

ICD – REFINITIV ISLAMIC FINANCE  
DEVELOPMENT REPORT 2022

# EMBRACING CHANGE



# ISLAMIC FINANCE DEVELOPMENT INDICATOR

Your gateway to over 1,600 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 1,600 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 136 countries and measured across more than 10 key metrics, including Knowledge, Governance, Sustainability and Awareness.

## The database provides Islamic finance markets stakeholders with:



10+ years

Islamic finance industry financial data



560+

Islamic banks profiles across 76 countries



330+

Takaful operators data across 47 countries



12,000+

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



1,900+

Islamic funds data from 29 jurisdictions



1,200+

Shariah scholars data and their board representation



880+

Islamic finance education providers



1,000+

Islamic finance events information

To access the IFDI page and the global Islamic finance database in Eikon, visit <http://bit.ly/IFDI-Eikon>.

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

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

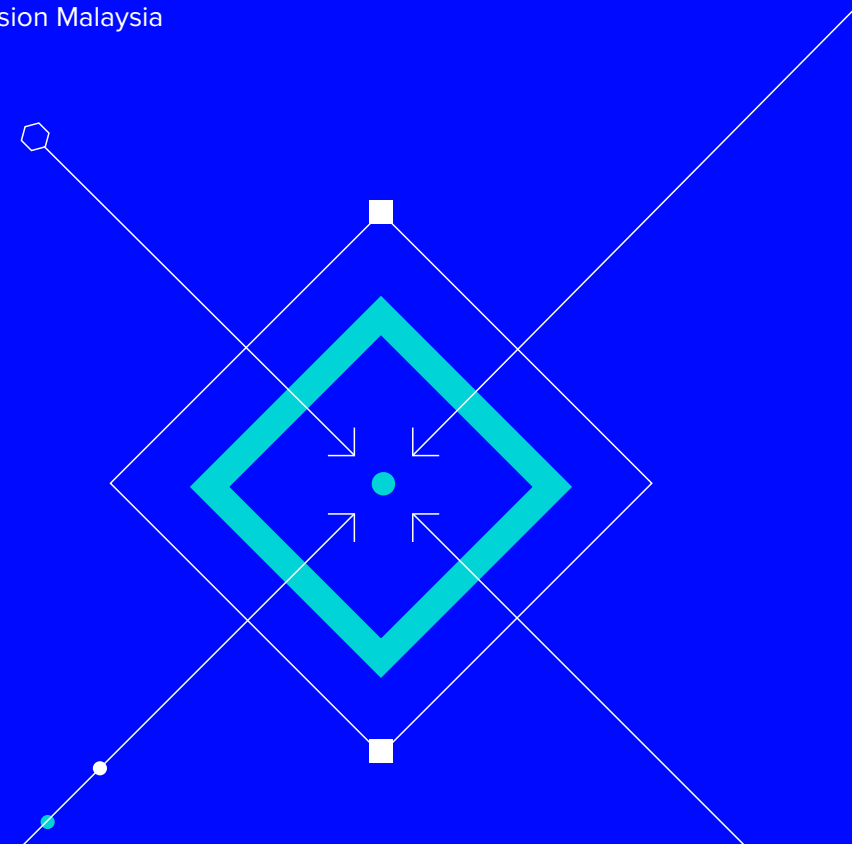
To download the Islamic Finance Development Report – IFDI 2022 visit <http://bit.ly/IFDI2022>.

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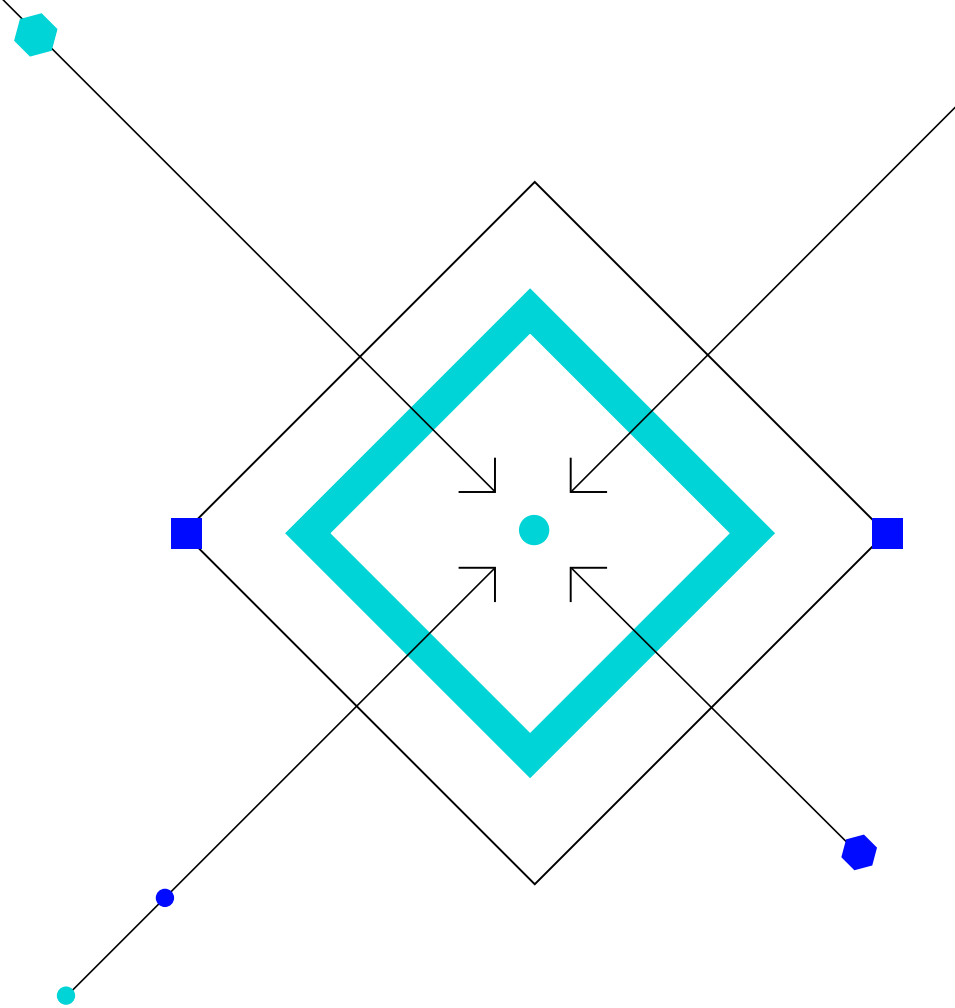
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# Foreword

The Islamic Corporation for the Development of the Private Sector (ICD), the private sector development arm of the Islamic Development Bank (IsDB) Group, and Refinitiv, the world's largest provider of financial markets data and infrastructure, are proud to present the 10th edition of the Islamic Finance Development Report.



We mark this milestone by strengthening the parameters of the statistics that inform the report, as we observe a constant growth and developments of the global Islamic finance industry.

To that end, we have made three significant changes to the Islamic Finance Development Indicator (IFDI) model: (i) the addition of new metrics related to ESG and Islamic FinTech; (ii) a re-arrangement of some of the previous metrics to form new sub-indicators; and (iii) a change of the weightage of the five main indicators by stressing more on the financial components (40% from 20%) and governance (25% from 20%).

The biggest headline for the Islamic finance industry in 2021 was its strong -- 17% -- growth to reach US\$4 trillion worth of assets. Growth across all sectors was robust, which we believe is testament to the strength of the industry's fundamentals to rebound from large-scale disruptions in 2020.

We are also optimistic for the continued double-digit growth of the global Islamic finance industry because of the prevailing positive developments we see in new and emerging markets such as in Central Asia and North Africa. The developments in these regions especially with regards to regulations and capacity-building have been years in the making, facilitated greatly by organisations such as the ICD, a member of IsDB Group. There was impressive growth in 2021 in countries like Kazakhstan, Tajikistan and Algeria that will

contribute to widening and deepening the global Islamic finance industry.

The big and more mature Islamic finance markets such as Malaysia, Indonesia, and the six countries of the Gulf Cooperation Council (GCC)--Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE-- continue to strengthen their industries and lead with developments and innovations in segments like Islamic FinTech, regulations and sustainability.

Lastly, of course, the Islamic finance is not exclusive anymore to Islamic or Muslim-majority countries. For decades the global industry has benefitted from countries like the UK participating across all the sectors and in 2021 we again saw key developments coming out of the nation, such as the government's second issuance of sukuk in March. Moving forward, we are also excited that in July 2022 Australia's first full-fledged Islamic bank received its license to operate, demonstrating to us the continued and increasing appeal of Islamic finance.

Since 2013, the IFDI and its analyses have served as an important record of the growth and development of the global Islamic finance industry. With the changes to the IFDI we made to strengthen its framework and include new developments, we are confident that the IFDI will remain a much-needed resource for the industry's stakeholders for the next many years to come.



**Eng. Hani Salem Sonbol**

Acting CEO,  
Islamic Corporation of Development  
of Private Sector



**Mustafa Adil**

Head of Islamic Finance  
Refinitiv, an LSEG business

# Executive Summary

The global Islamic finance industry proved resilient in 2020, the first year of the pandemic, with its total asset size jumping by 14% but it was in the following year that it showed even more character when growth of 17% out-performed pre-Covid levels to propel assets to US\$4 trillion.

From the very first jab in the arm of a 90-year-old Brit on 8 December 2020, the Covid-19 vaccination was the shot that fired the world onto the path of recovery in 2021.

As the deadliness of the virus eased with large swathes of people getting vaccinated, economies started to open up even more and further improved the health of the Islamic financial industry.

## Growth across all sectors

Islamic banking, the largest sector in the Islamic finance industry holding 70% of its assets, breathed a sigh of relief as provisions for credit losses eased, pushing up net income substantially. There were three key underlying growth drivers: in some instances banks benefited from extended government support to sectors that were pandemic-hit; a small number gained operational efficiencies from moves such as branchless banking and partnering with FinTechs; and a continued high demand for Islamic banking. Notably, the highest growth came from non-core Islamic finance jurisdictions, signalling both the growth of new markets and the plateauing of the sector in the more mature jurisdictions. Tajikistan (84%), Burkina Faso (27%) and Ethiopia (26%) were the highlights for Islamic banking growth. Overall, the global Islamic banking sector grew by 17% to US\$2.8 trillion.

Sukuk, the second largest sector by assets, grew by 14% in 2021 to US\$713 billion in sukuk outstanding. New issuance rose by 9% to a record US\$202.1 billion. Notably, long-term sukuk with tenors of five years or longer increased, indicating a shift in vision towards the longer horizon post-pandemic. Sovereigns and quasi-sovereigns continued to dominate new issuances. They also continue to dominate in the issuance of ESG sukuk

that in 2021 reached a new high of US\$5.3 billion. Saudi Arabia, Indonesia and Malaysia are the clear leaders in this segment that we anticipate will continue to grow with the mainstreaming of ESG investments and strong GCC demand especially to help fund green and sustainability transition projects.

Islamic funds, the third biggest sector, saw standout growth of 34% to US\$238 billion worth of assets under management in 2021. However, this sector is less widespread than banking and sukuk, with a substantial 81% of total global Islamic funds coming out of just three countries: Iran, Saudi Arabia and Malaysia. Money market and equity were the biggest asset classes but exchange traded funds (ETFs) gained traction with more appearing in different countries. As with sukuk, ESG funds hit a notable point in the development of Islamic finance in 2021. One of the highlights was the announcement by Malaysia's Employee Provident Fund (EPF)--that holds substantial Islamic funds--of its transition to be a sustainable investor with a fully ESG-compliant portfolio by 2030 and climate neutral portfolio by 2050.

Other Islamic financial institutions (OIFIs)--including financial technology companies, investment firms, financing companies, leasing and microfinance firms, and brokers and traders--grew by 5% to US\$169 billion worth of assets. Some of the fastest growth in assets were recorded in Kazakhstan (44%), Egypt (38%) and Maldives (31%). A headline segment in this sector is financial technology, or FinTech, that is a key focus for Saudi Arabia that plans to almost triple its number of FinTech firms from 82 to 230 by 2025.

Takaful is the smallest sector of the Islamic finance industry, holding US\$73 billion in 2021 on the back of a strong 17% growth. The sector is undergoing consolidation in the Gulf Cooperation Council (GCC) countries that will streamline and reduce costs, and big regulatory changes in Southeast Asia will strengthen governance in Indonesia and Malaysia, as well as potentially welcome new entrants in the Philippines.

## Ecosystem growth

The growth of the asset sizes of the five sectors of Islamic banking—Sukuk, Islamic Funds, Other Islamic Financial Institutions and Takaful—contribute to the Financial Performance of the Islamic Finance Development Indicator (IFDI). As a barometer of the whole industry, the IFDI also factors in key aspects of the ecosystem: Governance, Sustainability, Knowledge and Awareness. Malaysia leads in all bar one.

The IFDI added the new metric of FinTech Sandbox to the Governance indicator this year, keeping in step with industry developments. Regulations are the backbone of Islamic finance Governance, with Islamic banking being the most widely-covered. Shariah Governance is the second strongest after Regulations as several countries have centralised Shariah boards and most have Shariah scholars who represent Islamic financial institutions. Corporate Governance is the weakest as many financial institutions returned weak reporting scores. Malaysia, Oman, Bahrain, Pakistan and Kuwait are the leaders in Governance.

On the Sustainability indicator, the IFDI considers CSR funds disbursed and ESG practices for all Islamic finance sectors and asset classes. This is one key indicator to watch as the world's financial industry overall continues to improve on ESG practices. For the Islamic finance industry, Malaysia, Saudi Arabia, Singapore, South Africa and Jordan are the top countries.

In the overall sustainability segment, large Islamic finance markets continue to enhance guidelines or regulations. In October 2021, all eyes were on new ESG disclosure guidelines for Saudi Arabia's stock exchange that consists of more than 200 companies.

On the Knowledge indicator, Indonesia pips Malaysia to rank first with its widespread efforts on both Education and Research. After Malaysia in second comes Saudi Arabia, Pakistan and Bahrain.

The Awareness indicator measures the number of Islamic finance Events and News. Malaysia is top-ranked, followed by Kuwait, Saudi Arabia, UAE and Bahrain.

### Leading countries emerge in the enhanced IFDI model

We have made three key changes to enhance the IFDI model: the addition of new metrics related to ESG and Islamic FinTech; a re-arrangement of some of the previous metrics to form new sub-indicators; and a change of the weightage of the five main indicators by stressing more on the financial components (40% from 20%) and governance (25% from 20%).

For IFDI 2022, the core Islamic finance markets in Southeast Asia, the GCC, and South Asia lead the 136 countries we assessed. Malaysia is the leader with an IFDI score of 113, followed by Saudi Arabia (74), Indonesia (61), Bahrain (59), Kuwait (59), UAE (52), Oman (48), Pakistan (43), Qatar (38) and Bangladesh (36).

## New developments

The Covid-19 lockdowns accelerated digitalisation and financial technology.

In 2021, the top five countries by number of Islamic FinTechs were Saudi Arabia, Indonesia, UK, Malaysia and Kazakhstan. This group alone accounted for 70% of the global total number of Islamic FinTechs.

The industry saw a number of digital banking moves in 2021 such as the launch of Nomo in the UK, Fardows in the United States, and Malaysia's central bank approving two licences for Islamic digital banks.

Another notable development was in the Buy Now, Pay Later (BNPL) segment. Payments giant Visa partnered with Singapore-based hoolah to provide a Shariah-compliant BNPL solution and Saudi-based Tamara and Tabby obtained fatwas for their BNPL.

The next step will be digital insurers and takaful operators, with Malaysia's central bank issuing a discussion paper for their licensing framework in January 2022. Pakistan's authorities are also working towards launching Takaful Tech, or TakTech for short.

### Outlook: Large-scale growth drivers moving forward

As we write this moving into the fourth quarter of 2022, economies are hit by the continuing Russian invasion of Ukraine that is affecting energy prices and sending ripples through a large cross-section of the world's supply chain. Inflation is also a key concern for most countries.

Looking specifically at Islamic finance, several large-scale national plans and roadmaps will give the industry a boost. These include Afghanistan, Brunei, Indonesia, Kazakhstan, Labuan, Malaysia, Oman, Pakistan and Saudi Arabia.

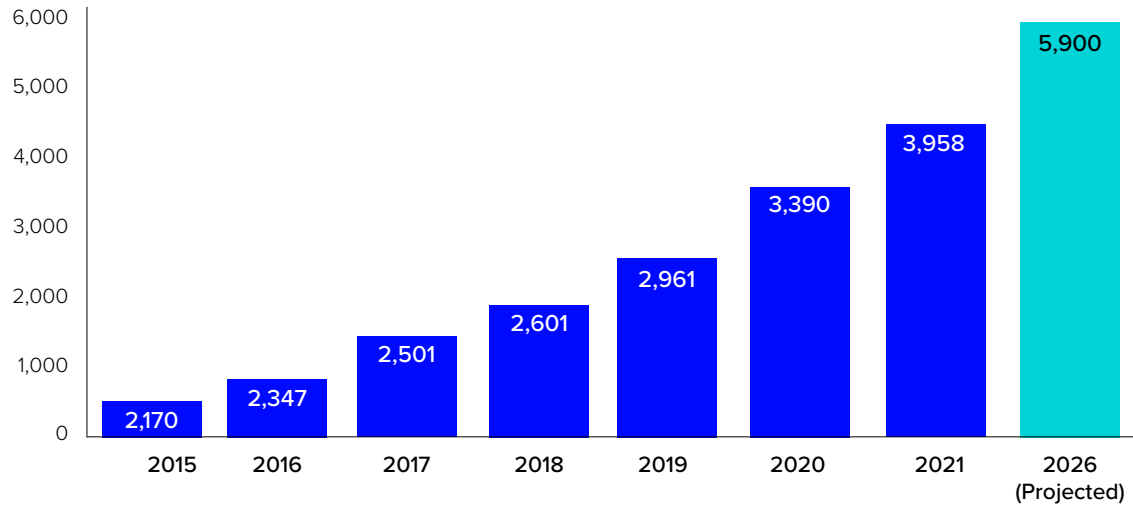
Key developments across North Africa where Islamic banking and takaful are gaining a lot of traction and growth, will also contribute to the expansion of Islamic finance moving forward.

The other region to look out for is Central Asia where countries like Tajikistan, one of the fastest growing Islamic banking markets in 2021, will also kickstart its takaful sector. Kazakhstan is also fast expanding its Islamic finance industry with strong growth in Other Islamic Financial Institutions, especially FinTechs.

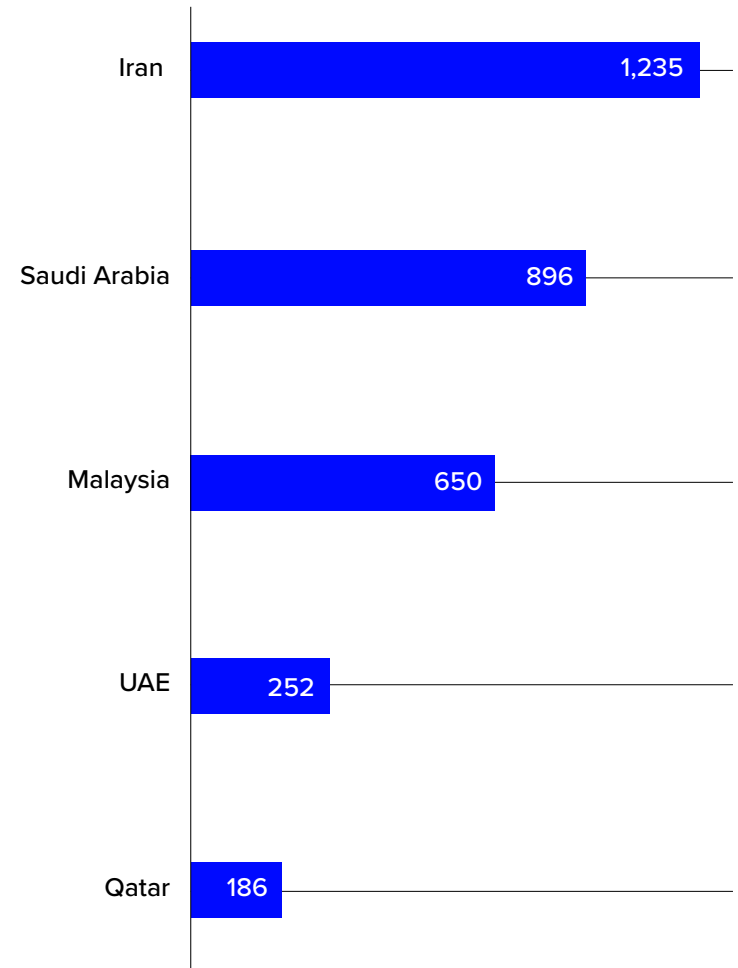
Overall, IFDI projects the global Islamic finance industry to grow to US\$5.9 trillion by 2026 from US\$4 trillion in 2021, mainly driven by its biggest segments Islamic banks and sukuk.

# Islamic Finance Landscape in 2021

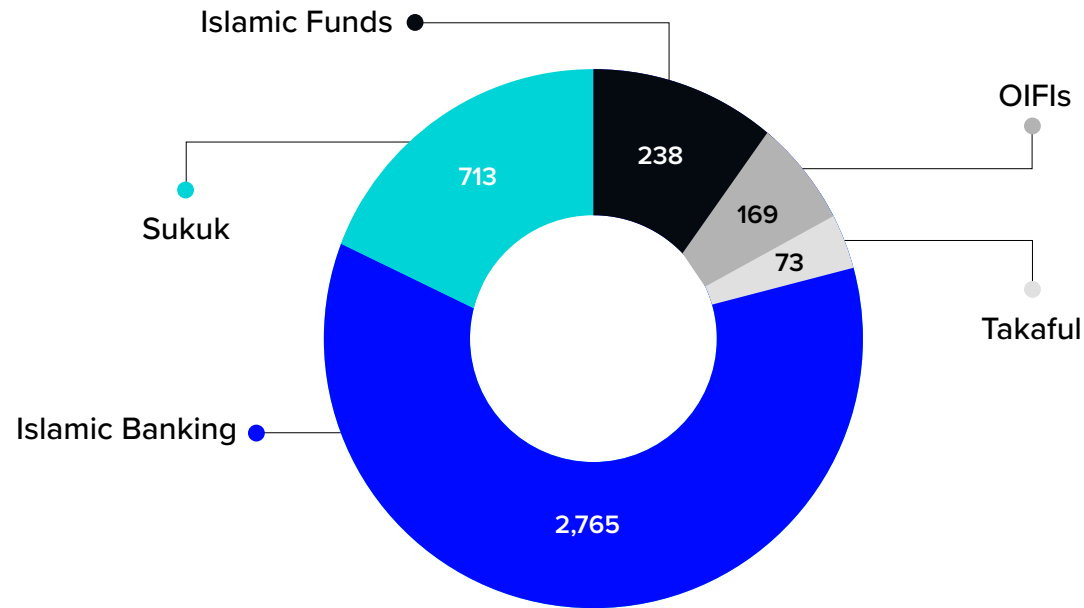
Islamic Finance Assets Growth (2015 - 2021, US\$ Billion)



Top Countries by Islamic Finance Assets (2021, US\$ Billion)



Islamic Finance Assets (2021, US\$ Billion)





# Islamic Finance Industry and its Supporting Ecosystem in 2021



## FINANCIAL PERFORMANCE

Total Islamic Finance Assets

**US\$ 4.0 Trillion**

YoY Growth of IF Assets

**17%**

Islamic Financial Institutions

**1,679**



## GOVERNANCE

Countries with at Least One Type of Islamic Finance Regulation

**47**

Countries with Central Sharia Committee Presence

**19**

Average Disclosure Index

**34%**

Number of Shariah Scholars with Institutional Representation

**1,296**

Countries with FinTech Sandbox

**50**



## SUSTAINABILITY

Total Value of ESG Sukuk Outstanding (US\$ Million)

**16,454**

Total Value of ESG Islamic Funds Outstanding (US\$ Million)

**7,546**

Number of Countries with Sustainability Guidelines

**41**

Average ESG Reporting Index

**19%**

Average CSR Reporting Index

**16%**

Total CSR Funds Disbursed (US\$ Million)

**1,223**



## AWARENESS

Number of Islamic Finance Events

**1,053**

Share of Islamic Finance Virtual Events of Total Events

**78%**

Number of Islamic Finance News

**13,216**



## KNOWLEDGE

Islamic Finance Education Providers

**880**

Islamic Finance Research Papers Produced

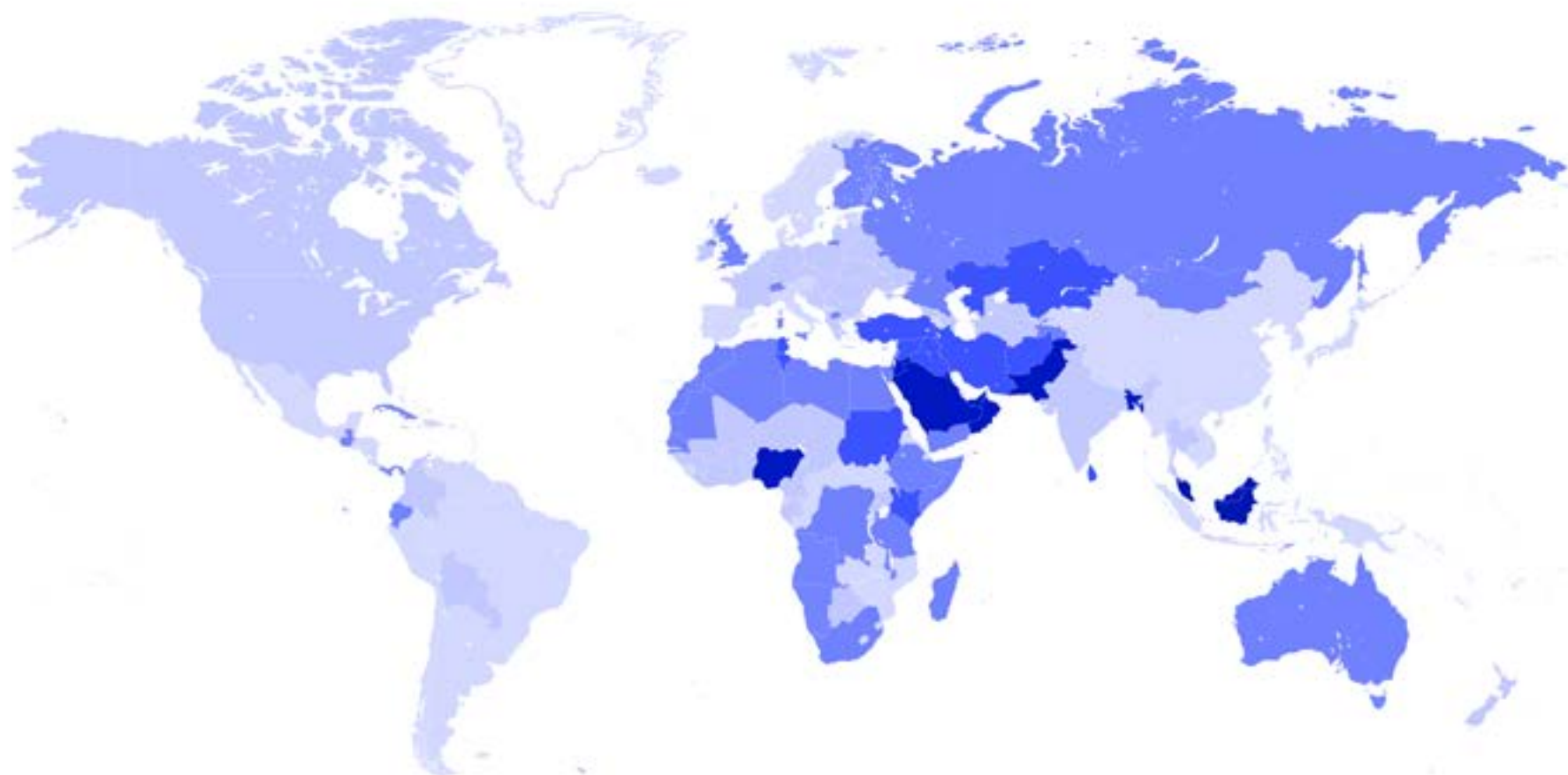
**3,504**

Islamic Finance Journals

**124**

# Islamic Finance Development Indicator 2022

## Most Developed Countries In Islamic Finance



Low IFDI Value High IFDI Value

### ■ Top five countries

1

Malaysia

2

Saudi Arabia

3

Indonesia

4

Bahrain

5

Kuwait

# What is the Islamic Finance Development Indicator?

The Islamic Finance Development Indicator (IFDI) provides Islamic finance stakeholders such as governments and financial institutions a detailed analysis of the key factors driving the development and growth of the industry worldwide. The IFDI provides a vital tool in guiding policy within the industry by measuring changes in the indicator and its underlying components over time and across different countries. 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 sectors in the many countries where Islamic finance has a presence.

