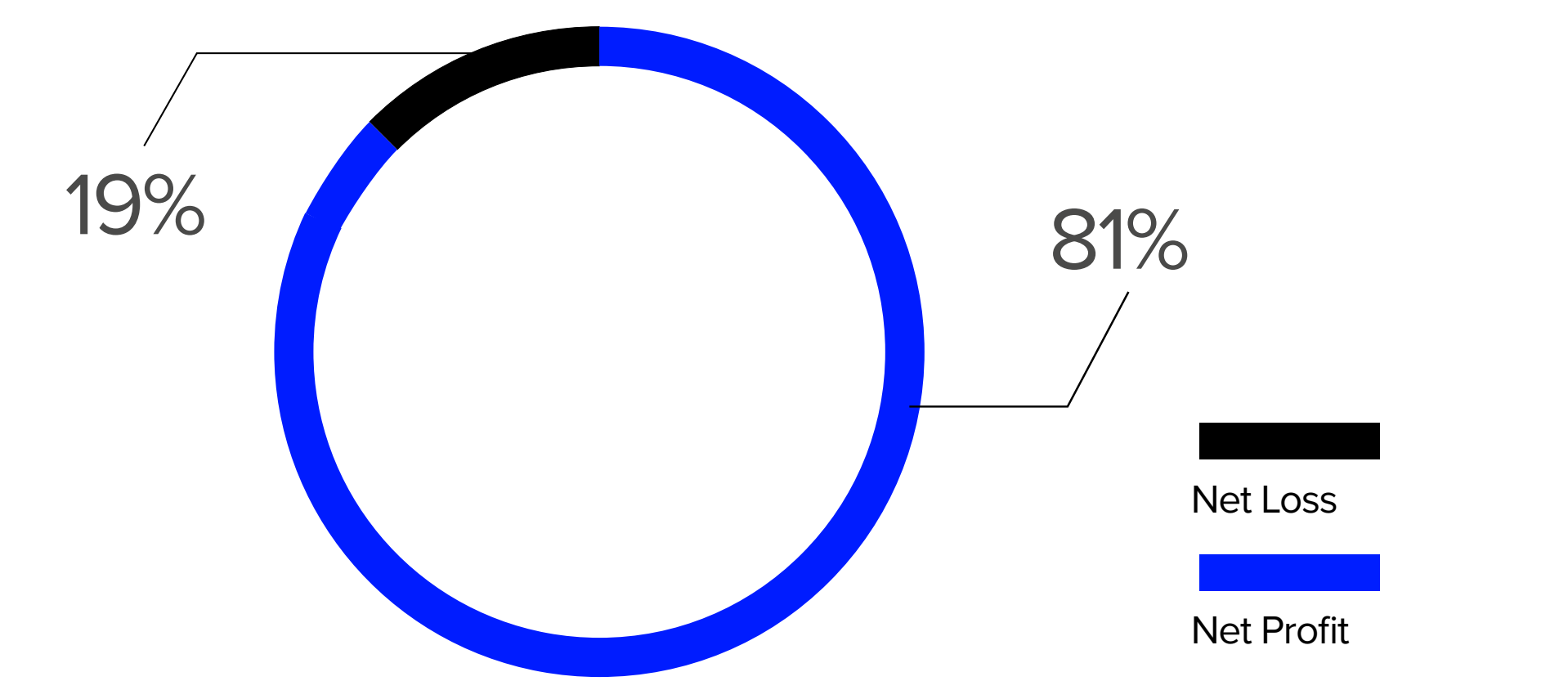
Top Countries in Islamic Banking Assets (2020, USD Billion)



Reported Performance by Islamic Banks\* (2020)



Reported Net Income by Islamic Banks (2020)



\* Positive performance indicates increase in net income, decrease in net loss or turn to profit from loss when compared to 2019. Negative performance indicates the opposite. Applies to full-fledged institutions and windows that reported their net incomes.

## **GCC COUNTRIES CONTINUE TO DOMINATE BUT NON-CORE MARKETS ARE SEEING HIGH GROWTH**

Islamic banks continue to hold the most assets across all industry sectors. Islamic banking assets were \$2.3 trillion in 2020, with a year-on-year double digit growth of 14%, down slightly from 15% in 2019. However, in comparison, growth in Islamic banking assets in 2018 was just 2%. GCC countries continue to dominate, with the region being home to the biggest Islamic banks by assets; they account for five of the top 10, indicating the systemic importance of this core region to the overall global Islamic banking industry.

The GCC may have the biggest Islamic banks but the highest growth rates are in non-core markets outside the GCC and Southeast Asia, such as Ethiopia (244% growth, the highest in 2020), Tajikistan (110% increase) and Morocco (66% increase). Other performers with growth rates above the 40% threshold include Afghanistan (49%) and Sudan (47%), which are also non-core markets. Another one to watch is Pakistan, a major non-core market in Islamic finance with a significant Muslim population, which registered a 37% growth in Islamic banking assets in 2020.

Although the sector's growth was muted at the start of 2020, with several Islamic banks registering losses, the trend was reversed towards the latter half of 2020 and the start of 2021. This was due to the success of vaccination campaigns across core markets such as the GCC countries, as well as the provision of sizeable stimulus packages and liquidity injections by several Organization of Islamic Cooperation (OIC) governments to help deal with the economic fallouts from the pandemic. Consequently, Islamic banking activity emerged relatively unscathed from the pandemic, which should set the path to reach \$3.3 trillion in assets by 2025.

## **CONSOLIDATION A RECURRING THEME**

In the GCC, multiple consolidation moves indicate a tightening of market conditions due to reduced lending growth, continued low interest rates, and increased cost of risks in the market. Some of the notable events include the emergence of Saudi National Bank (SNB) through the merger of National Commercial Bank and Samba Financial Group in March 2021, making SNB the largest bank in Saudi Arabia, with \$160 billion (SAR599 billion) in assets as of March 2021.

Other mergers and acquisitions include those between Al Khaleeji Commercial Bank and Masraf Al Rayan in Qatar in January 2021, and Dubai Islamic Bank's acquisition of Noor Bank in the UAE in January 2020. There is also the postponed attempt by Kuwait Financial House to acquire Al Ahli Bank.

Outside the GCC, Turkey is considering the merger of three Islamic banks that are owned by the country's sovereign wealth fund, which would create the second-largest participation bank in the country. In Indonesia, the recently completed three-way merger of state-owned Islamic banks resulted in the country's seventh-largest bank, Bank Syariah Indonesia (BRIS), which started operations in February 2021 with assets of \$14 billion.

## **NON-CORE MARKETS ARE MAKING INROADS VIA ISLAMIC WINDOWS, ESPECIALLY IN CENTRAL ASIA**

Non-core markets made inroads into Islamic banking in 2020 and 2021 via the introduction of Islamic windows. Key examples include Uzbekistan's Xalq Bank that launched the country's first Islamic window with the help of the Islamic Development Bank's Islamic Corporation for the Development of the Private Sector (ICD). The ICD is also helping Turonbank launch a window in Uzbekistan. Other notable Islamic windows include Russia's Sberbank, which obtained regulatory approvals from Russian and UAE regulators in September 2020 to launch an Islamic window in the UAE. In other continents, Uganda is in talks with the ICD to form an Islamic bank in the African OIC country, while Qatar's Al Rayan Bank has agreed to provide services in Islamic finance and retail banking in Kazakhstan, an emerging Islamic finance market.



## AFRICA'S ISLAMIC BANKING SEES SEVERAL DEVELOPMENTS

One of the most significant regulatory changes in Africa has been Sudan's switch to a dual banking system. Previously known for its unique wholly Islamic banking system, Sudan will now allow conventional banks to operate in the market, as the country seeks to rebuild its global linkages and attract international banks following recent post-civil war political and leadership changes.

Farther north, Libya's Islamic banking system is set to receive a few welcome boosts via the listing of two Islamic banks on its long-dormant stock exchange, and Libyan-issued sukuk are also in the pipeline.

In Egypt, Islamic banking is slowly covering more ground, crossing the 5% overall market share threshold in June 2021. However, the Egyptian Islamic banking sector remains highly concentrated, with four banks making up 90% of the market.

Shariah-compliant banking is also emerging in new markets in Africa, with ZamZam Bank becoming the first fully operational Islamic bank in Ethiopia.

## ISLAMIC DIGITAL BANKING MARKET IS MATURING, AND WILL LIKELY SEE CONSOLIDATION

Islamic fintech focused on providing customer-facing digital financial solutions is quickly becoming a crowded space, with 19 Shariah-compliant fintechs involved in some capacity in the challenger banking space worldwide. This number is set to increase with new entrants such as Abu Dhabi Islamic Bank's Amwali digital bank, marketed as the world's first Islamic digital bank that caters to 8 to 18-year-olds.

In Malaysia, a consortium led by Green Packet that also includes ZICO and M24 Tawreeq applied for an Islamic digital banking licence, as did Malaysian govtech Pertama Digital, which will focus on ethical finance and Takatech for its proposed Islamic digital bank. In Switzerland, Zurich Capital Funds Group launched its Rizq/ Baraka Islamic digital bank in 2021.

These new entrants suggest the Islamic digital challenger banking space will see continued uptake by consumers looking for alternatives to their traditional banks, but at the same time their sheer number now means we may see some consolidations over the next 12 months, such as Wahed's acquisition of UK-based Niyah.





# ISLAMIC FINANCE IN SAUDI ARABIA : INSIGHTS ABOUT DEVELOPMENT AND PROSPECT



## Ahmed Asery

Director of the Islamic Finance  
Division at the Saudi Central Bank  
(SAMA)

**Ahmed Asery** is currently the Director of the Islamic Finance Division at the Saudi Central Bank (SAMA). Before joining SAMA in 2017, he worked for the Capital Market Authority. He attended Al-Imam University in Riyadh where he obtained a bachelor degree in Shari'ah studies in 2010. He continued his graduate studies at Northeastern University where, in 2014, he got a Master degree in law. Mr. Asery contributed to the early design of SAMA's Islamic Finance Blueprint (IFB), a strategic plan that aims to develop the Islamic finance sector in Saudi Arabia, jointly with other governmental bodies. The IFB was developed and is currently being implemented to complement the FSDP's aspirations in terms of the resilience and attractiveness of the Saudi financial system and its attractiveness at the global level. Mr. Asery has ensured the timely and proper implementation of the various Islamic finance initiatives that covered banking policy, awareness and knowledge development, and Shari'ah governance, among others. He contributes to ensuring the liaising of SAMA with para-governmental institutions and standard-setting bodies in relation with Islamic finance.

Saudi Arabia's Islamic finance journey started with the government's strong support to build the foundation of this pivotal sector in order to enable the key success factors for its growth and sustainability. More than three decades ago, the Kingdom played a key role in instituting the enabling bodies of the Islamic finance ecosystem both locally and globally, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). Within the country, the Islamic finance sector has always been characterized by the supply of products and services that satisfy the demand side and contribute to the growth dynamics of economic sectors.

The Saudi domestic Islamic finance market has experienced a rapid growth over the last four decades that has largely been led by a persistent demand. Meeting this demand has been a successful offering of Islamic finance services that satisfy both business and individual needs. According to a report published by the Islamic Financial Services Board in August 2021, Saudi Arabia is today home to the largest Islamic banking market in the world, comprising 28.5% of global Islamic banking assets. Similarly, Saudi Arabia has taken a leading position in capital markets, being the second largest issuer of sovereign sukuk in 2020. The takaful sector, too, has reached over \$10 billion in size, and the Kingdom is also home to the largest Islamic funds market globally.

We are proud of these achievements and our Islamic finance journey and experience is still moving forward. The industry globally has reached almost \$3 trillion in asset size, and is projected to grow to 3.69 trillion by 2024. Saudi Arabia will continue to be at the forefront of this growth, especially as the industry finds new development mediums through digitalization and technology.

Saudi Arabia has embarked on a national transformation strategy to diversify its economy away from reliance on hydrocarbons. Vision 2030 is supported by a number of Vision Realization Programs (VRPs) that will support the transformation. The Financial Sector Development Program (FSDP) aims to further develop and internationalize Saudi Arabia's financial sector and turn it into both the region's leading financial hub, and a foundational pillar to support the future economic model.

Islamic finance is embedded within the overall FSDP through specific initiatives in the corresponding Pillar IV. In further evolving the Saudi financial sector, the FSDP will simultaneously progress and develop Islamic finance through product offering enhancements, internationalization of banking services, the deepening of capital markets (and therefore sukuk issuances) and the further development of the insurance and funds sectors.



The Saudi Central Bank (SAMA) has fostered the development of the industry through ensuring a conducive landscape exists, allowing the market to drive forward with creativity and innovation. The Saudi domestic market is primarily demand-driven, however as Islamic finance in the Kingdom enters the next phase of its development, SAMA has already implemented a variety of initiatives to ensure the environment remains both conducive and resilient. In addition, SAMA is currently working on a number of initiatives to build on the momentum of Islamic finance assets' growth.

On the regulatory front, SAMA issued the Shari'ah Governance Framework for Islamic banks and banks with Islamic windows. This has been followed by the Shari'ah Governance Framework for finance companies. Both regulatory frameworks ensure Shari'ah governance is maintained in the sector through a decentralized framework. SAMA supervises the real estate financing, insurance and finance companies sectors, all of which are regulated by specific governance frameworks. These frameworks require that all operations should be compliant to Shari'ah. For example, Article 3 of Finance Companies' Control Law stipulates that all licensed companies should conduct their financing activities with no infringement of Shari'ah in compliance with the decisions taken by the Shari'ah Boards to ensure fair transactions.

Thought leadership and awareness are both crucial aspects of the Islamic finance industry. They will drive future growth through idea generation, innovative thinking and human capital development. SAMA has undertaken a number of initiatives in this area in 2020/21. These include:

- The release of the second round of Islamic banking certifications with the Financial Academy;
- The launch of the Islamic finance research support and translation programs which will support academics both in the Kingdom and abroad in the field;
- Development of a process for Islamic finance data collection and publication.
- A number of workshops, conferences and seminars where SAMA has collaborated with both local universities and international organizations such as the IFSB and Refinitiv.

The above examples of initiatives will enhance Saudi Arabia's leading role in the Islamic finance sector globally. SAMA is continuing in its efforts to achieve integration in the knowledge and awareness ecosystem as part of both its social responsibility role and enhancement of the sector.

Digitalization and the emergence of Financial Technology (FinTech) is re-shaping the financial sector globally, whether through offering different channels for financial services, or through the advent of differentiated modes of financial intermediation. The same changes are evolving the Islamic finance industry.

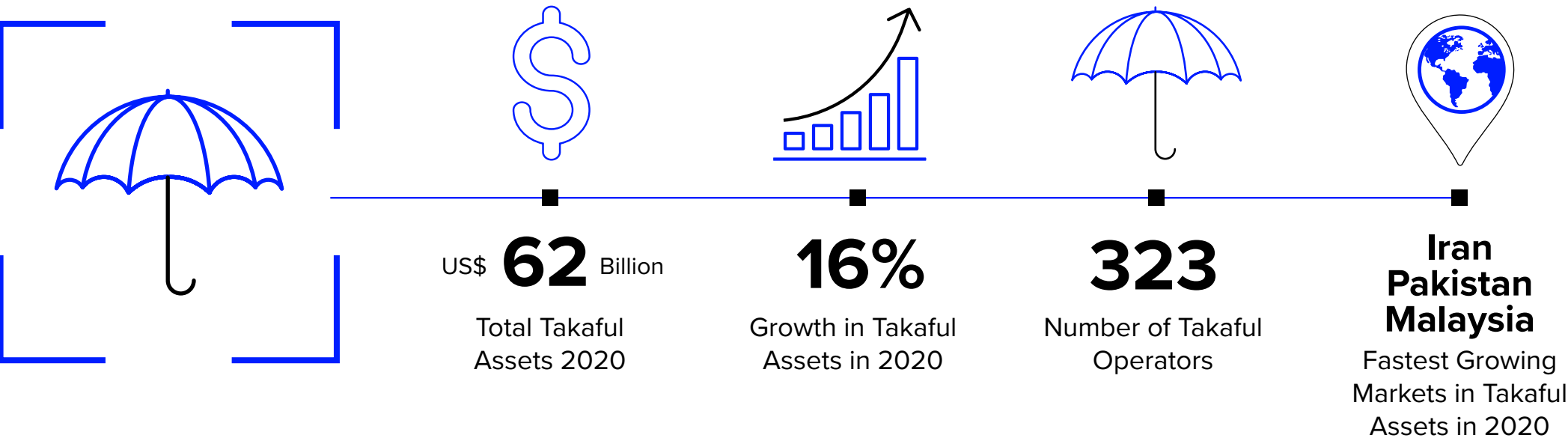
SAMA established its regulatory sandbox for FinTech in 2018, and has issued a regulatory/licensing framework for crowdfunding and electronic money institutions. Islamic FinTech globally is starting to gain traction; transaction volume in 2020 was \$49 billion at the global level, with Saudi Arabia being the largest market (\$17.9 billion), according to the Global Islamic Fintech Report 2021. We envisage that Islamic FinTech will grow rapidly in the next few years and we are confident that this sub-sector will be a strong growth enabler for Islamic finance. SAMA will continue to foster and ensure it is supported, in line with the wider Vision 2030 aim to expand digital transformation in Saudi Arabia.

As we move to new horizons, globally, nationally and socially, we remain confident that the Islamic finance industry will continue to display its innovation, dynamism and growth trajectory. We welcome and look forward to this over the coming years.

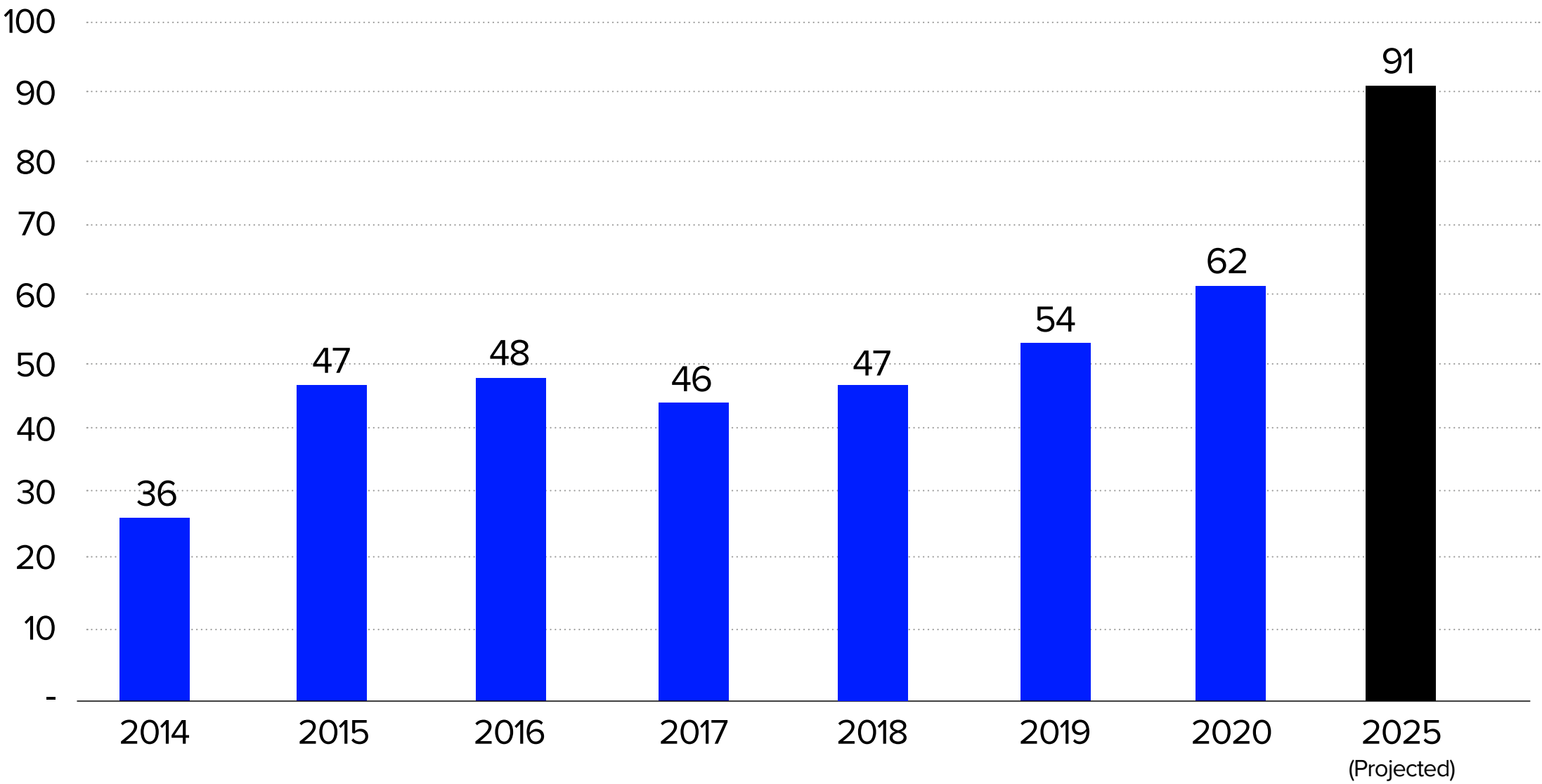




# TAKAFUL



Takaful Assets Growth (2014 - 2020, USD Billion)

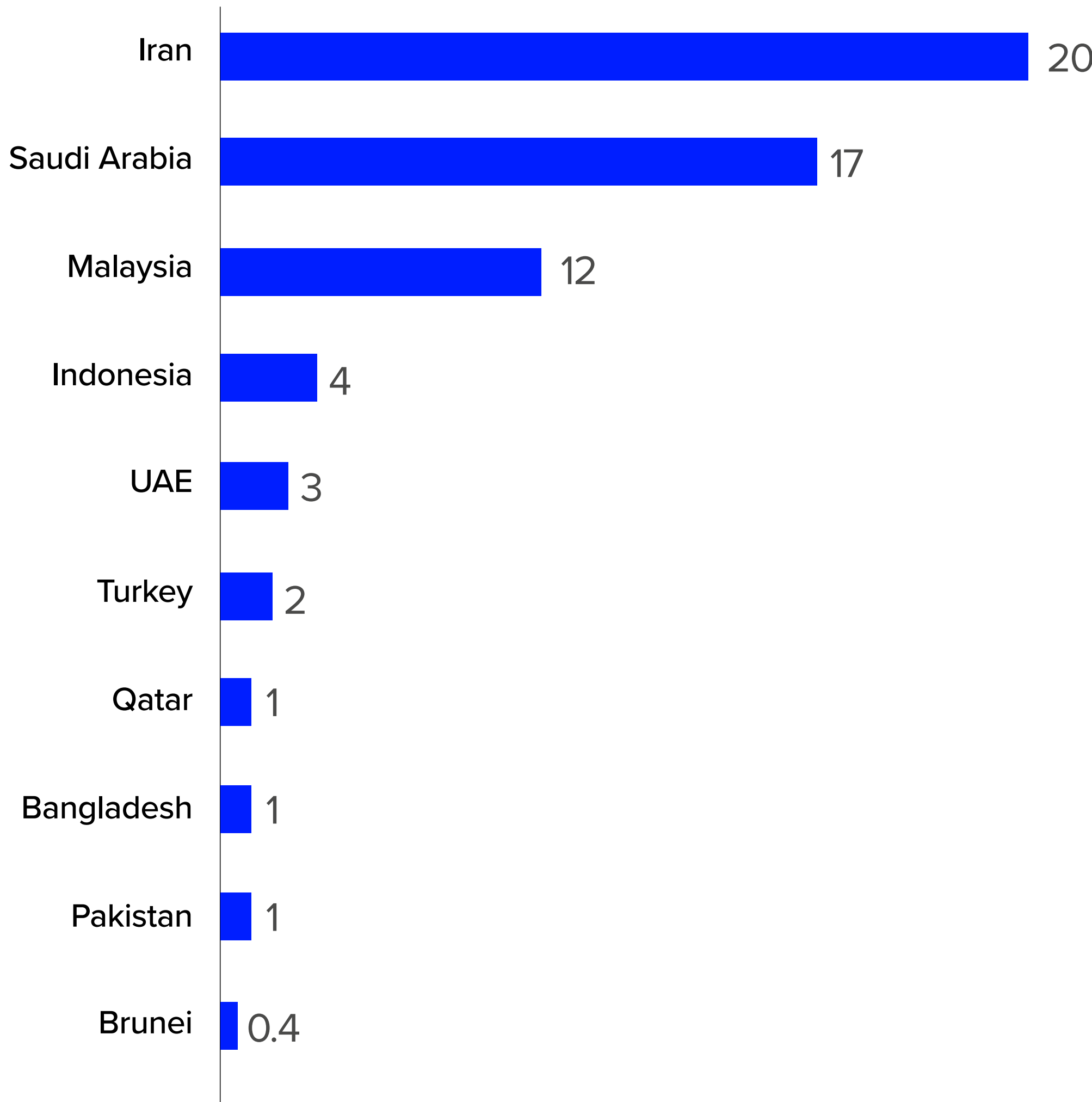


Takaful Assets by Region (2020)

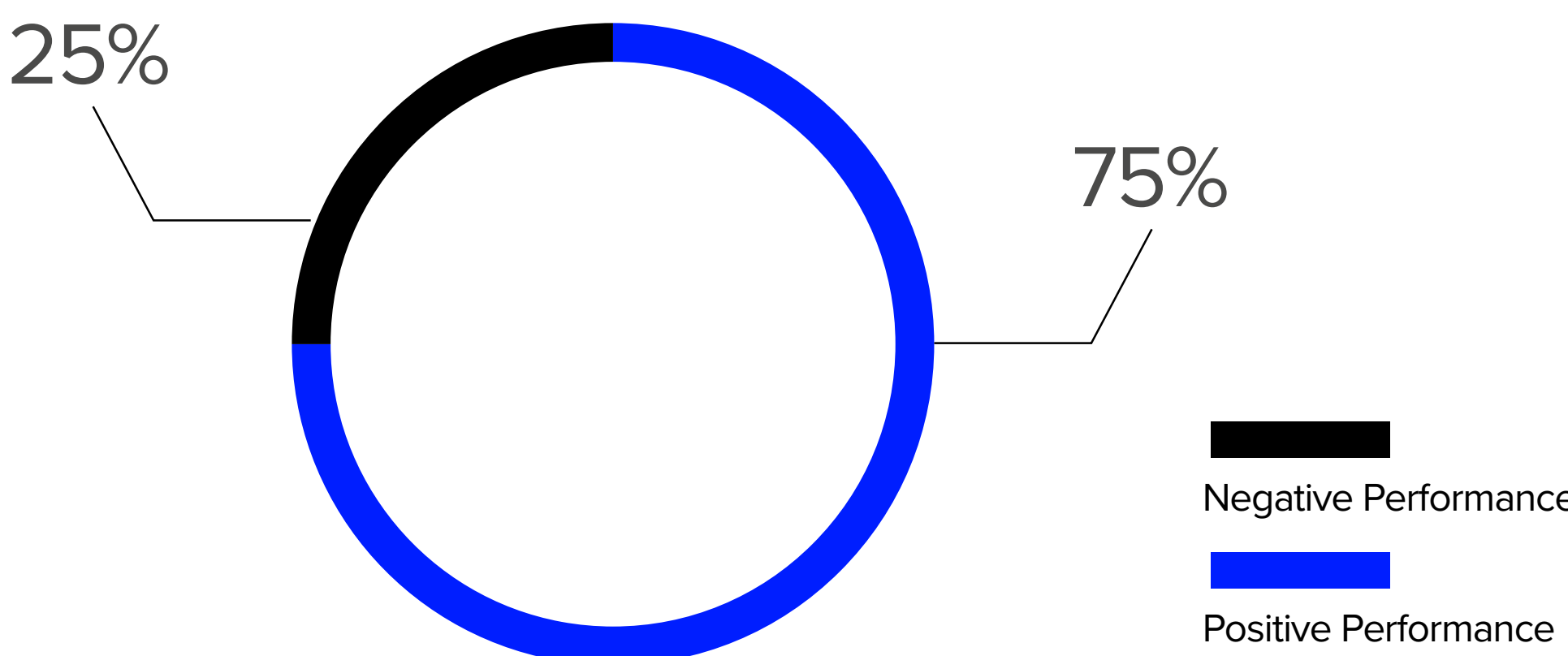
| Region         | Takaful Assets (USD Million) |
|----------------|------------------------------|
| GCC            | 22,594                       |
| Other MENA     | 19,877                       |
| Southeast Asia | 15,846                       |
| Europe         | 2,402                        |
| South Asia     | 1,322                        |
| Americas       | 4                            |
| Other Asia     | 0.04                         |



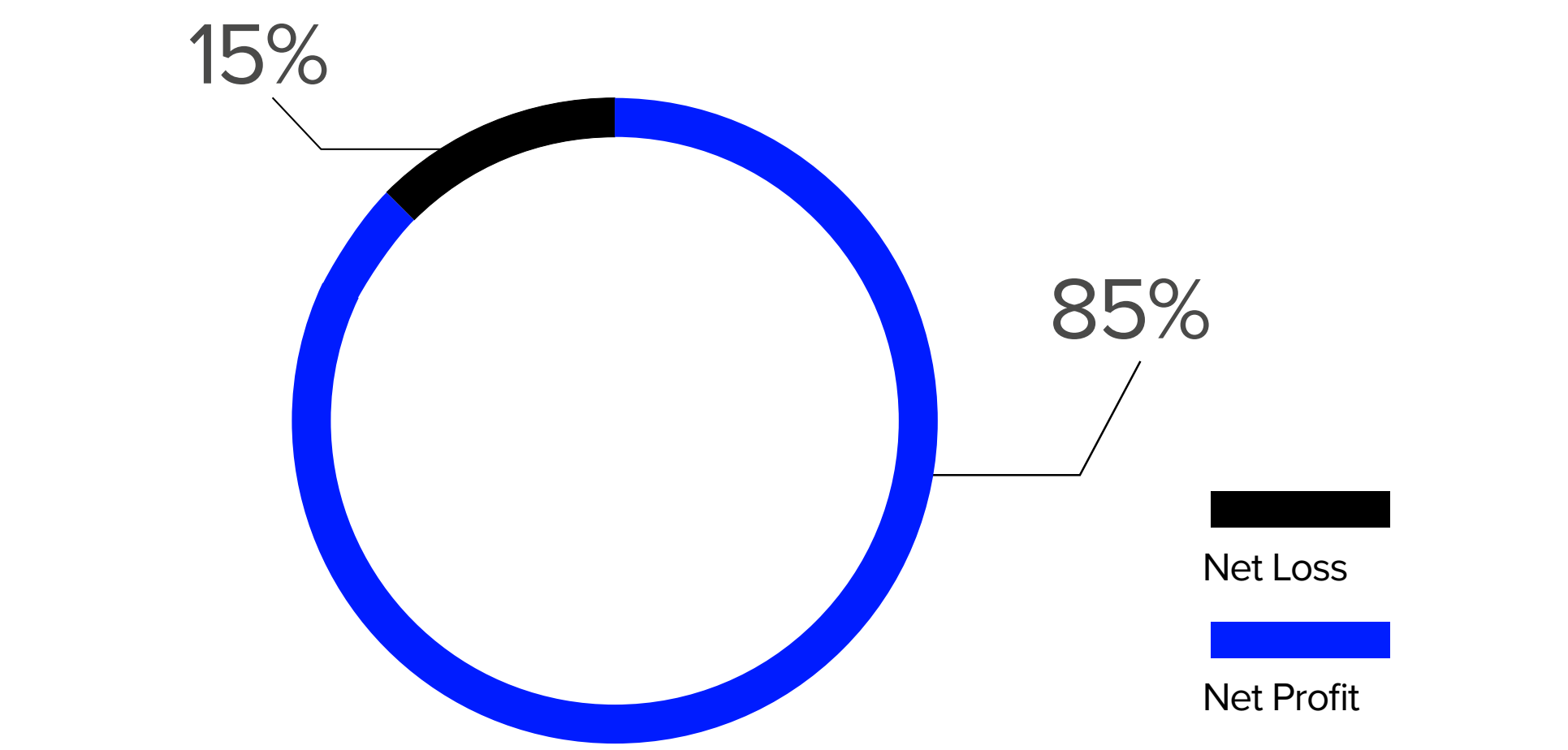
Top Countries in Takaful Assets (2020, USD Billion)



Reported Performance by Takaful Operators\* (2020)



Reported Net Income by Takaful Operators (2020)



\* Positive performance indicates increase in net income, decrease in net loss or turn to profit from loss when compared to 2019. Negative performance indicates the opposite. Applies to full-fledged institutions and windows that reported their net incomes.

## TAKAFUL OVERCOMES RISKS TO MOVE FORWARD

The smallest of the Islamic financial sectors by assets, the global takaful sector grew by 16% to \$62 billion in 2020. This is a worthy achievement considering that the sector from March 2020 has been facing risks including severe technical losses, threats to its cyber security, and a decline in asset prices. Takaful also continues to face higher competition from its conventional counterpart.

The largest pools of takaful assets are in the GCC and Southeast Asia. Iran, Saudi Arabia and Malaysia are home to the bulk of global takaful assets in 2020.

Among the sector's impacted business lines is employee benefits group policies. The uncertainty caused by the coronavirus outbreak led to reductions in headcounts for many companies around the world, hence hitting employee medical coverage. The slowdown in the property market in some regions such as Malaysia led to cautious buying among consumers, which has impacted mortgage takaful covers. Travel-related products were impacted by severe travel restrictions, and additionally, some operators saw a drop in sales through bancatakaful channels due to lockdowns.

However, it wasn't all doom and gloom for the takaful sector. Some business lines saw higher demand thanks to increased awareness on the importance of a needs-based financial protection solution such as SME coverage. Other business lines saw much lower claims such as motor cover due to periods of lockdown. Apart from these, there is rising demand for some lines such as medical takaful as more countries introduce mandatory health covers along with compulsory motor insurance.

Other factors supporting the growth of takaful are digitization to improve customer experience, and regulatory interventions that are improving operators' underwriting and capital adequacy.

## TAKAFUL OPERATORS RE-ALIGNING INVESTMENT STRATEGIES TO COPE WITH THE PANDEMIC

Takaful operators largely assumed a defensive investment strategy in 2020 in response to market uncertainties. Sukuk became the primary investment focus as issuers took advantage of the low interest rate environment. Money market placements were also a priority.

On the other hand, equity holdings were low throughout the year as takaful firms worked to limit market volatility. Exposures were mainly to the sectors that rode the wave of the pandemic, such as technology, and consumer and healthcare. Market volatilities are expected to wind down considering economic recovery especially in countries where there have been successful vaccine roll-outs.

## INTRODUCTION OF TAKAFUL PRODUCTS TO HELP INDUSTRY'S GROWTH IN NORTH AFRICA

North Africa could be the next frontier for takaful. Algeria's draft takaful regulations, approved by the government in February 2021, will complement the Shariah-compliant products that are already being offered by banks in the country.

In Morocco, the timely introduction of takaful is important for Islamic banking products. The country formulated a takaful framework in its laws but the actual operations of this have not been initiated as prospective operators await guidelines and licensing from regulators. We expect participative finance in the country to thrive if takaful products are introduced. Participative banks in Morocco are growing rapidly and Islamic insurance could complement financing products. For instance, consumers have been hesitant to take up financing to purchase cars and properties without takaful coverage. According to the Central Bank of Morocco, property financing comprises the lion's share of Islamic financing in the country and takaful could benefit from this.





## TAKAFUL CONSOLIDATION SPREE CONTINUES IN SAUDI ARABIA AND THE REST OF THE GCC

The number of takaful operators globally dropped to 323 in 2020 because of active consolidation. Saudi Arabia's takaful sector is an especially high-profile example. The Saudi Central Bank encourages consolidation in the country's insurance sector to increase competition. The first merger of insurance companies in the Kingdom was between Walaa and Metlife-AIG-ANB Cooperative in 2020. This was followed by a merger between Gulf Union National Cooperative Insurance and Al-Ahlia Insurance that took effect in December 2020, and then Aljazira Takaful and Solidarity merged in February 2021.

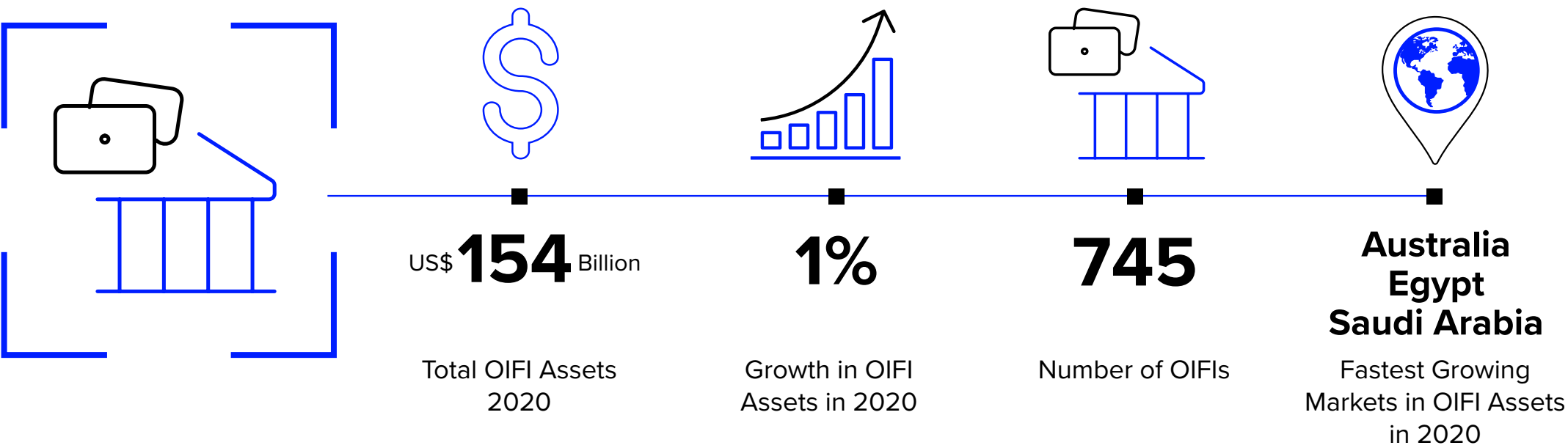
Other announced mergers in Saudi Arabia that did not materialize or have not been finalized are between Walaa and SABB Takaful, Arabian Shield Cooperative and Al Ahli Takaful, both of which signed MoUs, and Amana and Enaya that received regulatory approval for merger.

According to Saudi Arabia's General Authority for Competition, Saudi Arabia saw the largest number of consolidation operations in terms of number of institutions involved, 32 companies of different types to be exact. Takaful operators definitely played a large part.

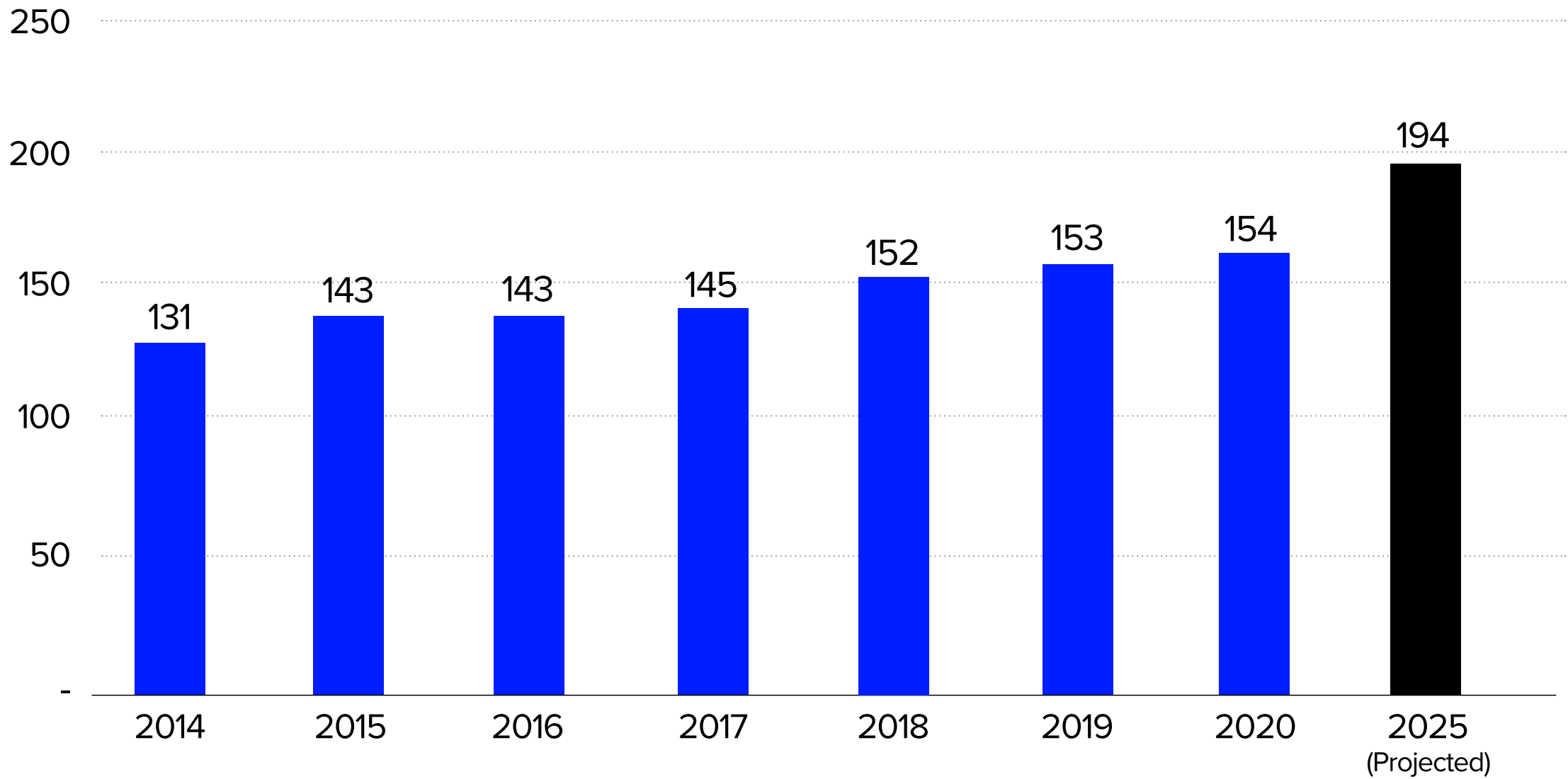
Outside the Middle East's largest economy, other planned mergers include the one between Solidarity Bahrain and T'azur. In the UAE, Dar Al Takaful acquired Noor Takaful in July 2020 while Siraj Holding bought Al Hilal Takaful from Al Hilal Bank during the same period.



# OTHER ISLAMIC FINANCIAL INSTITUTIONS



OIFI Assets Growth (2014 - 2020, USD Billion)

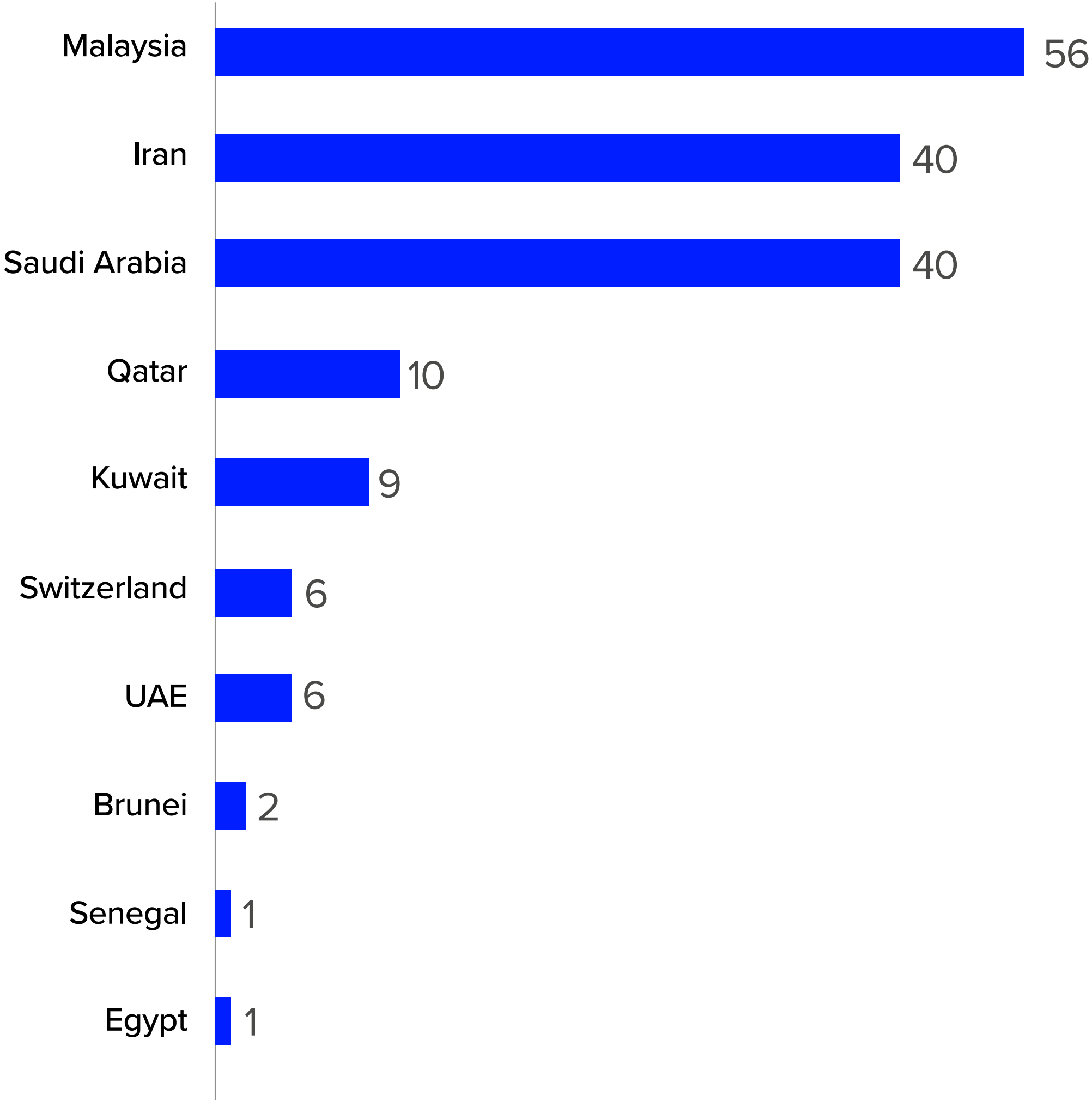


OIFI Assets by Region (2020)

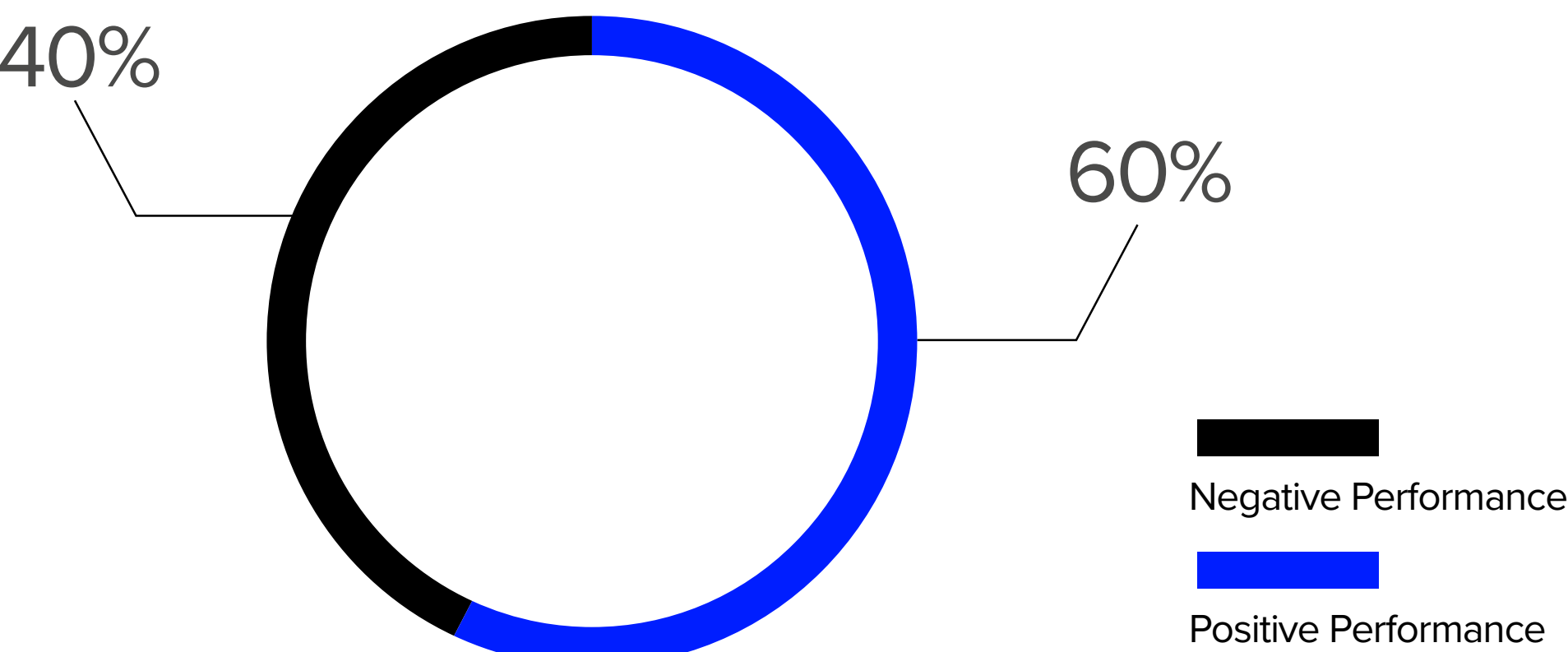
| Region               | OIFI Assets (USD Million) |
|----------------------|---------------------------|
| Southeast Asia       | 60,093                    |
| GCC                  | 45,138                    |
| Other MENA           | 41,106                    |
| Europe               | 6,093                     |
| Sub - Saharan Africa | 1,256                     |
| South Asia           | 641                       |
| Other Asia           | 133                       |
| North America        | 13                        |



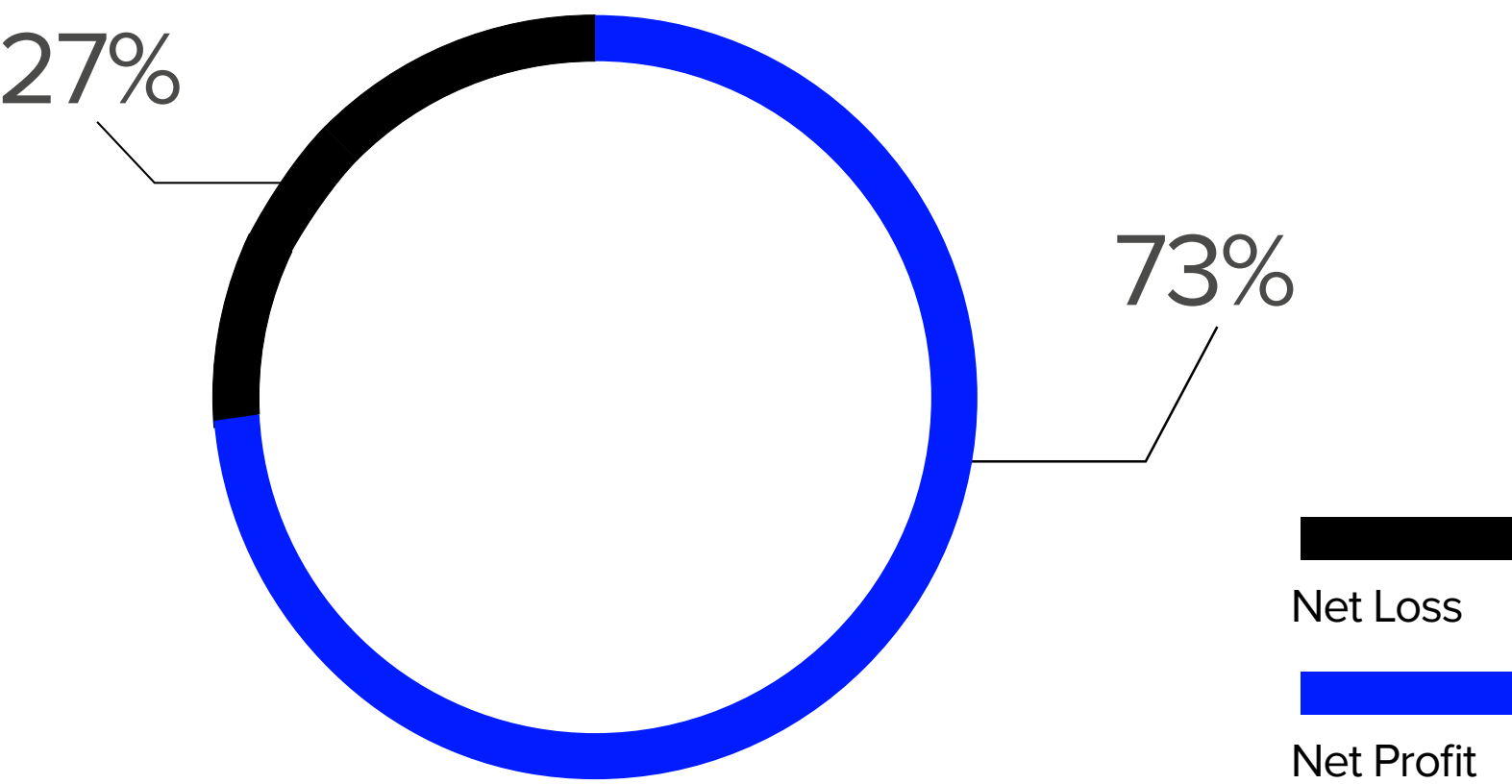
Top Countries in OIFI Assets (2020, USD Billion)



Reported Performance by OIFIs\* (2020)



Reported Net Income by OIFIs (2020)



\* Positive performance indicates increase in net income, decrease in net loss or turn to profit from loss when compared to 2019. Negative performance indicates the opposite. Applies to full-fledged institutions and windows that reported their net incomes.