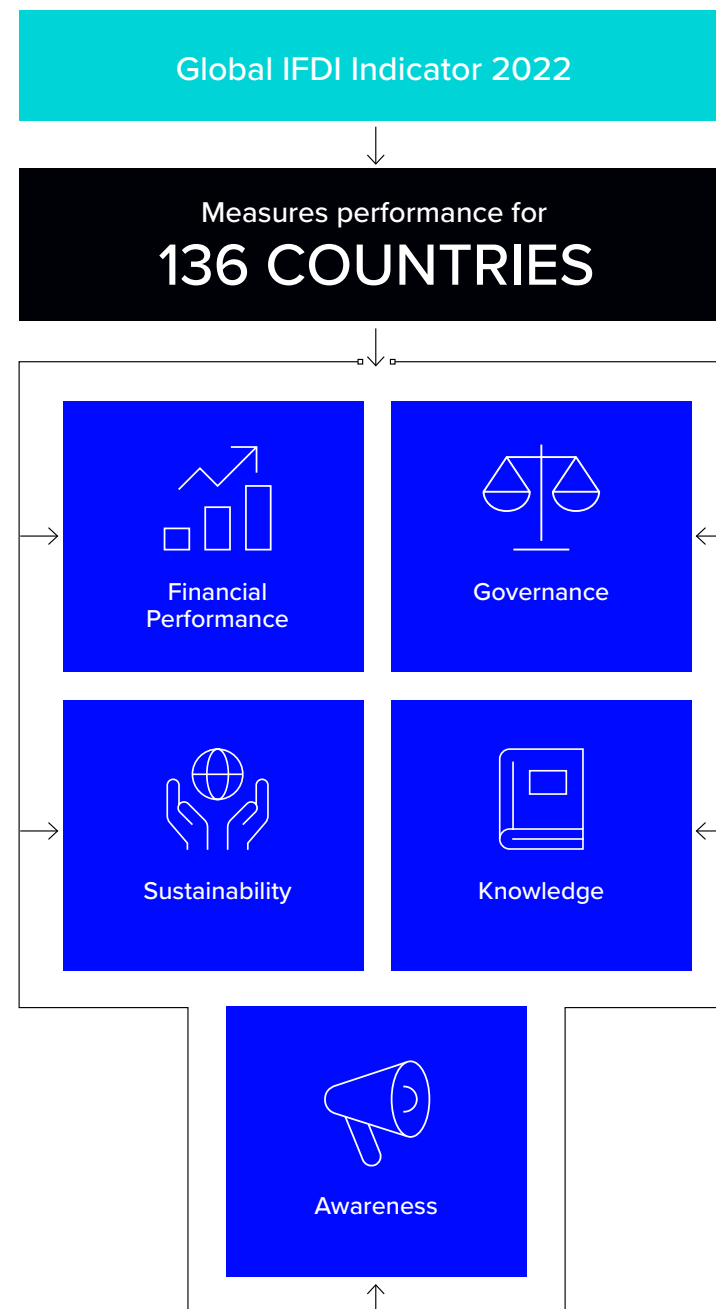
The 2022 indicator measures the state of the development of the Islamic finance industry in 2021, the second year of the Covid-19 pandemic, and provides sub-sector performances and rankings for 136 countries around the world.

For this year's edition of the IFDI, we have modified the underlying model that generates scores for the global average indicator, main indicators and their sub-indicators. The five indicators that are the main drivers of development in the industry for 2022 are: Financial Performance, Governance, Sustainability, Knowledge and Awareness. The changes made to the model include:

- Addition of new metrics related to ESG and Islamic FinTech (they will be displayed in *Italics* in the next few pages)
- Re-arrangement of some of the previous metrics to form new sub-indicators
- Change of the weightage of the five main indicators by stressing more on the financial components (40% from 20%) and governance (25% from 20%). The remaining weightage is distributed among the rest of the indicators.

The underlying coefficients to produce the scores - banking assets, GDP and population - remain the same. The breakdown of the sub-indicators and their metrics are outlined in the next pages. In addition, a more detailed methodology of the indicator can be found in the IFDI rulebook online. Readers can view the underlying IFDI database on Refinitiv Eikon that offers a wealth of additional information on the indicator and its rankings. To learn more about the indicator, visit <https://www.refinitiv.com/en/islamic-finance>

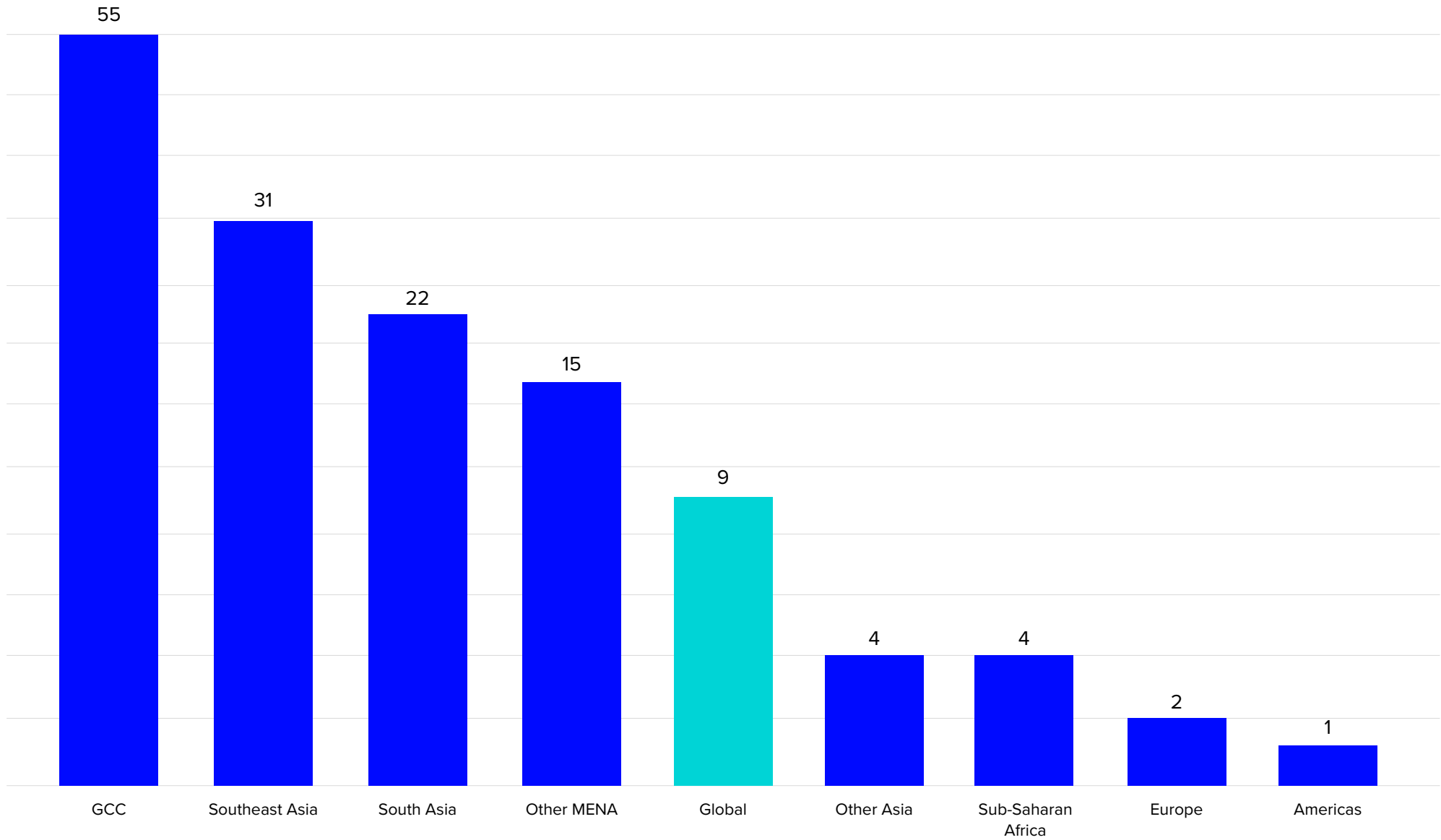
This chapter investigates the top-ranking countries according to IFDI and summarises the current state of the global Islamic finance industry through these indicators.



## Top IFDI Countries and Global Average IFDI Scores for 2022

Country	Ranking	IFDI 2022 Score	Financial Performance	Governance	Sustainability	Knowledge	Awareness
Malaysia	1	113	98	94	117	147	172
Saudi Arabia	2	74	65	49	89	75	143
Indonesia	3	61	31	65	30	195	56
Bahrain	4	59	35	86	36	49	112
Kuwait	5	59	42	75	20	21	157
UAE	6	52	33	71	28	34	116
Oman	7	48	16	89	45	28	94
Pakistan	8	43	22	75	24	52	58
Qatar	9	38	25	47	21	16	102
Bangladesh	10	36	30	61	18	14	47
Maldives	11	32	16	72	35	12	19
Brunei Darussalam	12	31	14	58	10	32	48
Jordan	13	29	15	40	51	43	17
Sudan	14	27	32	51	3	9	5
Singapore	15	27	4	66	61	4	8
<b>Global Average</b>		9	5	16	7	7	12

### IFDI 2022 Average Scores by Region



## Malaysia, Saudi Arabia and Indonesia top the new IFDI rankings

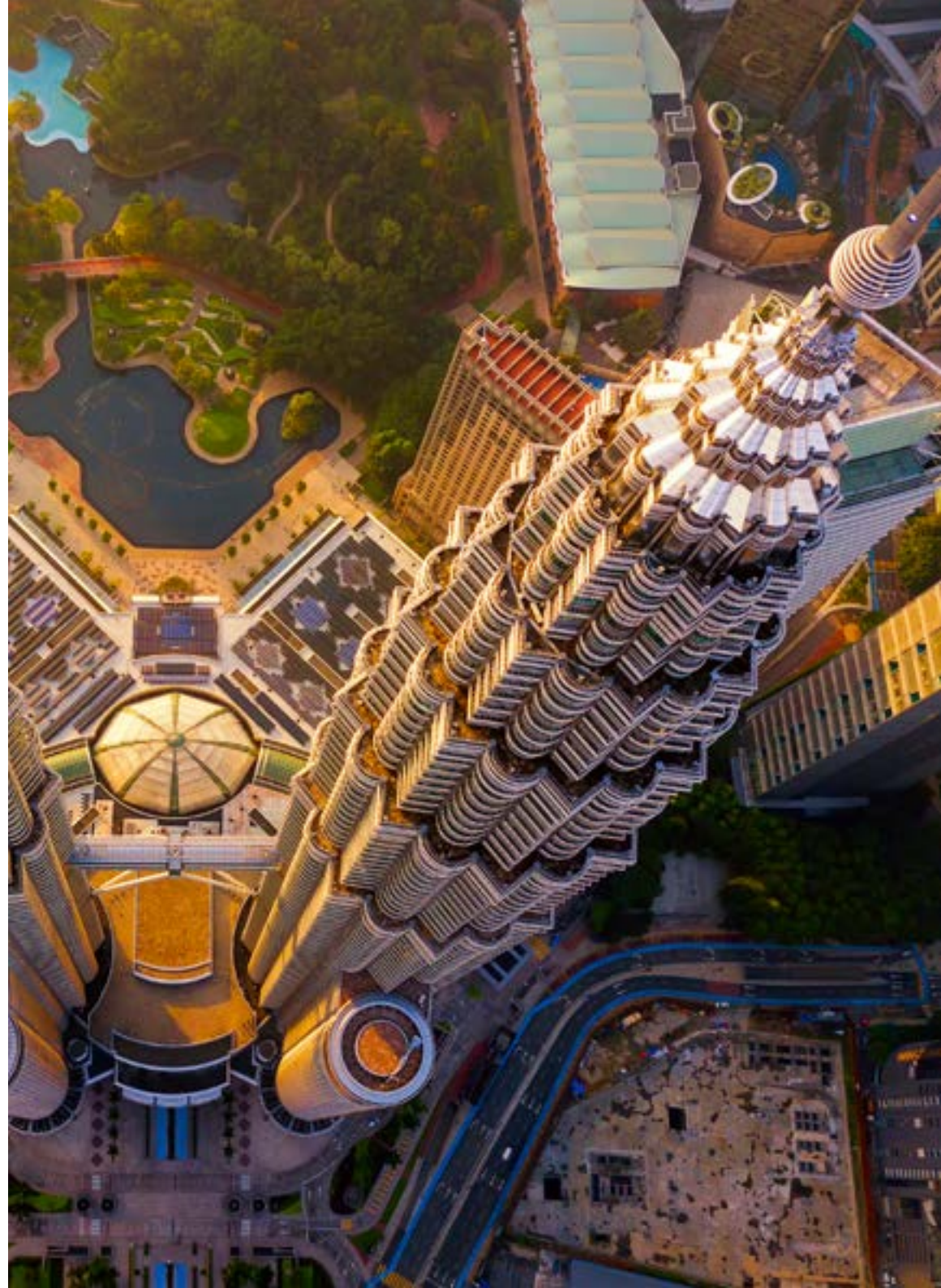
The average score for 136 countries is nine. Thirty-eight countries scored above the average while the majority fell below nine. Due to the change in the IFDI methodology for this year, the scores and rankings are not comparable with previous years.

By region, the GCC has the highest average score while the United States and countries in Europe have the lowest.

By indicator, Governance earned the highest average score, which is unsurprising given that many countries have comprehensive Islamic finance regulations (these can reach a score of 100 if all regulatory requirements are met) as well as coverage of Shariah and Corporate Governance. The average score for the Financial Performance indicator is the lowest as many countries still do not have any Islamic finance sectors or Islamic capital markets. However, a lot of these countries displayed interest in Islamic finance as evidenced by their industry events or education programmes that factor into their scores on the Awareness or Knowledge sub-indicators.

By country, Malaysia is the runaway leader thanks to high scores, hovering around 100, across all indicators. Malaysia's biggest Islamic finance ecosystem strengths are Awareness, Knowledge and Sustainability. Saudi Arabia, another all-rounder, follows closely after Malaysia. Indonesia's very strong performance in Knowledge and good scores for Governance secure it the third highest rank. The Gulf Cooperation Council (GCC) countries ex-Saudi Arabia, Pakistan and Bangladesh occupy the remaining top ten spots.

All the top ten countries except Oman and Pakistan also have the biggest base of Islamic finance assets. Iran and Turkey figure prominently in the top ten for total value of assets but they do not factor in the highest rankings for IFDI overall due to lower scores across the indicators.





## Financial Performance Indicator

Country	Rank	Financial Performance Score
Malaysia	1	98
Saudi Arabia	2	65
Iran	3	47
Kuwait	4	42
Bahrain	5	35

The Financial Performance indicator is a weighted index of Islamic capital markets and Islamic financial institutions (IFIs), per country, that generate Islamic financial services

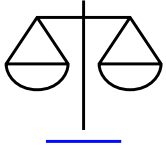
Improved performance by some Islamic financial institutions drive them higher up the indicator

Islamic banking is the strongest of the five sub-indicators, with an above average score based largely on the sheer number of Islamic banks or Islamic banking windows in many countries. Islamic banks also turned in strong performances, as measured by their Return on Assets (ROA). Other Islamic Financial Institutions (OIFIs), such as those offering financing and investment solutions, trail Islamic banks. Takaful, despite being present in far fewer countries, scored well thanks to high ROA earned by its institutions as the pandemic resulted in low claims for some sectors. For sukuk, despite a high growth in assets, issuances were concentrated in certain markets. Notably, the sukuk market in 2021 saw the return of erstwhile issuer the UK sovereign. Similar to sukuk, Islamic funds also saw high growth but stayed concentrated in a few markets.

By country, Malaysia leads mainly due to its active capital markets, represented by sukuk and Islamic funds. Saudi Arabia comes in second thanks to its top three ranking across all the sub-indicators. Iran, the country holding the largest base of Islamic finance assets, is third based on the performance of its Islamic financial institutions and Islamic funds.

## Top Countries by Sub-Indicator

	Islamic Banking	Takaful	Other Islamic Financial Institutions (OIFIs)	Sukuk	Islamic Funds
<b>Rank</b>	Average - 10	Average - 5	Average - 5	Average - 4	Average - 4
<b>1</b>	Sudan 137	Saudi Arabia 69	Kuwait 91	Malaysia 182	Malaysia 125
<b>2</b>	Bahrain 92	Iran 62	Malaysia 76	Saudi Arabia 58	Saudi Arabia 54
<b>3</b>	Saudi Arabia 70	Bangladesh 54	Saudi Arabia 74	Indonesia 50	Iran 32
<b>4</b>	Iraq 64	Malaysia 44	Iran 68	Bangladesh 47	Luxembourg 34
<b>5</b>	Iran 63	Maldives 36	UAE 45	Kuwait 27	Mauritius 27
<b>Metrics Used</b>	Per sector: Total assets, number of institutions (whether full-fledged or window), number of listed institutions, return on assets. For OIFIs, we have added the <i>number of Islamic FinTechs</i> as a metric			Number and volume of sukuk issued and outstanding, number of listed sukuk, bid/ask spread	Number and TNA of funds outstanding, number of funds launched and number of asset managers, cumulative performance



## Governance Indicator

Country	Rank	Governance Score
Malaysia	1	94
Oman	2	89
Bahrain	3	86
Pakistan	4	75
Kuwait	5	75

The Governance indicator is a weighted index of standards of good practice with regard to regulations, corporate governance and Shariah governance.

Regulations uphold Governance, new FinTech Sandbox metric thrown into the mix

Regulations are the backbone of Islamic finance Governance and the reason why so many countries scored better on the indicator compared to the others that make up the IFDI. Nine countries tie for the highest score for Regulations. Rules and guidelines extend to all Islamic finance sectors, with Islamic banking being the most widely-covered. We added a new metric to the Regulations sub-indicator this year, the FinTech Sandbox, to better reflect the development of the overall industry. Many countries have already implemented FinTech Sandboxes, further strengthening the global average score for the Regulations sub-indicator.

Shariah Governance is the second strongest sub-indicator. Several countries have centralised Shariah boards and most nations have Shariah scholars who represent Islamic financial institutions. Corporate Governance is the weakest among the sub-indicators as many financial institutions, either full-fledged Islamic or windows, returned weak reporting scores.

### Top Countries by Sub-Indicator

	Regulations	Shariah Governance	Corporate Governance
Rank	Average - 24	Average - 14	Average - 10
1	Malaysia, Pakistan, Indonesia, Oman, UAE, Bahrain, Brunei, Nigeria, Kazakhstan <b>100</b>	Kuwait <b>120</b>	Singapore <b>157</b>
2		Malaysia <b>104</b>	South Africa <b>106</b>
3		Bahrain <b>98</b>	Oman <b>103</b>
4		Sudan <b>94</b>	Maldives <b>90</b>
5		Bangladesh <b>93</b>	Sri Lanka <b>82</b>
Metrics Used	Regulations on Islamic banking, specific accounting, Shariah governance, takaful, sukuk, Islamic funds, <i>FinTech sandbox</i>	Presence of Centralised Shariah committee, number of scholars with at least one board membership, number of scholars with more than five board memberships (counts as negative), number of institutions with three Shariah scholars or more	Disclosure index score, number of independent directors, other corporate governance items (independent chairperson of the board, non-executive chairs of audit and risk management committees)





## Sustainability Indicator

Different sub-indicators lift Malaysia and Saudi Arabia Sustainability indicator

Malaysia's continued efforts to develop its ESG Islamic capital market reaped rewards and lifts it to the top of the IFDI Sustainability indicator. This is supported by the country's drive for green and SRI sukuk along with ESG-aligned Islamic funds such as for waqf. Malaysia has the most number of such sukuk and funds albeit not the highest in dollar value.

Saudi Arabia is also among the most active markets developing CSR and ESG-aligned Islamic finance sectors. The Kingdom's Islamic financial institutions disbursed the most CSR funds , charity and zakat.

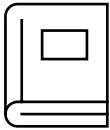
Notable top countries are Singapore and South Africa that achieved high CSR and ESG disclosure scores given the level of disclosure of these items by institutions such as Sabana Industrial Real Estate and Al Baraka Bank South Africa. Jordan pipped bigger Islamic finance jurisdictions to be second biggest disbursing of CSR funds, especially qardh al hasan.

Country	Rank	Sustainability Score
Malaysia	1	117
Saudi Arabia	2	90
Singapore	3	61
South Africa	4	47
Jordan	5	46

The Sustainability indicator is a weighted index of CSR activities and ESG practices for all Islamic finance sectors and asset classes.

## Top Countries by Sub-Indicator

	CSR	ESG
Rank	Average - 7	Average - 8
1	Saudi Arabia 139	Malaysia 200
2	Jordan 83	Singapore 50
3	Oman 73	Saudi Arabia 39
4	Singapore 73	South Africa 37
5	Maldives 62	Indonesia 35
Metrics Used	Funds disbursed to charity, zakat and qardh al hasan, disclosed CSR index score	Number and value of ESG sukuk outstanding, number and value of ESG Islamic funds outstanding, presence of sustainability guidelines given the presence of Islamic finance in the country, ESG reporting index score



## Knowledge Indicator

Indonesia banks on widespread knowledge dissemination

Indonesia has been dedicating specialist resources to develop its Islamic finance, and indeed Islamic economy, sectors overall. Home to the biggest Muslim population in the world, the country has several Islamic universities and colleges, and it has the largest number of education providers for Islamic finance courses and degrees. Indonesia in 2021 was home to the most number of journals that specifically cover Islamic finance and economy and the country also published the most research papers covering different aspects of the Islamic finance industry. The government's National Shariah Economy and Finance Committee (KNEKS) continues to implement the action points outlined in the Islamic Economic Masterplan 2019-2024 that aims to drive the growth of the country's Islamic finance industry.

Not to be outdone, Malaysia and Saudi Arabia were also driven by their high number of Islamic finance-related research papers and course providers. Elsewhere, there was an uptick in the number of research papers published in Pakistan in 2021. Bahrain also ranks in the top five on the Knowledge indicator, propped up by its good number of education providers given the country's small size.

Country	Rank	Sustainability Score
Indonesia	1	195
Malaysia	2	147
Saudi Arabia	3	75
Pakistan	4	52
Bahrain	5	49

The Knowledge indicator is a weighted index of education and research which are the main building blocks for any knowledge-based industry.

## Top Countries by Sub-Indicator

	Education	Research
Rank	Average - 8	Average - 6
1	Indonesia 200	Malaysia 200
2	Malaysia 93	Indonesia 190
3	Bahrain 71	Saudi Arabia 81
4	Jordan 71	Pakistan 49
5	Saudi Arabia 68	Brunei 33
Metrics Used	Number of Islamic finance course and degree providers	Number of research papers produced and <i>number of Islamic finance journals</i>



## Awareness Indicator

Online Islamic finance events lift Awareness in second year of the pandemic

Islamic finance has long penetrated mainstream media and the MICE (meetings, incentives, conferences and exhibitions) industry in Malaysia. The Southeast Asian nation is strong on the News sub-indicator, and emerging from the pandemic in 2021 it started hybrid, i.e. part-in person and part-online, industry events that contributed to its score on the Events sub-indicator.

Hybrid or wholly online events continued in 2021, allowing Islamic finance literacy or discussions of specific topics impacting the industry to transfer faster compared to before. The Awareness scores for most countries were lifted mostly because of online events while conferences contributed the least. This is particularly the case for Kuwait that hosted a large number of Islamic finance webinars. Kuwait and its GCC neighbours achieved the highest score of 200 each for News.

Country	Rank	Sustainability Score
Malaysia	1	172
Kuwait	2	157
Saudi Arabia	3	143
UAE	4	116
Bahrain	5	112

The Awareness Indicator is a weighted index of Islamic finance market awareness that assess two components: events and news.

## Top Countries by Sub-Indicator

	Events	News
Rank	Average - 6	Average - 18
1	Malaysia 144	Malaysia, Kuwait, Saudi Arabia, UAE, Bahrain, Qatar 200
2	Kuwait 113	
3	Saudi Arabia 86	
4	Brunei 58	
5	Indonesia 43	
Metrics Used	Number of seminars, conferences and online events	Number of exclusive and regional news

# Interview with Al Rajhi Bank Malaysia



**ARSALAN AHMAD**

CEO of Al Rajhi Bank Malaysia


Arsalaan Ahmed has over 15 years of experience working in wholesale and retail banking. He has held a number of senior management roles with international exposure in the UK, the Middle East and Asia, and recognised in innovating Islamic finance solutions and advised governments in Islamic finance regulations. Prior to taking on the role of Chief Executive Officer of Al Rajhi Bank Malaysia, Arsalan was the CEO of HSBC Amanah. He currently chairs the Malaysian Financial Services JC3 (Joint Committee on Climate Change) Sub-Committee 4 on Engagement and Capacity Building and is the Treasurer of the Association of Islamic Banking and Financial Institutions Malaysia. Arsalan is also a founder and board member of a UK FinTech company, mmob, that specialises in Open Banking and Open Finance technology infrastructure.

## 1. Al Rajhi Bank Malaysia (ARBM) is taking a big step by setting up a digital bank. What was the motive behind it and what does it mean for ARBM as one of the first banks to build a digital bank in Malaysia?

The financial services industry cannot wait for change to take it by the hand and bring it into the future. The Islamic financial services industry also cannot always look to the conventional side on what to follow. We wanted to take a big step forward for both financial services in Malaysia and for Islamic finance globally. We wanted to build the best Digital Bank on the planet. But at the heart of this, it is not just industry credentials, far from it, customers are at the heart of why we're doing it. We want to empower and motivate our customers to achieve more so they can inspire others to do the same.

The behaviour and banking needs of consumers have changed in recent years, more so in response to digital and technological advances. The social and economic impact of COVID-19 was without a doubt the catalyst for financial institutions in Malaysia to accelerate their digital strategies and for consumers to change their banking behaviours. It opened the door for banks in Malaysia to step into a digital world and we are proud to be leading that move.

At its core, ARBM's business is guided by Islamic finance principles and Shariah-compliant guidelines to help customers manage their finances in a way that allows them to thrive. We are seizing the opportunities in digital banking by investing in a customer-focused Islamic digital banking proposition. We are finalising our digital bank that thrives on innovation to provide our customers the best reimagined banking experience in the 21st century. Working in the context of Malaysia's banking landscape, the overarching key driver of our proposed model will be efficiency and lower cost-to-serve, underpinned by our digital banking proposition. ARBM has in place a new transformation plan aimed at setting a new standard of excellence for Islamic banking in Malaysia and we have set a vision to become the #1 Islamic innovation bank in Malaysia. The key factor that sets us apart is our love of innovating for our customers. This aligns perfectly with ARB Group's strategy that revolves around 'unbank the bank'.



## 2. How can digitisation help banks such as ARBM compete more aggressively in the local market and take on a bigger market share?

We are not digitising; we are embracing the digital agenda. The two are different. To ensure we can deliver the digital agenda, ARBM is charting a new journey on a blank canvas backed by strong banking experience.

The ability to start afresh allows ARBM to build a digital bank with state-of-the-art technology without having to worry about legacy issues. Digitisation on its own often leads to making legacy systems and processes more digital to lower cost and potentially deliver incremental benefit. As such digitisation does not allow a bank to maximise the full potential and therefore value of the broader digital agenda, which is not just about technology but also mindset, ecosystem development, agility, and data.

Building a digital bank on a greenfield allows us to tap into the best-in-class technology, which will benefit our customers as they will be able to open an account effortlessly and enjoy a suite of innovative solutions that our digital bank is going to provide without any friction. Instead of starting from scratch like other FinTech players, ARBM is building a whole new bank on a greenfield in the digital space while leveraging on our expertise in banking. This is important to ensure success because digital banking is an evolution that has principles, knowledge and capabilities from where it came and that cannot be simply discarded completely.

Digitisation will enable ARBM to take advantage of the vast potential of FinTech such as building a cloud-native Digital Bank to serve our customers' banking needs virtually, from opening an account, wealth management, to tapping into a vast marketplace of offerings. Our cutting-edge technology will enable limitless opportunities with the power of digital.


In addition, the Bank is capitalising on digital innovation and accelerating efforts in rolling out enhanced solutions to provide a world-class banking experience through best-in-class products, services and channels to benefit our customers. As we progress, we will continue to shift our focus to bring a more seamless and convenient banking experience by tapping into the potential of digital technology.

## 3. From a regulatory standpoint, Malaysia's central bank, BNM, is keen to transform the market with digital banking licenses. How feasible is it to establish a digital bank and do you expect the market to be overcrowded in the next few years?

The COVID-19 pandemic definitely accelerated the growth of digital adoption across the financial sector globally including Malaysia and the regulator, Bank Negara Malaysia (BNM), recognises the benefits of going digital and it encourages greater usage and offerings of innovative solutions by financial institutions as well collaboration between financial institutions and fintech firms. The government and Regulators have been supportive in the digital push, including setting up FinTech sandboxes, introducing guidelines for open API and e-KYC, and encouraging the adoption of cloud hosting. From our experience, digital is strategically important to BNM and they are highly supportive. As such, we hope to see many more to follow what we have done.

Competing in a market on digital is not just about the technology. As a bank, we know we can deliver financially stable, well-managed financial services. These principles, knowledge and capabilities set an incumbent bank apart from a start-up digital bank licensee provided the incumbent bank is able to harness these skills in the appropriate way when embarking on a digital journey. We believe we have harnessed this very well, bringing together both strengths in banking and digital. Our culture, aligned to the Group culture to 'unbank the bank', provides fertile ground for an organisational mindset that embraces change. The strong capabilities of our team in Malaysia, and the support of our board and parent group, gives us a unique competitive advantage that in my view has not been replicated by any bank in Malaysia.

Leading banks have also begun to take advantage of the strong digital banking adoption of consumers in Malaysia, by offering innovative digital services, such as mobile app with personal financial management tools, SaaS banking platform etc. As it is, Malaysia has a vibrant FinTech industry with major players (e.g., Grab, Boost, Touch N Go etc.). With regards to financial transactions, we can see the public has generally embraced digitalisation. Data from BNM shows that transactions through electronic payment channels increased by 30% in 2021, reaching over 7.2 billion transactions. Looking deeper at payment trends over the years, it is clear that the adoption of Internet banking and mobile banks has grown sharply since 2019, with Internet banking transactions rising from less than 500 million in 2019 to more than 2 billion transactions in 2021, and mobile banking transactions rising from 489 million in 2019 to 1.4 billion in 2021. Malaysia saw 233.6 million electronic money (e-money) transactions worth RM5 billion in November 2021, according to data from BNM. Cumulatively, there were 1.87 billion e-money transactions recorded from January to November 2021, amounting to RM45.2 billion. In fact, up to June 2021, e-wallet volume increased by 89% to 468 million transactions, merchant participation for QR payments jumped 57% to one million registrations, online banking volume went up 36% to 12.1 billion transactions.



Undoubtedly, customers expect digital banking to be the norm as strong growth of mobile/ internet banking penetration has strongly encouraged digital disruptions in the banking sector. This is the same for the Islamic financial sector. Islamic fintech has been growing exponentially in Malaysia with 33% of the world's Islamic fintech companies headquartered here, coupled with the fact that 2022 saw the announcement of Malaysia's first digital banks, these factors are sure to rattle the market as they are expected to usher in a new wave of innovation in banking.

Competition is good as it pushes innovation. In addition, with the non-banking players entering the banking sector via the new digital bank licenses issued by Bank Negara Malaysia, we can see more innovation and customer needs being addressed. Furthermore, conventional banks are making more moves in the digital space as well to meet customers' expectations for a seamless and personalised banking experience. On the other hand, FinTech players and financial institutions are always working towards striking a balance between leveraging on banking know-how and adopting cutting-edge technology. This is an on-going process that will take time.

On top of competition, more close collaboration between FinTech players and financial institutions can also be expected, which will bring in a new era of 21st banking experience. With customers' demand for innovation rising rapidly, there is still plenty of space for digital banks to grow.

#### **4. What is your outlook on digital banks in the Islamic finance industry? Will we see a transformation across major markets?**

I hope that due to the industry still at a relative nascent stage, its ability to collaborate and the passion with which those working in the industry have, that we will lead on digital banking rather than follow. Youth of the industry is linked to less onerous legacy issues, collaboration cross jurisdictional linkages, particularly with ASEAN and GCC Islamic finance markets, could allow acceleration of emerging trends such as embedded finance and open data, and the want to have the industry thrive by those committed to Islamic finance can fuel such leadership. For Al Rajhi Bank, the leadership that the Group has shown in Saudi Arabia on digital and what we will introduce in Malaysia, we hope it will play a role in catalysing such digital bank leadership within the Islamic finance space.

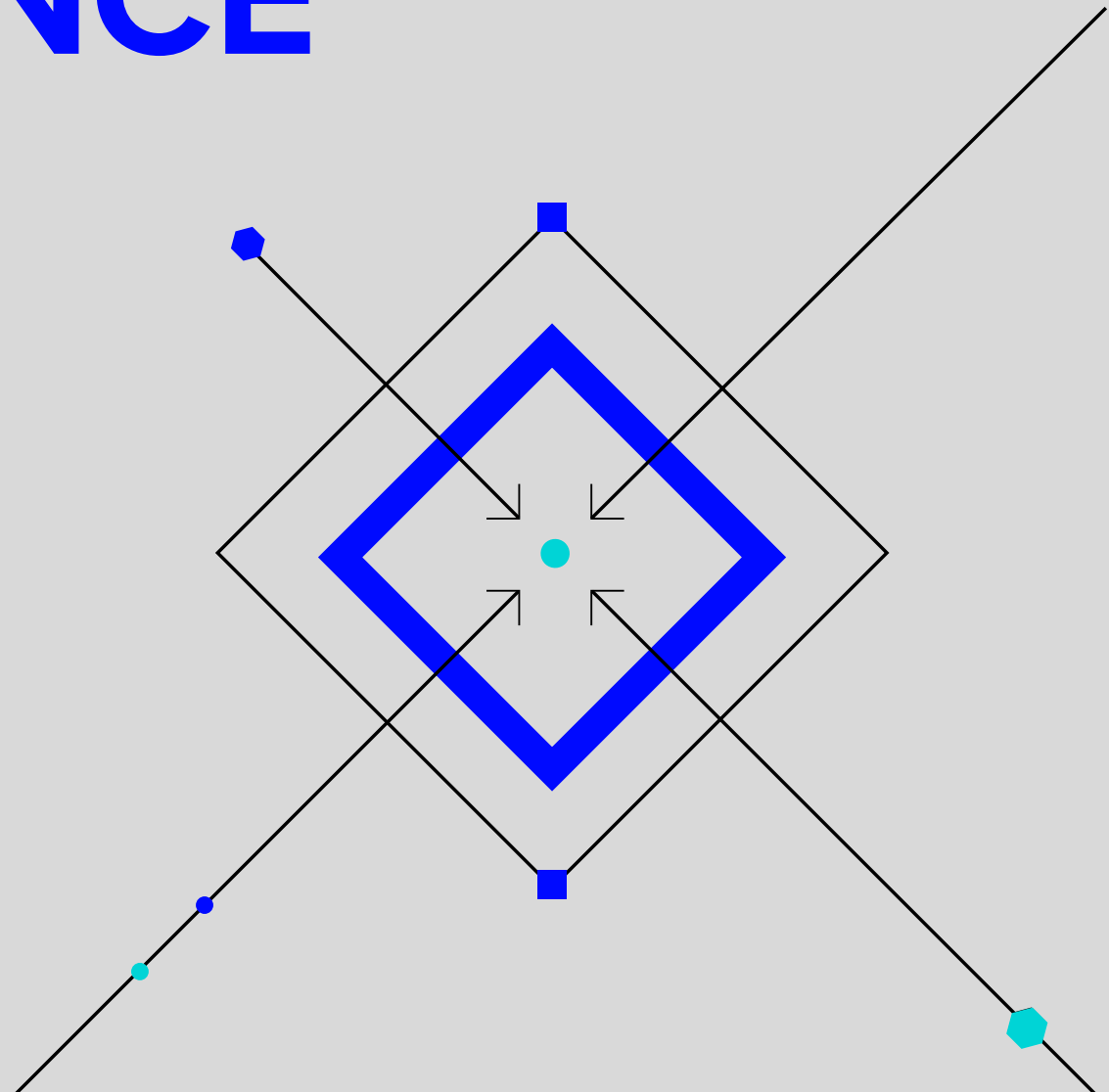
Digital innovation is flourishing in the Islamic finance industry. As Malaysia is the world's leading global Islamic finance hub, it makes a good case study for where the digital and transformation trends are heading. The State of the Global Islamic Economy (SGIE) Report 2022 shows Malaysia as the number one nation that best supports the multi-trillion-dollar global Islamic economy, based on a comprehensive analysis into the best-performing countries to address the growing Islamic economy opportunity.

Malaysia held the top spot in the overall rankings for the ninth consecutive year, followed by Saudi Arabia, the United Arab Emirates and Indonesia. SGIE's Global Islamic Economy Indicator Score ranks Malaysia first in four of six sectors namely Muslim-friendly travel, Islamic finance, halal food as well as media and recreation.

In terms of digital banks and FinTechs in the Islamic finance industry, 33% of the world's Islamic FinTech firms are headquartered in Malaysia. With many more Islamic FinTech start-ups sprouting across Southeast Asia and the Middle East, digital innovation and transformation are growing rapidly in the Islamic finance industry. Case in point, the digital banks that are going to market in Malaysia are from the Islamic finance sector, showing that the Islamic financial institutions and FinTech players are taking the lead over the conventional banks.

Furthermore, at the Global Islamic Finance Forum 2022 in October, the recurring theme in the discussions among renowned Islamic finance leaders and industry players was about the capability of Islamic banking to weather periods of crises and that through them we continue to see innovative Islamic products emerging and disrupting the market.

# FINANCIAL PERFORMANCE



# Global Islamic Finance Landscape



Total Islamic Finance Assets in 2021

**US\$ 4.0 Trillion**



Growth of IF Assets in 2021

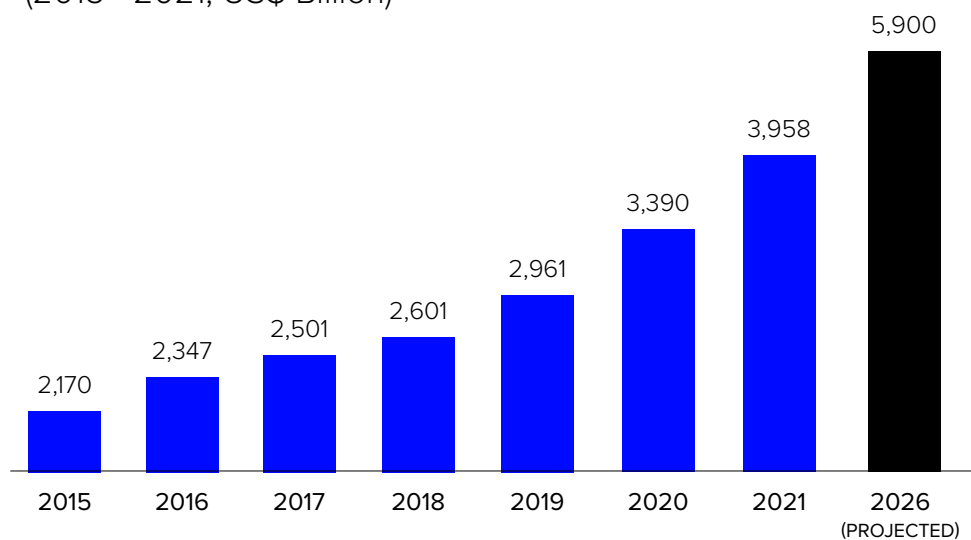
**17%**



Total IF Institutions

**1,679**

**Islamic Finance Assets Growth**  
(2015 - 2021, US\$ Billion)

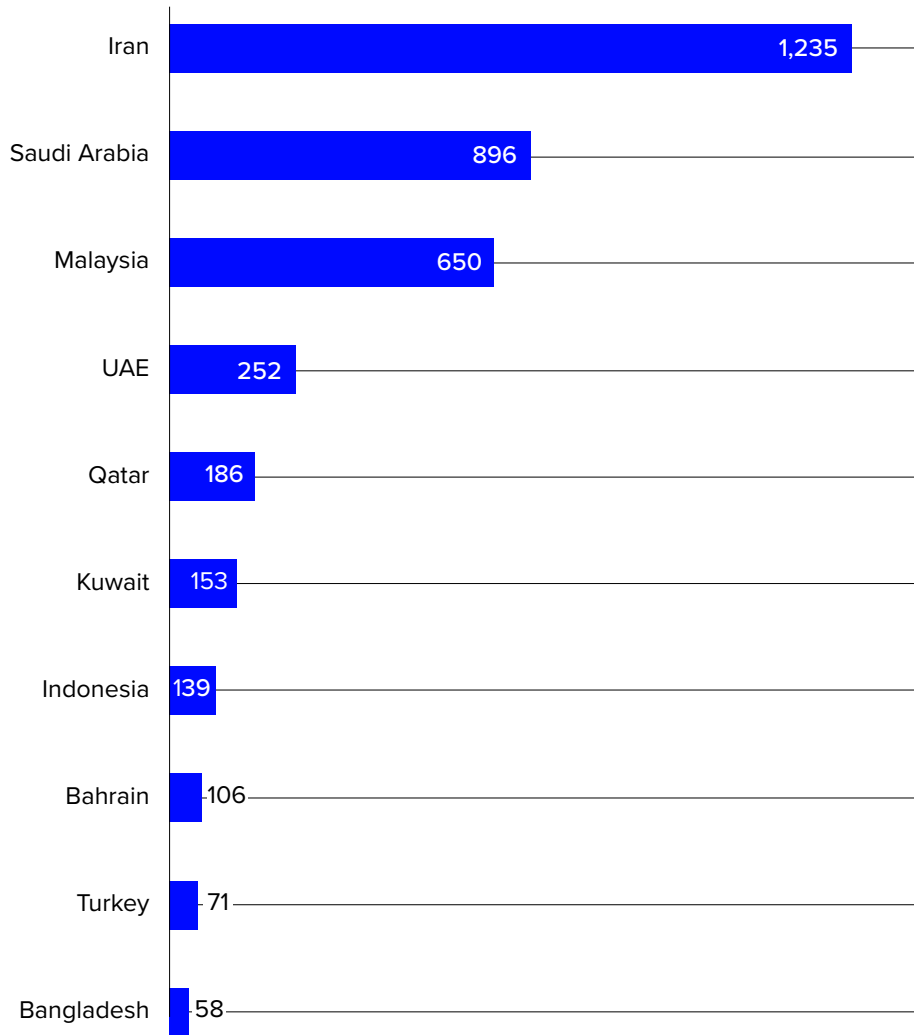


**Islamic Finance Distribution (2021)**

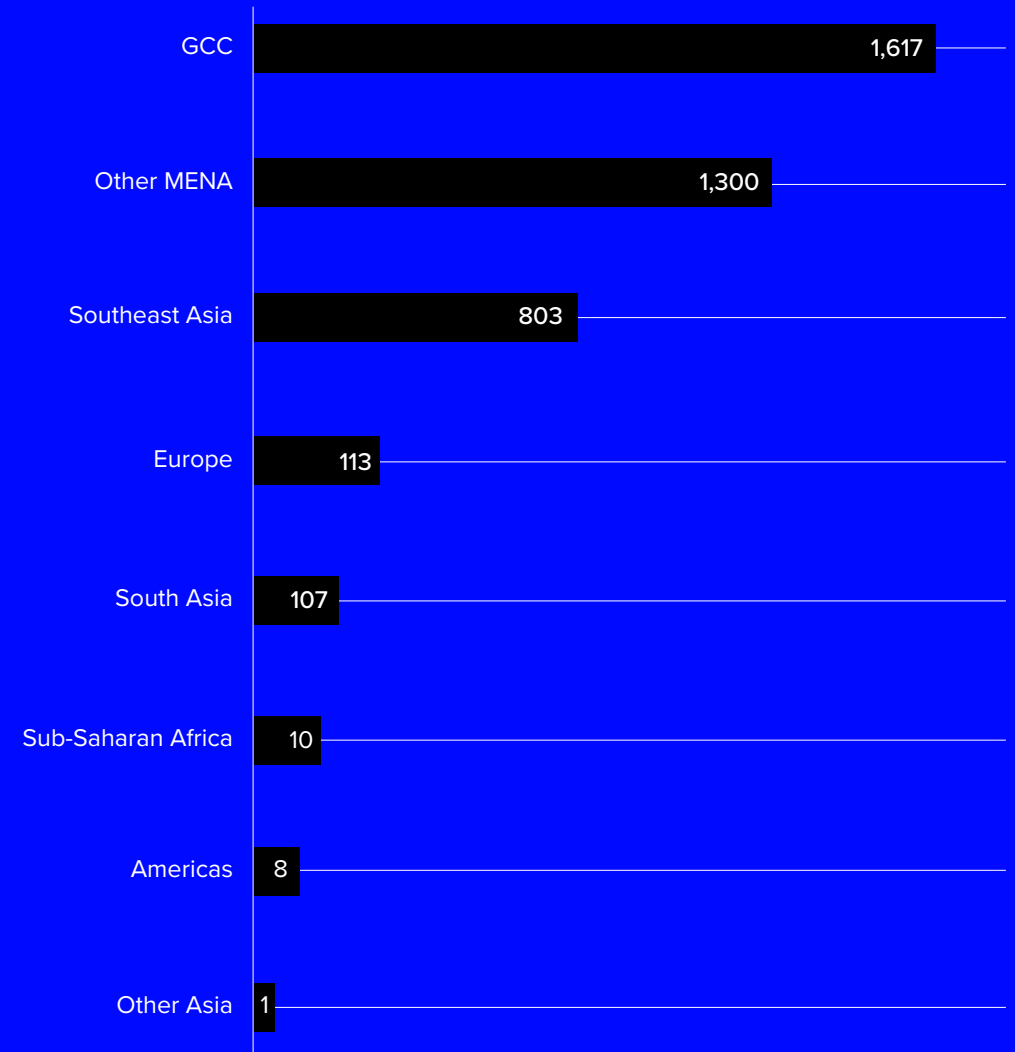
Sector / Asset Class	Total Assets (US\$ Billion)	Share (%)	Number of Institutions / Instruments
Islamic Banking	2,765	70%	566
Takaful	73	2%	335
OIFIs	169	4%	778
Sukuk	713	18%	4,426
Islamic Funds	238	6%	1,903



## Top Countries by Islamic Finance Assets (2021, US\$ Billion)



## Islamic Finance Assets by Region (2021, US\$ Billion)



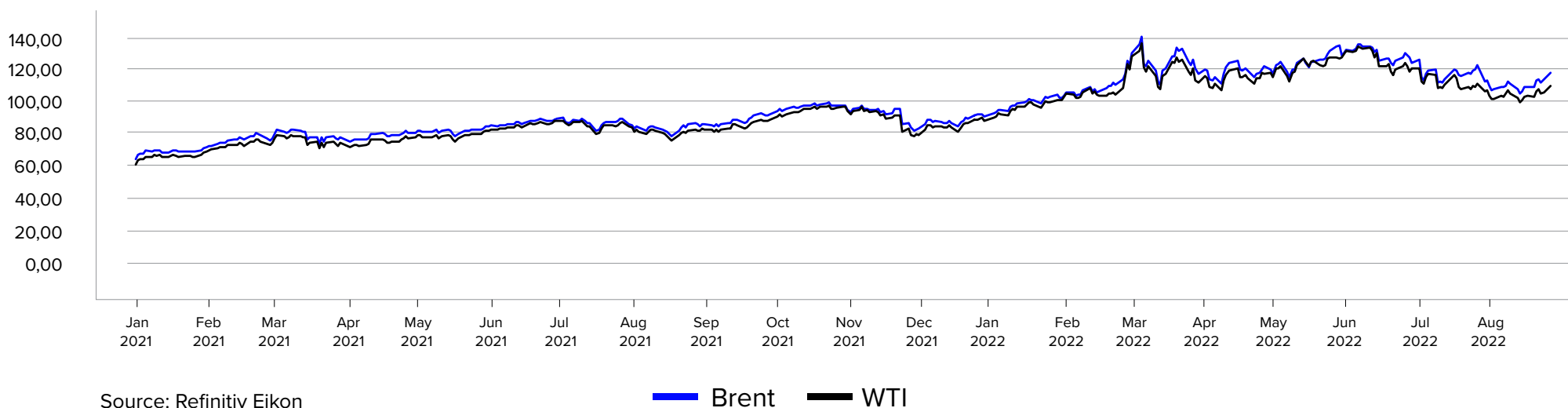
## Islamic finance resilient in the second year of the pandemic, with high growth pushing assets up to US\$4 trillion

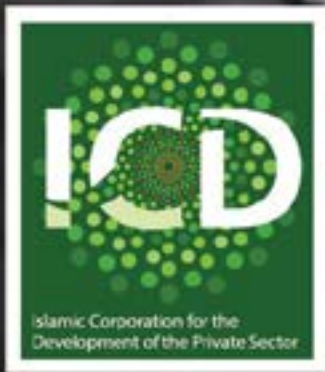
The Islamic finance industry reached almost US\$4 trillion in 2021 on growth of 17%, up from 14% in 2020. The total global net income reported by Islamic financial institutions in 2021 trebled from US\$10.5 billion in 2020 to US\$32 billion in 2021, signaling improved outcomes, especially for Islamic banks.

Following a harrowing 2020, economies started to get back on track in 2021. Regardless, the Islamic finance industry faced another challenging year with many markets gingerly getting back up to speed and countries re-opening their economies. But the onslaught of new waves of the Covid-19 virus, namely the Delta and then the Omicron variants, stalled the forward momentum. The new Covid-19 waves led to fresh lockdown or safety measures that again disrupted global supply chains and increased the cost of transport. 2021 ended on a better note as high vaccination rates prompted most countries to loosen their pandemic-related restrictions.