## MARGINAL OVERALL INCREASE, WITH EGYPT THE STANDOUT PERFORMER

Total growth of assets held by Other Islamic Financial Institutions (OIFI) was low, nudging up 1% in 2020. This segment consists of Shariah-compliant financing institutions other than Islamic banks and takaful companies, such as financing, leasing, mortgage and factoring providers. The increase in total assets was significantly lower than the 5% growth in OIFI assets in 2018 and 2019, indicating that the onset of the COVID-19 pandemic and the ensuing liquidity crunch were factors that had a considerable impact in this sector.

Egypt and Australia were the biggest growth markets in the OIFI sector in 2020. Egypt's OIFI sector grew by 128% to \$1.1 billion, and Australia's by 106% to \$83.2 million. Egypt's rapid strides in this sector in 2020 stemmed from strong government and regulatory support for non-banking financial activities, such as amendments to corporate governance regulations (June 2020), a draft law regulating fintechs involved in non-banking financial activities (September 2020), and an executive order by the Prime Minister establishing an arbitration center to settle disputes in this sector (December 2020). Australia's growth was supported by factors such as a growing market for Islamic home finance, and the nation's continued strength as a global halal supplier, which creates further opportunities for Islamic finance.

Other strong performers in the OIFI sector included Saudi Arabia (14% growth), Jordan (13% growth) and Qatar (13% growth). At the other end of the scale, some major and emerging Islamic finance jurisdictions saw their OIFI sector assets notably decrease, such as UAE (-49%, the steepest decline) and Kuwait (-12%) in the GCC, and Kyrgyzstan (-17%) and Kazakhstan (-10%) in Central Asia, pointing to a decidedly mixed year for the MENA region. Significantly, five countries--Saudi Arabia, Kuwait, Indonesia, Iran, and the UAE--accounted for 49% of the total number of OIFIs globally.

## OIFIS DIVERSIFYING ACROSS DIFFERENT ASPECTS OF ISLAMIC FINANCING

A notable development in the OIFI sector is the branching out of these institutions across novel use cases and underserved segments of Islamic finance. In Indonesia, Bizhare started offering sukuk on its crowdfunding platform, while Australia-based Plenti introduced an interest-free "buy now, pay later" (BNPL) financing option to fund solar projects, capitalizing on an emerging trend in Islamic fintech for Shariah-compliant modes of BNPL financing. This emerging trend is further evidenced by offerings from Malaysian-based Split, Oman-based Alizz Islamic Bank and Dubai-based Tabby, which has a Saudi-focused BNPL offering. Catering to underserved segments, Switzerland-based Horizon Capital set up an Islamic trade fund. Also, in the U.S., Islamic fintech Fardows, which operates in the Shariah-compliant digital banking space, will offer Shariah-compliant checking accounts and robo-advisory services by the end of 2021, while Waqfinty, a waqf-based digital start-up that aims to revive the practice of Awqaf (Islamic endowments) in the UK, launched in early 2021.

## ISLAMIC FINTECH POISED TO GROW RAPIDLY

There is a high degree of geographical concentration in the Islamic fintech sector. According to data from the Global Islamic Fintech Report 2021, the top markets for Islamic fintech (by transaction volumes) in 2020 were Saudi Arabia, Iran, the UAE, Malaysia and Indonesia, that collectively made up 75% of the market by transaction volume. The fastest growing markets by 2025 are projected to be Egypt, Tunisia, Oman, Senegal and Kuwait, all with compound annual growth rates (CAGRs) of over 25% during the period 2020-25, pointing to strong growth ahead for Islamic fintechs especially in the MENA region. There were 257 Islamic fintechs as of August 2021, an 80% increase from the previous year's total of 142 in July 2020. The sector is poised for rapid growth. The Islamic fintech landscape is no longer a nascent market space and it is on most major Islamic finance regulators' agendas.



## ISLAMIC FINTECHS WILL DRIVE INNOVATION IN OIFI SECTOR

As countries cautiously navigate their post-pandemic recoveries, Islamic fintechs are increasingly at the forefront of innovation in the OIFI sector, providing tangible use cases of Shariah-compliant financing in traditionally underserved segments. These innovative use cases include Shariah-compliant SME financing via purchase order financing, such as Saudi-based Ta3meed, which entered into a partnership with the well-known German cloud banking platform Mambu in January 2021, and inventory monetization solutions, such as UK-based SYME. Other powerful use cases that are gaining traction include wealth managers such as Sarwa that raised \$15 million in a Series B funding round in August 2021, and Bahrain-based Cocoa. In Tanzania, SSC Capital launched the country's first robo-advisor. Other novel use cases include digital asset providers such as Saudi peer-to-peer (P2P) platform Raqamyah, which closed a \$2.3 million funding round in February 2021 that it will use to develop its Shariah-compliant lending services to SMEs in Saudi Arabia. Developments by these and other firms are democratizing the banking, savings and investment, and cryptocurrency spaces in Islamic finance for much broader demographics, including mass affluents and the underbanked and unbanked.

In Southeast Asia, Malaysia continues to develop its Islamic fintech ecosystem, with recent initiatives such as the Securities Commission's Fikra Islamic Fintech Accelerator Programme. Launched in May 2021, Fikra is a joint initiative with the U.N.'s Capital Development Fund (UNCDF) to nurture the growth of Islamic fintechs to advance Malaysia's Islamic capital markets by providing mentoring and access to investors for selected start-ups. Companies in the space are also winning investments to expand, such as Malaysia-based crowdfunding platform Ethis raising \$1.7 million in a pre-Series A funding round in September 2021.

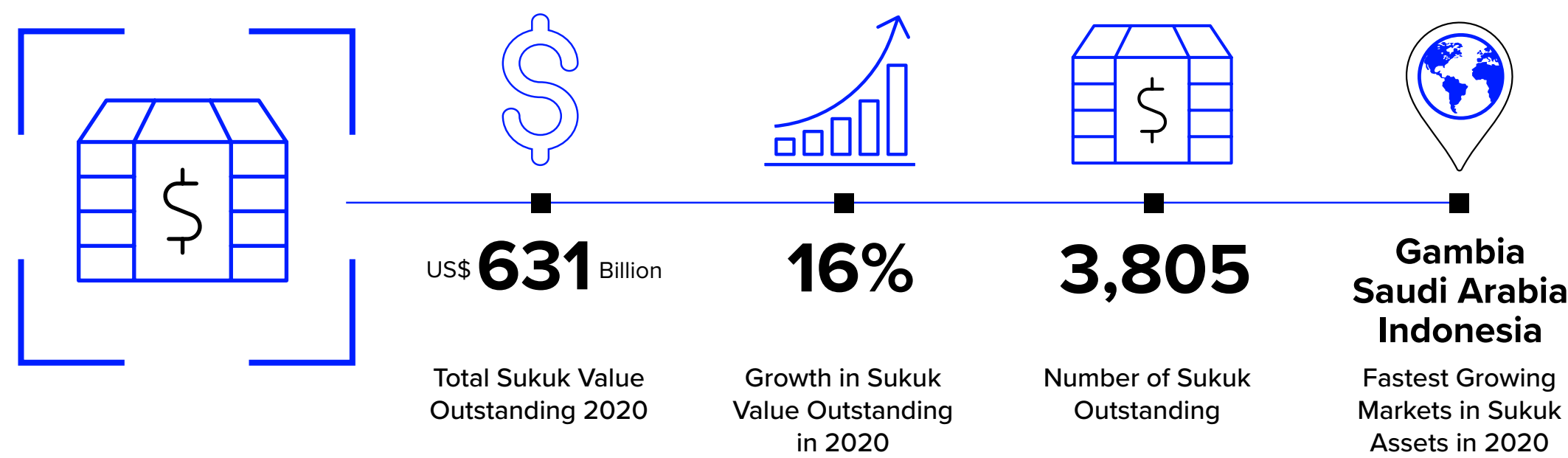
Indonesia is seeing a growing momentum in its Islamic fintech landscape. For instance, Linkaja launched the country's first Shariah-compliant e-wallet payment app in April 2020, while Alami acquired a rural bank in March 2021 that it hopes will clear all regulatory hoops to finalize the acquisition in the near future. These developments collectively indicate both broader and deeper inroads are forming across Southeast Asia's Islamic fintech landscape.

Saudi fintech in particular built significant momentum in 2020 and 2021, with the number of active fintechs rising from ten in 2018 to 20 in 2019 and 60 in 2020. According to the National Fintech Adoption Survey, 74% of Saudi individuals have used at least one fintech solution, while fintech adoption is above 80% for Saudis in the 16-39 age range, indicating strong demand for fintech solutions in the country. Consequently, Saudi Arabia-registered fintechs are developing solutions to meet demand, such as payments solutions, lending and finance apps, and private fundraising solutions. Several of these fintechs have raised significant amounts of funding, and are recognized in the Islamic fintech space as leading or rising fintechs, such as Shariah-compliant lending fintech Lendo, Aramco-backed global wealth manager Wahed, capital markets solution provider Wethaq, and SME finance platform Ta3meed.

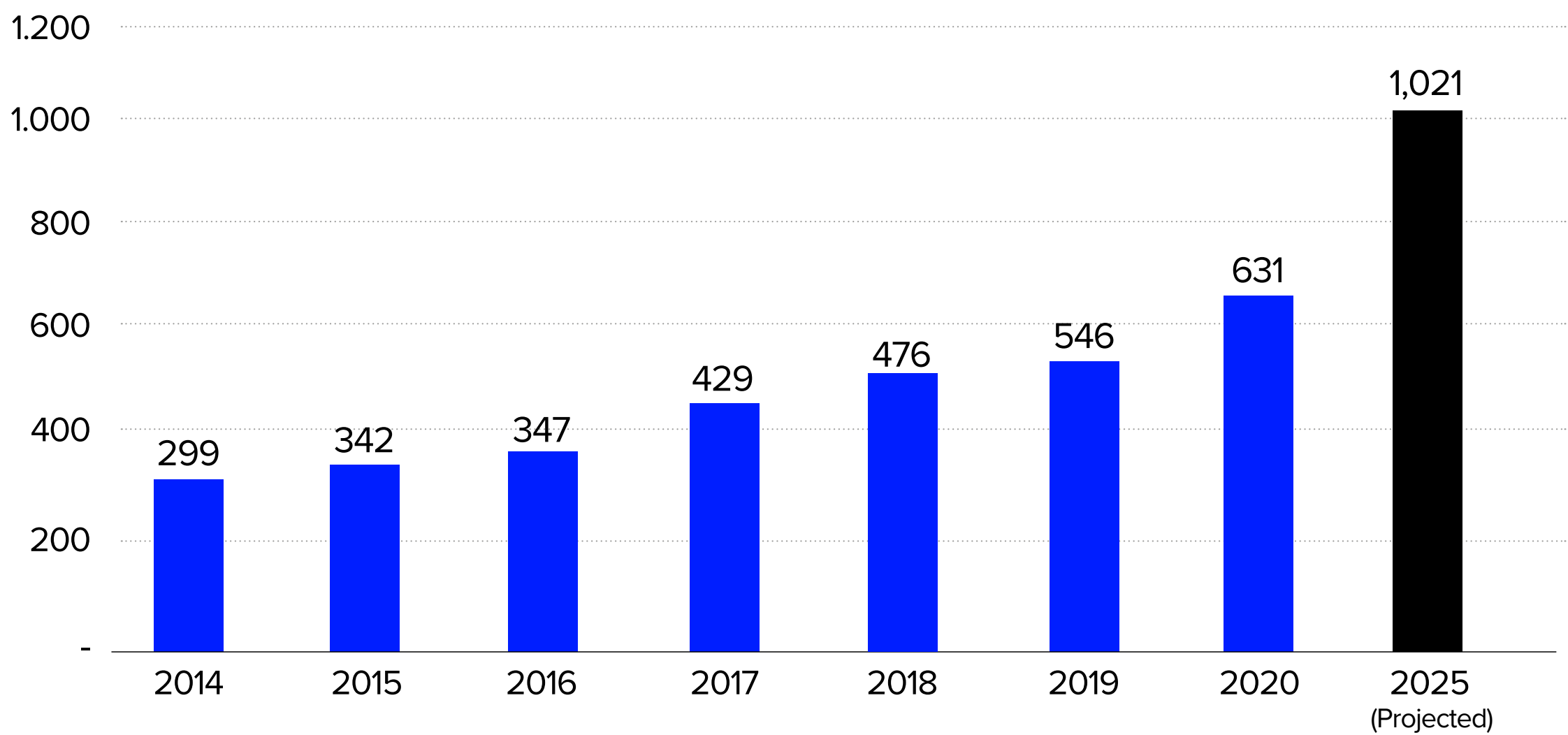




# SUKUK



Sukuk Value Outstanding Growth (2014 - 2020, USD Billion)

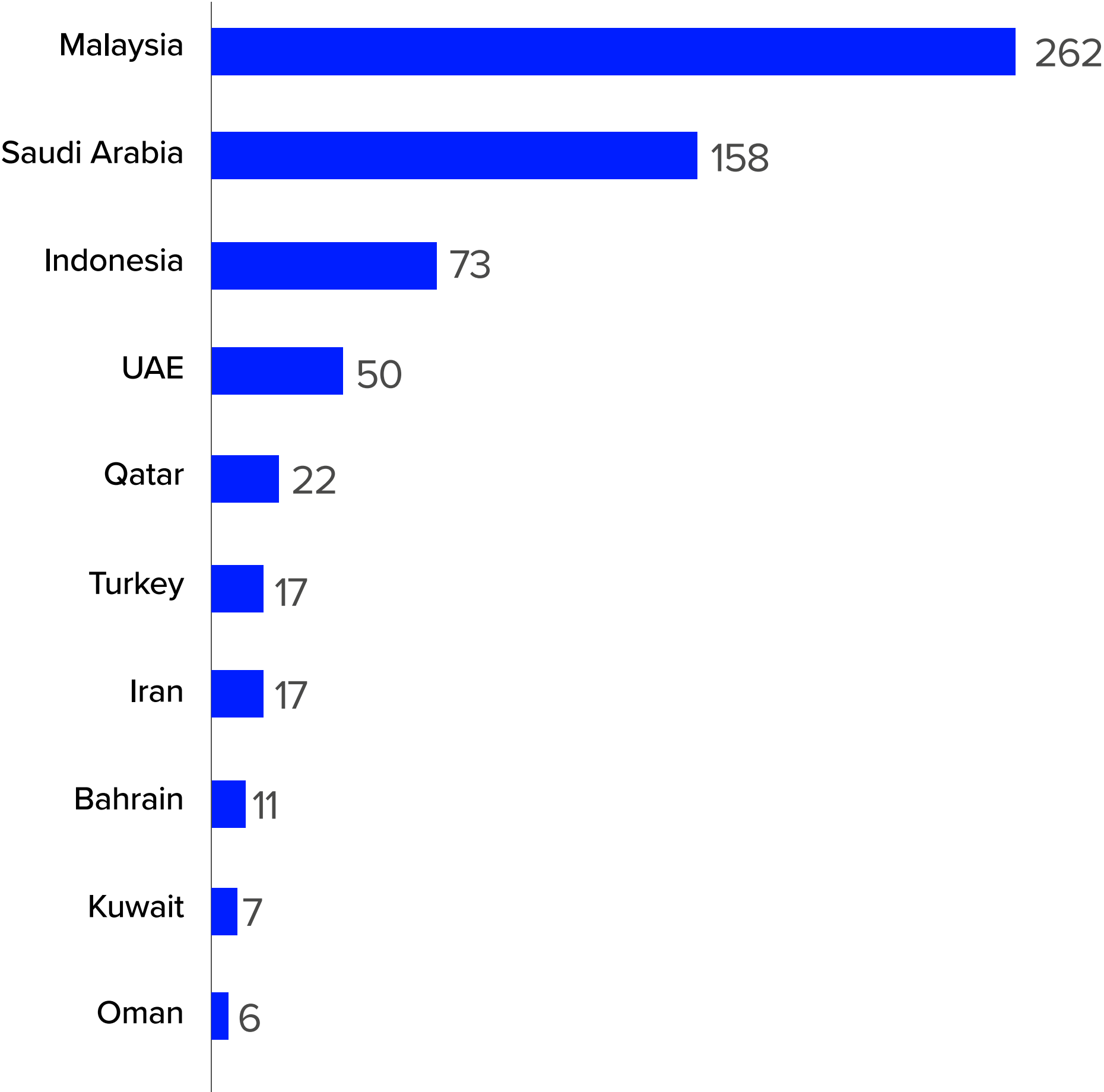


Sukuk Assets by Region (2020)

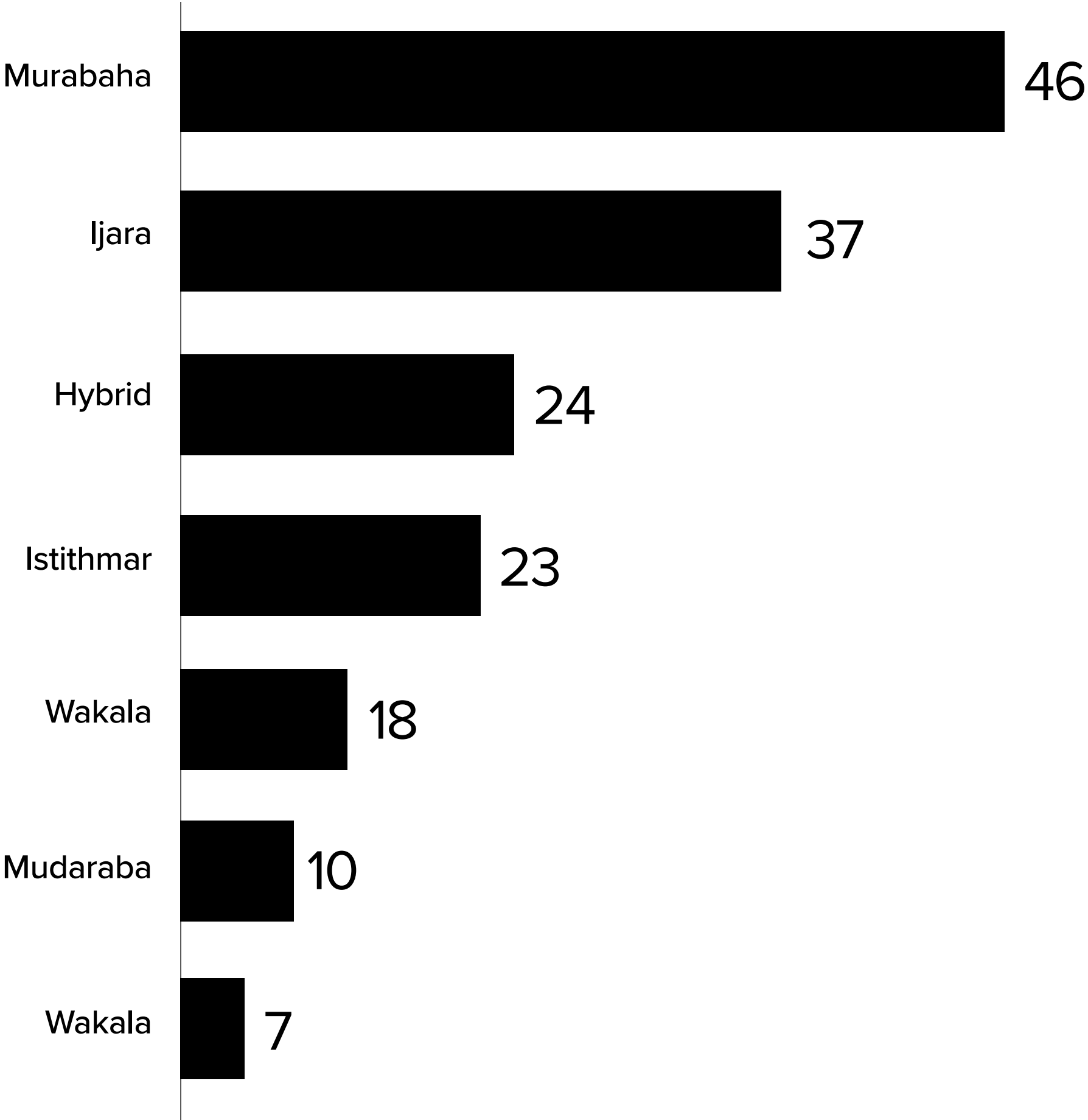
| Region               | Sukuk Assets (USD Billion) |
|----------------------|----------------------------|
| Southeast Asia       | 335                        |
| GCC                  | 253                        |
| Europe               | 19                         |
| Other MENA           | 18                         |
| South Asia           | 4                          |
| Sub - Saharan Africa | 2                          |
| Other Asia           | 1                          |



Top Countries in Sukuk Value Outstanding (2020, USD Billion)



Top Sukuk Structures Used (2020, USD Million)





## SUKUK ISSUANCE ON COURSE FOR RECORD YEAR, WITH DOUBLE-DIGIT GROWTH

The value of outstanding sukuk grew by 16% in 2020. There was a record level of demand in the first half of 2021 when sukuk issuances crossed the \$100 billion threshold, compared to \$88.7 billion for the same period in 2020. Forecasts point to \$180 billion by the end of 2021. Higher issuances from the GCC and Turkey drove this strong start, as well as continued sizeable issuances from Southeast Asia (Malaysia, Indonesia, Brunei). Saudi Arabia nearly doubled its domestic issuances during the second-quarter of 2021.

In 2020, governments in the GCC and Southeast Asia collectively accounted for \$588 billion in sukuk outstanding, making up 93% of the supply of sovereign sukuk. However, while governments in Southeast Asia continued to tap the sukuk markets in the fourth-quarter of 2020 to fund their economic recoveries due to continuing internal movement and travel restrictions, the GCC region tapered off significantly over the same period. In the fourth-quarter of 2020, Southeast Asia issued \$23.2 billion in sukuk, an increase of 44% over the same period in 2019 (\$16.1 billion), while the GCC issued \$10.5 billion, a decrease of 42% from the same three months in the previous year (\$18.1 billion). This GCC drop was due to previous high borrowing and fiscal measures undertaken by the region's governments.

## SEVERAL SOVEREIGNS ARE ISSUING SUKUK TO MEET STRONG DEMAND

Oversubscription rates for sovereign sukuk indicate continued strong demand, which sovereigns are meeting with several jumbo issuances in 2020 and more recently in the first half of 2021. In 2020, 15 countries issued sukuk, with Nigeria and Egypt being notable returnees to the market after their absence in 2019. The top five sovereigns – Malaysia, Saudi Arabia, Indonesia, Turkey, and Kuwait – collectively made up 86% of total sukuk issuances in 2020. In the first-half of 2021, 12 countries issued sukuk, with notable returning issuer the United Kingdom and new sovereign the Maldives.

The United Kingdom issued a £500 million (\$686.9 million) sukuk, its second-ever after its debut issuance in 2014, to help bolster its domestic Islamic finance industry and its credentials as a choice conduit for Islamic finance in the West. The Maldives' \$200 million issuance in April 2021 was its debut sovereign issuance and raised an additional \$100 million after being reopened. Key drivers for this issuance included economic diversification away from China and channeling funds to address the challenges caused by the COVID pandemic in the tourism-driven economy.

## DEMAND WILL REMAIN HIGH DUE TO A CONFLUENCE OF KEY DRIVERS

Although the 57 OIC, Muslim-majority countries are at various stages of economic and social recovery from the ongoing pandemic, one thing is clear: sukuk will be an integral part of governments' fiscal plans and help drive high demand over the foreseeable future. This view is based on the confluence of several key drivers that support upward pressure on demand for sukuk, including continued economic recoveries, and vaccination efforts that are picking up across the OIC countries, especially in the key regions of the GCC and Southeast Asia.

Policy easing in both monetary and fiscal terms in key Islamic finance jurisdictions such as Saudi Arabia, Malaysia, and Indonesia, as seen by sustained low interest rates, increased liquidity supply, and sizeable stimulus packages, are also driving demand from investors seeking less volatile securities, as well as Islamic banks and insurance providers. Other factors in 2021 driving strong investor demand for sukuk are the recovery in oil prices to \$72 a barrel at mid-year (the first time since 2019), and the global bond market selloff in the first-quarter, as well as the strong demand for recent issuances in the first-half of the year, such as the Malaysian and Oman sovereign sukuk (both oversubscribed more than six times), and the Aramco sukuk (over 10 times oversubscribed).



## SUSTAINABILITY, TRANSITION AND BLUE SUKUK WILL HELP DRIVE INNOVATION

The market continues to see increases in sustainability sukuk issuances, matching the wider global trend for ESG investments. Based on data from Refinitiv's Sustainable Islamic Finance Monitor, ESG sukuk issuances in the first-half of 2021 reached \$4 billion, almost matching the figure for all issuances in 2020. This figure was comprised almost completely of issuances from the Islamic Development Bank (IsDB) and the Malaysian and Indonesian governments. Malaysia issued the first-ever sovereign dollar sustainability sukuk, worth \$800 million with a 10-year tenor, with proceeds to be used to finance social and green finance projects that align with the U.N.'s SDGs. Indonesia also issued a novel sustainability sukuk with its \$750 million 30-year tenor paper, which is the longest green tenor sukuk to date.

Another innovation in 2021 was the Islamic Development Bank (IsDB)'s Secured Overnight Financing Rate (SOFR)-linked sukuk worth \$400 million, which was sourced from a single investor via private placement. The sukuk was groundbreaking as the first-ever AAA-rated issue that links it with the new global benchmark rate for borrowing.

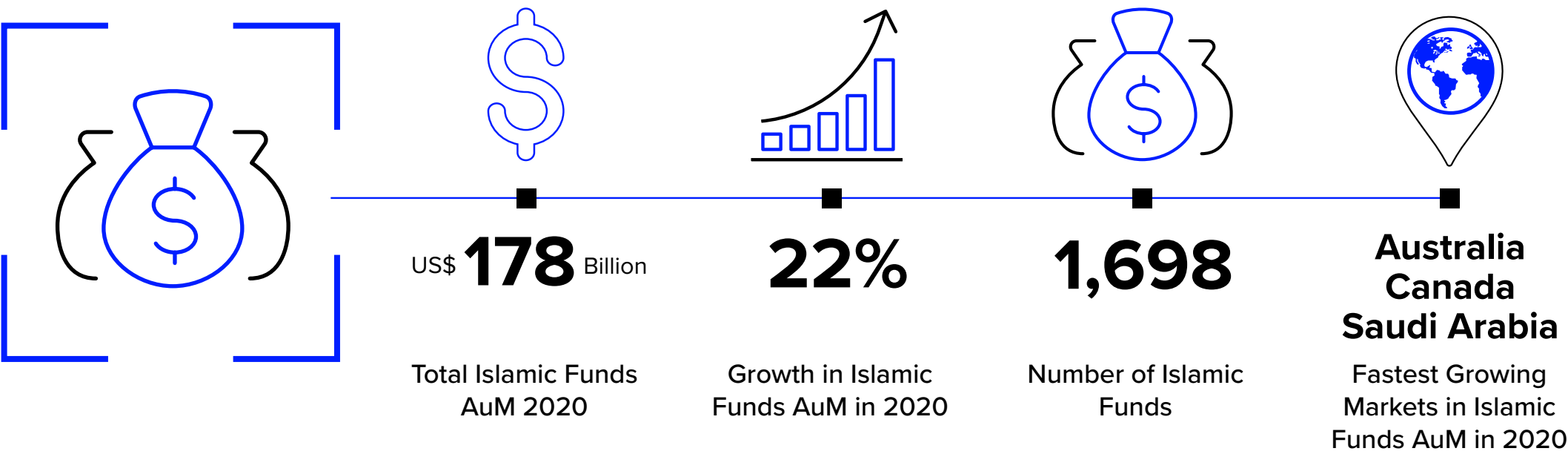
Green sukuk issuances have also kept on coming. In 2020, Turkey got its first green sukuk, the \$38.4 million issue from corporate Zorlu Energy, that will generate proceeds to finance sustainable infrastructure and clean transport projects. Last year as well, Indonesia's government issued its second green sukuk, worth \$750 million. In 2021, Sudan's Sanabel, a Bank Khartoum subsidiary, issued the country's first-ever green sukuk, an \$11.3 million paper to finance renewable energy for commercial use in sectors such as agriculture and mining.

Over the coming year, we expect more sustainable sukuk issuances from innovative sources that build on the handful of green sales to date, such as transition sukuk and blue sukuk. In October 2020, Abu Dhabi-based Etihad Airways issued the first-ever transition sukuk, designed to manage the airline's shift towards a decarbonized economy and to help it pioneer sustainable aviation. As more industries recover post-pandemic, such as transportation, retail, and logistics, we expect major players in these segments to issue transition sukuk as well.

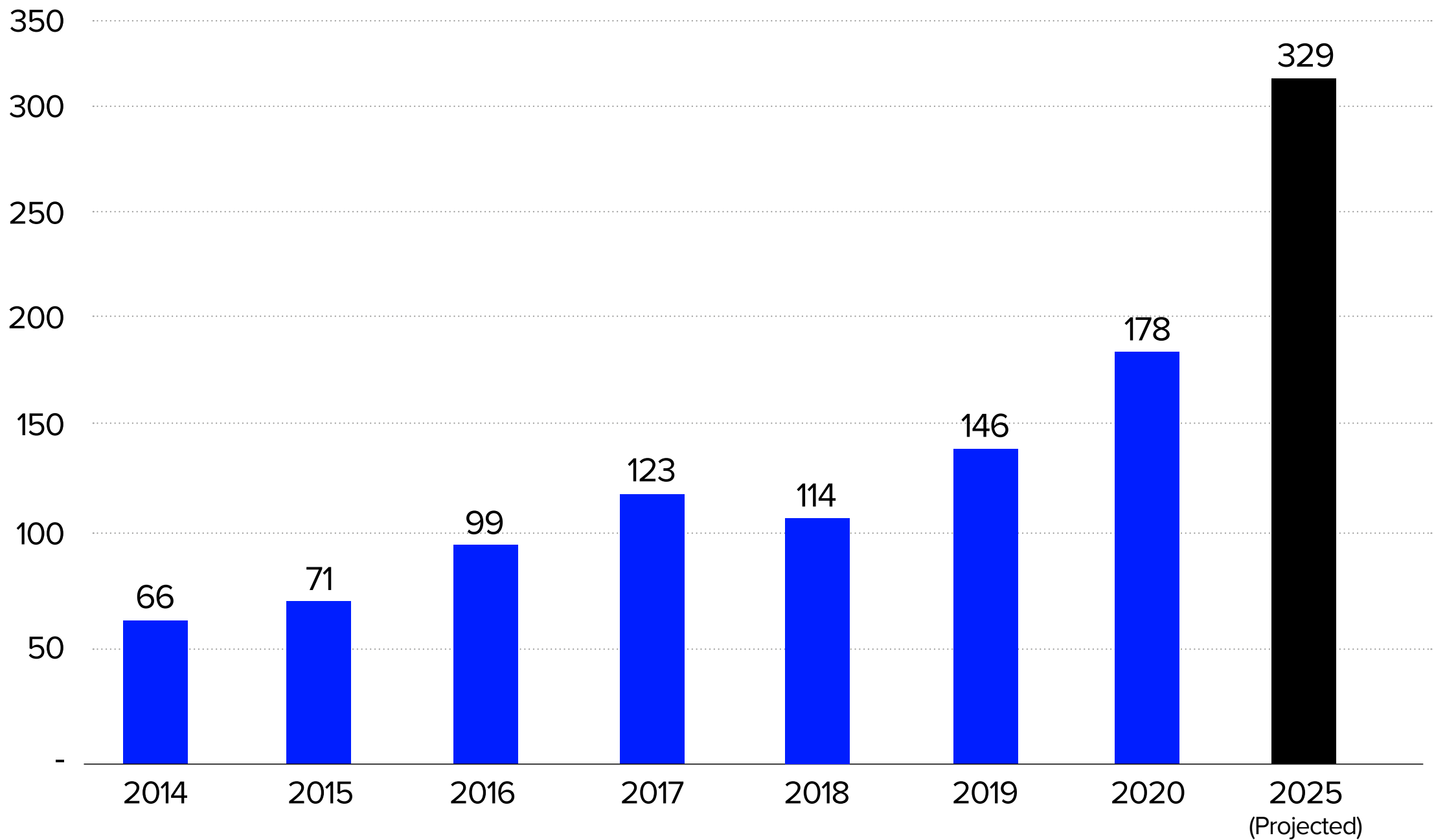
Another climate change-driven development that will take off longer term are blue sukuk. Similar to blue bonds, blue sukuk are named after the blue economy and seek to finance the sustainable use and preservation of the world's oceans in a manner compatible with Islamic financing principles and values; although none have yet been issued, this is likely to change given the centrality of oceans' health to the sustainability of the planet.



# ISLAMIC FUNDS



Islamic Funds AuM Growth (2014 - 2020, USD Billion)

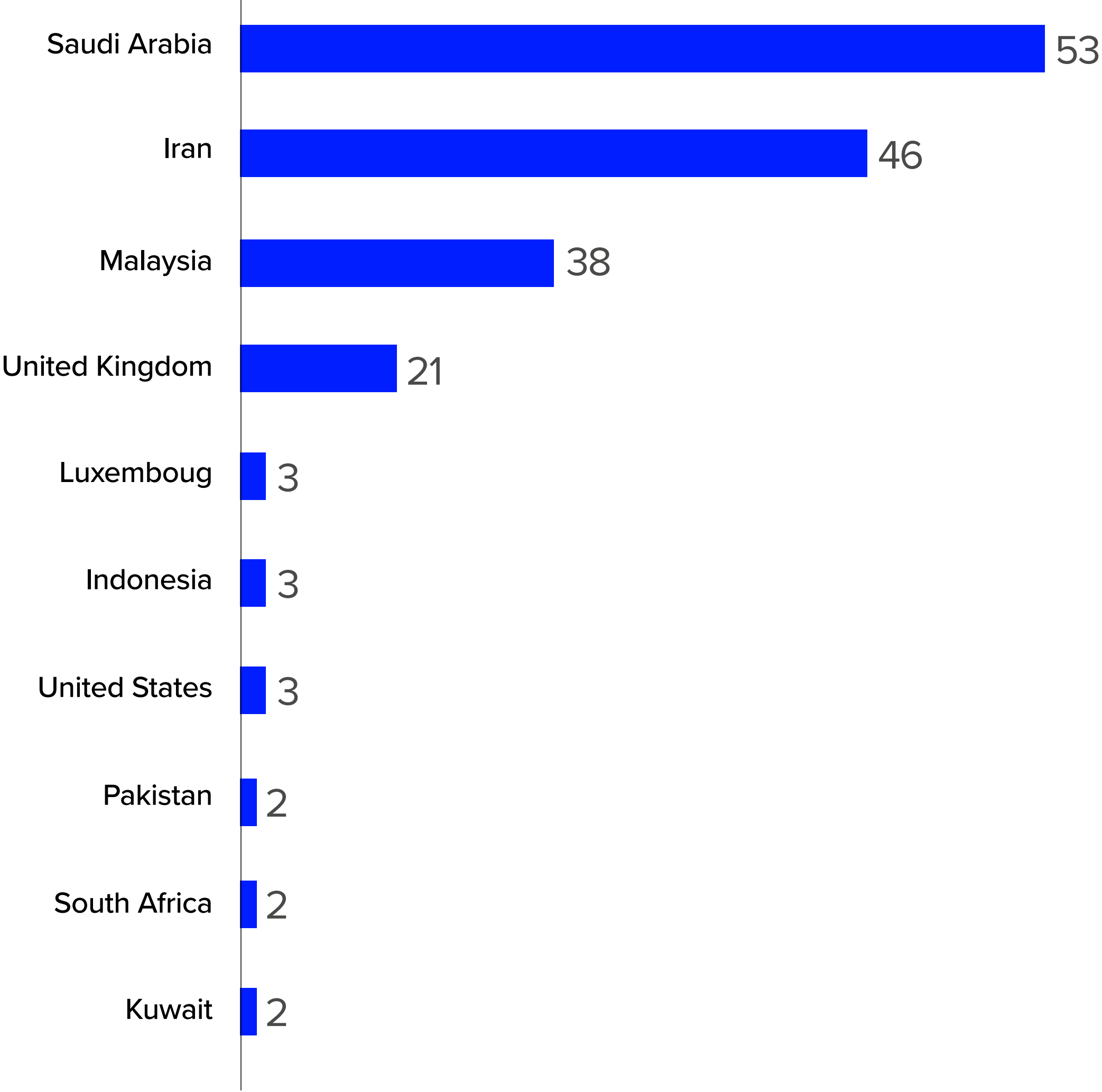


Islamic Funds AuM by Region (2020)

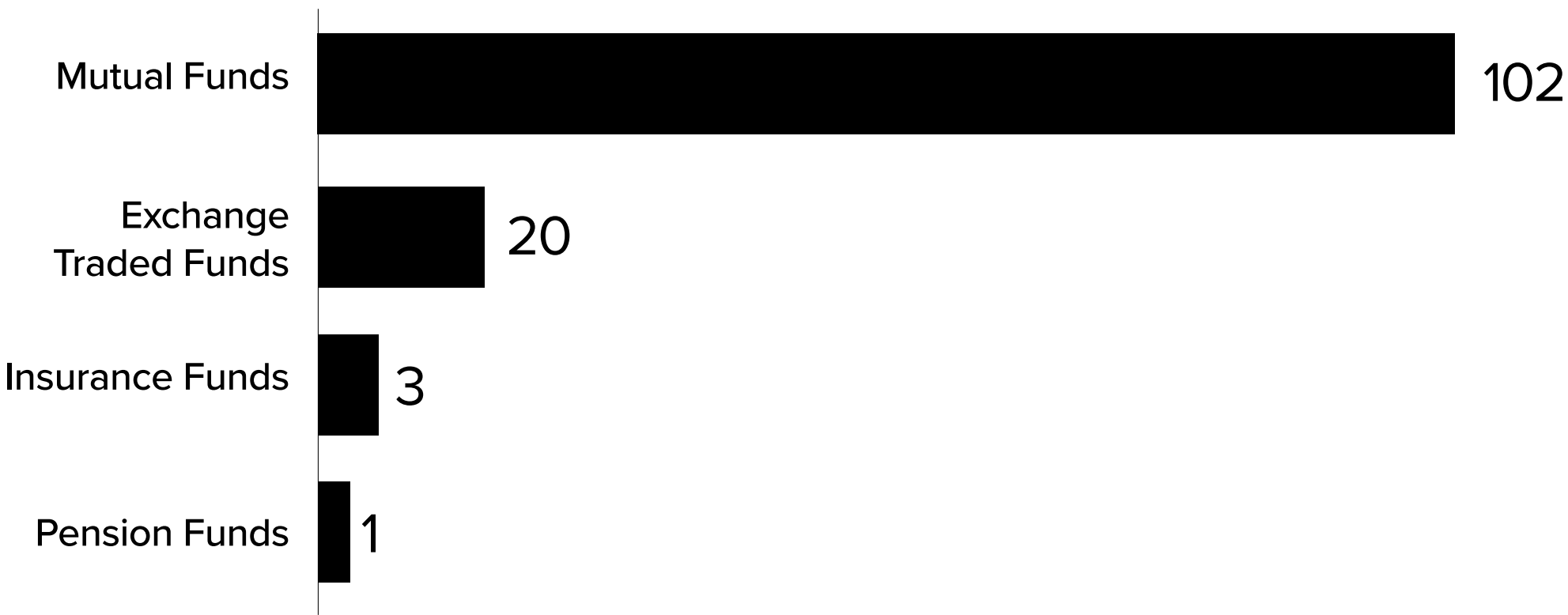
| Region               | Islamic Funds AuM Assets (USD Billion) |
|----------------------|--|
| GCC                  | 56                                     |
| Other MENA           | 47                                     |
| Southeast Asia       | 42                                     |
| Europe               | 26                                     |
| North America        | 3                                      |
| South Asia           | 2                                      |
| Sub - Saharan Africa | 2                                      |
| Other Asia           | 0.04                                   |



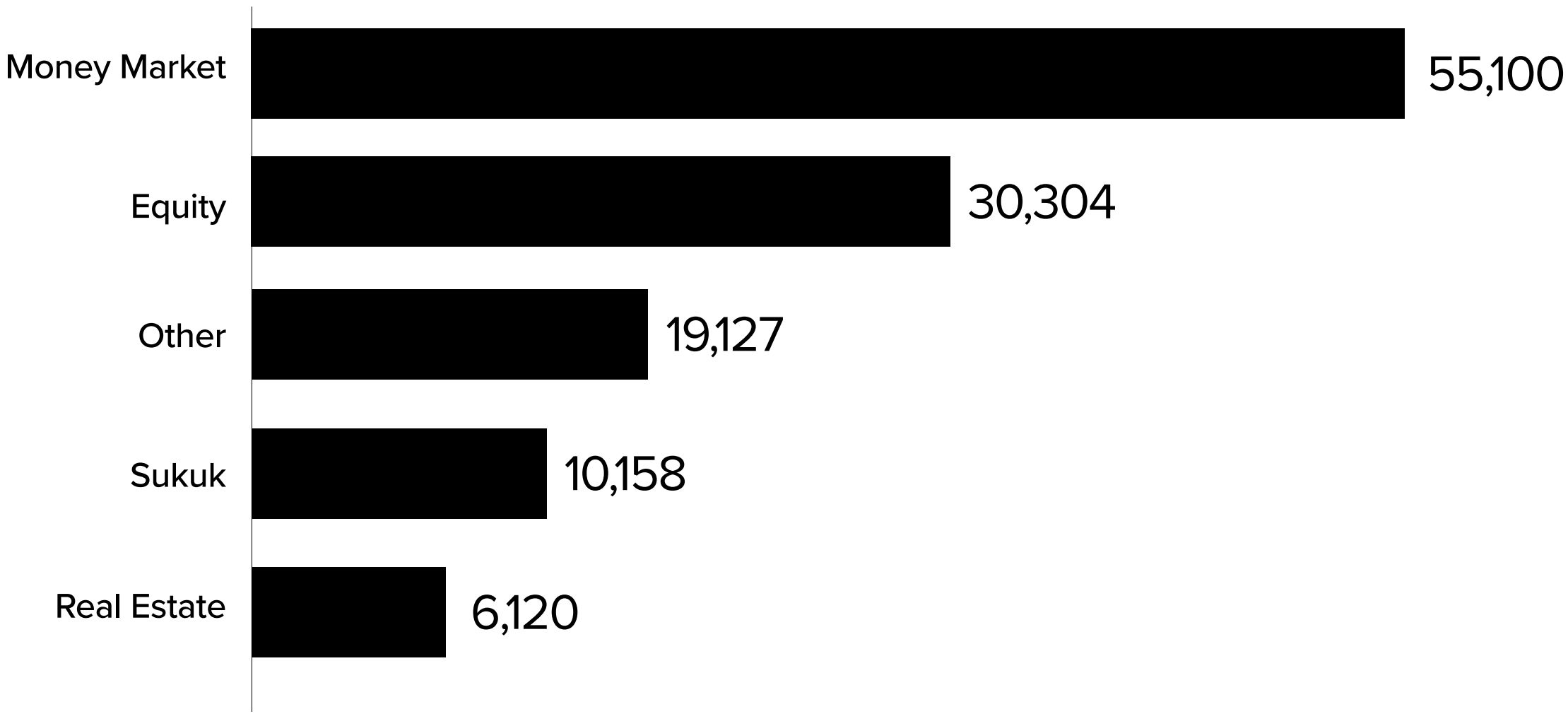
Top Countries in Islamic Funds AuM (2020, USD Billion)



Islamic Funds AuM by Top Asset Universe (2020, USD Billion)



Islamic Funds AuM by Top Asset Universe (2020, USD Million)





## ISLAMIC FUNDS CONTINUE TO GROW AT PACE

The Islamic funds sector grew by 22% to \$178 billion in assets under management in 2020. Islamic funds based in India, the U.S. and UK, that collectively accounted for 15% of global Islamic funds, rose by double digits. In larger markets, Malaysia had a growth of 8.9% while the sector in Saudi Arabia grew by 33.2%. These markets account for 48% of global Islamic funds in 2020.

The growth of the sector was also supported by the launch of 95 Islamic funds during 2020 that added \$1.5 billion in assets under management. Most of these are based in Malaysia, Indonesia, Pakistan and Saudi Arabia.

By asset type, equity Islamic funds performed relatively well, with an average cumulative performance of 6.8%. Around half of Islamic equity funds enjoyed double-digit growth while 19% posted negative growth. Commodity and Sukuk funds both performed positively, registering average cumulative performance of 5.7% and 3.5%, respectively. With many countries slowly re-opening their economies during 2021, the Islamic asset management sector is set to recover.

## REAL ESTATE MUTUAL FUNDS IMPACTED NEGATIVELY BY COVID-19

Real estate Islamic funds suffered a setback because of economic slowdown caused by the pandemic. The sector dropped by 3.2% during 2020 as 85% of funds--whether they were managed by Real Estate Investment Trusts or were mutual funds by asset managers--plunged into negative growth. These funds are mainly found in Malaysia and Saudi Arabia.

In the UAE, Emirates REIT was negatively impacted by the pandemic that led to an oversupply of office spaces, business closures and departure of workers. The company attempted to restructure its debt in mid-2021 but failed to win investor support.

Sabana, Singapore's Islamic REIT and one of the largest in the world, also performed negatively during 2020. It announced in July 2021 that from October of the same year it would no longer be bound by Shariah compliance requirements. The decision was taken after feedback from unitholders to drop Shariah compliance and allow it to expand its network of lenders and investors. Shariah-compliant REITs avoid earning rental income from tenants or sub-tenants engaging in non-Islamic business activities.

Despite these setbacks during 2020, the gradual full reopening of some key Islamic finance jurisdictions in 2021, such as Saudi Arabia and the UAE, is expected to clear the way for rental income for these funds.

One piece of good news for Islamic real estate funds came from Pakistan. In July 2021, the country's first Islamic REIT was launched by Arif Habib Dolmen REIT Management, under its revamped regulatory framework that was previously dormant. This followed initiatives and incentives put in place by the government to make REITs more attractive. The company will launch the first developmental REIT in Pakistan that will acquire land to develop commercial and other types of real estate. Arif Habib Dolmen expects to launch four more REITs in the near future.



## ISLAMIC ETFS EXPAND GEOGRAPHICALLY AND BY TYPE OF INVESTED ASSETS

By asset universe, insurance and Islamic pension funds had the two best average cumulative growth of 10% and 11.1%, respectively. Islamic exchange traded funds (ETFs) posted an average growth of 9.5% during 2020. There were also new Islamic ETFs from managers based in Saudi Arabia, Pakistan and South Africa last year.

There was a first in the sector for Canada when Toronto-based conventional financial institution, WealtheSimple, launched the country's first Islamic ETF in mid-2021. The ETF is in local currency, which is subject to foreign exchange risk given that most Shariah-compliant products available to Canadians are denominated in foreign currencies. Regardless, the fund opens a new door for Shariah-sensitive investors in the country that want to have self-directed investment options, and set-up locally.

There was also another first was for Islamic ETF by type of assets being invested in. With the growth of Islamic REITs, SP Funds launched the world's first Shariah-compliant REIT ETF. This adds to the suite of ETFs already launched by the U.S.-based company. Additionally, Wahed Technologies, a digital Islamic robo-advisor, launched an ETF in July 2021 to focus on China A-Shares, the world's first.

## SUSTAINABILITY MANDATED ISLAMIC FUNDS DRIVEN BY AWQAF AND INDICES

In addition to the above developments, the Islamic funds space is continuing to support sustainable investment mandates through SRI funds. Overall, Islamic funds with sustainability mandates grew to \$542.3 million by the end of 2020. These funds focused on either equity, mixed assets or sukuk investments.

Malaysia remains a pioneer in Islamic sustainable funds, with the launch of several during 2020 and 2021. The increase in these funds in Malaysia is in line with the country's Securities Commission's commitment towards sustainable investment. The latest initiative by the regulator is the launch of FTSE4Good Bursa Malaysia Shariah index in July 2021, that measures the companies that demonstrate strong ESG practices. This will serve as a basis for Malaysia's fund managers to form investment products that have both Islamic and ESG mandates.