This led to a rise in global demand for petroleum that outpaced supply as OPEC+ production limits were locked in based on an agreement signed in late 2020. Consequently, crude oil prices increased in 2021 with the spot price of Brent and West Texas Intermediate (WTI) crude closing the year at US\$77.78 and US\$75.21, respectively, from US\$51.09 and US\$47.62 at the start of January. This eased budgetary pressures on the GCC economies that depend on oil revenues.

**Oil Price History**  
(2021 - August 2022, US\$ per Barrel)



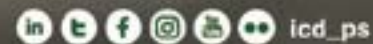


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## Non-core markets return strongest growth in assets

Among the countries with the biggest rise in assets are Russia (183%), Canada (146%), the United States (138%), Maldives (121%), Nigeria (101%) and Tajikistan (84%). The growth in these countries is mainly attributed to Islamic funds, sukuk and Islamic banking.

By sector, Islamic funds grew the most, followed by Islamic banking and takaful. Overall, all Islamic finance sectors and asset classes saw double-digit growth for the second consecutive year except for OIFIs that rose by 5%.

## Islamic finance industry expected to continue strong growth despite hurdles

While the industry was able to shrug off the direct impact of the pandemic, it still must deal with its fallouts along with the impacts of other developments during 2022. Russia's invasion of Ukraine in March led to a surge in prices of both Brent and WTI to over US\$100 per barrel. The impact of surging energy prices is still being felt in the last quarter of 2022.

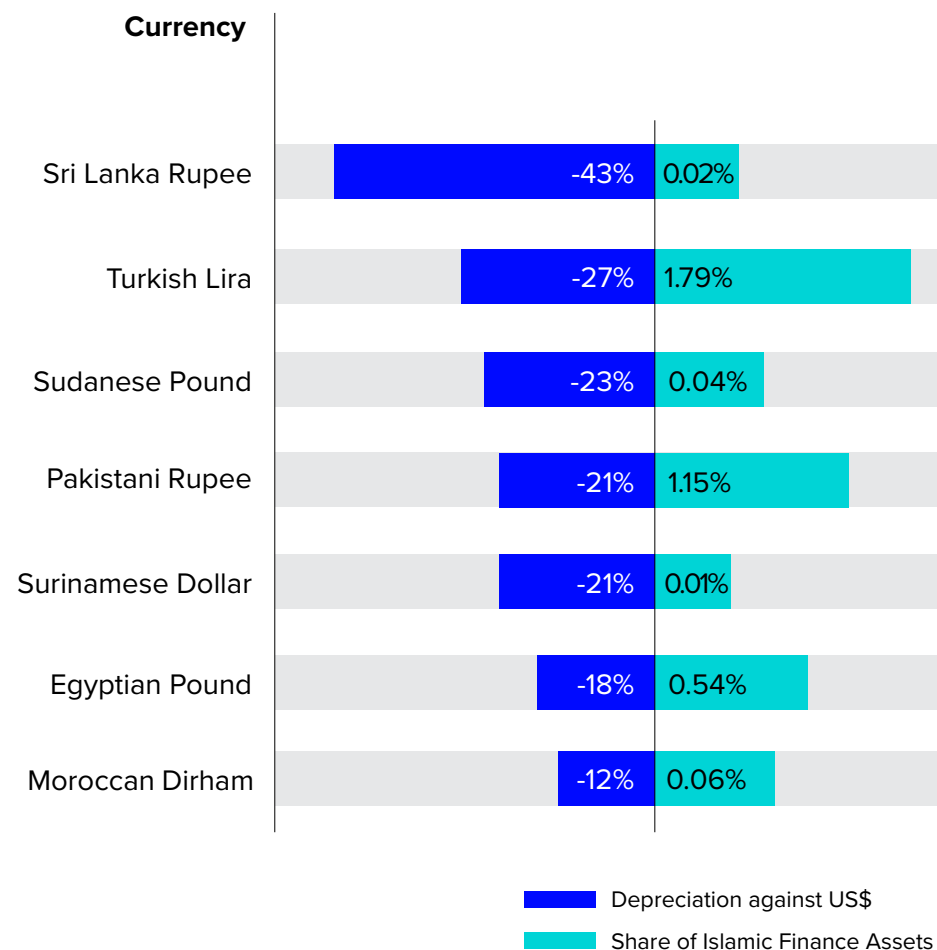
The Islamic finance industry in 2022 is contending with disproportionate inflation in some economies due to rising commodity prices. To contain demand, the influential US Federal Reserve hiked interest rates three times in 2022 (as of this writing). Countries where Islamic finance has reached a systemic significance, such as Malaysia, the UAE and Saudi Arabia, also raised their key interest rates. The UAE and Saudi Arabia are also countries that peg their currencies to the US dollar. The tighter monetary policy should cause a slowdown in bank financing, including Islamic finance.

Since the start of 2022 as well, the Islamic finance industry was hit by the depreciation of the currencies of some large Islamic finance markets such as Iran, Pakistan, Sudan and Turkey.

On the other hand, several moves by some governments to include Islamic finance in their strategies or roadmaps will give the industry a push, as we outline in the following pages. This is in addition to emerging developments in different sectors and the ecosystem surrounding the Islamic finance industry outlined throughout the rest of this report.

There will also be continued robust demand for Islamic financial products such as sukuk because increasing budgetary pressures on some of the industry's largest markets, such as Southeast Asia and Pakistan, will increase the likelihood of issuance. Overall, the industry is projected to grow to US\$5.9 trillion by 2026, mainly boosted by its biggest components Islamic banks and sukuk.

## Depreciated Currencies of Countries with Islamic Finance Assets (January – August 2022)



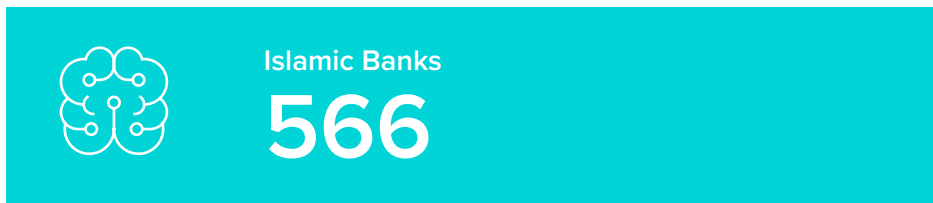
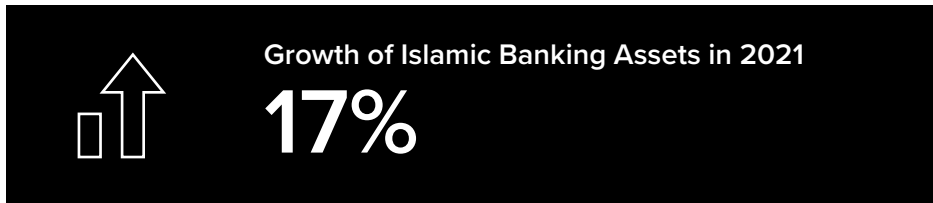
## Existing Islamic Finance Strategies

Country	Roadmap / Strategy / Blueprint Involved	Main Points Covered
Saudi Arabia	Financial Sector Development Program for Vision 2030	Commitments have been identified for 2025, including a share of 22.5% in global Islamic finance assets, increasing the number of distinct Shariah scholars to IFIs to 1.6 and increase publications on Islamic finance to more than 60 per year. These are to be achieved by focusing on three strategic goals: governance, international positioning and education, R&D and innovation.
Malaysia	Financial Sector Blueprint 2022 - 2026	Falls under Strategic Thrust 5: Advance value-based finance through Islamic finance leadership
Labuan	Labuan International Business and Financial Centre Strategic Roadmap 2022 - 2026	The Roadmap aims to promote international Islamic finance through enabling initiatives such as creating thought leadership in the development of Shariah exchanges, complementing the global Islamic infrastructure and institutionalising Islamic social finance through digitisation.
Oman	Medium-Term Islamic Banking Strategy	The Strategy is being finalised, according to the Sultanate's Financial Stability Report 2022. It is based on five pillars and supported by 'goals' and 40 'initiatives'.
Indonesia	Islamic Banking Development Roadmap 2020-2025	The Roadmap focuses on three pillars: strengthening Islamic banking identity, encouraging synergy within the Islamic economy ecosystem and strengthening licensing, regulation and supervision.
Pakistan	Strategic Plan for Islamic Banking Industry 2021-25	The Plan focuses on six strategies including strengthening the legal landscape, improving the liquidity management framework and raising awareness.
Kazakhstan	Islamic Finance Master Plan for the Republic of Kazakhstan 2020-2025	The Master Plan has nine strategic initiatives, each of which are attached to action plans. The target is to increase the share of Islamic finance assets as a part of total financial assets to 3-5% by 2025.

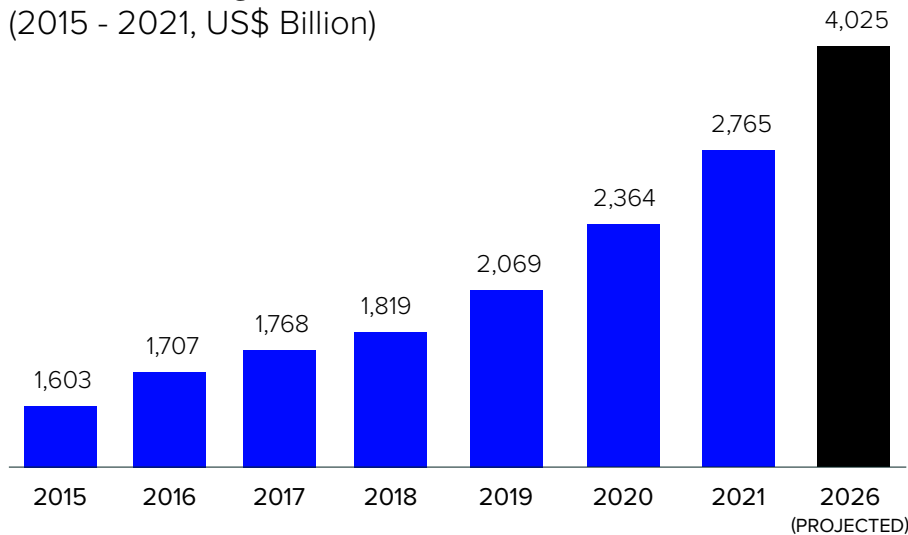
## Large-scale Moves that will Boost Islamic Finance

Country	Party	Move
Pakistan	Securities Commission of Pakistan (SECP)	The SECP has formed a consultation committee to assist in the preparation of the Islamic finance development plan and future roadmap.
Pakistan	Federal Shariat Court of Pakistan (FSC)	The FSC declared that riba or interest is prohibited in Islam and directed the government to convert transactions to become Shariah-compliant in five years.
Afghanistan	Central Bank of Afghanistan	Afghanistan's central bank is planning to enforce an Islamic banking system but no details have been released.
Brunei	Brunei Darussalam BIMP-EAGA Business Council	Brunei is laying the blocks for a Shariah-compliant digital finance and economic zone through a public and private partnership with Greenpro Capital.

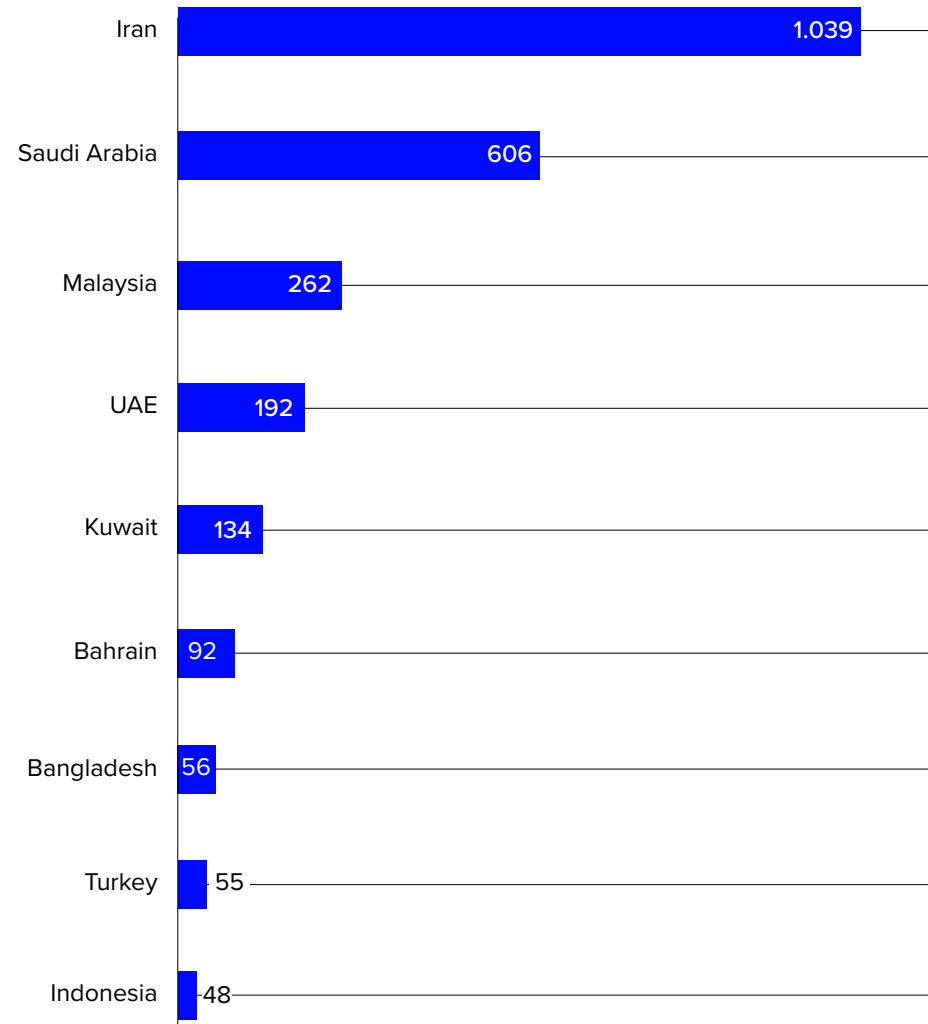
# Islamic Banking



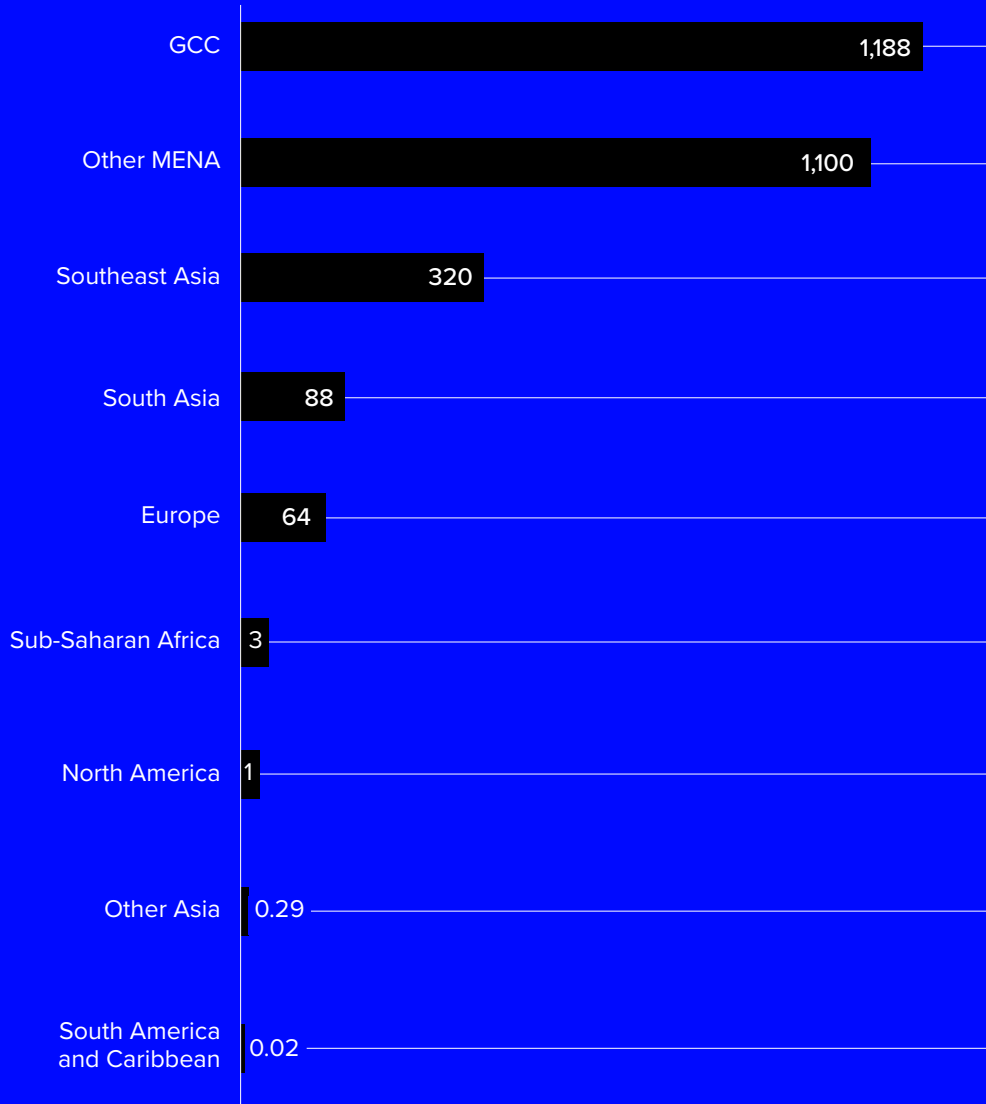
**Islamic Banking Assets Growth**  
(2015 - 2021, US\$ Billion)



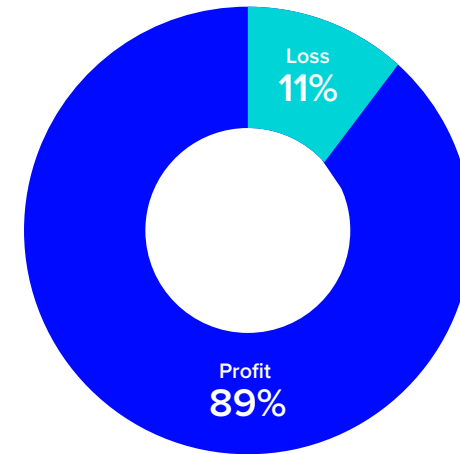
**Top Countries by Islamic Finance Assets**  
(2021, US\$ Billion)



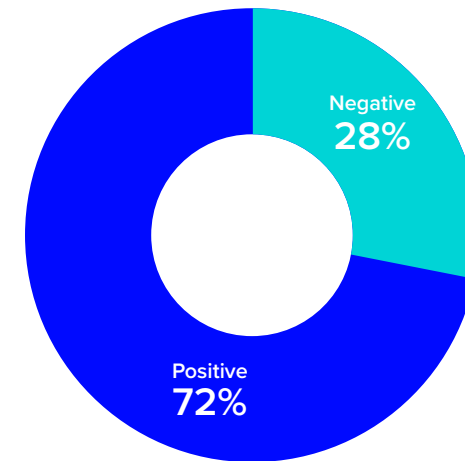
## Islamic Banking Assets by Region (US\$ Billion, 2021)



## Reported Net Income by Islamic Banks (2021)



## Reported Performance\* by Islamic Banks (2021)



\* Positive performance indicates increase in net income, decrease in net loss or turn to profit from loss when compared to 2020. Negative performance indicates the opposite. Applies to full-fledged institutions and windows that reported their net incomes.

### **A rebound in financial performance in several Islamic banks around the world**

Islamic banking accounted for 70%, or US\$2.8 trillion, of total Islamic finance assets in 2021. The GCC holds 43% of global Islamic banking assets, followed by other MENA region (40%). The sector registered a high growth of 17% in 2021 from the end of 2020. By country, Tajikistan (84%), Iran (45%), Burkina Faso (27%) and Ethiopia (26%) were the biggest growth markets.

The Islamic banking sector also returned improved performances as indicated by higher net income--a 290% growth globally to be exact--and higher average return on assets for some countries. This is due to lower provisions for credit losses in 2021 than 2020. Islamic banks also made prudential financing decisions that focused on higher-end customers, and benefited from extended government support to sectors that were hit by the pandemic. Finally, many banks gained operational efficiencies from moves such as branchless banking and partnering with FinTechs.

Islamic banking continues to experience high demand as indicated by some of the emerging trends highlighted below, which will set the industry on the path to reach US\$4.0 trillion by 2026.

### **Strong demand for Islamic banking converts conventional banks, consolidation will strengthen sector**

A sign of continued demand for Islamic banking is the conversion of conventional banks. In Pakistan, Faysal Bank plans to surrender its conventional banking licence by the end of 2022 and start January 2023 as a full-fledged Islamic bank.

Consolidation will also strengthen the Islamic finance industry. Kuwait Finance House's (KFH) acquisition of Bahrain's conventional Ahli United Bank is in the final stages, as of the writing of this report. The consolidated bank will climb the ranks of the world's biggest Islamic banks and it will also become the largest bank in Bahrain given its merger with the Bahraini subsidiary of KFH.

In addition, Kuwait's Gulf Bank could potentially convert to become Islamic as it moves towards merging with Al Ahli Bank,

based on the MoU both parties signed in August 2022. This signals continued demand for Islamic banking in Kuwait, whose US\$134 billion in Islamic banking assets makes its sector the sixth largest in the world, according to IFDI calculations.

Conversion is not limited to a single institution, but potentially to a whole banking system as well. Afghanistan's central bank, following the formation of a new government by the Taliban after it snatched back power in August 2021, announced in May 2022 that it is planning to implement an Islamic banking system. In the same region, Pakistan's Federal Shariat Court's direction to the government to ban riba by the end of 2027 is a move towards more growth for Islamic finance in the country.

### **Introduction of digital Islamic banks in core and non-core Islamic finance markets**

Islamic banking operated in 76 countries in 2021. This number is set to grow with the licensing of Australia's first Islamic bank, Islamic Bank Australia, by the Australian Prudential Regulation Authority in July 2022. The bank is digital, a strategic move that it hopes will allow it to capture the tech-savvy Muslims in the country. This follows similar digital banking moves in other non-Muslim majority countries such as Germany and the UK. The former EU member is home to Nomo, the world's first international digital Islamic bank that was built by Kuwait's Boubyan Bank Group. As digital banks pop up, the UK's oldest retail Islamic bank, Al Rayan, closed its last physical banking branch in August 2022, directing customers to its digital app. In the US, Shariah-compliant neobank Fardows launched in July 2021.

Fully digital Islamic banks are launching in other parts of the world as well. Malaysia in 2021 received 29 applications for digital banking licenses. Bank Negara Malaysia in April 2022 approved five licenses, two of which are for Islamic digital banks: a consortium of AEON Financial Service, AEON Credit Service and MoneyLion and another consortium led by KAF Investment Bank. Al Rajhi Bank Malaysia's own neobank will operate off its existing banking licence. In another example, in July 2022 Malaysia's Boustead Holdings signed an agreement with Turkish firm Great East Capital to establish Turkey's first Islamic neobank.





### **Philippines, Russia and Algeria expand Islamic banking**

There are countries with a limited number of Islamic banks that we expect will enlarge their industry landscape from 2023. Philippines' Bangko Sentral ng Pilipinas (BSP) plans to allow Islamic banking units (IBUs) and in June 2022 issued a draft circular towards a modified minimum capitalisation of conventional banks with Islamic banking units. Local press reported in August 2022 that two conventional banks were in talks with the central bank to set up IBUs.

In Central Asia, the sanctions-hit Russia plans to legalise Islamic banks in four of its states, according to the State Duma Committee on Financial Market. In North Africa, the high demand for Islamic financial products in Algeria, such as housing finance, has led to many conventional banks opening Islamic windows, including Banque National D'Algérie, Banque Extérieure d'Algérie and Banque de Développement Local. The Islamic finance industry in Algeria is expected to grow with takaful products about to be rolled out to complement Islamic banking services.

### **Central banks introducing tools for a more comprehensive Islamic banking system**

LIBOR started to be phased out from 1 January 2022, to be replaced by Risk Free Rates (RFRs). In response, Malaysia's central bank introduced Malaysia Islamic Overnight Rate (MYOR-i) in March 2022. This is considered the first move by a central bank to introduce a transaction-based Islamic benchmark rate. Bank Negara Malaysia believes this will spur the development of Islamic financial products in the country. It is currently based on commodity Murabaha and more instruments are in the works.

Elsewhere, Oman announced its plan to introduce Islamic money market instruments to meet the liquidity demands of its local Islamic banks, as per its Financial Stability Report 2022. This will put Islamic banks at par with conventional banks.

Liquidity for Islamic banks is gaining more attention overall in the GCC. For instance, Oman's neighbour, Qatar, introduced treasury sukuk in October 2022 as part of its enhancement to T-bills. While the UAE has not, at the time of writing, introduced treasury sukuk as part of its domestic T-bills offering that started in May 2022, the country did issue liquidity standards in January 2022 for Islamic banks as part of regulations for banks overall.



# THE EMERGENCE OF ISLAMIC BANK OF AUSTRALIA



**Dean Gillespie**  
CEO of Islamic  
Bank Australia

Dean Gillespie is the CEO of Islamic Bank Australia. He has led the creation of Australia's first Islamic bank since 2018 initially as a volunteer before becoming CEO in 2020. Dean was previously in charge of home loan sales at Commonwealth Bank of Australia (CBA) and was the head of mortgages at Bankwest where he doubled the business's size within three years. He also ran the retail bank at Vietnam International Bank in Hanoi across 160 branches nationwide, where he also built the bank's first mobile banking app. Dean also has a history of founding start-ups, including SparkleVote, an innovative online election company.

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Australia's first-ever full-fledged Islamic bank received its licence to operate in July 2022, marking a significant milestone for the country especially for the Muslim community that forms an important part of our diverse, multicultural society.

Demand for Islamic financial products continues to expand as the result of strong growth in the size of the Muslim community that went from 1.7% of the total population 15 years ago to around 3.2% according to the 2021 Census. The CAGR of more than 6% every year has resulted in 813,400 people who identified as Muslim in 2021. For them, Islamic Bank Australia will be the first full-service retail and business bank to offer ethical banking products in line with their faith.


Historically, the Australian Islamic financial services market has been dominated by a number of small non-bank financial institutions.

Overwhelmingly, these have provided forms of home finance and some personal finance facilities. Holders of an Australian credit licence are permitted to offer finance, but only authorised deposit-taking institutions (ADIs) can accept deposits, with the issuance of new banking licences highly regulated.

Australia's four major banks do not currently offer Islamic banking products, making it challenging for Muslims in the country to access banking services in line with Islam. The exception to this is National Australia Bank that has an Islamic finance unit but that only operates in the commercial space.

Islamic Bank Australia will launch first with an everyday transaction account, savings products that pay profit share instead of interest, and home finance to allow Muslims to buy properties across the country. The initial restricted two-year ADI licence will allow the bank to finalise our products and systems, and test with a small number of customers. Thereafter, we intend to launch to the general public in 2024.

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We founded Islamic Bank Australia as there was no ability for the Australian public to deposit funds in a Shariah-compliant way. Whilst there has historically been anecdotal stories of Muslim Australians stashing their money in a safe at home or even under the bed, overwhelmingly Muslim Aussies have been forced to use conventional banks and by necessity, become involved with *riba*.

Our bank continually receives enquiries from potential customers who have suggested that they abstain from buying property due to the lack of available options. In launching Australia's first Islamic bank, we hope that we can facilitate the development of more Islamic finance companies around our nation, and open up the investment environment – a well-regulated economy – to potential capital inflows from Shariah-compliant funds offshore that have struggled to move in and out of Australia.

Education on the nature of Islamic products for both the general public and Australian regulators is critical to the growth of our Islamic financial environment. Given certain products, such as non-interest based savings accounts, have by definition not existed before in the country, we have been proactively engaging with both banking and consumer protection regulators to ensure that our offerings are as Shariah-compliant as possible whilst meeting the expectations of the regulators. A core part of this has been forming an internationally renowned Shariah Committee to oversee all aspects of the bank.

Regulation continues to be somewhat of a challenge in implementing traditional Islamic products in the Australian environment. In many states and territories, government stamp duties apply on the sale of property from one person to another. As a transaction-based tax, some types of financing structures (such as Diminishing Musharakah or Murabahah) might incur double stamp duty charges, making them uncompetitive versus conventional banking facilities. As CEO of Islamic Bank Australia, I have written to the state and territory treasurers calling for reforms in this space, and I am pleased that some jurisdictions have already agreed to exempt Islamic transactions on a case-by-case basis. I will

continue to call for reforms that simplify the Australian regulatory environment for non-interest-based transactions

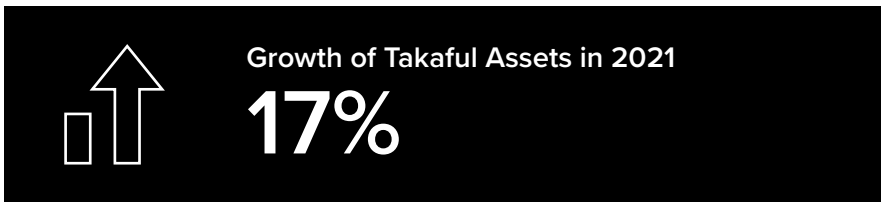
Education is also important to advance the Islamic finance ecosystem amongst the general public. Demographically, Muslim Australians are quite young – 88% are under the age of 50. This, combined with the fact that many were born in Australia rather than in traditional Islamic banking markets, means that many Muslim Australians have never been exposed to Islamic banking products before. Many Australians of the Islamic faith may not understand how Islamic banking works, with concepts such as profit share, deposit pool management, or diminishing partnerships relatively novel for them. There is a need to invest in simple “explain it” tools to help drive awareness across the Australian community. The international community of Islamic banks has been incredibly helpful in assisting us with advice on both products services end educational tools, and we are grateful for all of the warm wishes and support we have received in building Australia's first Islamic bank.

Over time we expect to expand our services to cover a broader suite of Islamic financial services such as *takaful*, issuance of *sukuk*, and a full marketplace of services such as superannuation from external providers.

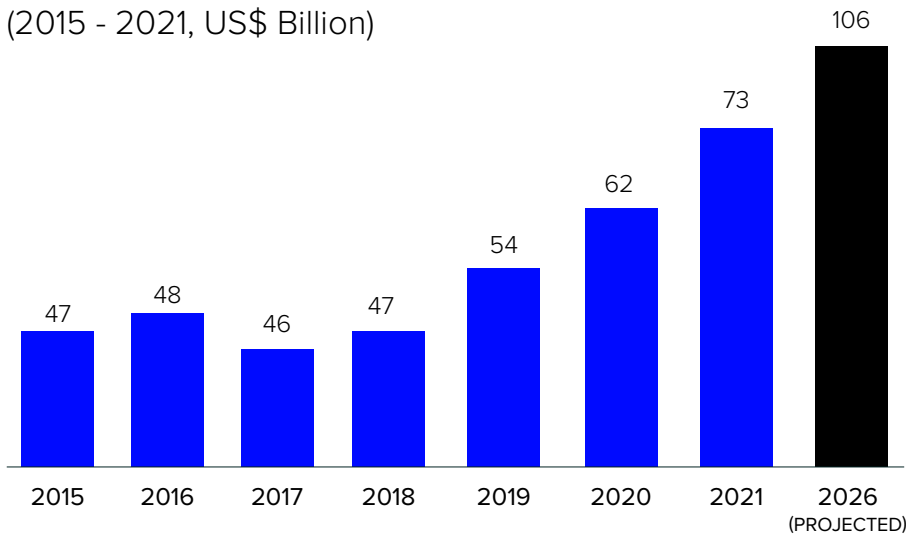
We also hope to empower the broader Islamic financial ecosystem through the training of highly experienced professional Islamic bankers within Australia. Whilst there is a core group of individuals in Australia with Islamic knowledge, it is critical that young graduates have the opportunity to grow into world-class Islamic finance professionals. This will be a key driver of the success of Islamic finance across Australia.

The authorisation of the first Islamic bank by the Australian Government is a significant milestone in the future of Australians of the Islamic faith. Local Islamic finance organisations are also working together to support industry-wide opportunities to grow their ecosystem, supported by the strong and stable investment and regulatory environment. With so much happening, the future for Islamic finance in Australia is bright.

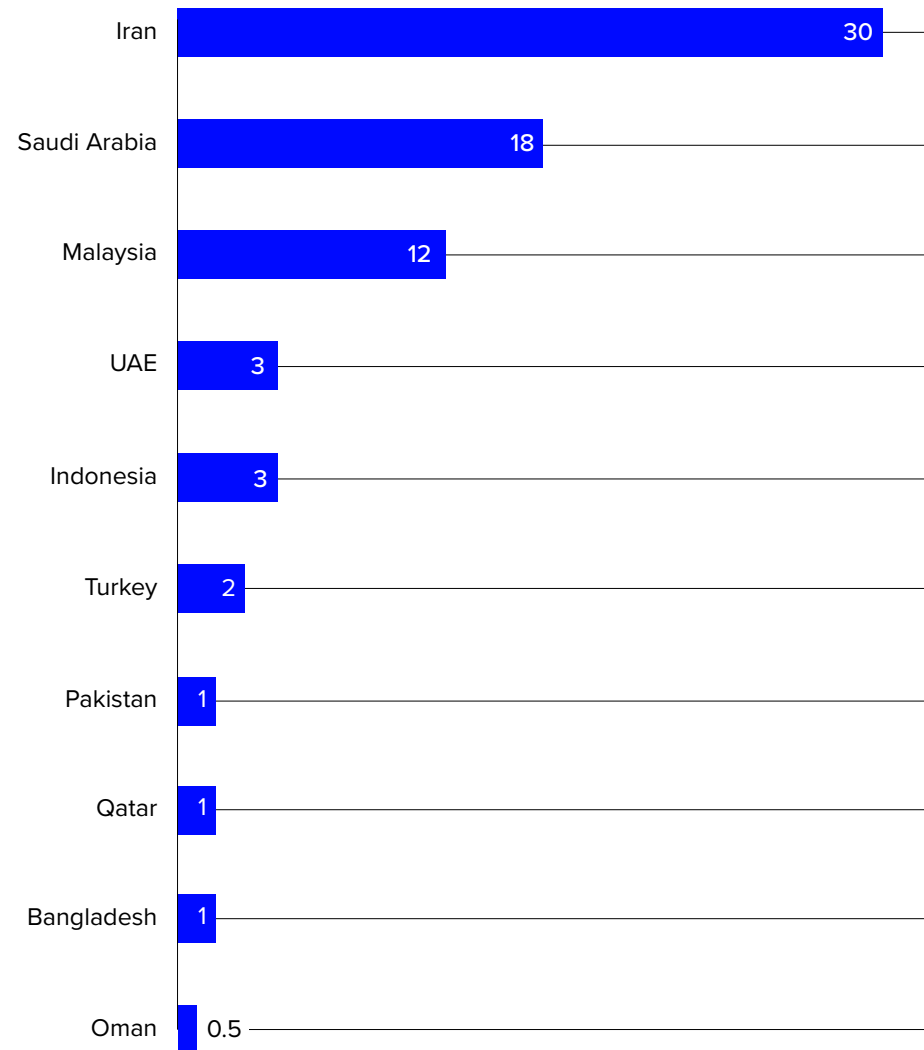
# Takaful



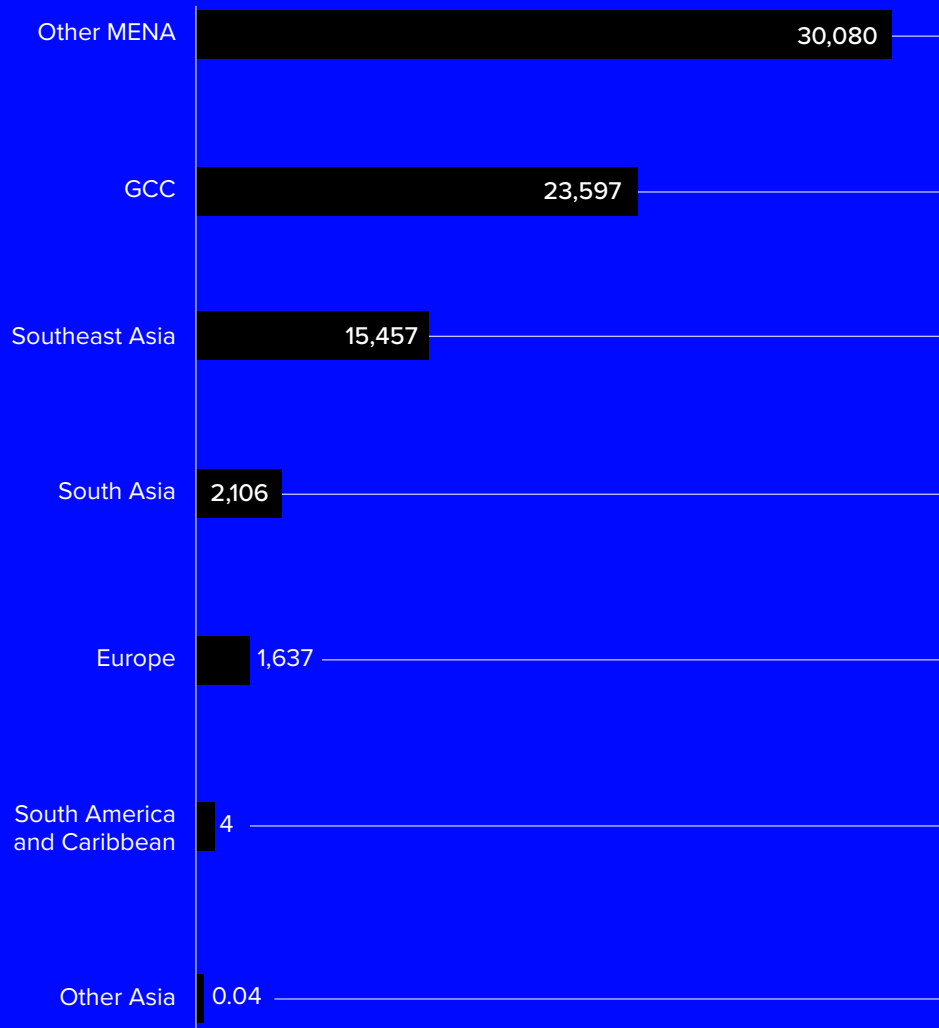
**Takaful Assets Growth**  
(2015 - 2021, US\$ Billion)



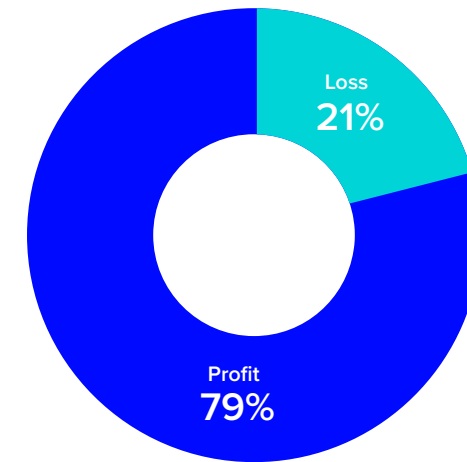
**Top Countries by Takaful Assets**  
(2021, US\$ Billion)



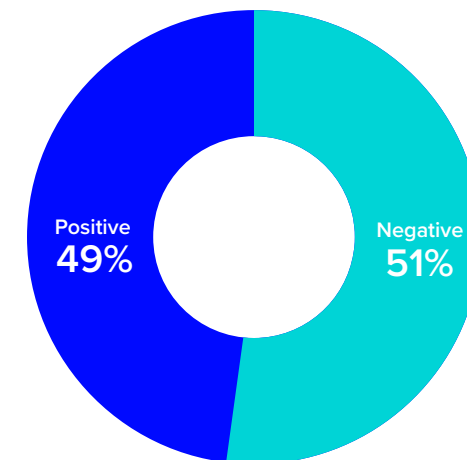
## Takaful Assets by Region (US\$ Million, 2021)



## Reported Net Income by Takaful Operators (2021)



## Reported Performance\* by Takaful Operators (2021)



\* Positive performance indicates increase in net income, decrease in net loss or turn to profit from loss when compared to 2020. Negative performance indicates the opposite. Applies to full-fledged institutions and windows that reported their net incomes.

## Takaful is responding to fierce competition from conventional insurance

The takaful sector is the smallest of the Islamic finance industry, accounting for US\$73 billion, or just 2% of total global Islamic finance assets. The sector hit double-digit growth of 17% in 2021, a single percent higher from the year before. The sector is highly competitive between the Islamic operators and their conventional peers, specifically in regions such as the GCC. One factor driving competition is the surge in medical and motor claims that hit markets such as Saudi Arabia where many takaful operators reported losses.

The takaful sector is undergoing consolidation. Most recently in July 2022, the UAE's Dar Al Takaful and Watania merged to create one of the leading operators in the fragmented insurance market. Mergers and consolidations will reduce operators' fixed costs. In Saudi Arabia, SABB Takaful and Walaa Insurance received the regulator's nod in August 2022 to merge. However, the bid to merge Enaya and Amana was rejected by Enaya's shareholders. In Bahrain, Solidarity completed its merger with T'azur in January 2022.

## New markets expected to enter the takaful sector

In 2021, 335 takaful firms operated in 47 countries. More operators and countries will join the sector from 2022 as new regulations are passed: in the Philippines the Insurance Commission released guidelines for takaful windows in February 2022 and Tanzania's own rules came into effect in May 2022.

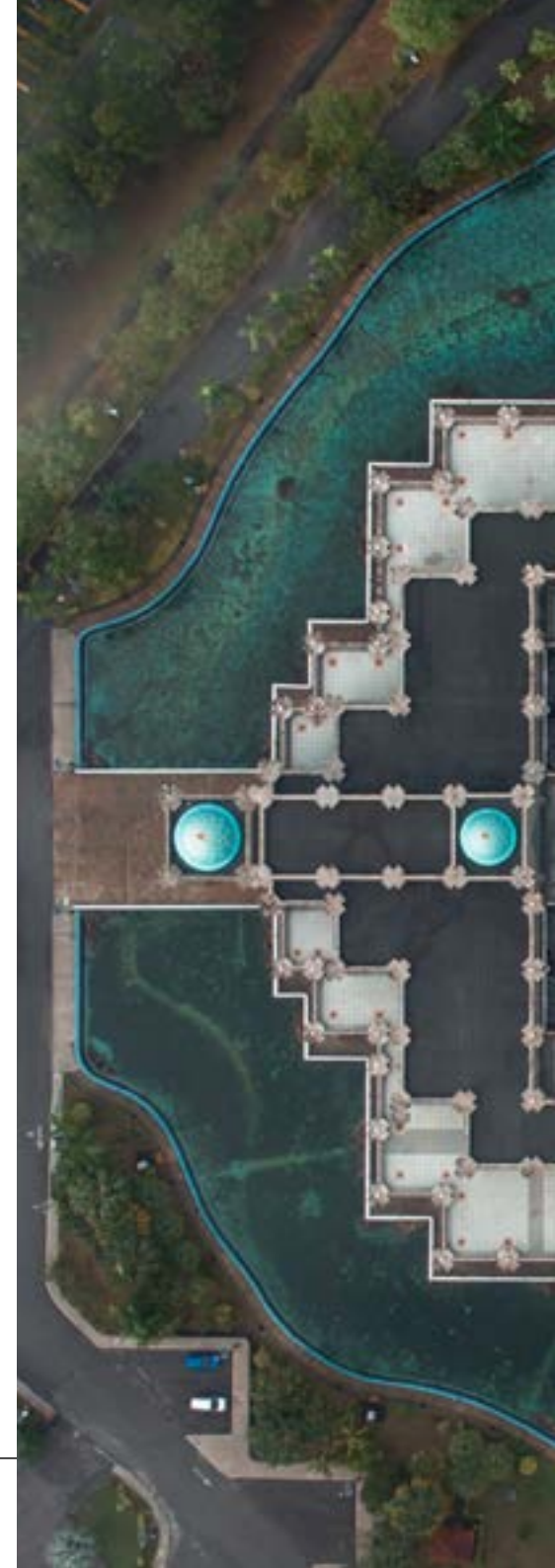
In Central Asia where Tajikistan was one of the fastest growing Islamic banking markets, the introduction of takaful will shore up the region's Shariah-compliant financial industry. Tawhid Bank, one of Tajikistan's full-fledged Islamic banks, announced in February 2022 an agreement with AlHuda CIBE to set up a takaful operator.

In North Africa, where there are 33 takaful operators including windows, Algeria is seeing moves by insurance operators after regulators approved draft regulations for takaful in February 2021. A year later in February 2022, Djazair Takaful, a government-owned company, was launched, and a month later Société Générale Assurance Méditerranéenne (GAM) opened Takaful Général.

In Morocco, Holmarcom launched its subsidiary Takafulia Assurance in February 2022. The country's regulator has already approved other licenses for subsidiaries and takaful windows. Another takaful operator is in the works after Qatar International Islamic Bank (QIIB), Qatar Islamic Insurance Company, the Atlanta Insurance Company and the Moroccan Real Estate and Tourism Loan Bank (CIH) signed an agreement in June 2022. Banks are also clamouring to offer takaful products: so far six banks have received approvals by the Insurance and Social Welfare Supervisory Authority for bancatakaful. All this activity kicked up in earnest after Morocco's takaful law was introduced in 2019 and takaful products were given the go-ahead by the country's central Shariah board. The move could improve the participative banking sector in the country as consumers have been hesitant to take up financing to purchase cars and properties without takaful coverage.

## Indonesian takaful units still behind schedule to spin out of Islamic windows

Indonesia is the world's fifth largest takaful market, holding US\$3 billion worth of assets. Takaful in Indonesia mostly operates out of Islamic windows and the sector's expansion is driven by the growth of Islamic banking in the country. The takaful windows are required to spin off into standalone entities by October 2024 but progress has been slow largely due to high expenses and capital requirements. Only a few operators have spun off their takaful businesses, with the latest separation announced by Asuransi Allianz Life Indonesia that plans to start its independent unit in 2023. Prudential Life Assurance of Indonesia also set up PT Prudential Sharia Life Assurance in April 2022.



## Transformation expected in the Malaysian takaful sector

Malaysia has US\$12 billion in takaful assets. Compared to Indonesia, Malaysia has had a different growth and development trajectory impacting its takaful sector. From a regulatory point of view, Bank Negara Malaysia set out revised requirements to ensure the sector's alignment with Malaysian Financial Reporting Standard (MFRS) 17 Insurance Contracts and MFRS 9 Financial Instruments that will come into force in January 2023. These set the principles for the recognition, measurement, presentation and disclosures of insurance contracts and fundamentally change the way insurers, takaful operators included, measure and account for insurance contracts. The new regulation will also impact how actuarial calculations are made. Overall, these will impact the fundamentals of the insurance business and its management, and also lead to product redesign and repricing.

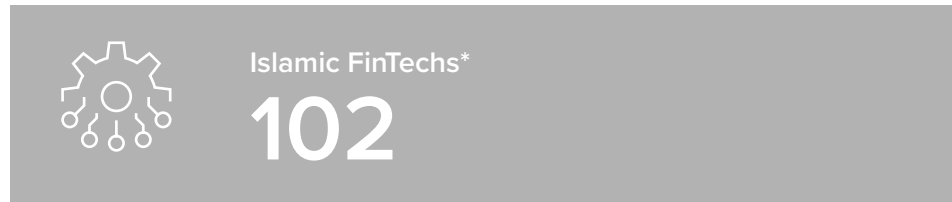
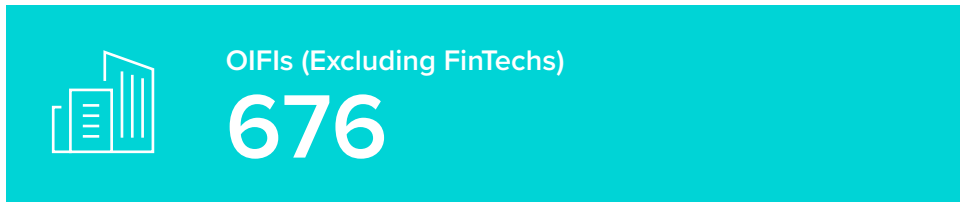
Malaysia has set 2023 as the cut-off date for insurance operators to sell their foreign stakes--that must be limited to 70%--or contribute to a charitable fund. For takaful, this would impact some operators' parent insurance companies such as Zurich and Prudential.

An initiative that will boost the takaful sector is Malaysia's Employees Provident Fund (EPF) giving its members protection plans that can be provided by the insurance and takaful operators under i-Lindung. This will increase the insurance penetration rate in the country. Another move that will increase insurance penetration is the introduction of digital licenses for this sector. In January 2022, the central bank issued the Discussion Paper on Licensing Framework for Digital Insurers and Takaful Operators (DITOs) to pave the way for digital innovation. Licences for DITOs are likely to be issued earliest in 2023.

Malaysia is not the only country focused on digital innovation for takaful. Pakistan's SECP is working towards launching Taktech (Takaful technology) with stakeholders in order to improve financial inclusion and customer experience for takaful consumers.