In addition, waqf investment funds are thriving in Malaysia and Saudi Arabia with several asset managers that include but are not limited to Malaysia's BIMB, PMB Investment and Maybank as well as Saudi Arabia's Jadwa, Alinma and Al Khabeer. For Malaysia, such products are recognized as SRI funds by Securities Commission guidelines on sustainable and responsible investment funds. These waqf investment funds also follow the introduction of a framework by the regulator on Islamic funds with waqf features in November 2020. For Saudi Arabia, such waqf funds demonstrate development initiatives between the Capital Markets Authority and the General Authority for Awqaf.

We expect more Islamic funds with sustainability or ESG mandates to be launched in the coming years, given the growing issuance of green and sustainable sukuk. In addition, greater awareness on ESG issues is attracting retail investors to such funds, and as well, many corporates are seeking sustainability to tackle issues presented by the COVID-19 pandemic. These could lead to a turning point for the Islamic asset management industry.



# THE PROMISE OF ISLAMIC FINTECH IN ISLAMIC FINANCE: DRIVING GROWTH



## **Dr. Dalal Aassouli**

Assistant Professor of Islamic Finance and Associate Dean for Academic Affairs at Hamad Bin Khalifa University (HBKU) in Qatar

**Dr. Dalal Aassouli** is Assistant Professor of Islamic Finance and Associate Dean for Academic Affairs at Hamad Bin Khalifa University (HBKU) in Qatar.

She was previously a visiting academic at the Durham Centre for Islamic Economics and Finance, Durham University Business School. Prior to that, Dr. Dalal worked at the International Islamic Liquidity Management Corporation (IILM) in Malaysia where she assisted with the establishment of the IILM's sukuk programme. She has also held several corporate finance positions in Europe where she was exposed to the African, European and Latin American markets.

Dr. Dalal holds masters degrees from NEOMA Business School and Paris Dauphine University, and a PhD from ENS de Lyon in France.

Her research interest includes Islamic finance in general and its implications for liquidity management, corporate finance, ethical finance, development finance, green finance, sustainable development and socially responsible investing.

Dr. Dalal also provides her consultancy expertise to various organizations on issues related to sustainable and Islamic finance.



## **Thaddeus Malesa**

Senior Advisor, Economics and Research, Qatar Financial Centre

**Thaddeus Malesa** was appointed the Senior Advisor for Economics and Research at Qatar Financial Centre (QFC) in January 2019. He is also responsible for QFC's Thought Leadership. Prior to joining the QFC, Thaddeus worked in the Gulf region for over a decade in various capacities, including six years in Qatar.

He served as a Senior consultant at the World Bank Group, and an Economic Advisor for the Ministry of Development Planning and Statistics in Qatar. He also held the roles of Senior Executive at Dubai Chamber of Commerce and Industry, and a Middle East Representative, Resident Analyst and Economist at PFC Energy.

Thaddeus graduated from Georgetown University with a Bachelor's degree of Science in International Economics, International Finance and Commerce.

He also holds a Master's of Arts in International Economics and International Finance from Johns Hopkins University.



The Islamic finance industry has launched various new instruments and digital banking services but FinTech has yet to disrupt it as much as it has in the conventional space. This is primed to change. As digitalization accelerates globally, FinTech solutions are being assembled and they have the potential to boost expansion of the Islamic finance industry with cheaper, simpler and more efficient financial solutions. If expansion is to be achieved, policymakers, with the support of engaged national regulators, must play an active role to promote a conducive environment for Islamic FinTechs to roll out their solutions.

The Global Islamic FinTech Report 2021 estimates \$49 billion worth of Islamic FinTech transactions occurred within Organization of Islamic Cooperation (OIC) countries in 2020. This volume is projected to rise to \$128 billion by 2025 at a CAGR of 21%. The Report identifies 241 Islamic FinTechs globally and 77% of their solutions focused on: raising funds, deposits and lending, wealth management, and payments and alternative finance. Underdeveloped segments include Islamic capital markets, Islamic social finance and Takaful. At the global level, FinTech investments reached \$98 billion during the first half of 2021, according to KPMG, with only a tiny minority channeled to Islamic FinTech. In order to realize Islamic FinTech's growth potential, the following action areas are required: spearheading a regulator-led conducive environment, provision of specialized education programs, and achieving enhanced collaboration between Islamic financial institutions (IFIs). While the last initiative can be spearheaded by the industry, the first two initiatives require deep involvement and drive from policymakers and regulators.





## Conducive Environment

Captaining a regulator-led conducive environment provides legal clarity to market participants, allows Islamic FinTechs to access funding and benefit from a variety of mentorship avenues to safeguard their commercial viability. In Qatar, the Qatar FinTech Hub (QFTH) supports the growth of local and international FinTechs through incubation and acceleration programs, while the Qatar Central Bank (QCB) authorizes payment firms. The central bank is also hosting a regulatory sandbox, in short order, from which FinTechs can securely test their latest innovations. Meanwhile, Qatar Financial Centre (QFC) hosts QFTH FinTechs and others in its Tech Circle premises and wider platform. The first cohort of QFTH winners welcomed 18 FinTechs, while the second wave saw investments go into 22 selected FinTechs. Together, Qatar's FinTech-focused agencies are working jointly to foster a hospitable ecosystem for leading international and local startup FinTechs. In line with the Second Strategic Plan for Qatar's financial sector development, QCB has set four key objectives as part of the national FinTech strategy, which include creating a connected and collaborative FinTech ecosystem, maintaining global competitiveness of FinTech services, having a strengthened financial system, and providing meaningful solutions to local consumers.

## Education Programs

Qatar is also rigorously addressing capacity-building. The provision of specialized FinTech education programs by leading universities and tertiary institutions, in partnership with local policymakers that foresee the need for specialized skillsets, can significantly ramp up the wider growth of the industry. Islamic FinTechs could struggle from the start if they do not have a local labor pool to draw on. Local universities, such as Hamad bin Khalifa University (HBKU) in Qatar that offers Islamic finance programs, can play a major role in keeping abreast of market needs for FinTech by developing tailored educational and training to support growing industry needs. Qatar's commitment to shifting towards a knowledge-based economy in line with its National Vision 2030 has already contributed to the development of dedicated research and capacity-building programs in partnership with local academic and research institutions. At the same time, private sector entities, such as Bait Al Mashura, have implemented a series of webinars and events to educate market participants about the latest developments in Islamic FinTech. By working together directly with policymakers, educational institutions can forge leading programs for students that will enable them to immediately add value in an Islamic FinTech of the future.

## Collaboration

The industry also has to play an active role. Fostering collaboration between financial institutions has paid dividends in the conventional space, and the same promise holds for Islamic finance. FinTech firms initially competed directly against established financial institutions but today it is more common for them to work hand-in-hand. Innovations in new technologies such as blockchain and Artificial Intelligence (AI) have the potential to unlock pioneering Islamic finance solutions, which are currently being developed in select markets such as London. With the proposed collaborative spirit in implementation, Islamic FinTechs stand ready to leverage IFIs' existing large customer base to launch their solutions on an accelerated timeline; notably, Qatar easily exceeds the estimated 100,000 Islamic finance retail customers in the UK. Further, with the global shift to sustainability integration in the financial industry, FinTechs can support IFIs in reducing their carbon footprint and measuring their social impact through technologies such as AI, blockchain and data analytics. As such Islamic FinTech solutions increasingly benefit customers in accommodating jurisdictions and the potential for further global rollout is a promising commercial opportunity.

Globally, Islamic FinTech has a promising future. In order to realize its promise and vision, policymakers have a strategic role to play in building a supportive ecosystem and working together with educational institutions to ensure proper training programs are in place. Islamic FinTech development will accelerate further with the realization of IFI collaboration that will foster innovation and enable scalability of solutions worldwide. In Qatar, we are actively pursuing all three channels to make Islamic FinTech a success. We look forward to playing our part in activating the potential of a sector spanning multiple continents and impacting millions of customers.



# ISLAMIC FINANCE DEVELOPMENT INDICATOR

Your gateway to over 1,500 Islamic financial institutions data

Refinitiv, the world's leading provider of intelligent information for businesses and professionals, provides access to an **exclusive islamic finance database** that includes data on over 1,500 Islamic financial institutions, through its leading Refinitiv® Eikon platform, which provides insights to over 400,000 financial professionals around the world.

**Islamic Finance Development Indicator (IFDI)** is composite weighted index that measures the overall development of the Islamic finance industry. The information is comprehensively gathered from a universe of 135 countries and measured across more than 10 key metrics, including Knowledge, Governance, CSR and Awareness.

## The database provides Islamic finance markets stakeholders with:



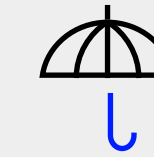
**9+ years**

Islamic finance  
industry financial data



**520+**

Islamic banks financial data  
across 73 countries



**320+**

Takaful operators  
data across 45 countries



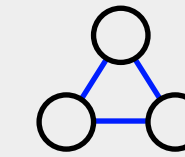
**12,000+**

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



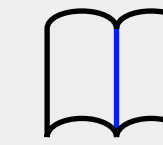
**1,700+**

Islamic funds data  
from 32 jurisdictions



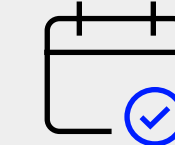
**1,200+**

Shariah scholars data and  
their board representation



**1,000+**

Islamic finance  
education providers



**840+**

Islamic finance  
events information

To access the IFDI page and the global Islamic finance database in Eikon, visit

New users can contact [IFG@refinitiv.com](mailto:IFG@refinitiv.com) to request access.

For more information, please visit the Refinitiv Islamic finance website: <https://refinitiv.com/en/islamic-finance>.

To download the Islamic Finance Development Report – IFDI 2021 visit <http://bit.ly/IFDI2021>.

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Refinitiv, an LSEG (London Stock Exchange Group) business, is one of the world's largest providers of financial markets data and infrastructure. With \$6.25 billion in revenue, over 40,000 customers and 400,000 end users across 190 countries, Refinitiv is powering participants across the global financial marketplace. We provide information, insights and technology that enable customers to execute critical investing, trading and risk decisions with confidence. By combining a unique open platform with best-in-class data and expertise, we connect people to choice and opportunity – driving performance, innovation and growth for our customers and partners.

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# Islamic Finance Ecosystem



For IFDI, the measurement of the development of the Islamic finance industry goes beyond just measuring 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).

This chapter investigates key trends and opportunities that contribute to the development of the industry.



# Governance

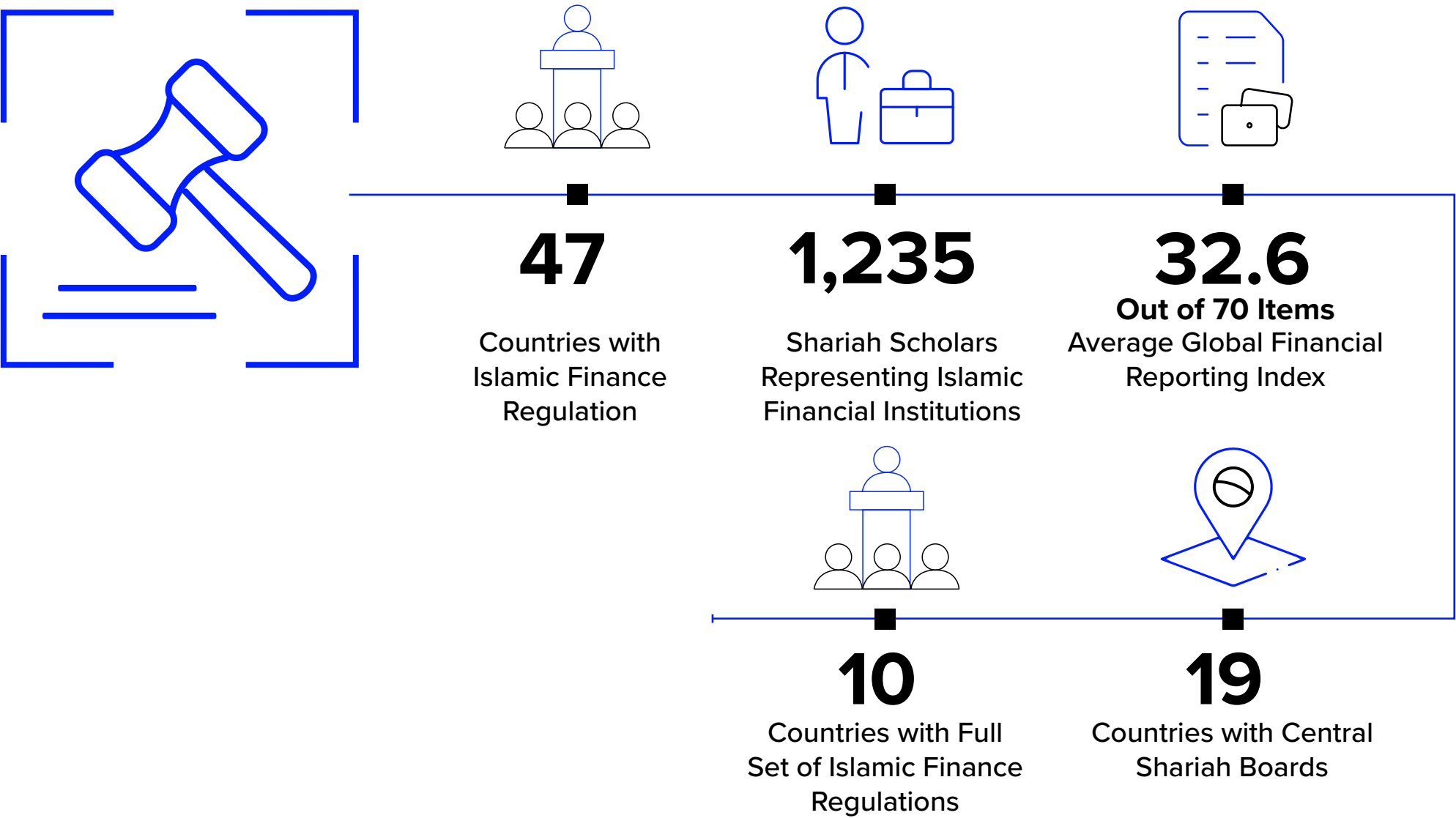


Governance is an important element of the Islamic finance industry's infrastructure. Appropriate controls instill consumer and investor confidence in the industry. Recent scandals, such as those involving UAE's NMC and Malaysia's 1MDB and the collapse of financial institutions like China's Evergrande, whether in leading Islamic finance regions or elsewhere show us that strong governance and regulations will provide legitimacy to the operations of Islamic financial institutions. The IFDI assesses Governance through regulations, corporate governance, and Shariah governance.





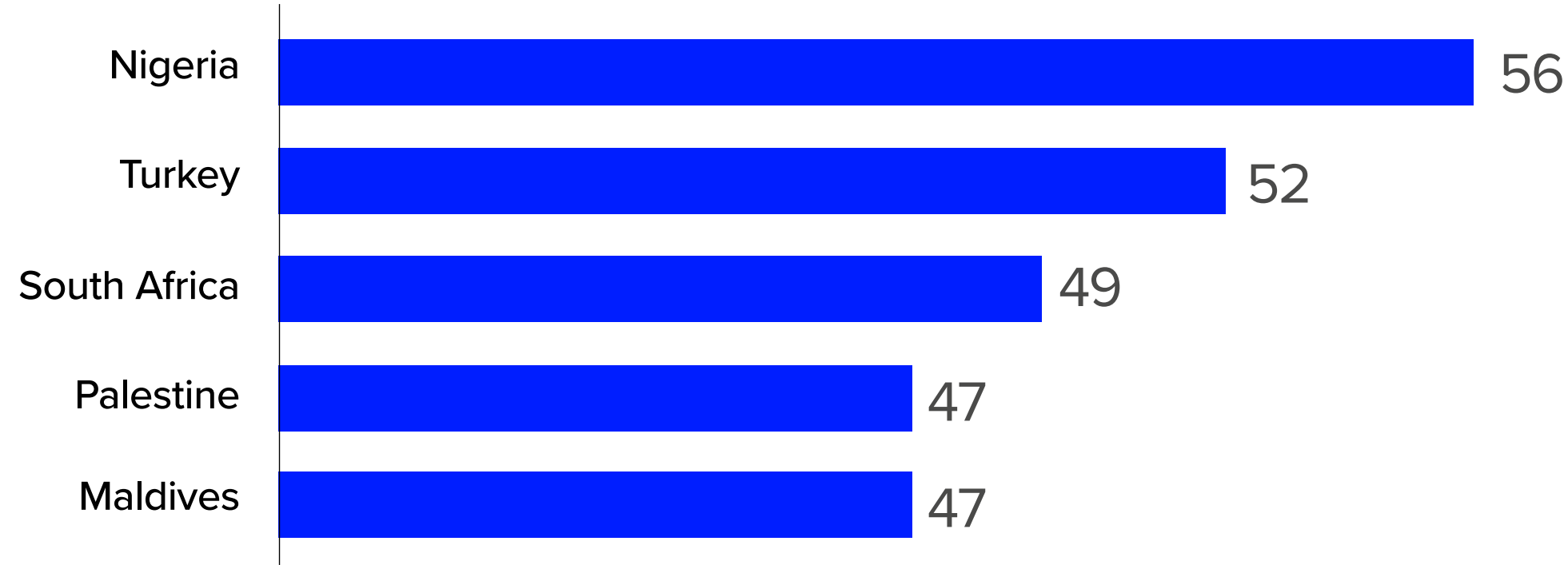
# GOVERNANCE



## Number of Countries with Islamic Finance Regulations (2020)

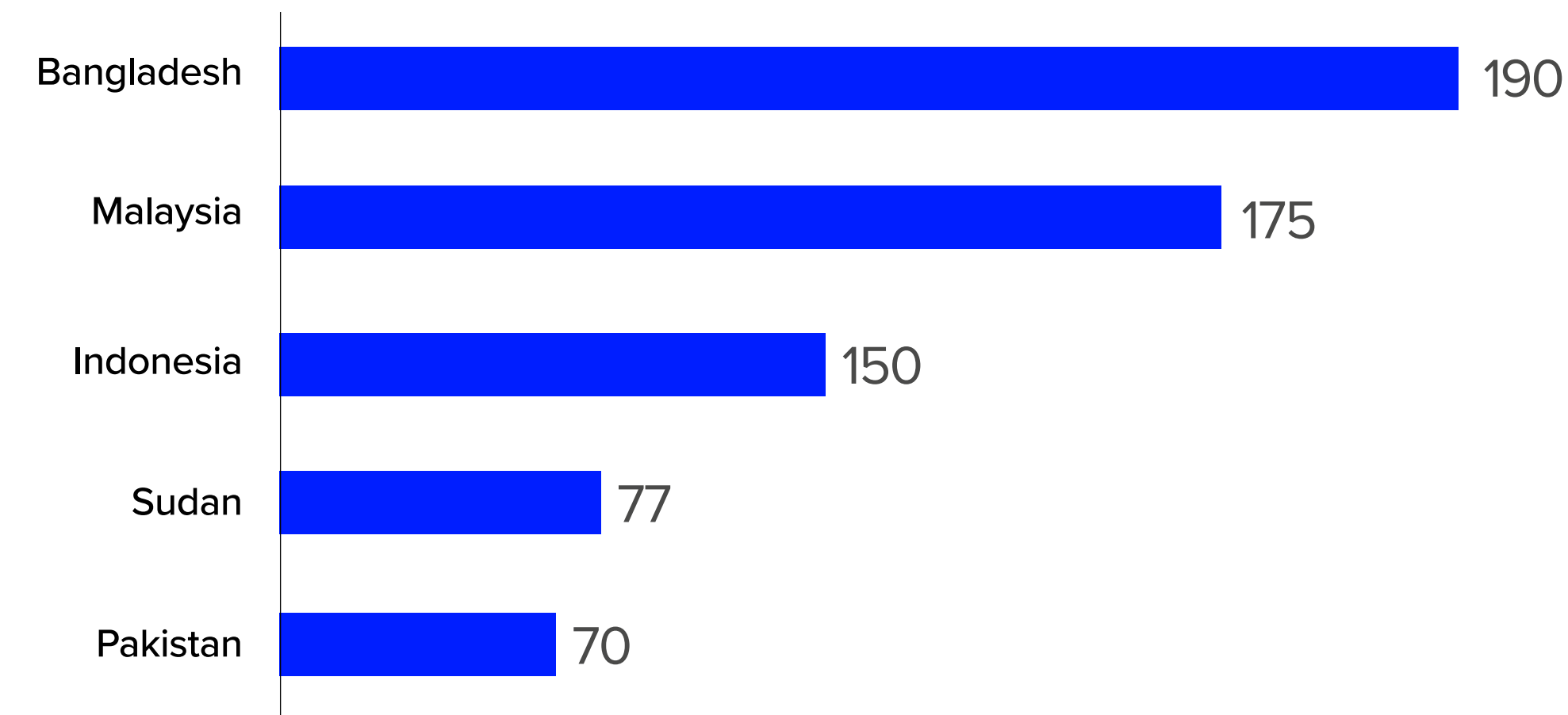


## Top Countries by Average FRDI Scores (Out of 70, 2020)

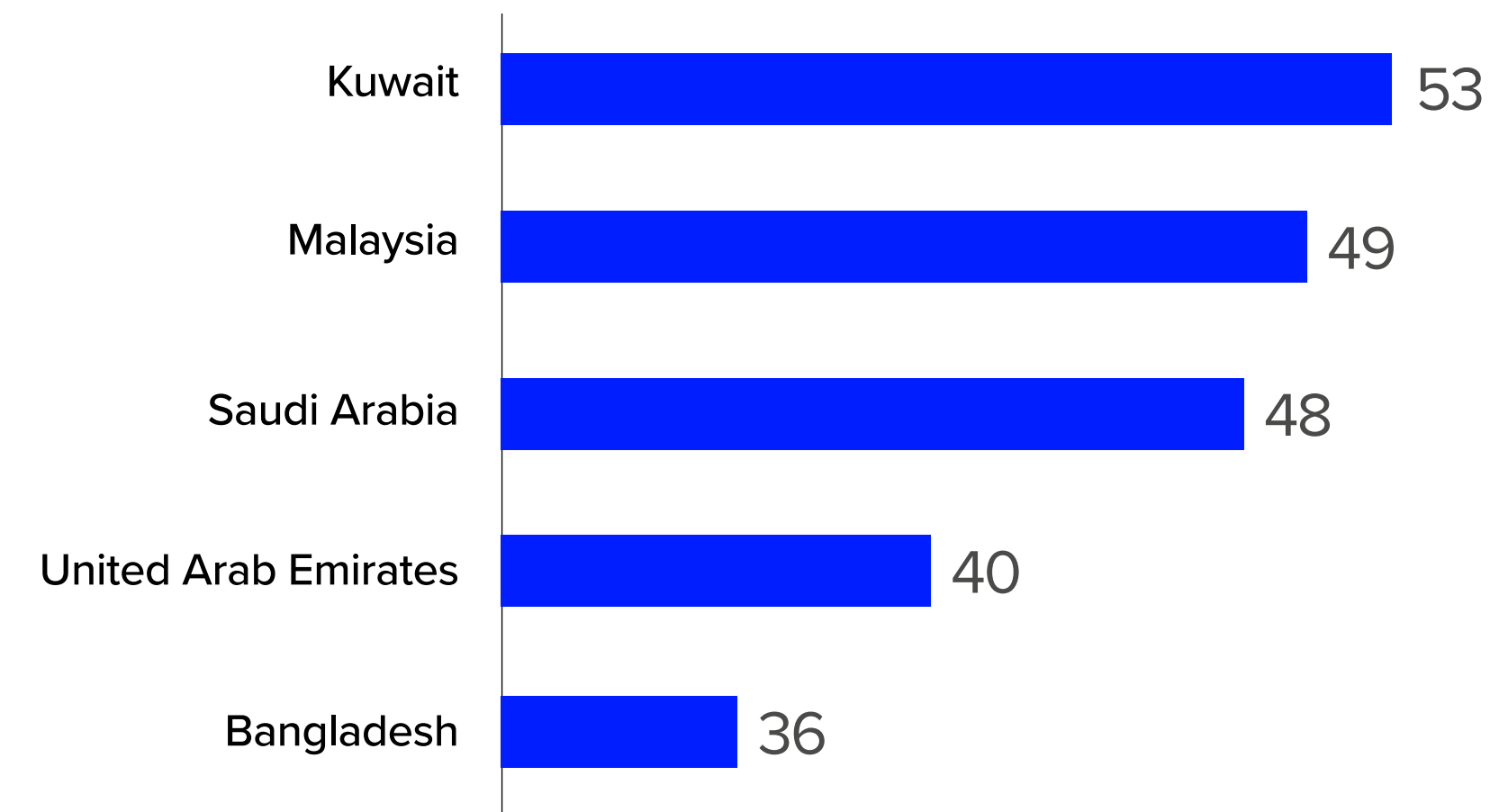




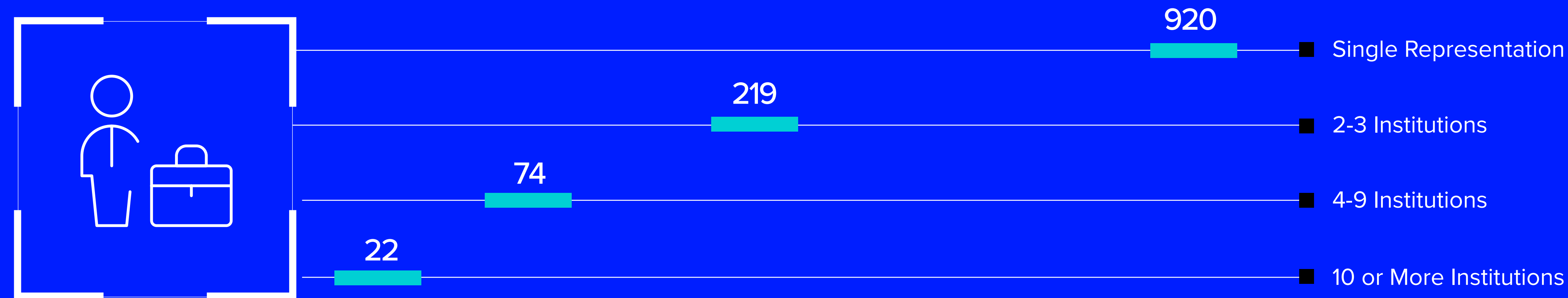
Top Countries by Number of Shariah Scholars Representing IFIs (2020)



Top Countries by Number of IFIs with More than 3 Shariah Scholars (2020)



Global Islamic Finance Shariah Scholar Representation (2020)





## SUKUK REGULATION REVISED OR INTRODUCED IN NEW MARKETS

47 countries have at least one type of Islamic finance-related regulation. Of these, only 22 countries had sukuk regulations in 2020, and these rules are still heavily reviewed in these jurisdictions. The UAE's HSA, for instance, adopted AAOIFI Shariah standards in 2018 in order to increase standardization in the local market. This decision impacted sukuk issues, with investors requesting clearer rules and local banks prevented from buying certain types of sukuk over the confusion whether they were AAOIFI-compliant or not. The key requirement for such sukuk is the tangibility ratio as it relates to the assets that are used as a collateral until maturity.

Oman is revising its debt market regulation by adding a set of detailed clauses to ease the sukuk issuance process. The Capital Market Authority issued draft guidelines for industry feedback in July 2021. The move is intended to cope with the current requirements of the country in line with Oman Vision 2040. Among the clauses in the draft regulation is sustainable and responsible investment (SRI) sukuk that includes green, social and waqf sukuk.

The sukuk market was also shaken by the pandemic. In the middle of 2021, Indonesia's Garuda Airlines and UAE's Emirates REIT both attempted to restructure their sukuk, and in Malaysia, Serba Dinamik Holdings faces refinancing risk on its \$222 million sukuk due in May 2022.

Yet, more countries are starting to use sukuk as a financing tool. Egypt this year moved closer to its debut sovereign sukuk that the Ministry of Finance announced is scheduled to be sold in the first-half of 2022. In Central Asia, Uzbekistan's regulator drafted regulations on sukuk in October 2020.

In North Africa, Algeria drafted takaful regulations that were adopted by the government in February 2021.

## INCREASED FOCUS ON SHARIAH GOVERNANCE ACROSS DIFFERENT COUNTRIES

More governments are paying attention to the different aspects of Shariah compliance when it comes to regulating their local Islamic financial systems. In 2020, 19 countries had centralized Shariah boards to oversee their local Islamic banks, and 35 had any kind of Shariah governance framework.

Among the latest countries to introduce a centralized Shariah board is Kuwait, which formed its Higher Committee of Shariah Supervision in October 2020. Among its tasks is the approval of Shariah board candidates for local banks. The Committee will also provide guidelines for products and services offered. With Kuwait's move, the only GCC nations without centralized Shariah boards are Qatar and Saudi Arabia. Qatar previously announced its intention to set one up. Other authorities that plan to establish a centralized Shariah committee is Bangladesh's Securities Exchange and Commission.

Saudi Arabia strengthened Shariah governance in February 2020 with its Shariah Governance Framework for Local Banks Operating in Saudi Arabia. The framework defines the tasks of different stakeholders, such as the Shariah committee, in relation to this framework.

In Turkey, the Banking Regulation and Supervision Agency created a legal infrastructure in October 2020 requiring participation banks to install their own Shariah board to ensure alignment with Shariah standards. Members of the board must either have a postgraduate degree in Islamic finance or receive certified training in Islamic finance. Similarly, Pakistan amended its Shariah governance framework in February 2021, stressing the avoidance of conflicts of interest by limiting the number of Shariah boards of Islamic banks one scholar can sit on (up to three).



## IMPORTANT ROLE PLAYED BY SHARIAH GOVERNANCE DURING THE PANDEMIC

In 2020, there were 1,235 Shariah scholars representing Islamic financial institutions. The number continues to increase with the addition of new scholars, especially those that represent single institutions, but at the same time, the Islamic finance industry has lost a few prominent names, including Sheikh Dr. Abdul Sattar Abu Ghuddah and Dr. Hussein Hamid Hassan both of whom represented several Islamic financial institutions globally.

Shariah scholars and boards were called upon in 2020 as part of COVID-19 mitigation efforts. For instance, the Higher Shariah Authority (HSA) of the UAE had to approve a set of Shariah parameters to mitigate the fallouts from the pandemic, that included payment moratorium and how to deal with it based on the type of transactions and Shariah contracts.

This was also addressed by the industry's standards-setting organizations such as the Islamic Financial Services Board (IFSB), that also looked at Shariah-compliant government guarantees, profit-sharing investment accounts, and expected credit loss accounting to ensure that they do not conflict with Shariah principles. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) published a statement “Accounting implications of the impact of COVID-19 pandemic” in which it recognized the different payment moratorium actions by different markets.





# Corporate Social Responsibility

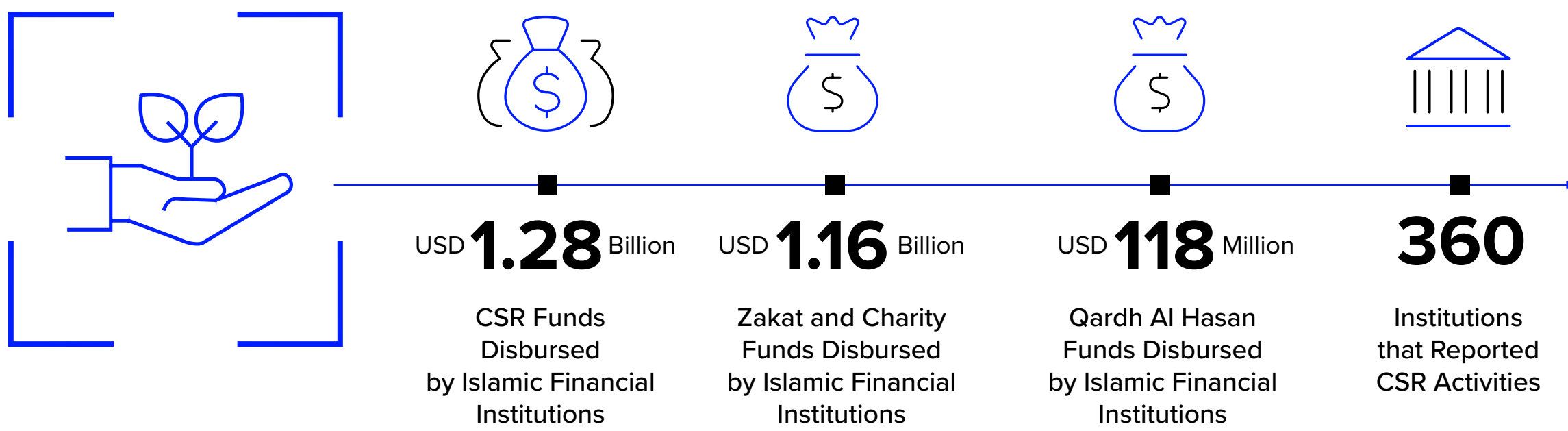


Corporate Social Responsibility (CSR) is measured through two components: disclosed CSR activities and CSR funds disbursed. CSR activities are measured using an index derived from information provided in the annual or financial reports of Islamic financial institutions that is based on the AAOIFI Governance Standard for Islamic Financial Institutions No. 7.

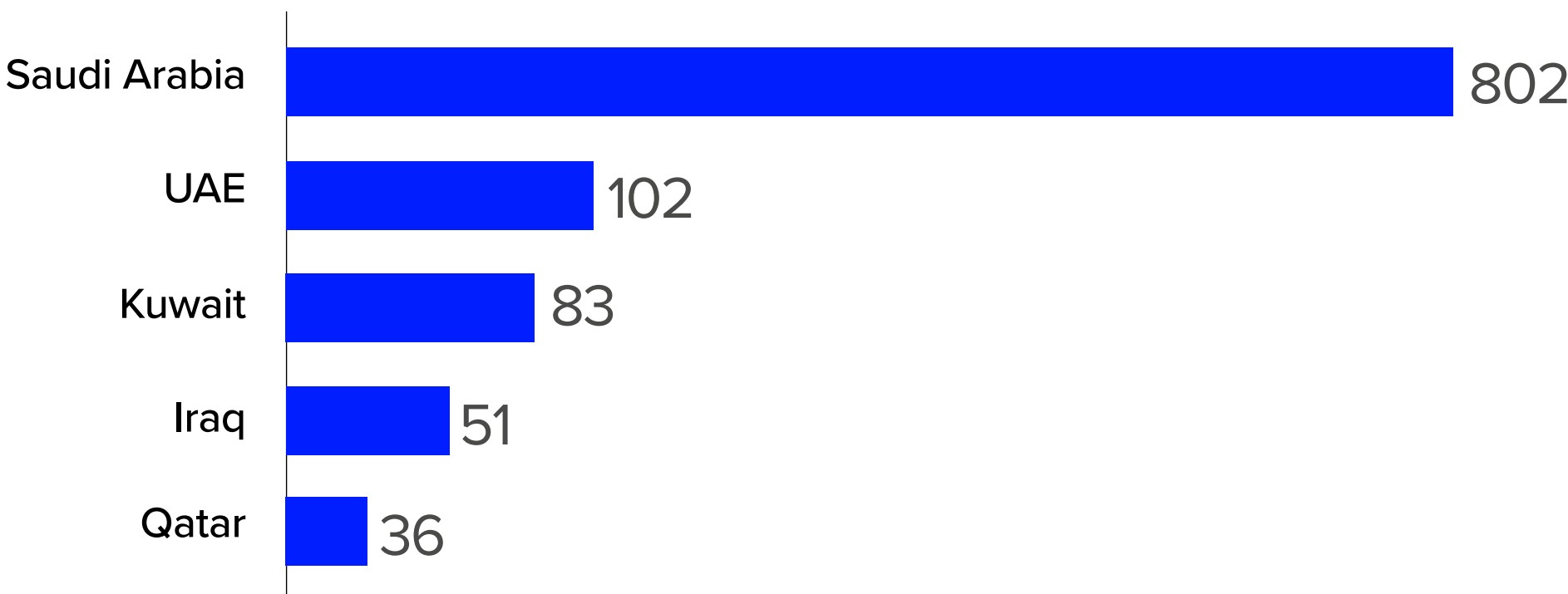
CSR funds cover the amount of charity, Zakat and Qardh Al Hasan (benevolent interest-free loans) disbursed by these institutions.



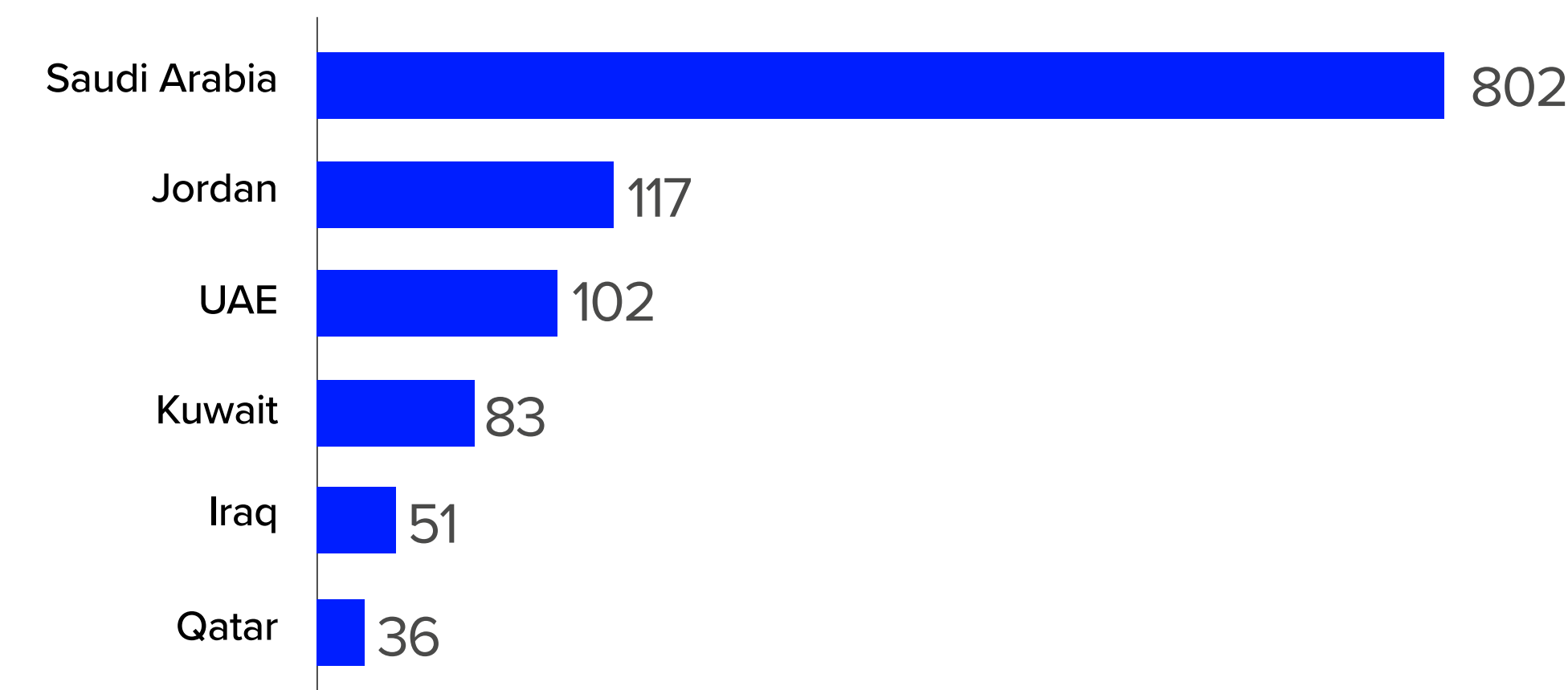
# CORPORATE SOCIAL RESPONSIBILITY



Top Countries by CSR Funds Disbursed (USD Million, 2020)



Top Countries by Zakat and Charity Funds Disbursed (USD Million, 2020)

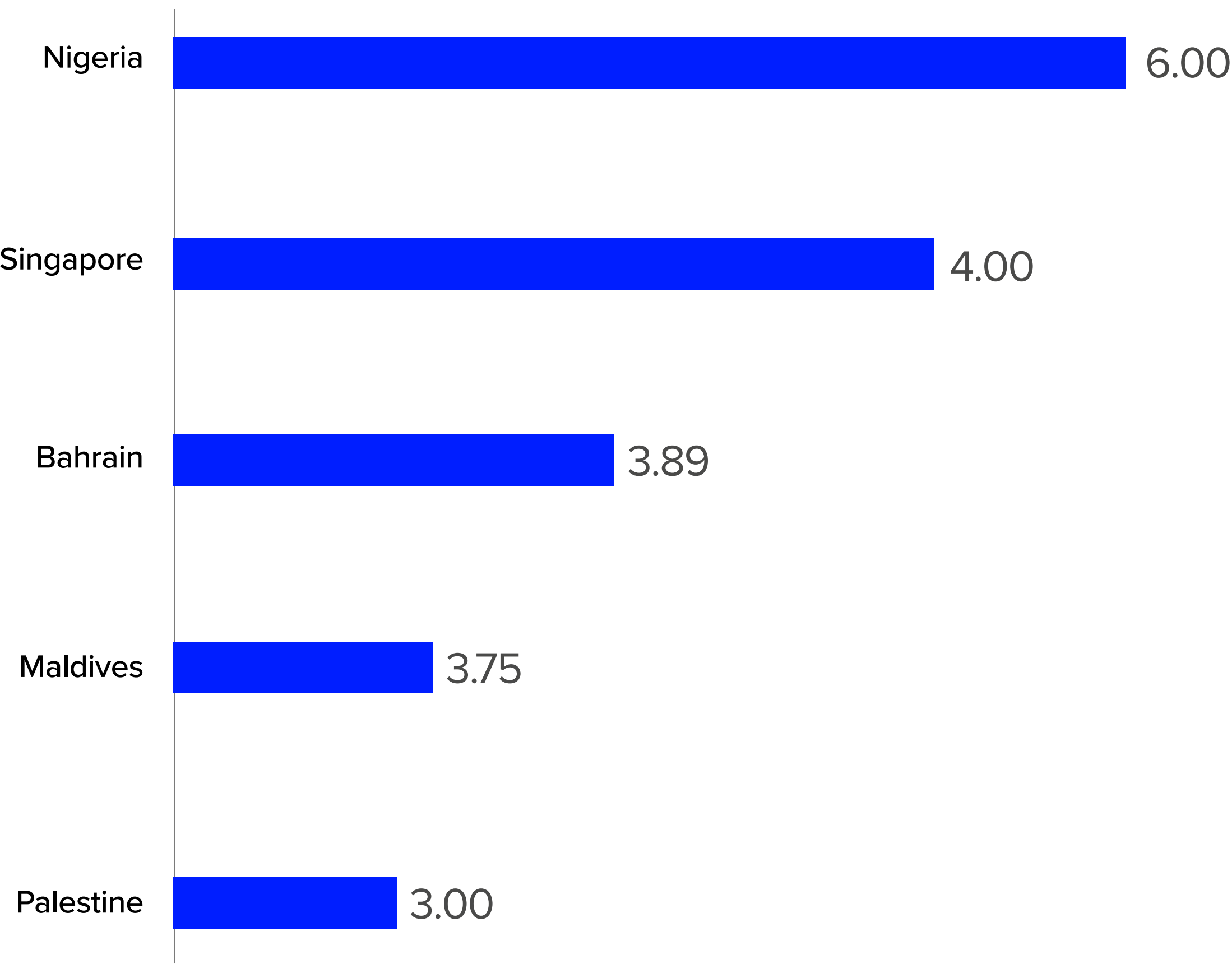


Top Countries by Qardh Al Hasan Funds Disbursed (USD Million, 2020)

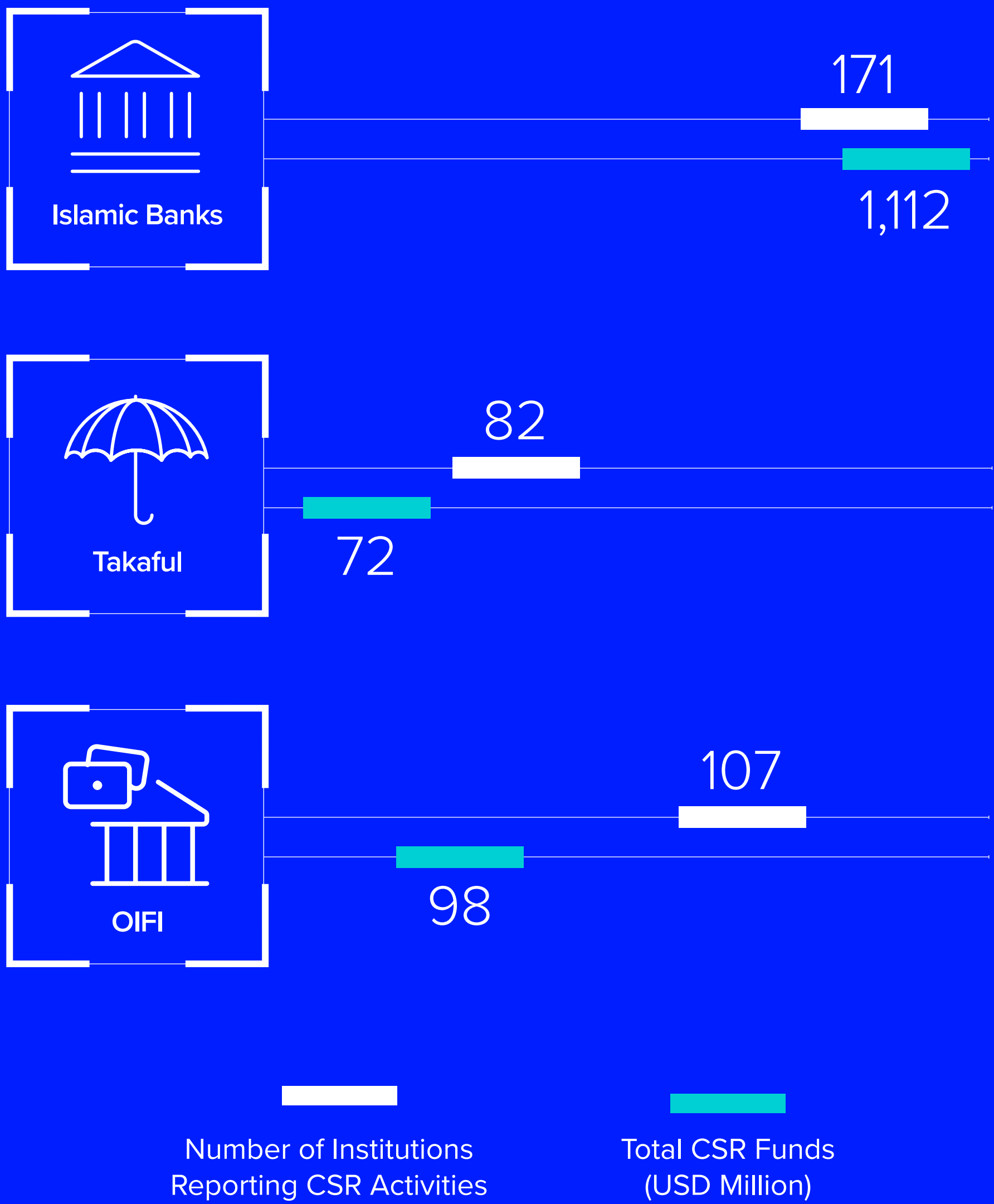




Top Countries by Average CSR Disclosure Scores (Out of 11, 2020)



CSR Performance by IFIs (2020)





## PANDEMIC-ERA CSR INITIATIVES

The average global CSR reporting index remains very low at 1.6 out of 11 items being reported by Islamic financial institutions, given that many institutions do not even have CSR sections in their annual reports. However, sustainability or ESG reporting increased for institutions in some countries, such as those based in Southeast Asia.

Many Indonesian financial institutions are showing how they're adapting to the new normal by focusing on par excellence in customer service through conducting surveys or offering online solutions to serve customers, and improving employee welfare by allowing them to work from home. These two items form part of the CSR disclosure index.

Another example of CSR activity that was frequently mentioned in IFI annual reports during this period is a policy for dealing with clients. The activity covers provisions relating to avoidance of onerous terms on clients when dealing with late payments or insolvency.

Reporting items such as deferral of installments on impacted borrowers, individuals or businesses, with no additional costs could be part of IFIs' response to the regulatory measures rolled out by central banks to contain the fallouts from the COVID situation.

## VOLUNTARY CHARITY INCREASED, MANDATORY ZAKAT DIPPED

Many institutions reported their charitable activities in response to the COVID situation, be they in monetary contributions or in kind. Some of the charity contributions were part of government initiatives to support health professionals or sectors impacted heavily by the pandemic. These include the 'Feena Khair' campaign charitable contributions in Bahrain or institutions in Saudi Arabia supporting or the Health Endowment Fund.

The amount of charitable funds increased for some institutions but mandatory Zakat dipped for others in line with lower net profits.

Total CSR funds distributed throughout 2020 reached \$1.28 billion, the second year in a row that total disbursement surpassed \$1 billion.

## MALAYSIA REFOCUSES CSR DRIVE FOR TAKAFUL OPERATORS THROUGH VALUE BASED INTERMEDIATION

Overall, takaful operators and Other Islamic Financial Institutions had lower average CSR disclosure scores compared to Islamic banks: 1.3 each compared to 2.7 for Islamic banks. If we consider countries with 10 or more takaful operators only, the highest average CSR score was reached by Saudi Arabia (1.8), Pakistan (1.4), and Malaysia (1.3). In Malaysia, takaful operators scored 2.5 out of 11 items, compared to 3.3 for Islamic banks and OIFIs collectively. The highest CSR scores were achieved by local Islamic banks.

Malaysia's Islamic banking sector is moving forward towards adopting sustainable finance through Value Based Intermediation (VBI), which contributes to their CSR activities score. Similarly, the country's takaful sector has its VBI for Takaful (VBIT). The practice aims at generating sustainable impact for the environment and economy and applies to all categories of takaful and retakaful operators.

Among the key principles for VBIT, according to the Malaysian Takaful Association, is 'Enhanced Disclosure' in order to reflect the progress of the initiative. This will allow stakeholders to understand the role of the takaful industry and make informed decisions.

The association also sees that both VBIT and CSR are similar in terms of creating positive impact on others. However, VBIT goes a step further by integrating this within business activities and offerings, and not keeping it separate. For IFDI, the measurement of CSR activities already considers business practices such as social, development and environment-based investments as outlined below. Hence, the implementation of VBIT, if reported in annual reports, will be reflected in IFDI's CSR scores in the coming years.



# SOCIAL, DEVELOPMENT AND ENVIRONMENT-BASED INVESTMENTS ACCORDING TO IFDI

## Social Based Investments / Offerings

Whether there are social impact investments showing targets for such investments that play a role in assisting the poor, needy, heavily-indebted individuals and families. Also, can assist in development of research and education and other targets stipulated by AAOIFI.