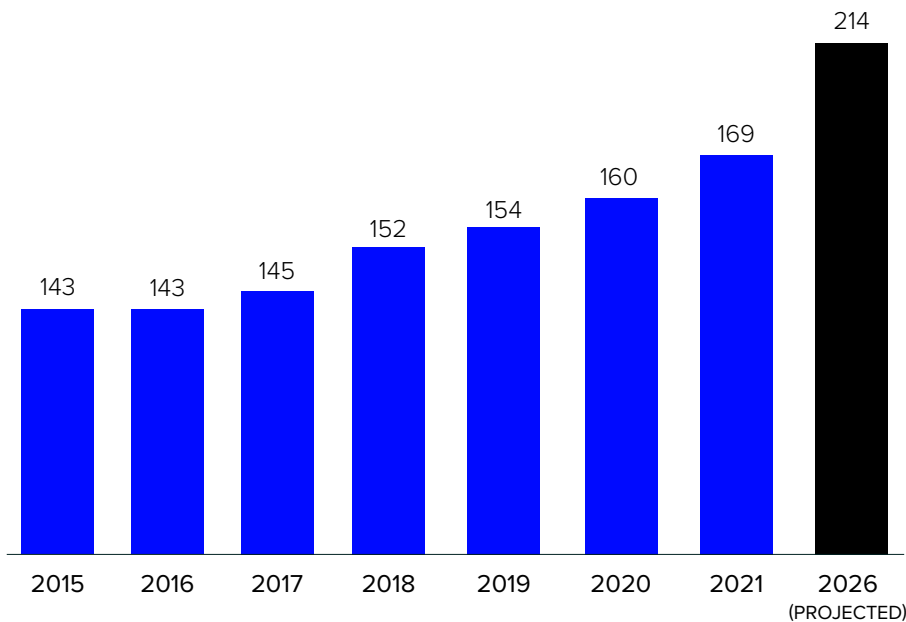


# Other Islamic Financial Institutions

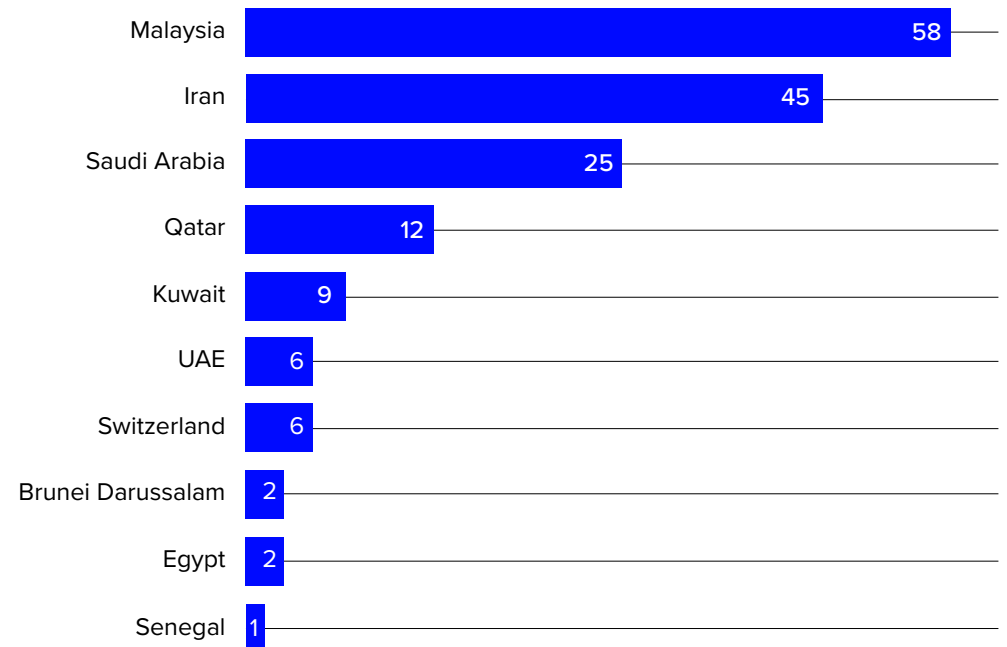


\*The FinTechs covered in IFDI are limited to companies that provide financial services and not just the technology

**Other Islamic Financial Institutions Assets Growth**  
(2015 - 2021, US\$ Billion)

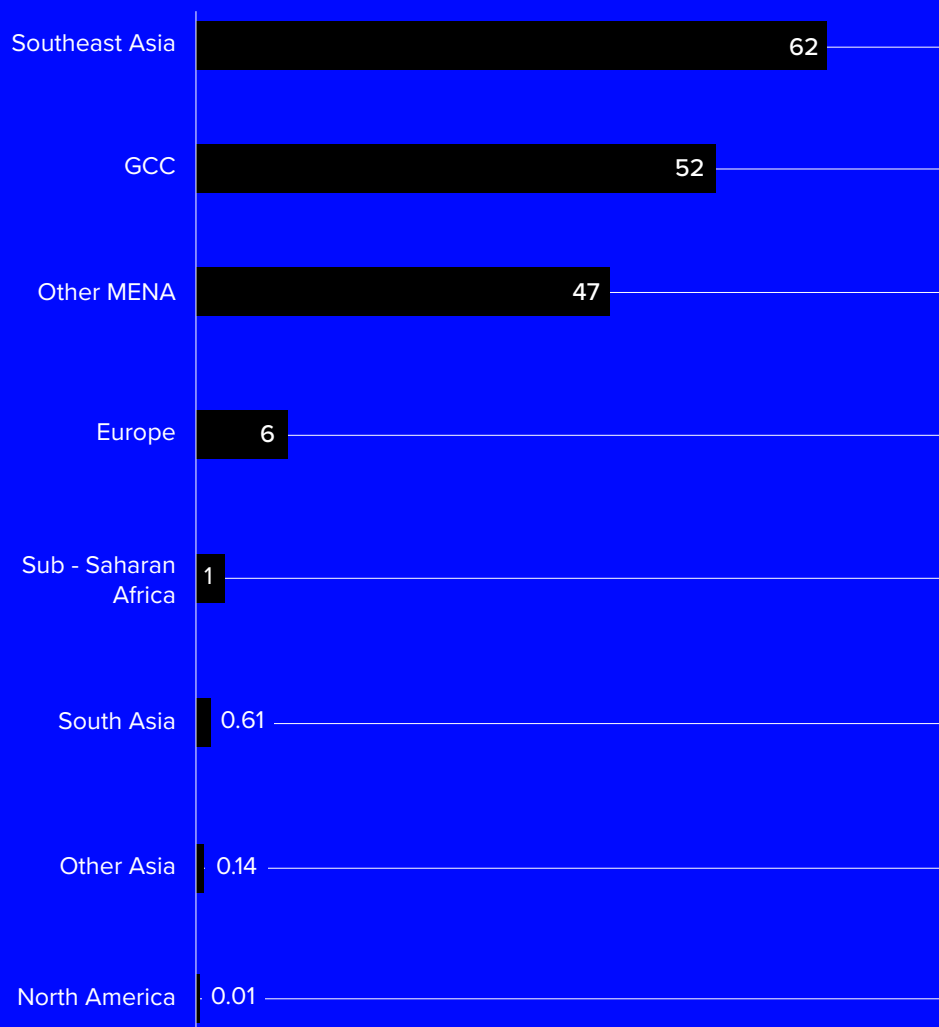


**Top Countries by OIFI Assets**  
(2021, US\$ Billion)

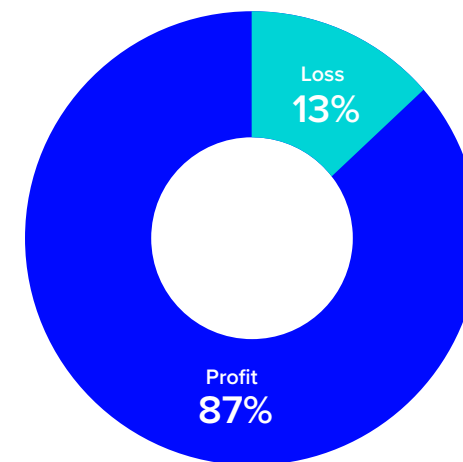




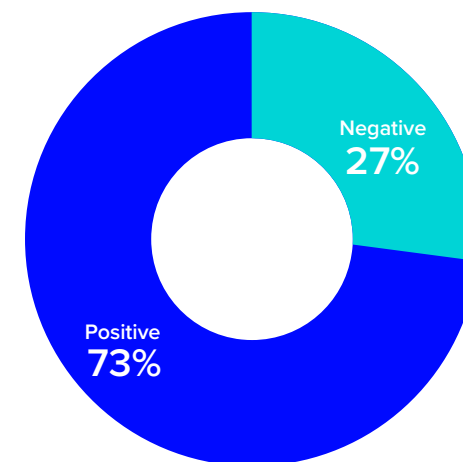
## OIFI Assets by Region (US\$ Billion, 2021)



## Reported Net Income by OIFIs (2021)



## Reported Performance\* by OIFIs (2021)



\* Positive performance indicates increase in net income, decrease in net loss or turn to profit from loss when compared to 2020. Negative performance indicates the opposite. Applies to full-fledged institutions and windows that reported their net incomes.

## Return to health: Fastest growing countries are non-core Islamic finance markets

In 2021, Other Islamic financial institutions (OIFIs) grew by 5% in total assets, a big jump compared to the 0.8% in 2020. The total number of OIFIs globally in 2021 was 793 (including Islamic fintech firms but excluding technology providers). One of the sector's main growth drivers is the increasing number of OIFIs, especially Islamic fintechs, from Saudi Arabia. The Middle East's biggest economy plans to almost triple its number of fintechs by 2025 from 82 to 230, which augurs well for the medium-term growth of the overall OIFI sector.

Some of the fastest increases in OIFI assets year-on-year were recorded by Kazakhstan (44%), Egypt (38%) and Maldives (31%). These increases bode well for the segment, as Egypt and Kazakhstan have sizeable Muslim populations and are rising nations in the global Islamic finance industry.

Other healthy growth markets were Indonesia (18%), Saudi Arabia (17%) and Qatar (16%).

At the other end of the spectrum, there were several drops in OIFI assets. Jordan (-19%), Sri Lanka (-16%), and Senegal (-8%) registered the largest falls. Other notable dips took place in Azerbaijan (-8%) and Pakistan (-6%). Declines in Sri Lanka and Pakistan were primarily due to turmoil in general economic and political conditions.

## A core group of countries dominate

A core group of markets dominated the Other Islamic Financial Institutions (OIFI) sector in 2021. In terms of assets, the top five OIFI countries-- Malaysia, Iran, Saudi Arabia, Qatar and Kuwait-- alone accounted for 88% of global assets. Further, ten countries held OIFI assets beyond the US\$1 billion threshold. There is a similar but less pronounced concentration among the top five countries by the number of OIFIs (excluding fintechs) - Saudi Arabia, Kuwait, Indonesia, Iran, and UAE. These five countries accounted for 51% of the number of OIFIs globally.

For Islamic fintechs, the top five countries by number of Islamic

fintechs were Saudi Arabia, Indonesia, UK, Malaysia and Kazakhstan. These five countries alone accounted for 70% of the global total of Islamic fintechs (excluding technology providers), indicating a strong concentration for this sub-segment, too.

Another point to note on concentration is that many Organisation of Islamic Cooperation (OIC) countries did not have an existing footprint in either the OIFIs sector or the Islamic fintech segment in 2021. To illustrate: out of 102 fintechs globally (excluding technology providers), there were only 23 countries with Islamic fintechs, and this number drops to only nine that have three or more Islamic fintechs each. Another example: out of 136 countries covered in IFDI 2022, 57 had OIFIs, and this number decreases to 25 that have five or more OIFIs each. Finally, only 28 of the 136 countries covered in 2022 had any reported OIFI assets, and there were only 16 countries with US\$100 million or more in OIFI assets.



### Maturing: OIFI financing diversifies, Islamic fintech progresses

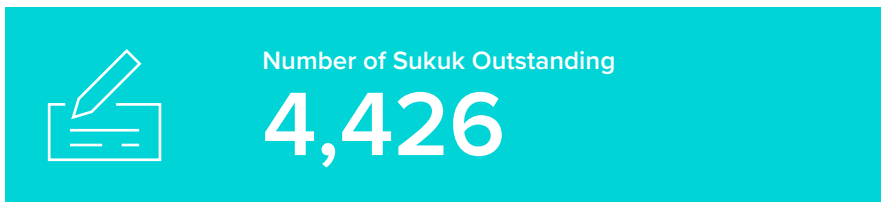
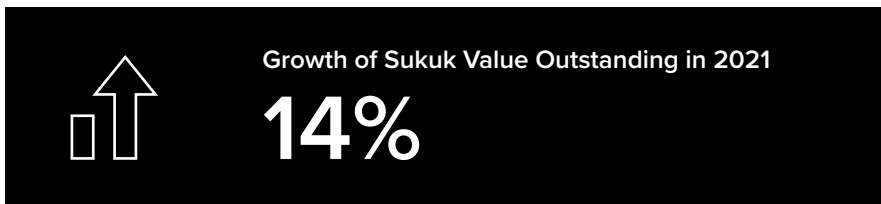
Despite the geographical concentration of the OIFIs, the sector is incredibly diverse, encompassing a wide range of over 20 types of assorted Shariah-compliant financing institutions that are neither Islamic banks nor Takaful companies. These are investment firms, financing companies, fintechs, leasing and microfinance firms, and brokers and traders, to name a few. Broadly, the main types of activities they undertake include financing, leasing, and partnership financing (Mudaraba). Major segments include investments and funds, real estate and mortgages, and microfinance.

On Islamic microfinance, Tunisia saw a large increase in its OIFI assets from less than US\$1 million to US\$60 million in just one year. This exceptional case was due primarily to a major microfinance institution that entered the domestic market. The African nation's neighbours are also embracing Islamic microfinance. In Egypt, the Financial Regulatory Authority (FRA) granted the first license to a financial institution to provide Islamic microfinance services, and Yonna Islamic microfinance started operations as The Gambia's first full-fledged Islamic microfinance institution. In South Asia, two of the ten microfinance banks in Pakistan also started offering Islamic services.

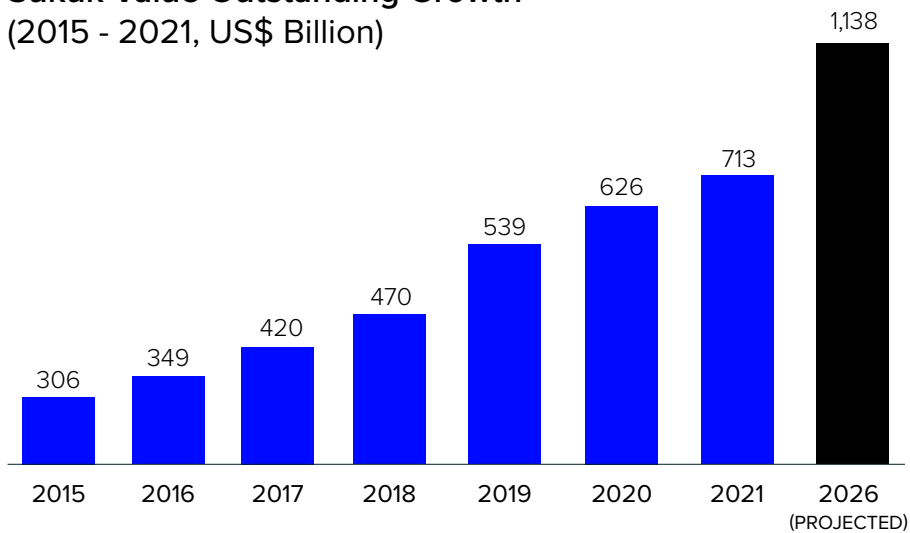
The Shariah-compliant micro and small enterprises (MSMEs) segment also attracted attention in 2021 from payments giant Visa that partnered with Singapore-based hoolah to provide a Shariah-compliant Buy Now, Pay Later (BNPL) solution. This development ties in with the wider trend of Shariah-compliant BNPL solutions: in 2021, Saudi-based BNPL providers Tamara and Tabby obtained fatwas, while Malaysia-based Split Pay also received Shariah approval for its point of sale (POS) payments solution.



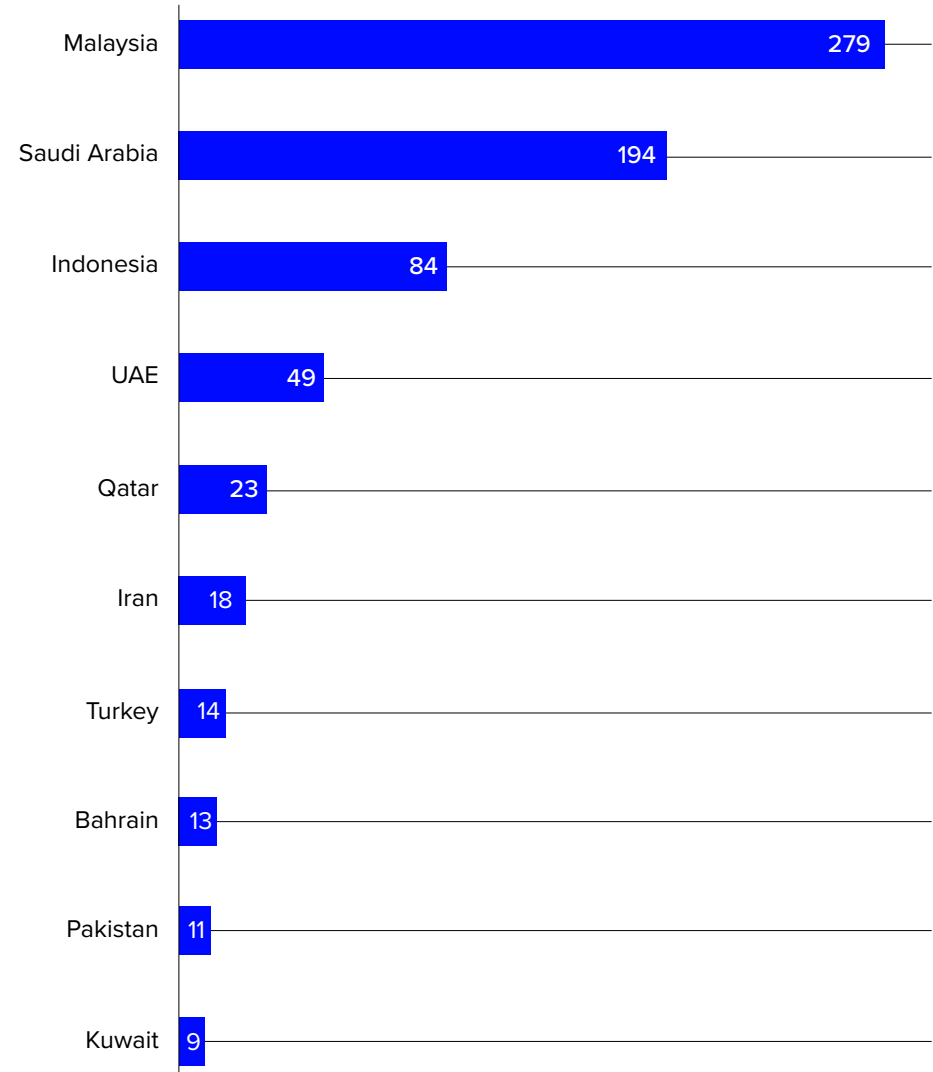
# Sukuk



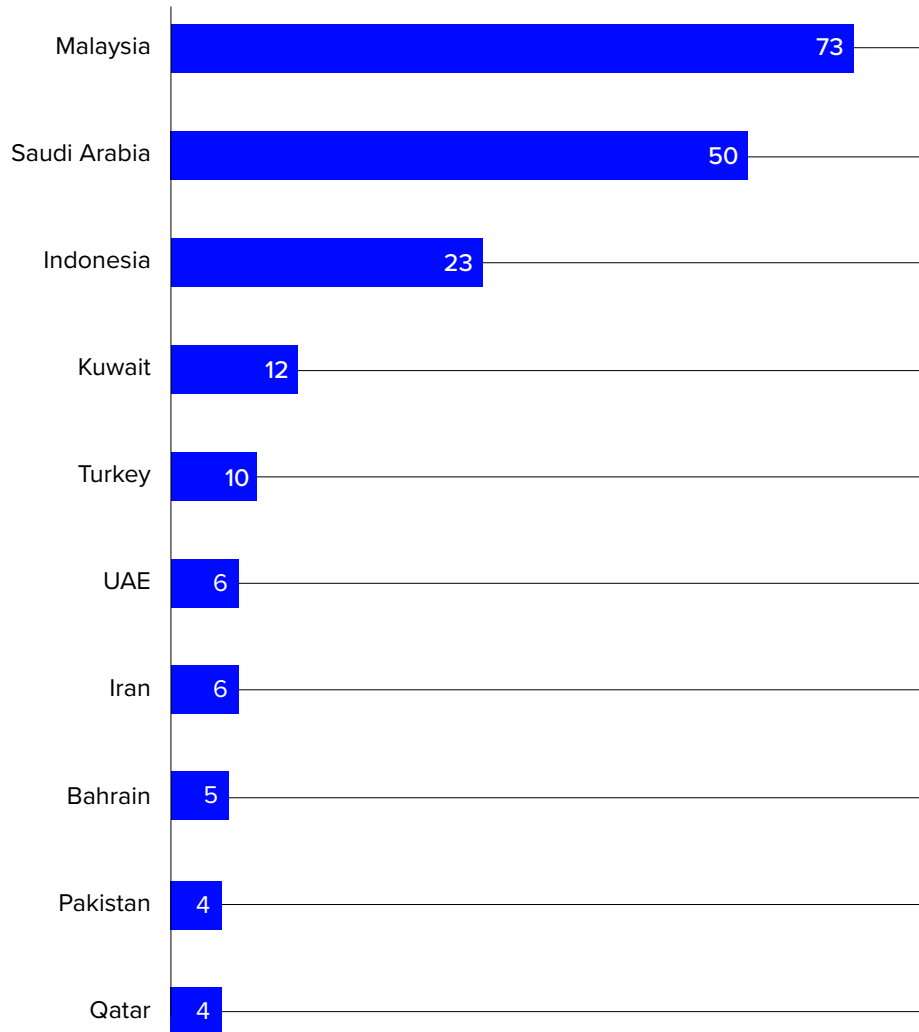
**Sukuk Value Outstanding Growth**  
(2015 - 2021, US\$ Billion)



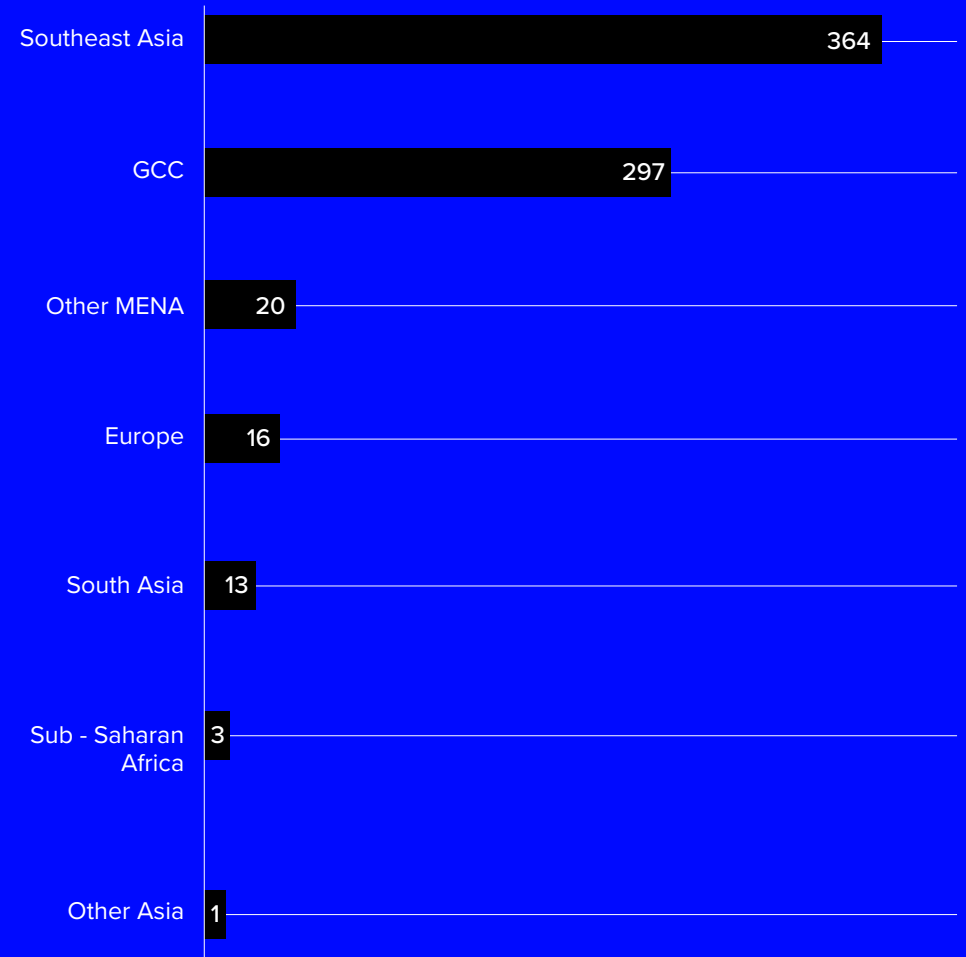
**Top Countries by Sukuk Value Outstanding**  
(2021, US\$ Billion)



**Top Countries by Sukuk Issuance Value**  
(2021, US\$ Billion)



**Sukuk Value Outstanding by Region**  
(US\$ Billion, 2021)



## Record sukuk issuance

Sukuk issuance, including re-opened sukuk, increased in 2021 to a record US\$202.1 billion, marking another good year for the segment. The growth of 9% in 2021 was at par with 2020's. Total assets of the sector, as measured by total sukuk outstanding, stood at US\$713 billion in 2021, up 14% from US\$626 billion in 2020. This strong supply flow will help to narrow the long-running supply-demand gap.

Long-term sukuk – those with tenors of five years or longer – increased, indicating a shift in focus in 2021 towards the post-pandemic world. This increase was underpinned by higher volumes of longer-term papers from issuers to secure favourable borrowing costs while interest rates remained low, a scenario that has since changed considerably.

By structures, Wakala, Ijara and Murabaha continued to account for the majority of sukuk structures.

As in previous years, sovereign and quasi-sovereign sukuk accounted for the majority of issuances in 2021, with US\$120 billion of sovereign sukuk and US\$36.5 billion of quasi-sovereign sukuk, compared to US\$45.7 billion for corporate sukuk. From the standpoint of corporate issuers, the environment for capital raising was less conducive due to continuing high issuance costs. Moreover, corporate sukuk issuances remain small in size, making it difficult to build critical mass.

## Outlook for sukuk remains bright, likely to pick up momentum over medium and long term

Refinitiv's Perceptions and Forecast Study 2022 projects global sukuk issuance ex-Iran to hit US\$185 billion by the end of 2022. A core driver of the rise in sukuk issuance is the ongoing economic recovery that reduced GCC sovereigns' needs for liquidity and sukuk funding in 2021. Yet, soaring inflation dampened supply for sukuk due to higher costs, since these inflationary pressures led to an environment of rising benchmark rates. At the same time, although increasing oil prices will slow issuances in the short-term in GCC markets, budgetary pressures in Malaysia and other core Islamic finance markets such as Indonesia and Pakistan will likely fuel demand for sukuk in 2022 and 2023. As such, the short-term outlook is somewhat mixed.

Further, mid-year issuances in 2022 passed the US\$100 billion threshold, indicating that a notable drop in issuance over the full year is unlikely. Looking further ahead, according to the Refinitiv Sukuk Supply and Demand Model, sukuk issuance is projected to reach US\$257 billion by 2027, indicating a healthy outlook for the market over the next few years.

## Core markets continue to drive sukuk growth; Saudi Arabia fast closing the gap on Malaysia's overall lead.

In 2021, governments in the GCC and Southeast Asia continued to account for most of the sukuk issued, with four countries - Malaysia, Saudi Arabia, Indonesia and Kuwait - collectively selling US\$158.3 billion, or 78%, of the total supply of sovereign sukuk for the year. Along with Turkey, these countries made up the top five sovereign issuers in 2021.

Underlying drivers for the continued strong sovereign issuances included the Saudi government's "Sukuk Issuance Program", launched in 2017, which raised US\$98.9 billion up to the end of 2021. GCC sovereign issuers still need to finance major projects relating to infrastructure and sustainable development, as well as green-focused initiatives, all of which should continue to drive issuance growth.

Across Islamic markets, especially the GCC region, the perennial concern remains that overall sukuk sales will drop unless regional corporates increase supply, as sovereigns are expected to gradually taper off issuances, given significant rate hikes and declining yields.

Saudi Arabia is fast narrowing the corporate sukuk issuance gap with Malaysia. Overall sukuk issuance in Saudi Arabia grew by 31%, from US\$38 billion in 2020 to US\$49.9 billion in 2021. Malaysia, a more mature sukuk market, grew by 11% over the same period. Apart from different maturity levels in each market, Saudi Arabia's faster growth can be principally explained by the strong supply of sovereign issuances, as discussed above. Additionally, the significant Aramco sukuk, the largest corporate sukuk issuance in 2021, bolstered Saudi Arabia's growth in the overall sukuk market.