## Development Based Investments / Offerings

Whether there are investments that offer significant growth potential for a country, infrastructure of a country or SMEs.

## Environment Based Investments / Offerings

Whether there are investments that aid in protecting the environment.

Source: Islamic Finance Development Indicator Rulebook, which can be accessed [here](#)





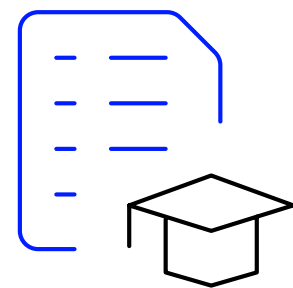
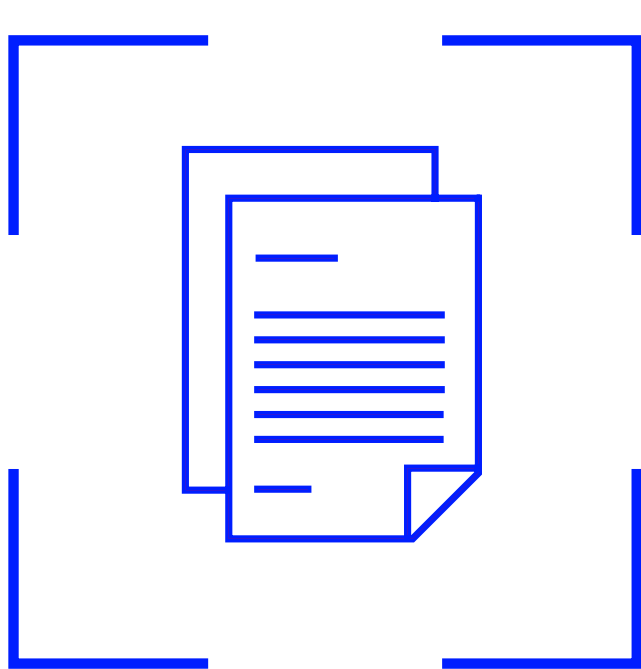
# Knowledge

The background of the slide features a stack of books, with the top one open, showing its pages. A blue and white geometric design is overlaid on the right side of the image. This design includes a white square frame, several blue and white squares, and a network of thin white lines connecting various points. A prominent blue diagonal line runs from the bottom left towards the top right, intersecting the geometric elements. There are also horizontal and vertical white lines that form a grid-like structure.

The Knowledge indicator is assessed through Education and Research, 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 to provide the foundation on which a fully-qualified workforce can spur economic growth.



# KNOWLEDGE



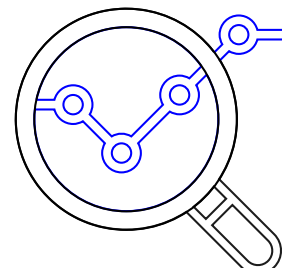
1,008

Islamic Finance  
Education Providers



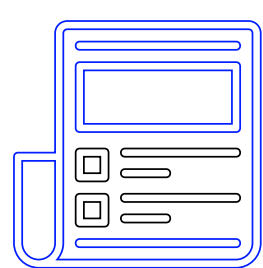
383

Islamic Finance  
Degree Providers



2,878

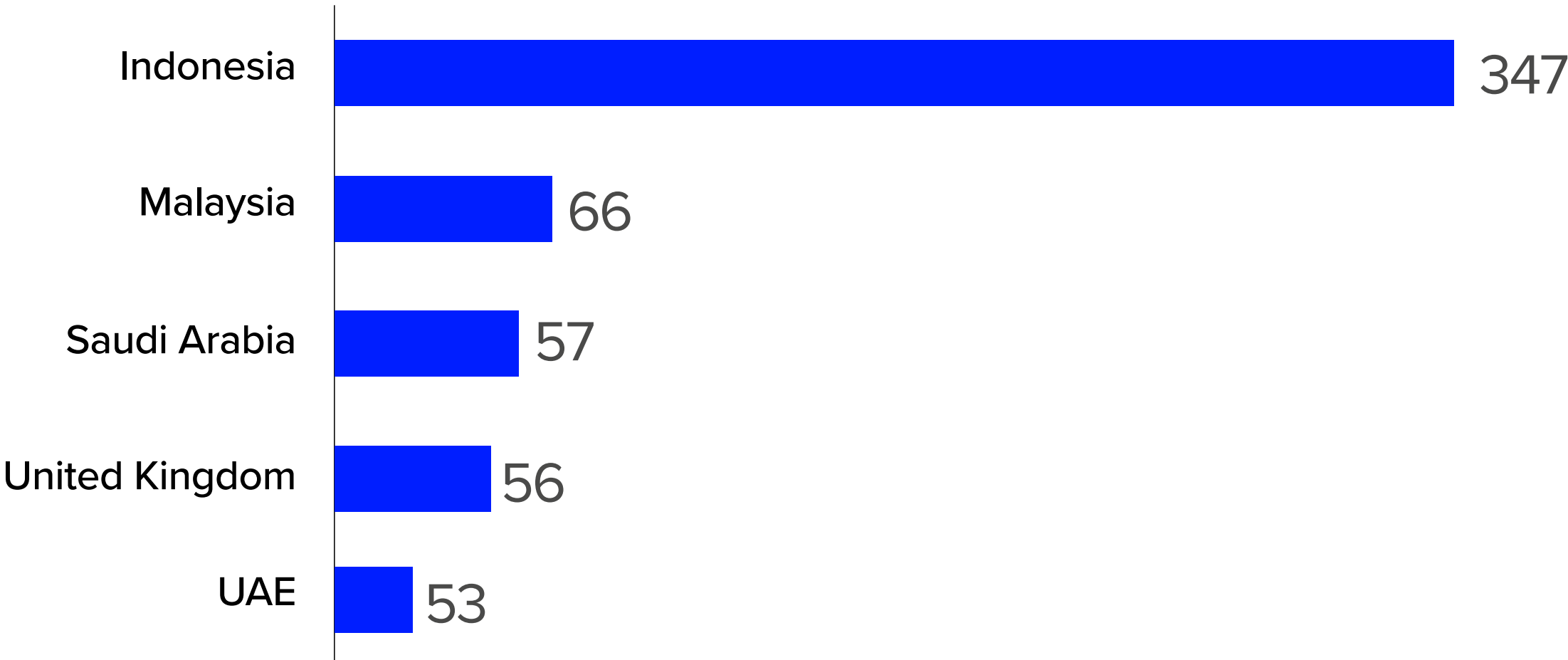
Islamic Finance  
Research Papers



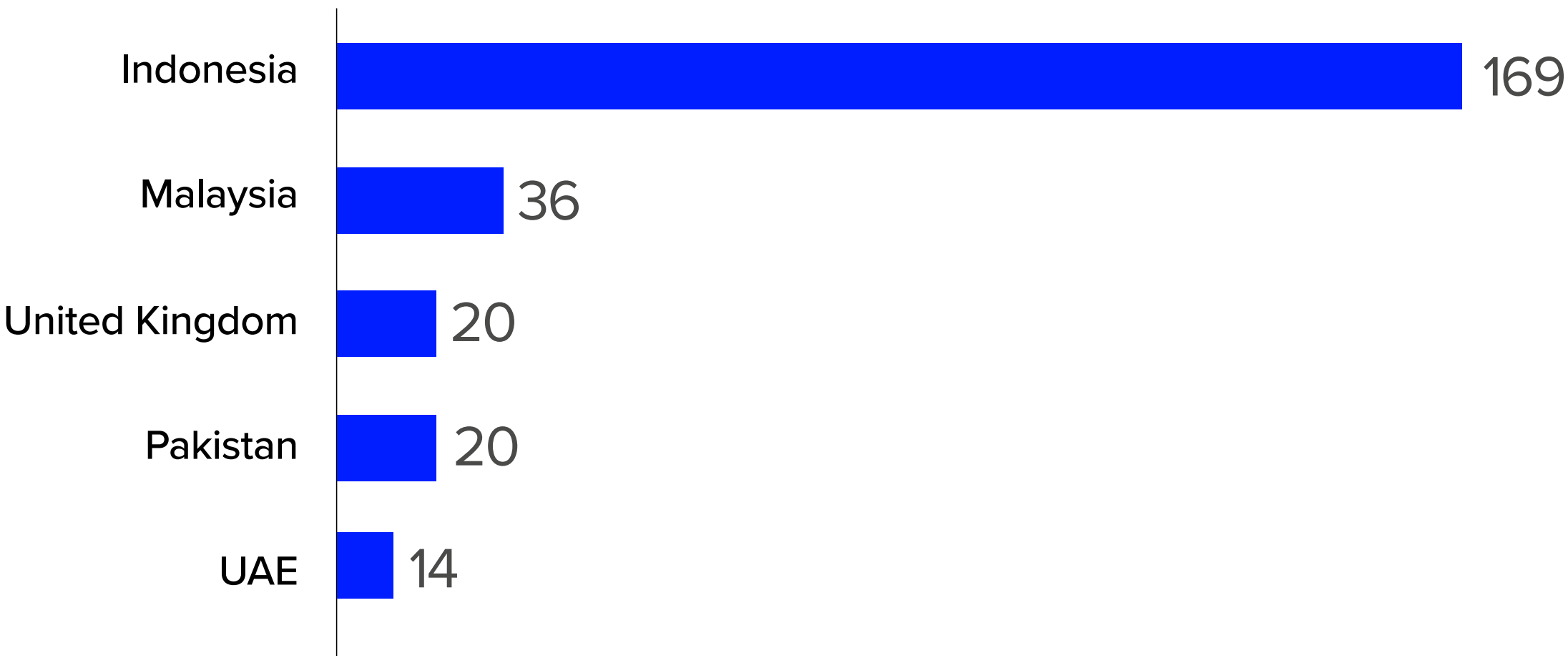
2,291

Islamic Finance  
Peer Reviewed  
Journal Articles

Top Countries by Number of Islamic Finance Education Providers (2020)

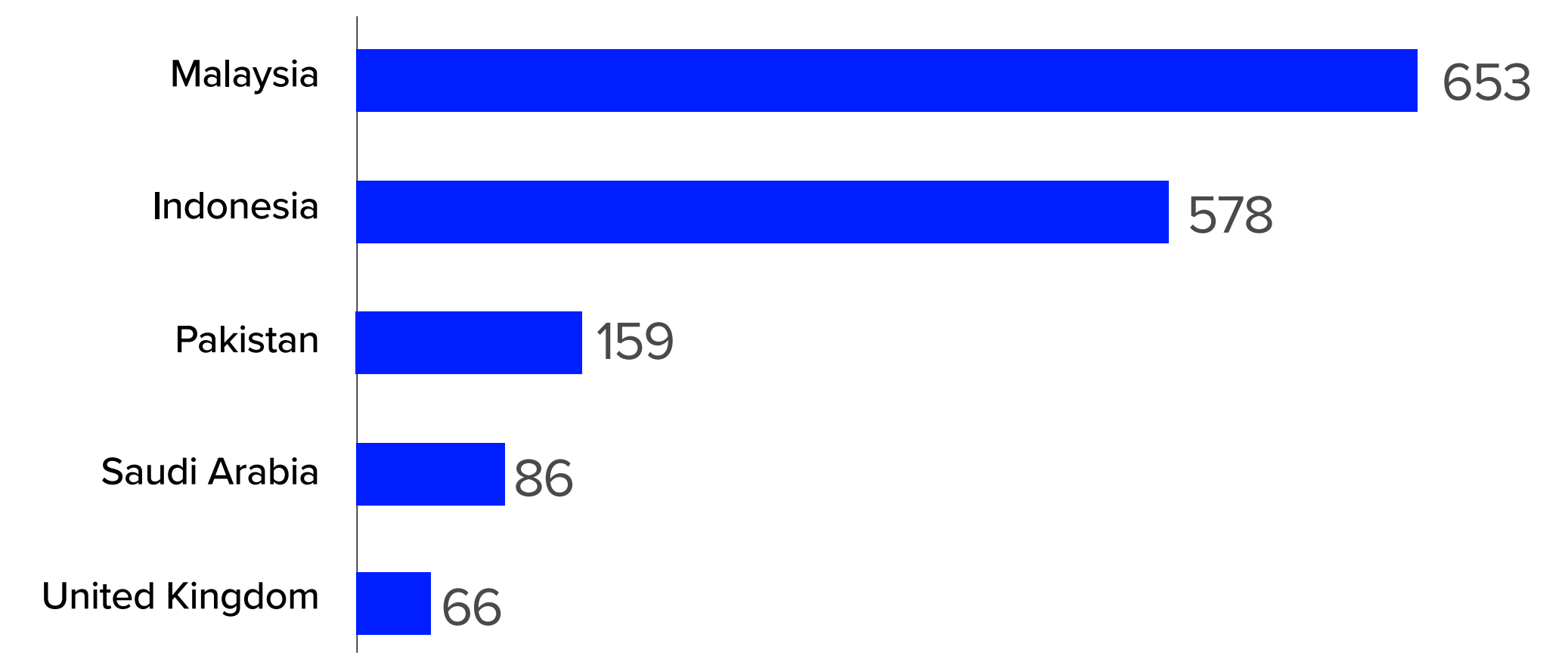


Top Countries by Number of Islamic Finance Degree Providers (2020)

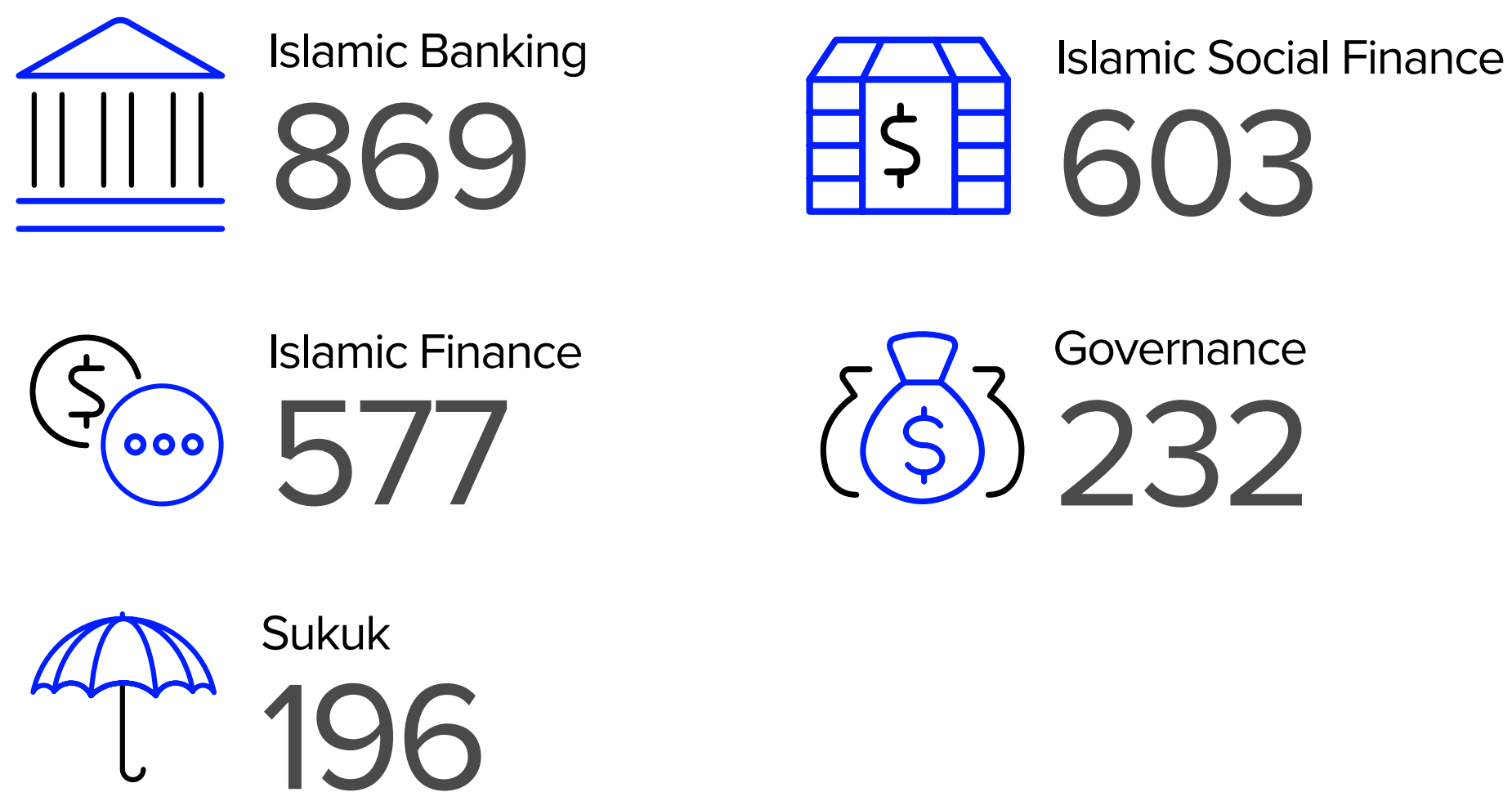




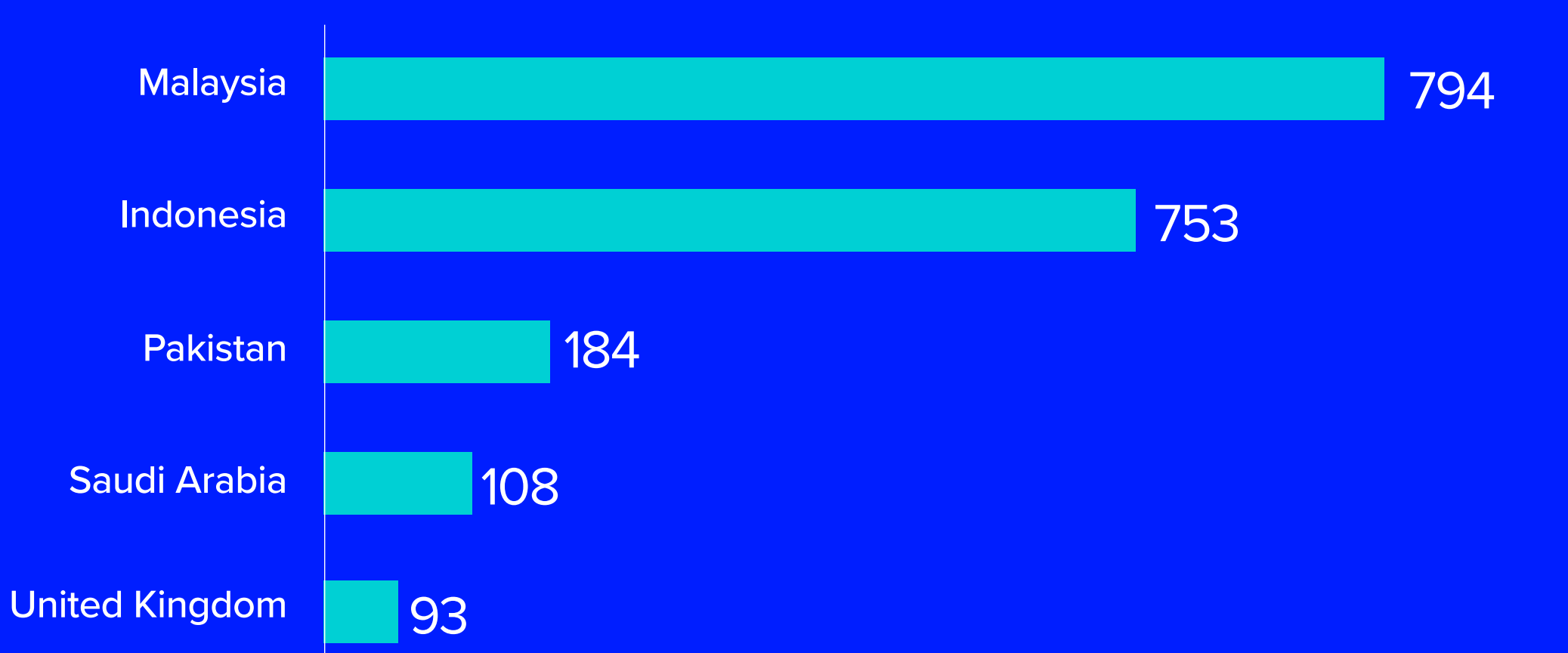
**Top Countries by Number of Peer-Reviewed Journal Articles Produced (2020)**



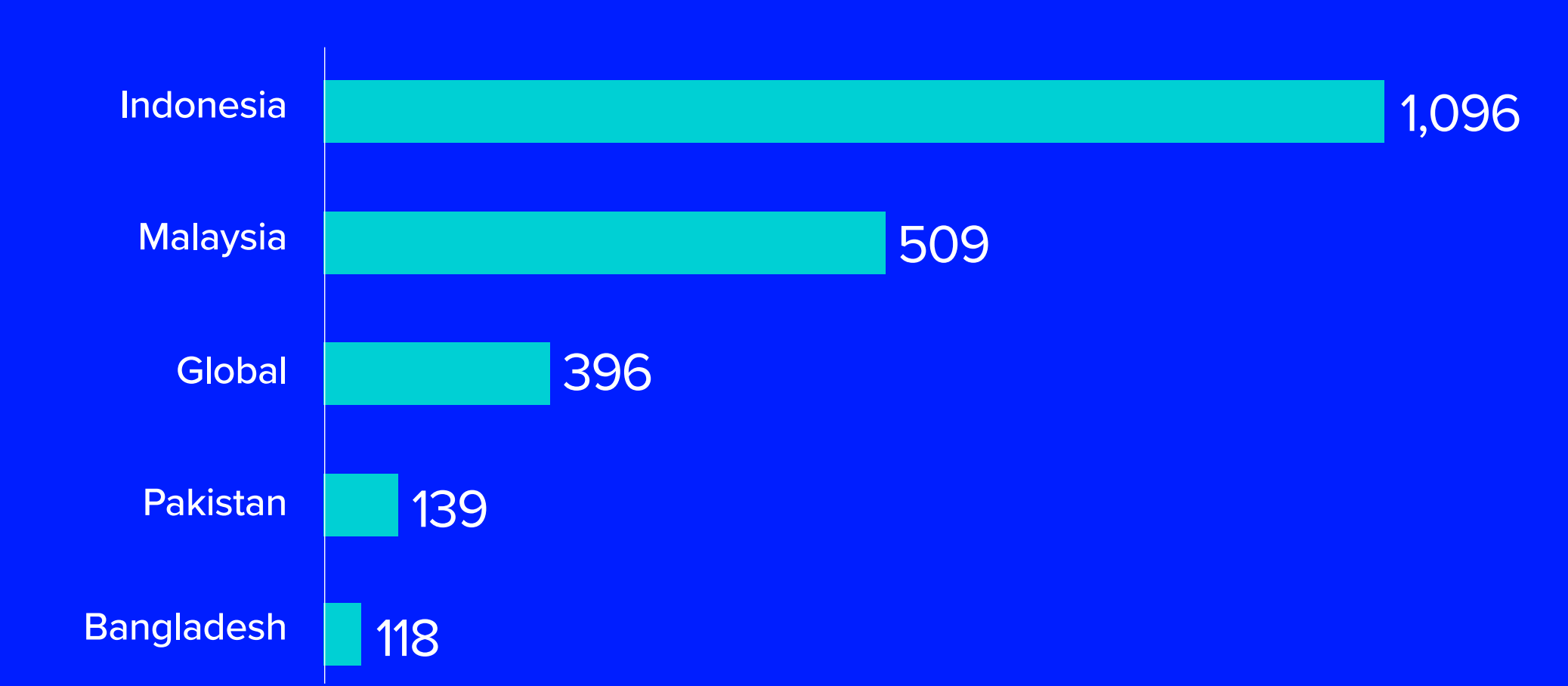
**Top Topics Covered by Islamic Finance Research Papers (2020)**



**Top Countries by Number of Research Papers Produced (2020)**



**Top Countries Covered by Islamic Finance Research Papers (2020)**





## COVID-19 PANDEMIC A KEY LEADING THEME IN ISLAMIC FINANCE RESEARCH

As we anticipated in the previous edition of the IFDI Report, COVID-19 and its fallouts provided ample material for researchers in Islamic finance. Malaysia and Indonesia, the leaders in Islamic finance research based on both research output and educational infrastructure (education providers and degrees offered), are still reeling from the significant economic and social impact of the ongoing pandemic. It follows that research efforts have focused on the consequences, as well as practical Islamic finance-based solutions to the pandemic.

Several empirical studies on the impact of the pandemic on Islamic banking were published. These covered studies on liquidity risk in Islamic banking at the onset of the pandemic, whether Islamic banks were actually Islamic in their practices during the pandemic, and digitalization as a post-pandemic solution. Various determinants of both risk and profitability in Islamic banking were also analyzed at length. More broadly, a few economics-focused studies re-examined the intrinsic values and philosophy behind Islamic finance, which sits well within the wider global discourse of fostering a more inclusive, sustainable form of capitalism or economic organization.

Another area that was especially well-covered was Shariah and corporate governance, with topics ranging from the contemporary and cutting-edge applications of Islamic finance, such as bitcoin and robo-advisory matters, to more perennial topics such as disclosure, performance, and the relationship between gold and stocks.

Islamic social finance solutions such as Zakat, Awqaf and Islamic microfinance also feature in various research papers and peer-reviewed journal articles. In sum, COVID-19 has been providing intense focus for research in Islamic finance, although it is not the only major topic being researched at present.

## RESEARCH ON ISLAMIC FUNDS IS CONSIDERABLE, INDICATING STRONG ACADEMIC INTEREST IN THE ISLAMIC ASSET MANAGEMENT INDUSTRY

With 79 articles in 2020 and a total of 121 articles since 2018, Islamic funds research is forming a substantial sub-body of academic literature in Islamic finance research. This points to continued strong academic interest in the Islamic asset management industry, especially from Southeast Asia (Indonesia and Malaysia especially, where 24 of the 79 articles published in 2020 originated). Several articles touched on various elements and causes of portfolio diversification, a key and longstanding concern for industry practitioners, while other articles highlighted more recent topics of concern for the industry, such as COVID-19, Millennials, and the emergence of WealthTech.

Multiple papers also discussed the effects of various qualitative developments on quantitative share performance, such as Shariah compliance announcements, Shariah monitoring activities, investor sentiments and even the possible effect of the month of Ramadan on stock performance. In sum, 2020's research on Islamic funds continued to innovate and offer pragmatic and novel food for thought for industry practitioners and academic researchers alike.



## ISLAMIC FINANCE EDUCATION IS BLOOMING, WHILE INCENTIVES FOR HIGH-QUALITY RESEARCH ARE ALSO INCREASING

For the first time ever, there were over 1,000 Islamic finance education providers globally, and close to 3,000 published research papers and over 2,000 peer-reviewed Islamic finance articles were published in 2020.

Universities in non-Muslim majority countries are offering standalone degrees in Islamic finance (e.g. Birmingham City University in UK), or courses in Islamic finance as part of broader degrees, e.g. at Queen Mary, University of London.

However, anecdotal evidence suggests that while they are gradually increasing, Islamic finance papers accepted by top-ranked peer-reviewed journals remain relatively low. More incentives are needed for high-quality research to encourage publications in leading academic journals, such as the Journal of Finance, the Academy of Management Journal, and World Development, especially in emerging areas such as Islamic perspectives on management themes and developmental issues.

In this regard, Saudi Arabia's Central Bank introduced a much-needed Islamic Finance Research Support Program. Part of Vision 2030, the two-track, competitive Support Program aims to encourage high-quality publications in Islamic finance through generous financial incentives for selected publications, starting at \$5,333 (SAR20,000).

Promotions and KPIs for career academics in Islamic finance jurisdictions are increasingly linked to performance rather than tenure alone, and have been for some time, thus replicating the "publish or perish" culture in leading, elite academic research institutions such as the Ivy League and Oxbridge universities.

## RESEARCH CENTERED ON STRATEGIC AND EMERGING TOPICS IS HIGHLIGHTING ISSUES OF CONCERN TO THE WIDER ISLAMIC FINANCE INDUSTRY

This residual category contained mostly two types of research: articles and papers on strategic topics, and research on emerging topics of concern to the wider Islamic finance industry. There was a considerable diversity of topics, with strategic ones ranging from the acceptance and adoption of Islamic fintech by various ecosystem participants on both the demand and supply sides, such as consumers (demand side) and fintechs providing Islamic SME finance (supply side), to a stocktake of strategic achievements and shortcomings of Islamic fintech in the GCC.

Emerging topics of concern to the wider industry included Islamic crowdfunding and whether it promotes financial sustainability among SMEs, mapping out the existing literature and research agenda of the field of Islamic fintech, and the opportunities Islamic fintech is creating in emerging Islamic finance markets such as Brunei, Bangladesh and Turkey. Taken together, these strategic and emerging areas of research indicate a healthy degree of introspection and foresight.



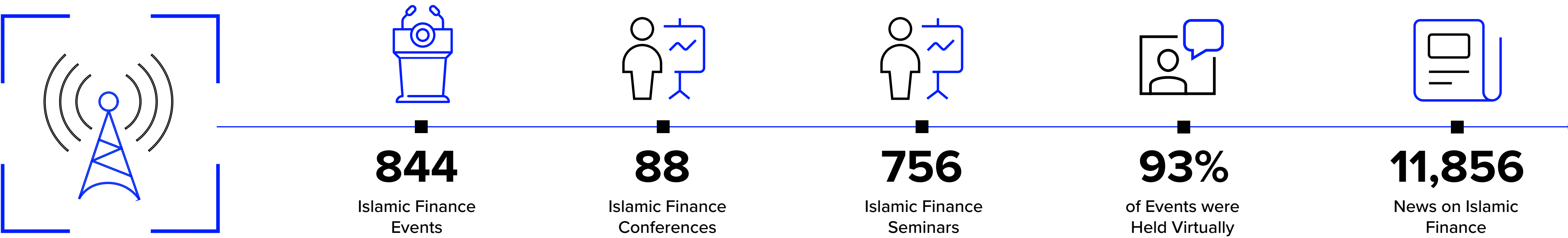
# Awareness

The background of the slide features a blurred image of hands reviewing documents. A blue overlay covers the entire image. A white square frame is positioned in the upper right quadrant. A network of thin white lines connects various points across the slide, including the corners of the square frame and several small blue and white squares. A thick blue horizontal bar is located below the title, and a thick cyan diagonal bar is in the lower left. A thick blue vertical bar is in the lower right.

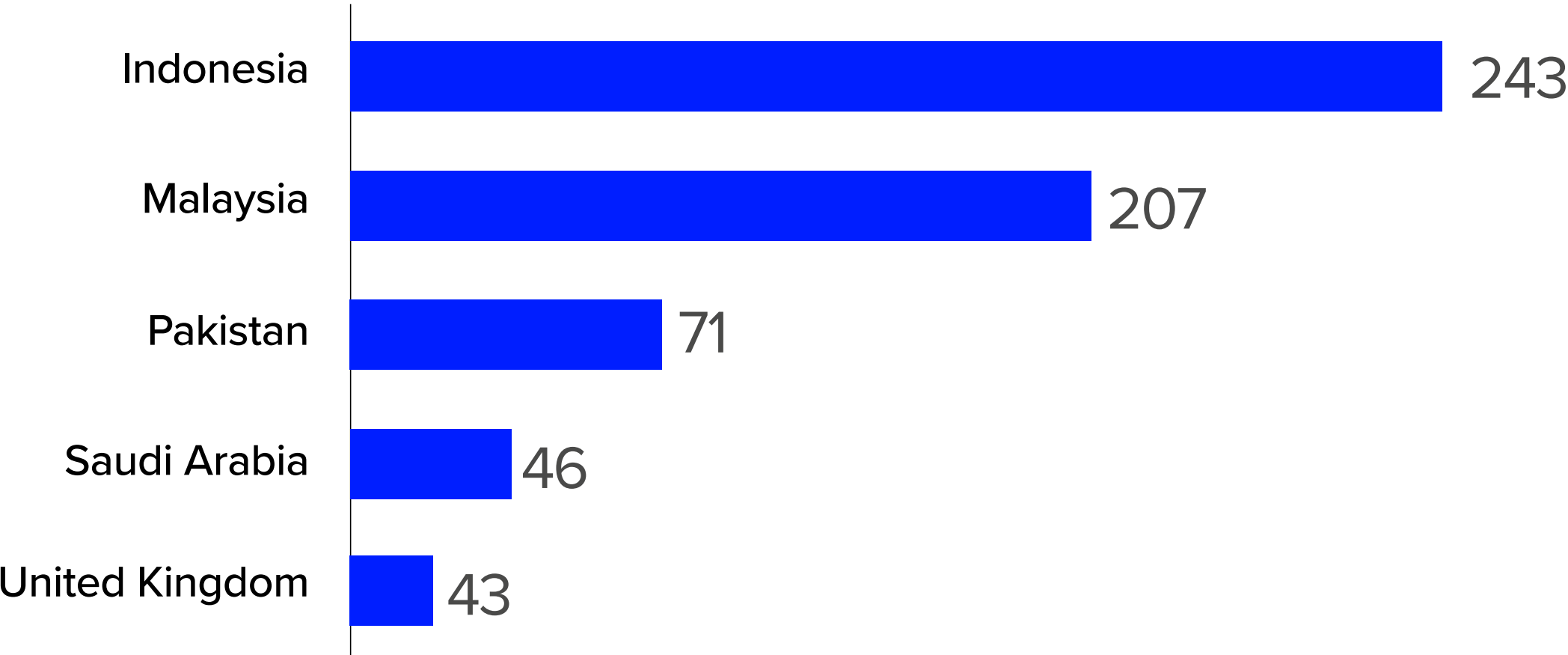
Awareness is measured by assessing three components: conferences; seminars; and news volume. A rise in number of any of these components would contribute to the growth of a country's Islamic finance industry and improve the quality of products and services offered by its institutions.



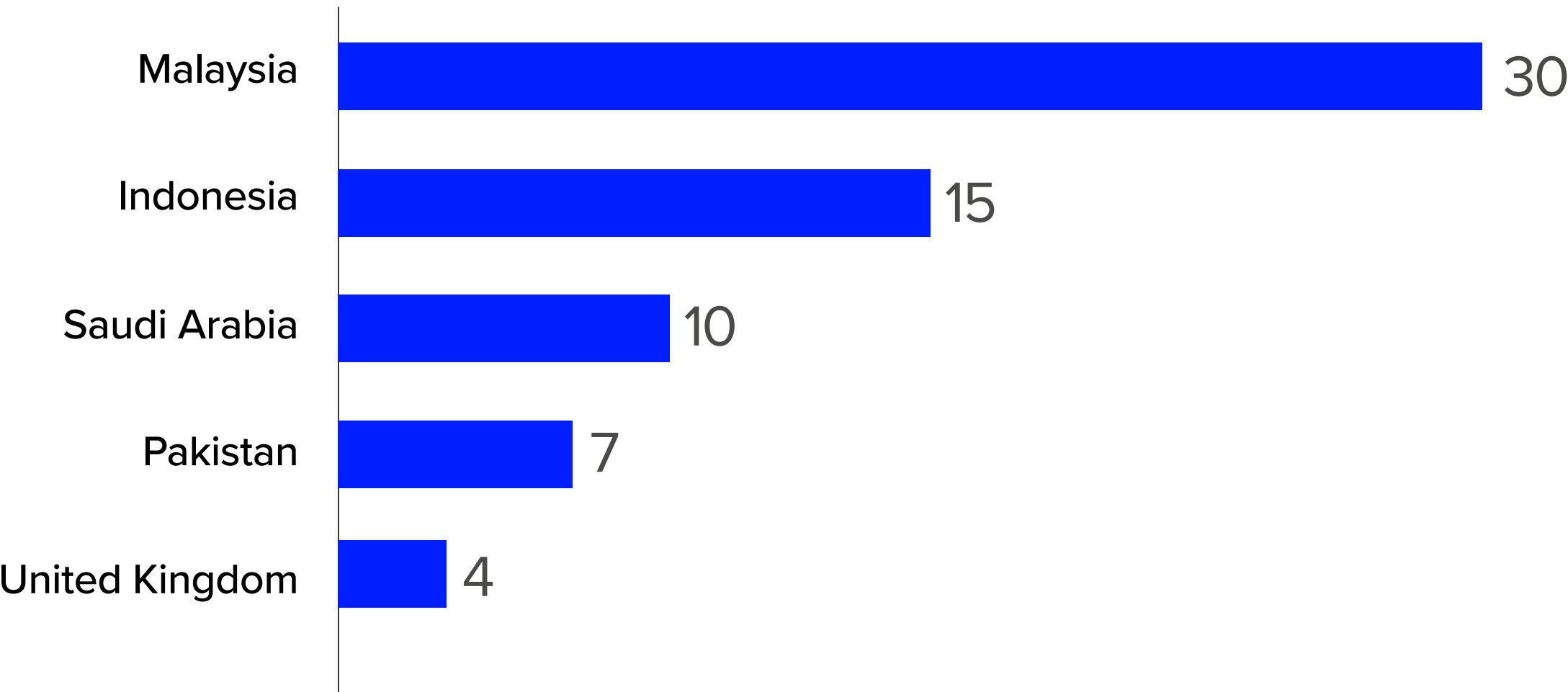
# AWARENESS



Top Countries that Hosted Islamic Finance Seminars (2020)

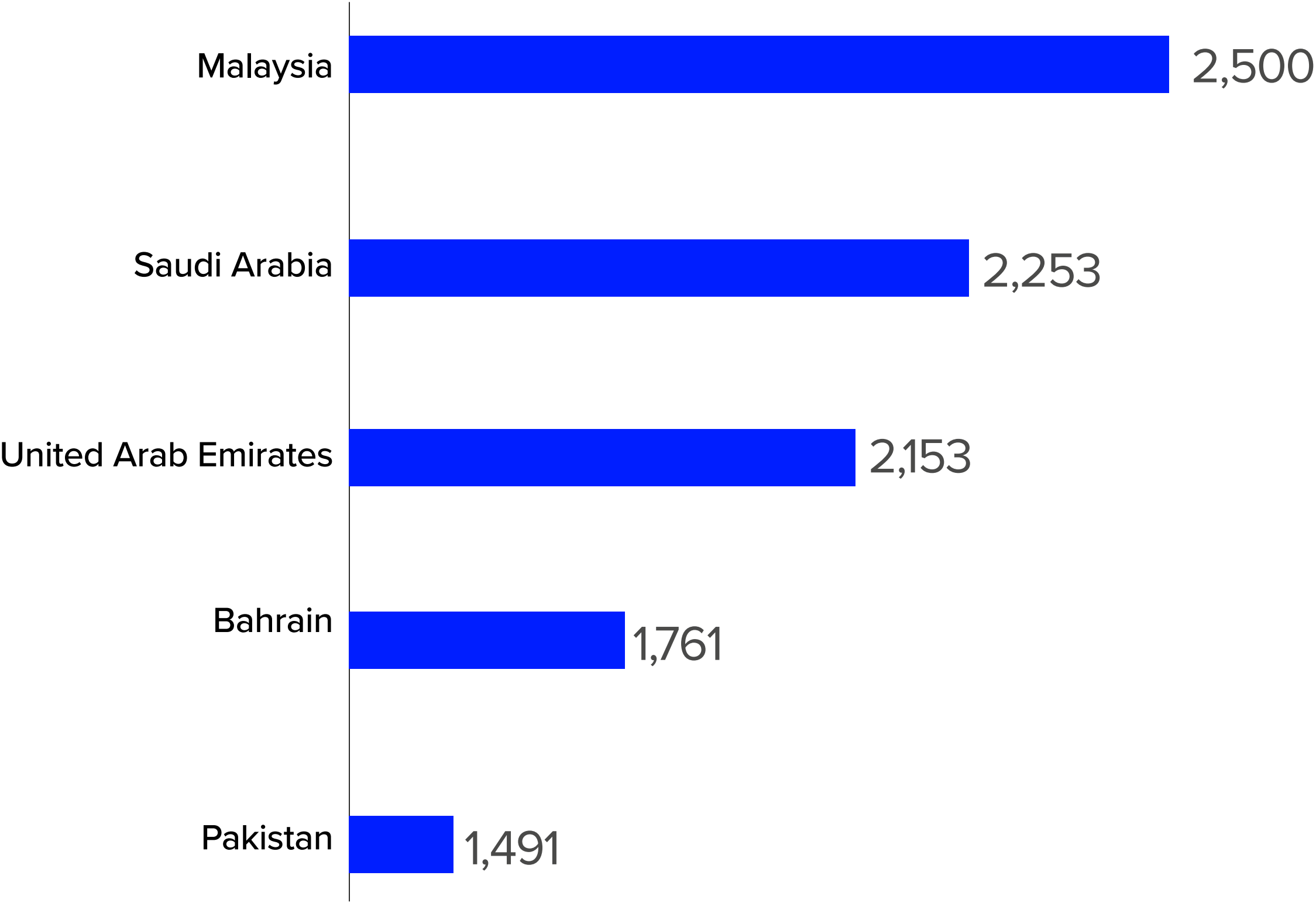


Top Countries that Hosted Islamic Finance Conferences (2020)

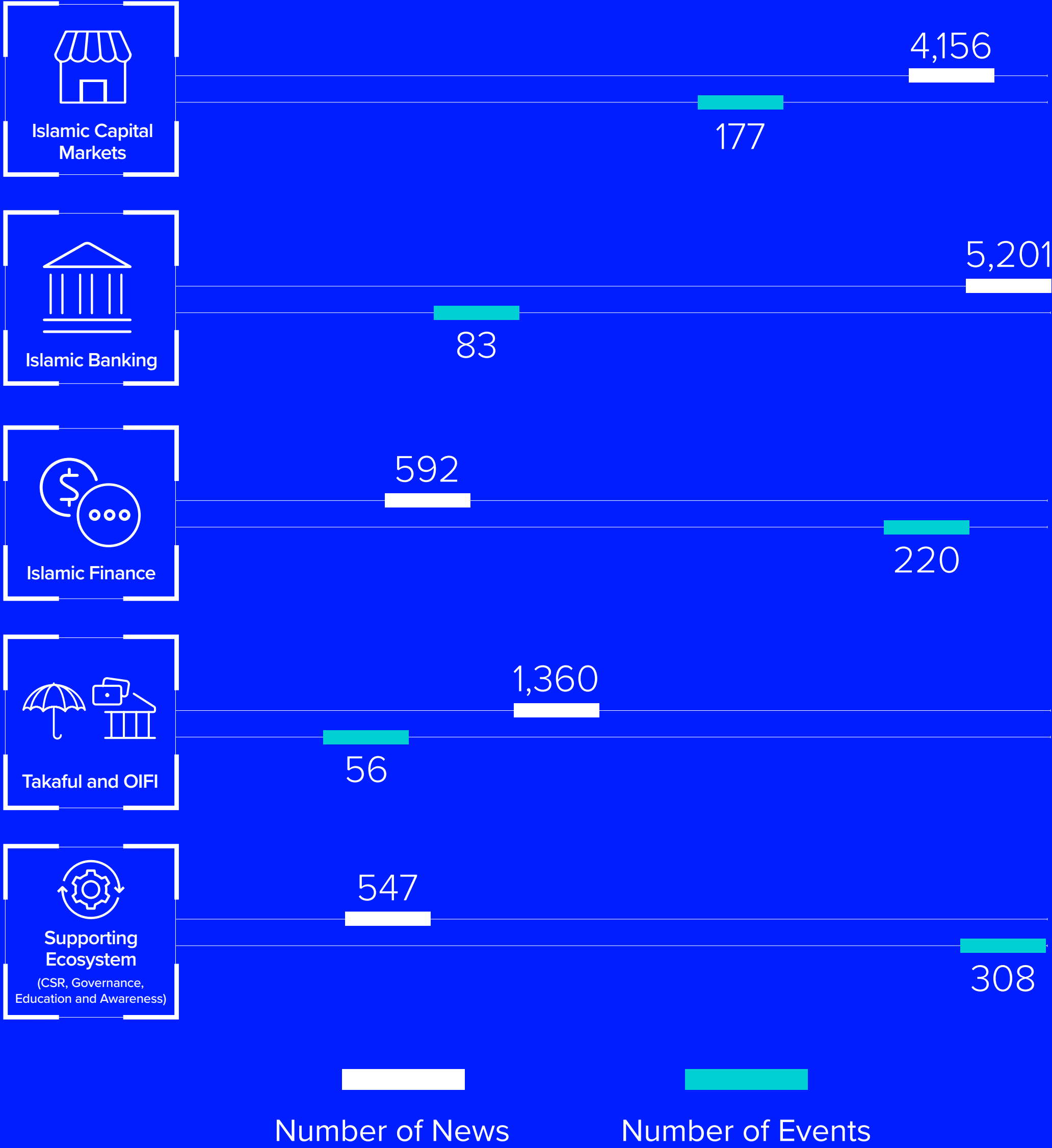




Top Countries Covered by Islamic Finance News (2020)



Islamic Finance Awareness by Theme (2020)





## **DIGITIZATION OF EVENTS FOR MOST OF 2020 BOOSTED THE NUMBER OF ISLAMIC FINANCE SEMINARS**

The number of Islamic finance-related events almost doubled in 2020 compared to 2019, largely due to the increase in the number of Islamic finance seminars (100 or fewer participants) to 756. Islamic finance conferences (more than 100 participants) plunged to 87. Many events moved online due to lockdowns and travel restrictions during 2020, and most organizers preferred shorter events.

93% of Islamic finance events were held virtually (the assignment of host country was based on the country of the event organizer, unless the event specifically focused on another country). Most of these Islamic finance events were concentrated in Indonesia and Malaysia.

## **INDONESIA DEVELOPED NEW INITIATIVES TO CONTINUE RAISING ISLAMIC FINANCE AWARENESS**

Indonesia's high-level government Islamic economy committee, KNEKS, is keen to push Islamic finance literacy beyond 10% by 2022. It is targeting Generation Z and Millennials, that collectively form a large part of the country's population.

The country went a step further in 2021. With the aim to promote the Shariah economy and to tackle low Islamic finance literacy, President Joko Widodo launched the 'Sharia Economic Brand' in January 2021 to raise public awareness of Islamic economy-related activities. The logo for the brand can be used by different stakeholders in Islamic economy and finance, a step towards unifying different movements to boost public awareness on the Islamic economy as a whole.

This is not the first time the country's president is involved in promoting the Islamic economy. He launched the country's Masterplan for the Islamic Economy 2019 – 2024 in 2019 and was also on hand to open the country's newly-merged Islamic bank, Bank Syariah Indonesia in February 2021.

## **DIFFERENT PARTIES IN TURKEY DRIVE ISLAMIC FINANCE AWARENESS**

Turkey ranked sixth for Islamic finance events, with its 31 in 2020, mostly seminars. Many of the events were webinars conducted in the local language. The organizers of these events were mostly in the academic field and focused on general Islamic finance or Islamic social finance.

While academic players have an active role in promoting Islamic finance, Turkey still needs to intensify its efforts to raise awareness of the industry. In recognition of the importance of its \$77 billion participation finance industry, authorities announced in an Official Gazette in February 2021 that the Presidential Finance Office will have a dedicated department to develop strategies and raise further awareness on the industry in the country, which is among the fastest Islamic finance growth markets in the world.

The department will target partnerships and cooperation among different stakeholders of the industry, such as public and private institutions, universities and non-governmental organizations. This is another initiative to help boost market share of participation banking to reach the government's goal of 15% of the total banking system by 2025 from around 7% at the end of 2020.

Apart from using events to raise awareness of the industry, Turkey's Participation Banks Association set out consumer awareness as an important strategic objective as part of its Participation Banking Strategy Update Report 2021-2025. According to the report, there is a need to update corporate communications strategies, and this can be developed through increasing cooperation between different stakeholders in the industry's ecosystem.

For instance, customer relations managers for Islamic banks need more knowledge and awareness of takaful products to better inform clients. Cooperation needs to be developed between Islamic banks and takaful operators to increase premium, or contribution, sales. The plan is to enhance cooperations between the first-quarter of 2021 and the second-quarter of 2022.





## SPECIFIC THEMES EMERGED IN ISLAMIC FINANCE NEWS DUE TO COVID-19

News coverage on Islamic finance slowed during the pandemic compared to 2019. Many of the news stories that covered the impact of the pandemic touched on relief measures provided by Islamic financial institutions be they Islamic banks, multilateral organizations or takaful operators. Sukuk was also largely seen as an important tool to help mitigate fallouts from the pandemic. Islamic sustainable finance emerged as a strong topic during 2020, mainly focused on green and sustainability-related sukuk and financing.



# 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 out one another 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

### 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





# COUNTRY LIST

**IFDI 2021 covers 135 countries and dependencies with a presence in Islamic finance either directly or in other metrics such as news, education or events on the industry. These countries are divided into eight broad regions.**

## GCC

(Gulf Cooperation Council)

Bahrain  
Kuwait  
Oman  
Qatar  
Saudi Arabia  
United Arab Emirates

## Southeast Asia

Brunei Darussalam  
Cambodia  
Indonesia  
Malaysia  
Myanmar  
Philippines  
Singapore  
Thailand

## South Asia

Afghanistan  
Bangladesh  
India  
Maldives  
Nepal  
Pakistan  
Sri Lanka

## Other MENA

(Middle East and North Africa Excluding GCC)

|         |            |
|---------|------------|
| Algeria | Mauritania |
| Egypt   | Morocco    |
| Iran    | Palestine  |
| Iraq    | Sudan      |
| Jordan  | Syria      |
| Lebanon | Tunisia    |
| Libya   | Yemen      |

## Europe

Albania  
Austria  
Belgium  
Bosnia and Herzegovina  
Bulgaria  
Croatia  
Cyprus  
Czech Republic  
Denmark  
Finland  
France  
Georgia  
Germany  
Greece  
Guernsey  
Hungary  
Ireland  
Italy  
Jersey  
Latvia  
Liberia  
Liechtenstein  
Luxembourg  
Macedonia  
Malta  
Netherlands  
Norway  
Poland  
Portugal  
Romania  
Serbia  
Slovakia  
Slovenia  
Spain  
Sweden  
Switzerland  
Turkey  
Ukraine  
United Kingdom

## Other Asia

Australia  
Azerbaijan  
China  
Hong Kong  
Japan  
Kazakhstan  
Kyrgyzstan  
New Zealand  
Russia  
South Korea  
Taiwan  
Tajikistan  
Turkmenistan  
Uzbekistan  
Vietnam

## Americas

Bahamas  
Bolivia  
Brazil  
Canada  
Cayman Islands  
Chile  
Guyana  
Mexico  
Suriname  
Trinidad and Tobago  
United States

## Sub-Saharan Africa

Angola  
Benin  
Botswana  
Burkina Faso  
Burundi  
Cameroon  
Chad  
Comoros  
Djibouti  
Ethiopia  
Gabon  
Gambia  
Ghana  
Guinea  
Guinea-Bissau  
Ivory Coast  
Kenya  
Liberia  
Malawi  
Mali  
Mauritius  
Mozambique  
Niger  
Nigeria  
Rwanda  
Senegal  
Seychelles  
Sierra Leone  
Somalia  
Somaliland  
South Africa  
Tanzania  
Togo  
Uganda  
Zambia  
Zimbabwe



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