## Issuances in non-core sukuk markets indicate strong global interest as investor demand remains high

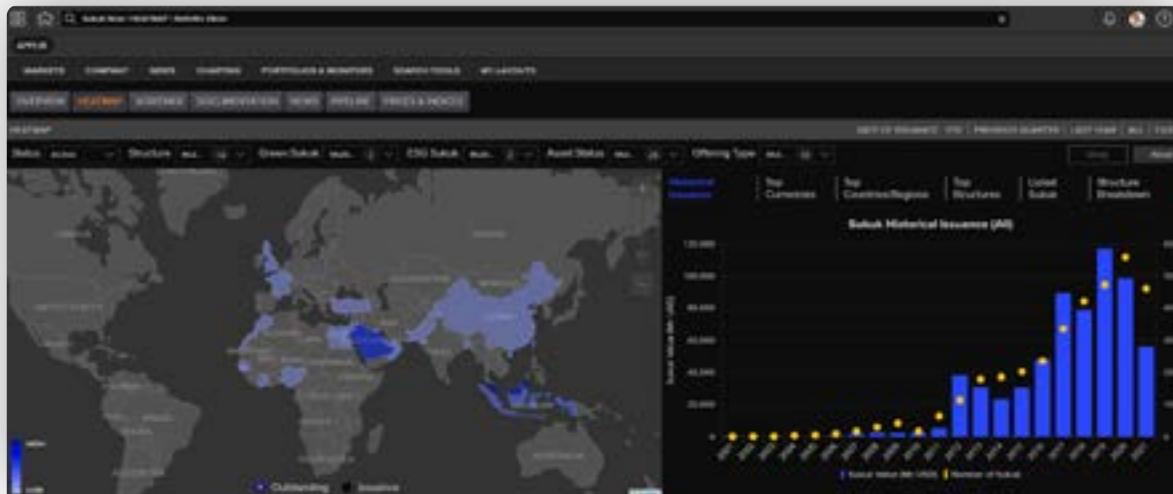
Issuances in non-core sukuk markets indicate strong global interest as investor demand remains high

Apart from the core sukuk markets, several other sovereigns and corporates issued sukuk in 2021. These included Bangladesh, Egypt, Jordan, Maldives, Nigeria and UK. In Jordan, similar to other MENA (ex-GCC) markets, this was driven by sovereign issuances, while several corporate sales popped up in Nigeria and Bangladesh. One notable corporate offering was the green sukuk issue by Beximco in Bangladesh.

Elsewhere, Pakistan's intention to increase the share of Islamic instruments to at least 10% of its Government Securities Portfolio by the end of fiscal 2022-23 may increase its sukuk issuances. Given the current political uncertainty and sizeable current account deficit in Pakistan, sukuk issuances may be more attractive for the government, but it is unclear whether investors will go for relatively risky sukuk unless pricing comes with a significant premium.



# Never miss a Sukuk beat



**Sukuk Now** is an app on Refinitiv® Workspace/Eikon® offering a 360° overview of the Sukuk market. Via an easy-to-use interface, users can perform quick analysis of the market size and trends; gain deep knowledge about the market and its various structures and transactions; and make informed decisions when it comes to investment in the most sought-after asset class in the Islamic finance industry.

## Key features:

- Simplified screener with advanced analytics: list, charts and breakdown views
- Interactive world heat map for outstanding and issued Sukuk
- All charts and results are customisable and exportable to PDF and Excel
- Breakdown analysis allows for comparison with previous period
- Real-time news feed
- Research, compliance and legal documents
- Price discovery, tradability and liquidity
- League tables, indices and industry benchmarks
- Pipeline and announced Sukuk

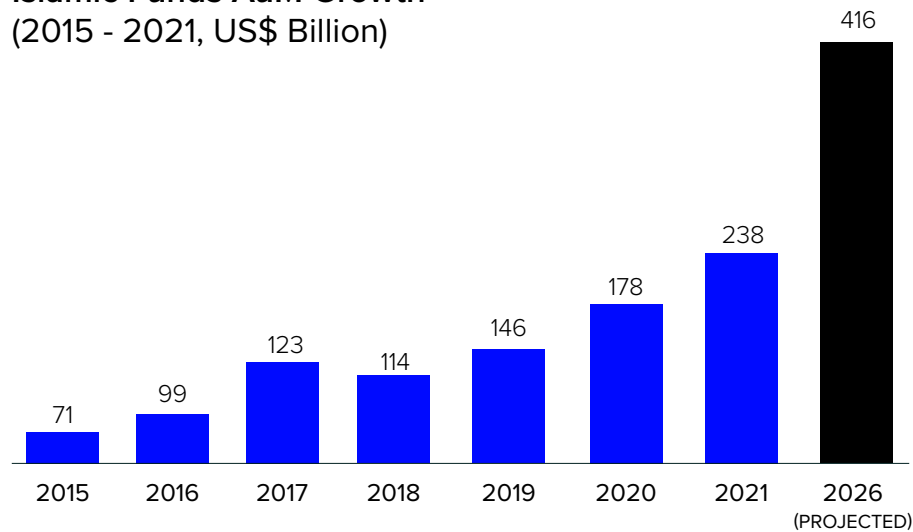




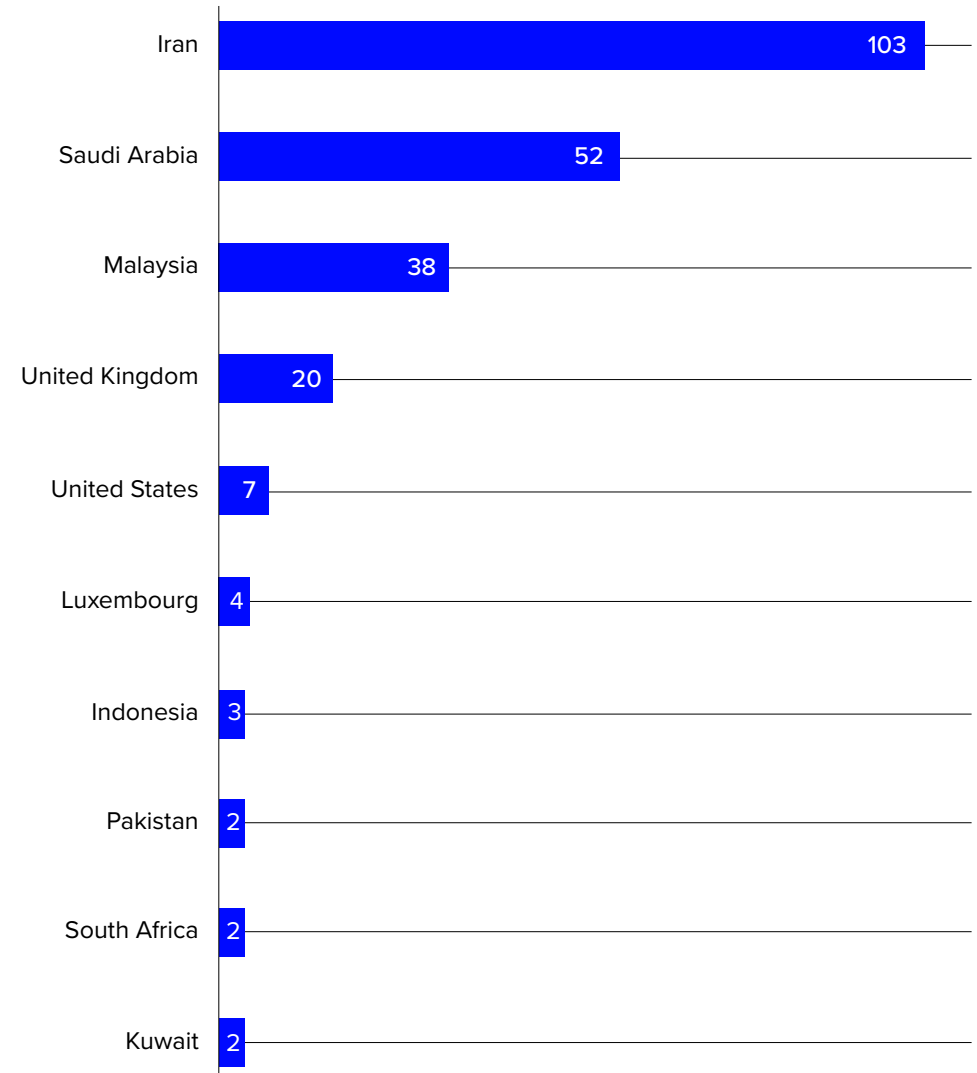
# Islamic Funds



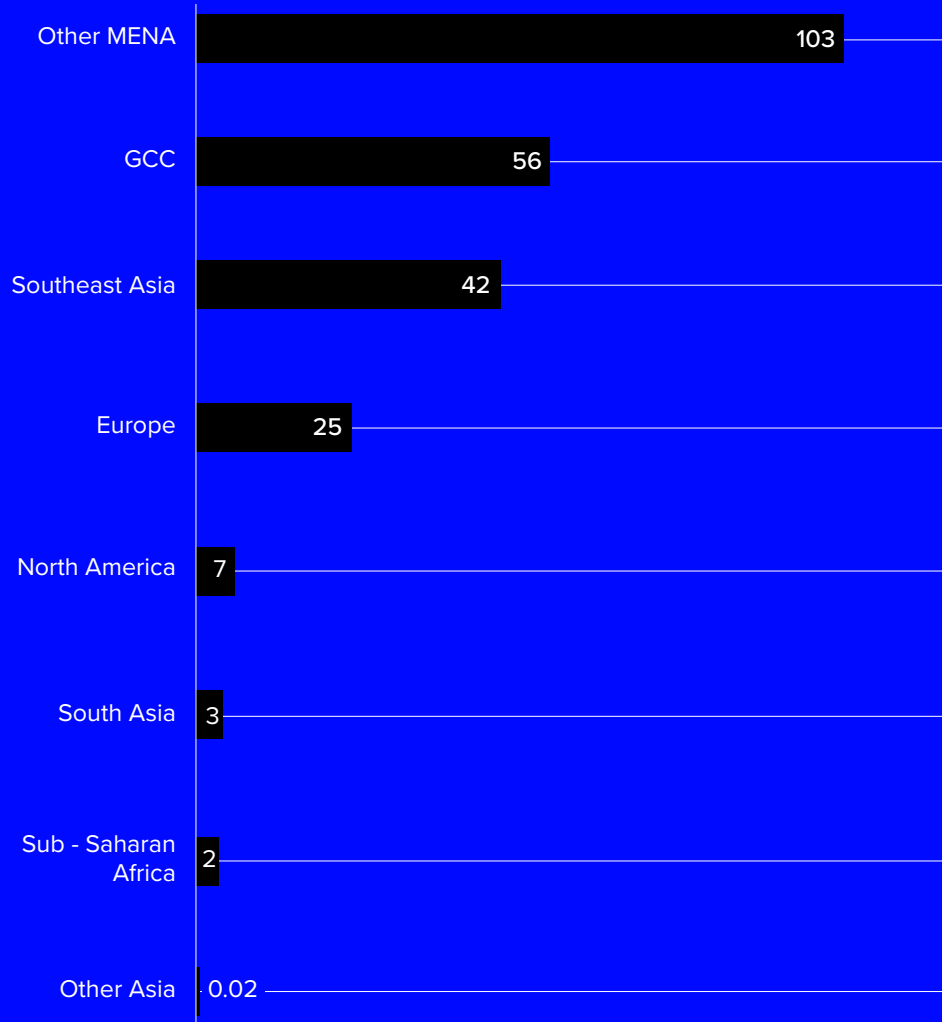
Islamic Funds AuM Growth  
(2015 - 2021, US\$ Billion)



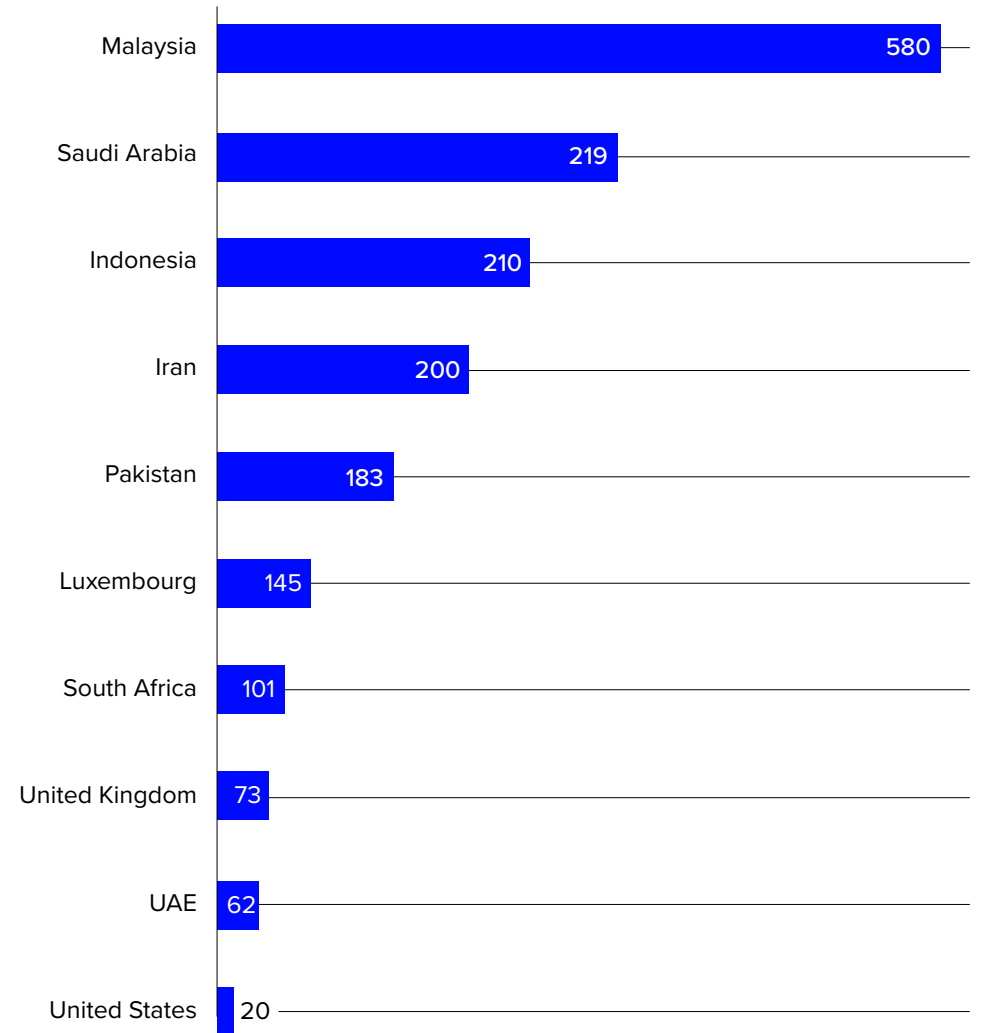
Top Countries by Islamic Funds AuM  
(2021, US\$ Billion)



### Islamic Funds AuM by Region (US\$ Billion, 2021)



### Top Countries by Number of Islamic Funds (2021)



## Pandemic easing, Islamic funds growing

The Islamic funds sector grew by a very robust 34% to US\$238 billion in assets under management (AuM) in 2021. This outpaced 2020's growth of 22%. Islamic funds are managed by asset managers originally based in 29 countries, with some of these funds domiciled in offshore centres such as Luxembourg and Jersey.

The sector is highly fragmented with just three countries--Iran, Saudi Arabia and Malaysia--accounting for 81% of total global Islamic funds. Growth in 2021 was propped up by the launch of 223 Islamic funds in different parts of the world. Most were in Malaysia where a whopping 115 Islamic funds were launched. In addition, Islamic funds in 17 countries saw positive average cumulative growth in AuM with the highest being in India and Oman. Most of the high-growth funds were equity funds in Saudi Arabia with some almost reaching 50% growth.

Overall, Islamic funds mostly invested in money market and equity funds. The latter showed the most resilience in 2021 although there were occasional dips due to uncertainties such as disruptions in global supply chains. As the pandemic eased in 2021, investors moved towards sectors such as energy and away from sectors that saw high growth in 2020 such as technology. The Islamic asset management sector is expected to grow to US\$416 billion in 2026.

## Islamic ETFs gaining more traction in terms of geographical expansion and focus

By asset universe, Islamic exchange traded funds (ETFs) was the second biggest segment with US\$18 billion in AuM. Although Islamic ETFs gained more attention in recent years, they shrank in AuM as compared to others. This is because the largest Shariah-compliant ETFs invest in gold, which saw outflows in tandem with the contraction of the price of the precious metal. According to the World Gold Council, gold faced two different forces during 2021: higher bond yields especially during the first quarter and a stronger dollar in the second half of 2021 dragged the metal's performance. Meanwhile, gold benefited from inflation uncertainty and market volatility due to waves of

Covid-19 variants disrupting recovery. Most Islamic commodity ETFs are domiciled in Jersey.

Despite these challenges, Islamic ETFs are expanding geographically. Canada saw its first Islamic ETF mid-2021. In 2022 as of this writing, Australia is prepped for the roll-out of its first Islamic ETF as announced by Hejaz Financial Services in August 2021. According to the firm's study of the market, 36% of Muslims in Australia stash money at home given the lack of Islamic products for their needs. The listed ETFs will meet the high demand by for Islamic finance products by Muslims in the country especially after the launch of Australia's first Islamic bank. Russia also saw the launch of its first Shariah-compliant ETF through the state-owned lender Sberbank's asset management arm, Sber Asset Management.

Islamic ETFs are also seeing expansion in terms of invested geographic focus. UAE-based Chimera Capital launched an ETF in August 2022 focusing on Shariah-compliant Turkish equities. The company started the year with an ETF focused on Saudi equities and mid-year launched UAE's first US equity ETF.



### **Islamic asset management welcomes new Islamic indices and potential large players**

The ecosystem shaping the Islamic asset management sector is also seeing some new developments. 2022 saw the launch of new Islamic indices such as those by the FTSE IdealRatings Islamic Index Series by FTSE Russell, an LSEG business, and IdealRatings. In addition, Saudi Arabia launched its first Islamic index in July 2022, Tadawul Islamic index, as part of plans to build the Kingdom to become the global Islamic finance hub as outlined in its Financial Sector Development Program for Vision 2030. The index is supervised by the newly-formed Shariah advisory committee that includes leading Shariah scholars. Its launch could pave the way for new Islamic ETFs. Overall, the launch of these indices will help asset managers benchmark performance with their Islamic portfolios and will benefit the industry's growing number of investors.

The sector is also witnessing the entrance of new players backed by large Islamic banks. With economic growth picking up in different countries, some of the big Islamic financial institutions in the GCC are branching into asset management. In April 2022, Qatar Insurance Company and QInvest announced their intention to create an Islamic asset management firm. The following month, Abu Dhabi Islamic Bank announced it will set up an entity focusing on asset management.

### **New Islamic pension funds initiatives to meet high demand**

Islamic pension funds remain relatively small compared to Islamic mutual funds and Shariah-compliant pension options are still limited for individuals who demand it. Surveys have shown how some Muslims in non-Muslim majority countries such as the UK do not have proper retirement savings plans.

Uber UK, for example, saw high demand for this from its Muslim-majority workforce that led to the company working with the existing fund provider, NOW Pension, to structure a Shariah-compliant pension fund for employees. Wahed Invest is also meeting this demand by collaborating with Options on a product for self-employed Muslims in the UK. In addition, the UK government's Nest has Nest Sharia Fund as an Islamic pension option.

According to Refinitiv's Lipper, Islamic pension funds by asset managers amount to US\$1.1 billion by the end of 2021. This is apart from mandatory Islamic pension schemes offered in countries such as Malaysia (through EPF). In Kuwait, local press reported in July 2022 that the Public Institution for Social Security was working on a separate entity for Islamic pensions.

Another country that could see a rise in its Islamic pension funds is Pakistan. The State Bank of Pakistan unveiled its pension plan for Pakistanis who reside overseas, Roshan Pension Plan, with a soft launch that started from August 15. This will benefit the banks and asset managers in the country, including Islamic financial institutions. The pension plan will serve nine million Pakistanis in the global diaspora and will help attract much-needed foreign exchange into the domestic economy.





# Introducing the FTSE IdealRatings Islamic Index Series

FTSE  
Russell

An LSEG Business

The FTSE IdealRatings Islamic Index Series provides global investors with a new family of Shariah compliant indices. The Index Series has been designed to be used as the basis of next generation Shariah compliant investment products, and as a performance benchmark for active funds.

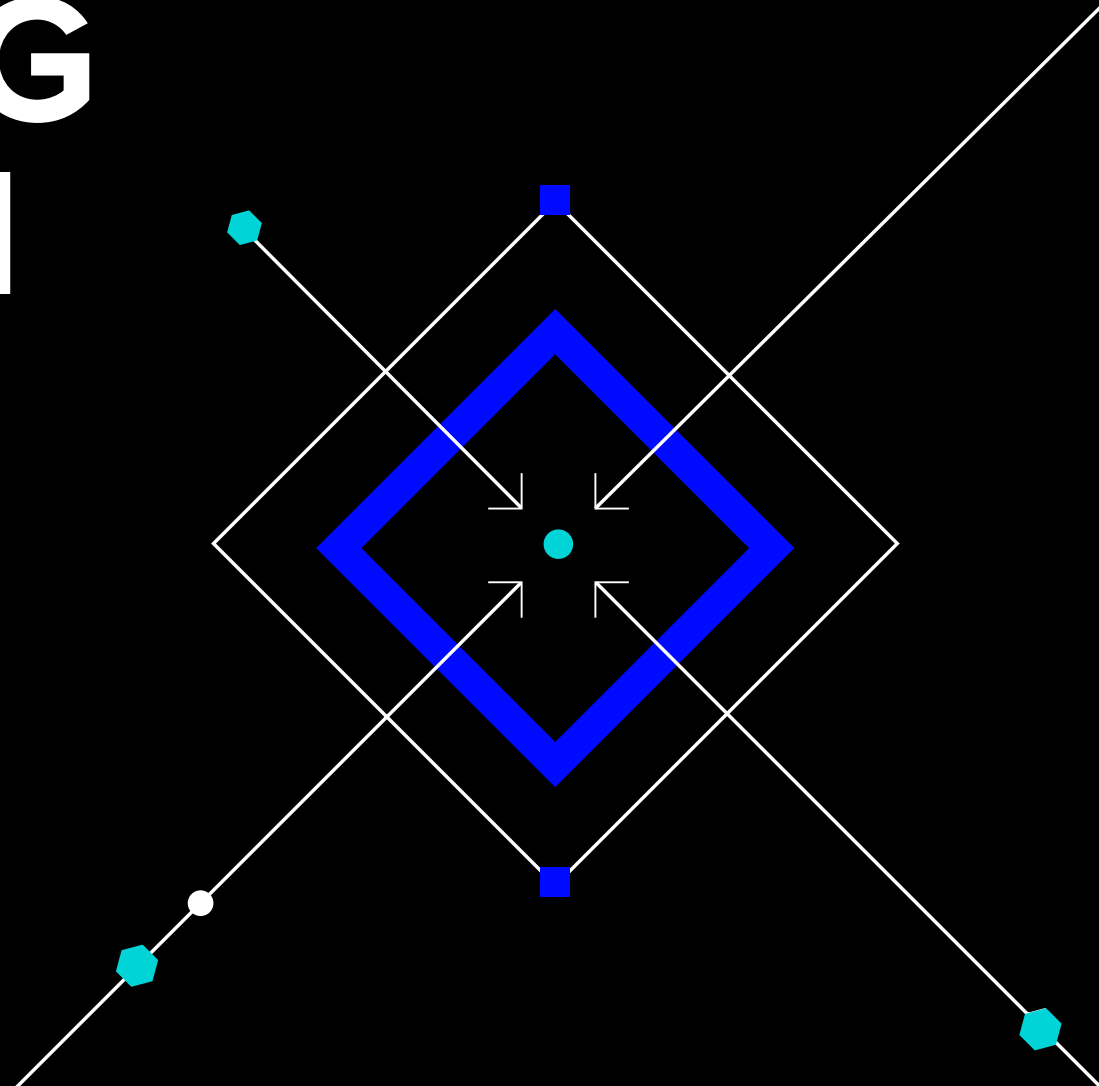
Screening is undertaken by leading Shariah screening providers, IdealRatings, and the Index Series has been fully certified as Shariah compliant through the issue of a Fatwa.

Covering both Developed and Emerging markets, the new index family provides investors with a comprehensive solution across markets.

Access the global equity investment universe in a way that complies with Shariah investment principles.

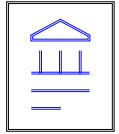
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# ISLAMIC FINANCE SUPPORTING ECOSYSTEM



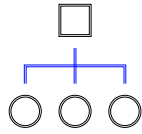
# Governance

## Number of Countries with Regulation on



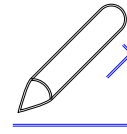
44

Islamic Banking



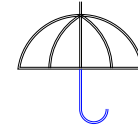
35

Specific Shariah Governance



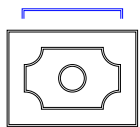
32

Specific Accounting / Auditing



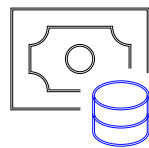
28

Takaful



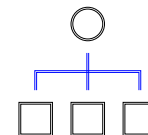
23

Sukuk



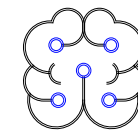
13

Islamic Funds



19

Centralized Sharia Committee Presence



50

FinTech Sandbox



1,296

Number of Shariah Scholars with Institutional Representation



34%

Average Disclosure Index



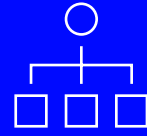
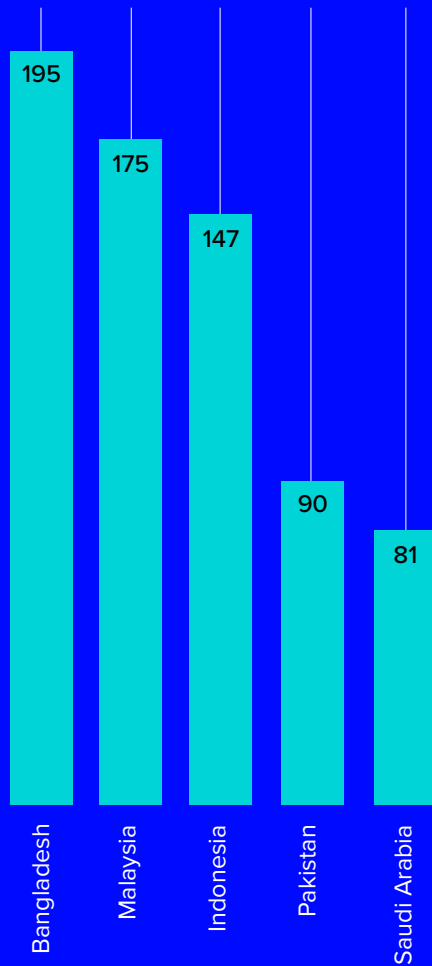
24%

Average Share of Independent Directors on the Board

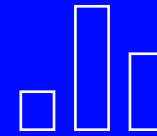
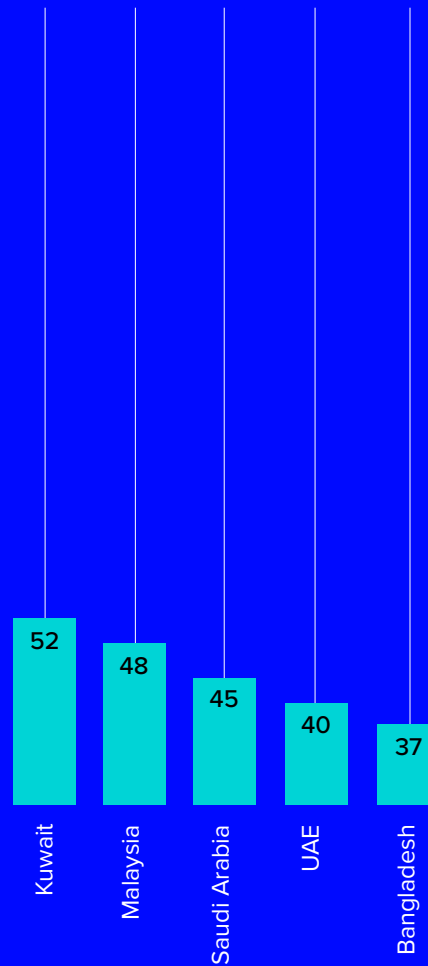




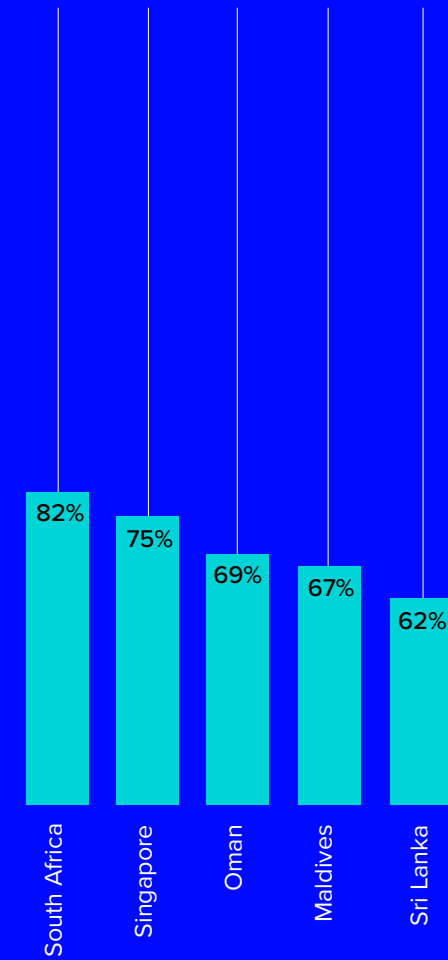
**Top Countries by Number of Shariah Scholars (2021)**



**Top Countries by Number of IFIs with Shariah Boards (2021)**



**Top Countries by Average Disclosure Index Scores (2021)**



## **Takaful gaining importance as more countries seek to regulate it**

There are a handful of countries that have multiple central Shariah supervisory boards to serve different regulators or sectors. Among them are Malaysia and Indonesia. Oman is the latest country to join this group, with the establishment of its Supreme Shariah Supervisory Board for its Capital Market Authority in January 2022 after the one setup for the central bank in 2014. The Board, composed of five members, focuses on the Sharia aspects of the takaful sector. The establishment of this Board shows how the takaful sector is gaining importance in the Sultanate even if there are currently only two takaful operators out of 20 insurance providers.

Oman is not the only country paying attention to the regulatory aspect of takaful. In February 2022, Philippines released guidelines for insurance operators that have takaful windows in order for the sector to support its Islamic finance ambitions. Tanzania's Insurance Regulatory Authority also released takaful guidelines that went into effect in May 2022. It follows interest from insurance companies to have takaful licenses in the country. Such initiatives will increase the number of countries that have takaful regulation, which stood at 28 in 2021.

## **Philippines increasing governance initiatives in 2022 to strengthen its Islamic finance system**

There were 19 countries with central Shariah boards in 2021 and this number is set to rise. The Philippines once again made Islamic finance headlines in 2022 when it established the inter-agency Board in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM). The Islamic Banking Law of the Philippines gives the government the flexibility to convert it into a national body when needed in case of the increase of number of Islamic banks in the country.

This adds to the series of regulatory initiatives to attract Islamic banking players in the Southeast Asian nation such as reduction of the minimum capital requirement for Islamic windows. It is looking into profit sharing investment accounts and capital adequacy ratio required for Islamic banks.

## **Saudi Arabia strengthened governance towards becoming an Islamic finance hub**

In Saudi Arabia, the country's stock exchange established its Sharia Advisory Committee in April 2022 with eight members from leading Islamic finance institutions in the country. The Kingdom has already seen results with the launch of Saudi's first Islamic index, TASI Islamic Index.

Saudi Arabia's regulator SAMA further strengthened regulations with rules for debt crowdfunding activities provided by FinTechs, some of which are Shariah-compliant, such as minimum paid-up capital for crowdfunding license and internal organisation. The country is among 50 countries with FinTech sandboxes, a metric that was added to the IFDI this year under the Regulation sub-indicator.

## **Islamic banking could see a new regulator while sukuk is gaining momentum in non-core MENA countries**

In 2021, 47 countries had at least one type of Islamic finance regulation, same as the year before. A few developments in 2022 could widen this pool. For instance, local media reported towards the end of September 2022 that Russian lawmakers had submitted a bill to Parliament for a pilot plan to implement Islamic financial practices in the predominantly Muslim regions of Chechnya, Dagestan, Bashkortostan and Tatarstan.

The central bank aims to test Islamic banking in these regions before rolling out to the wider country. The draft submitted by the State Duma Committee on Financial Market includes tax requirements for the sector.

For countries with existing Islamic finance regulations, Syria's central bank will allow Islamic banks to issue sukuk within requirements such as type of allowed sukuk structures and requirements in projects to be financed through sukuk. In Egypt, the Financial Regulatory Authority in August 2022 released ten new requirements for sukuk issuance, including reporting requirements and informing the authority of any new planned issues.

Another modification for existing regulation is in Central Bank of Nigeria's new guidelines for non-interest banking in June 2022. In the UAE, the central bank in January 2022 issued the Standard Re Liquidity at Islamic Banks as part of regulations for liquidity at banks.



## FinTech investigated more closely from Shariah perspective, digital assets gain traction in more top Islamic finance markets

Covid-19 accelerated financial technology and most of the moves towards regulating the sector cover the main activities that apply to both conventional and Islamic institutions. Pakistan's SECP for example plans to include Shariah principles in some FinTech innovations such as smart contracts and blockchain technology, according to its Annual Report 2021.

A focus on digital assets in key Islamic finance markets is an exciting development. Saudi Arabia's SAMA showed it is serious about digital assets when in early September 2022 it appointed a head for its virtual assets and Central Bank Digital Currency programme. Earlier in the year, Dubai sat up a Virtual Assets Regulatory Authority in the first quarter of 2022. Abu Dhabi Global Market, of course, had in 2018 launched a framework to regulate crypto assets. Saudi Arabia and UAE authorities' focus on this sector could encourage more industry players to deal with digital assets, including Islamic companies. This also means that more Shariah scholars will study these assets more closely.

There are already some resolutions on the asset class. Among the well-known Shariah resolutions on digital assets such as digital currency is by the Securities Commission of Malaysia's Shariah Advisory Council in 2020. The SAC looked at whether digital assets could be viewed as mal (asset) and as currency, then sought to determine the Shariah view of a digital token.



# Sustainability



ESG Sukuk Outstanding (US\$ Million)

**16,454**



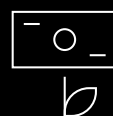
Average ESG Reporting Index

**19%**



ESG Islamic Funds AuM Outstanding (US\$ Million)

**7,546**



Average CSR Reporting Index

**16%**



Number of Countries with Sustainability Guidelines

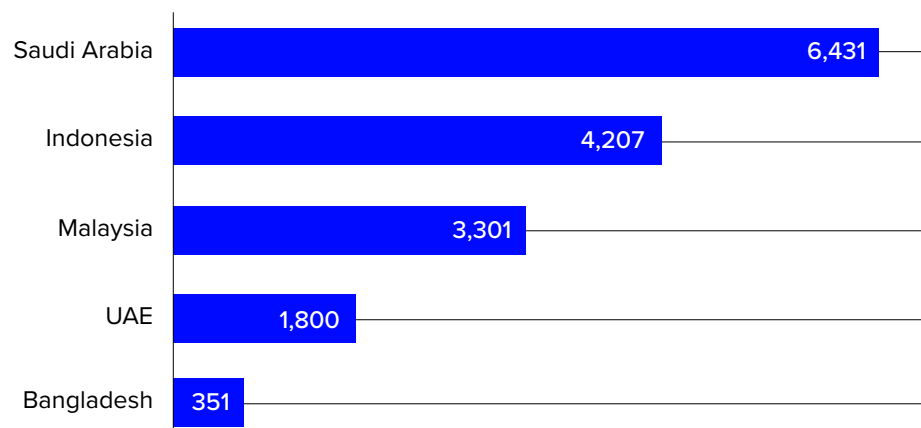
**41**



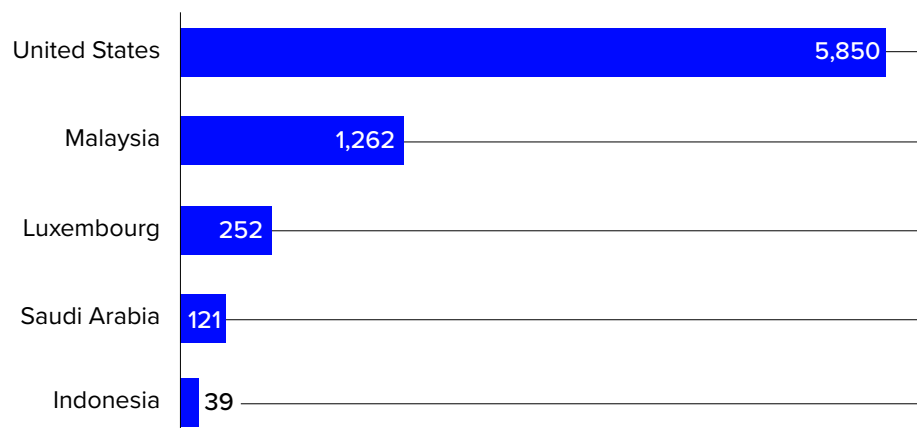
CSR Funds Disbursed by Islamic Financial Institutions (US\$ Million)

**1,223**

Top Countries by ESG Sukuk Outstanding (2021, US\$ Million)

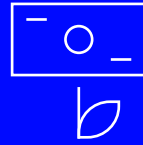
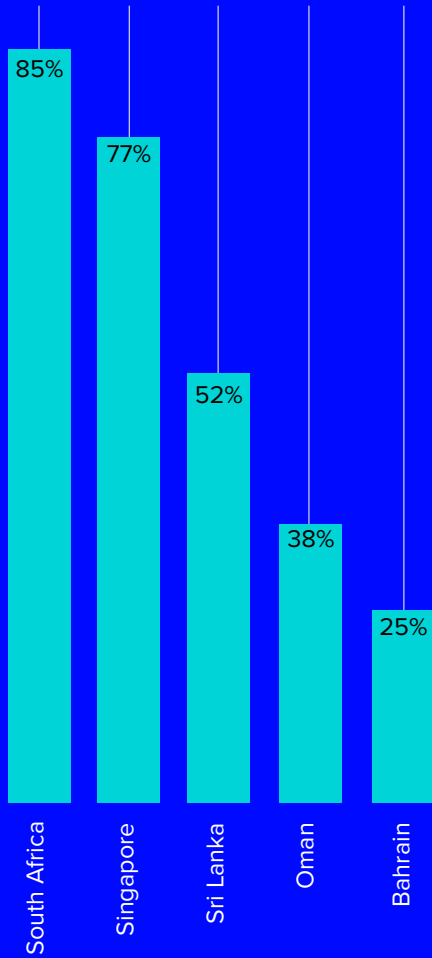


Top Countries by ESG Islamic Funds Outstanding (2021, US\$ Million)

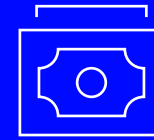
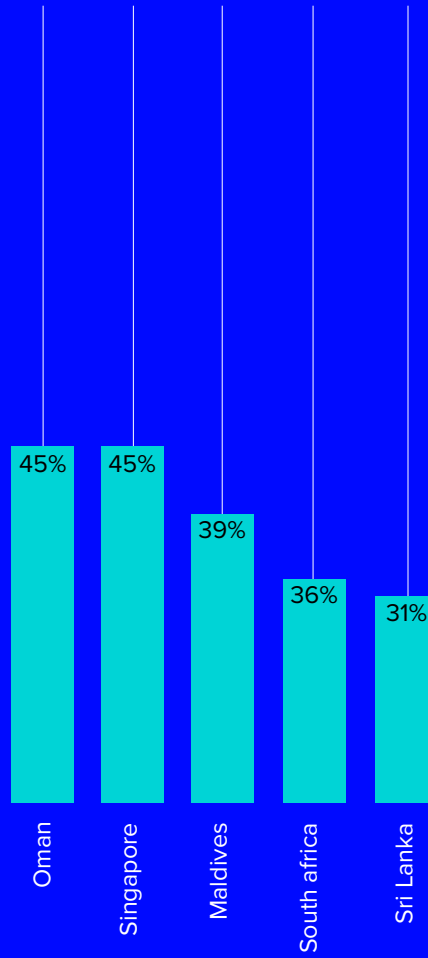




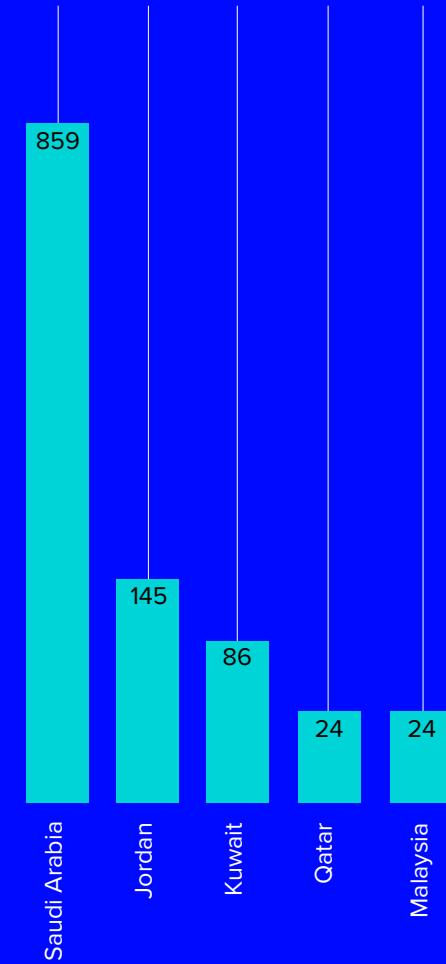
### Top Countries on ESG Reporting Index (2021)



### Top Countries on CSR Reporting Index (2021)



### Top Countries by CSR Funds Disbursed by IFIs (US\$ Million, 2021)



### **ESG sukuk advancing, bolstered by the incorporation of sustainable sukuk framework by several issuers**

In 2021, ESG sukuk issuance reached a new high of US\$5.3 billion. Major issuers included Saudi Arabia, Indonesia and Malaysia, which all sold over US\$1 billion of ESG sukuk. These figures are set to increase in 2022 and beyond after several sovereigns and corporates in 2021 laid the groundwork to integrate ESG instruments within their wider frameworks for public debt.

Some examples include Saudi Arabia and Qatar. The Saudi Public Investment Fund (PIF) has plans to issue its first ESG sukuk in global markets, while Qatar Financial Centre developed a sustainable sukuk and bond framework.

The underlying drivers for this continued momentum for ESG sukuk are twofold: the global mainstreaming of ESG investments and strong GCC demand. Global mainstreaming of ESG investments has made it more attractive for GCC governments to tap the strong and rising demand for ESG investments from global investors, while GCC demand itself is increasing to help fund regional green and sustainability transition projects.

### **Islamic ESG funds growth continue apace but wary of headwinds in 2022**

Islamic ESG funds outstanding rose from US\$6.1 billion in 2020 to US\$7.5 billion by the end of 2021. The growth is supported by the launch of 29 of such funds during 2021, mostly from Malaysia. Despite this increase, Malaysia is second to the United States in terms of Islamic ESG funds value outstanding. SRI funds in Malaysia are in the form of unit trusts or wholesale funds. Existing funds can apply to become SRI funds by the Securities Commission Malaysia.

In 2022, the asset class attracted interest from Takaful operators such as Sun Life Takaful Malaysia following a wave of new ESG funds incorporated by insurance operators in the country.

Islamic ESG funds in Malaysia are set for a huge boost given that the EPF, the government's private sector workers' mandatory retirement fund, which is the largest fund in Malaysia offering both Islamic and conventional solutions, introduced its Sustainable Investment Policies as part of plans to become fully ESG compliant by 2030 and carbon neutral by 2050.

This asset class also welcomed the launch of the first Shariah-compliant ESG-aware ETF in the first quarter of 2022. The Wahed Dow Jones Islamic World ETF (UMMA) is based in the US and uses the Dow Jones Islamic Market International Titans 100 Index as its benchmark.

Although the asset class performed well in 2021, ESG funds overall are facing headwinds this year. Technology stocks that tend to be more environmentally-friendly are underperforming while oil and gas stocks that are underweight in such funds are outperforming due to Russia's invasion of Ukraine. Investors need to decide whether they follow the bear market, putting such funds to the test.

### **Regulatory developments for sustainability are gaining traction, especially for sustainability-related sukuk**

Sustainability-related guidelines, a new metric added to this year's IFDI, are active in 41 countries that practise Islamic finance. The guidelines should not necessarily impact just Islamic institutions or Islamic offerings. They may be in the form of ESG disclosure, SRI or green sukuk or bond framework, or any other forms that impact the finance industry's activity in terms of sustainability.

Large Islamic finance markets are continuing to see moves to enhance sustainability through guidelines or regulation. For instance, Saudi Arabia's stock exchange launched ESG disclosure guidelines in October 2021 to enhance sustainability in its capital market that consists of more than 200 companies. This is in alignment with the Kingdom's Vision 2030 that positions sustainability as an important pillar.

In Malaysia, the Securities Commission launched an SRI-linked sukuk framework in June 2022 and the regulator is planning to release the SRI Taxonomy framework at the end of 2022. For sukuk, this follows the 2014 SRI Sukuk framework while a new set of rules allows for the use of proceeds to be used for general purposes, contingent on the issuer committing to pre-specified sustainability outcomes within a predefined timeline and monitored by key performance indicators. This provides better transparency for investors. Both SRI-linked sukuk framework and SRI Taxonomy form part of the SRI Roadmap that was initiated in 2019 as part of the Capital Market Master Plan 3.



In July 2021, Oman's Capital Market Authority announced it was developing a sukuk regulation that would also cover sustainable and responsible investments (SRI), including but not limited to social (waqf), sustainable, green and blue sukuk. Another country working towards green sukuk is Turkey where the Presidency of the Turkish Republic Finance Office published its Green Sukuk Working Report in May 2022. In Pakistan, the SECP is conducting research for a regulatory framework for green sukuk, according to its annual report 2021. Kuwait also amended regulation in February 2022 to introduce new types of bonds, including green, sustainable and social impact sukuk, among others.

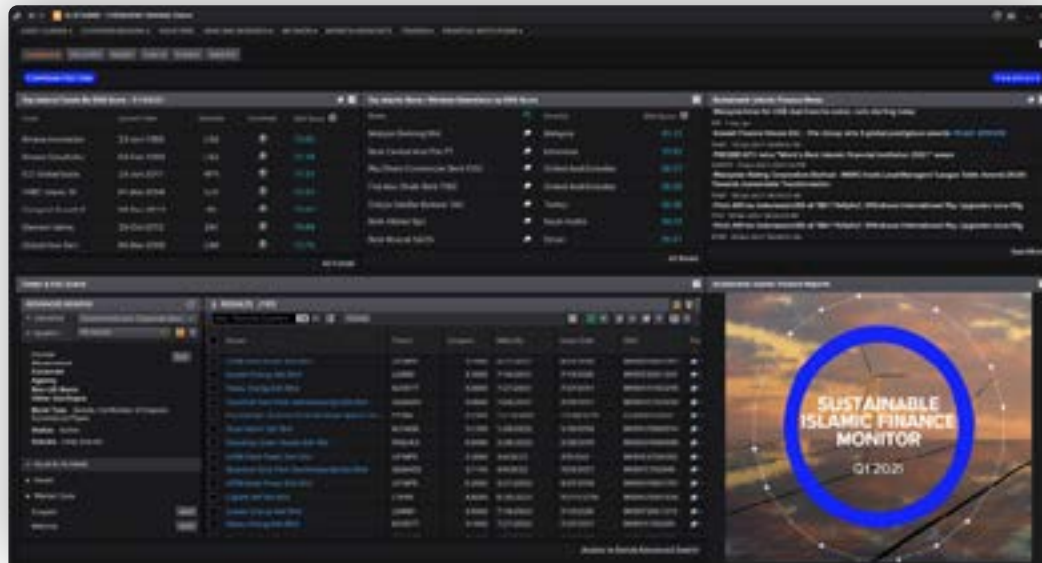
### **CSR and ESG disclosures in 2021 remain low**

For Islamic financial institutions, the metrics used to measure their sustainability mainly falls on disclosure. The CSR disclosure and the newly-introduced ESG disclosure indices are low globally with an average of 16% and 19%, respectively. This is in spite of more CSR initiatives in 2021 to reduce the impact of the pandemic on different stakeholders, such as consumers and employees, while improving efficiency at the same time. A reason for the low scores could be that many financial institutions release their impact or sustainability reports in the year after IFDI data collection was finalised. ESG disclosure mandates mean that some countries with the highest average CSR disclosure scores also returned the highest in average ESG disclosure.

Total CSR funds disbursed was US\$1.2 billion in 2021, almost flat compared to 2020. Zakat and charity funds accounted for 88% of the total amount while the rest were qardh al hasan. Among the notable initiatives by Islamic banks in Malaysia is iTEKAD that mobilises social finance such as waqf, zakat and sadaqah to microentrepreneurs. The initiative was first launched in May 2020 in the face of Covid-19 and iTEKAD 2.0 was introduced as an expansion to this in 2021. It offers affordable microfinancing such as seed capital to eligible applicants. The programme was supported by three Islamic banks in 2021 and helped 172 microentrepreneurs, according to Bank Negara Malaysia.



# Refinitiv Sustainable Islamic Finance App

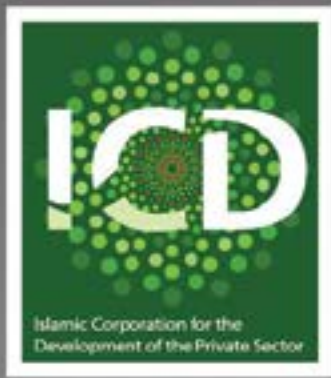


The Refinitiv Sustainable Islamic Finance App is a one stop resource to track and analyse the development of sustainability efforts and KPIs across various asset classes.

- ESG scores of Shariah-compliant equities
- ESG scores of Islamic banks and windows
- ESG scores of Islamic Funds
- ESG and Green Sukuk
- Real-time news feed of Sustainable Islamic Finance topics
- ESG and Sustainability Indices in key Islamic markets
- The Quarterly Sustainable Islamic Finance monitor report

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# Sustainability Sukuk: The SC Experience



**SHARIFATUL HANIZAH SAID ALI**  
Executive Director, Islamic Capital Market Development, Securities Commission Malaysia

Sharifatul Hanizah is the Executive Director of Islamic Capital Market Development (ICMD) of the Securities Commission Malaysia where she leads a team that facilitates the developmental and operational initiatives for Malaysia's Islamic capital market. She has over 30 years of experience in investment analysis, portfolio management, equity trading and unit trust while serving in organisations such as Permodalan Nasional Berhad, RHB Investment Management Sdn Bhd and Muamalat Invest. Prior to joining the Securities Commission in August 2019, Sharifatul Hanizah was the Chief Executive Officer of SIDC, the learning and development arm of the SC. She is a Fellow of the Financial Services Institute of Australasia (F Fin), a Certified Financial Planner (CFP), an Islamic Financial Planner (IFP) and a Fellow of the Institute of Corporate Directors Malaysia (ICDM).

In the last four decades, the Malaysian government has facilitated the development of Islamic finance. The Securities Commission Malaysia (SC) and Bank Negara Malaysia have helped create a robust ecosystem through regulations, Shariah governance framework, legal framework and licensing of dedicated Islamic financial institutions and intermediaries. Industry players have contributed to innovative Islamic financial products and services. Collectively, these have propelled the domestically-driven Islamic finance industry to become a premier Islamic financial centre.

Alongside this growth of Islamic finance was the heightening awareness of the global agenda for responsible finance as well as an increase in demand for sustainable products, services and practices. Accordingly, the SC continues to emphasise the importance of the capital market in supporting this agenda. The efficient mobilisation of funds and investments in the capital markets plays a crucial role in ensuring sustainable outcomes and supporting the needs of sustainable development. Consequently, in line with Malaysia's commitment to the United Nations' (UN) 2030 Agenda on Sustainable Development, the SC set out to develop sustainable finance intermediation in tandem with the increasing awareness of sustainable investments and financing.

This augurs well for Malaysia as there are inherent commonalities between the underlying principles of the Islamic capital market (ICM) and sustainable finance, such as social responsibility, inclusiveness, equitable sharing of risks and shared societal benefits.

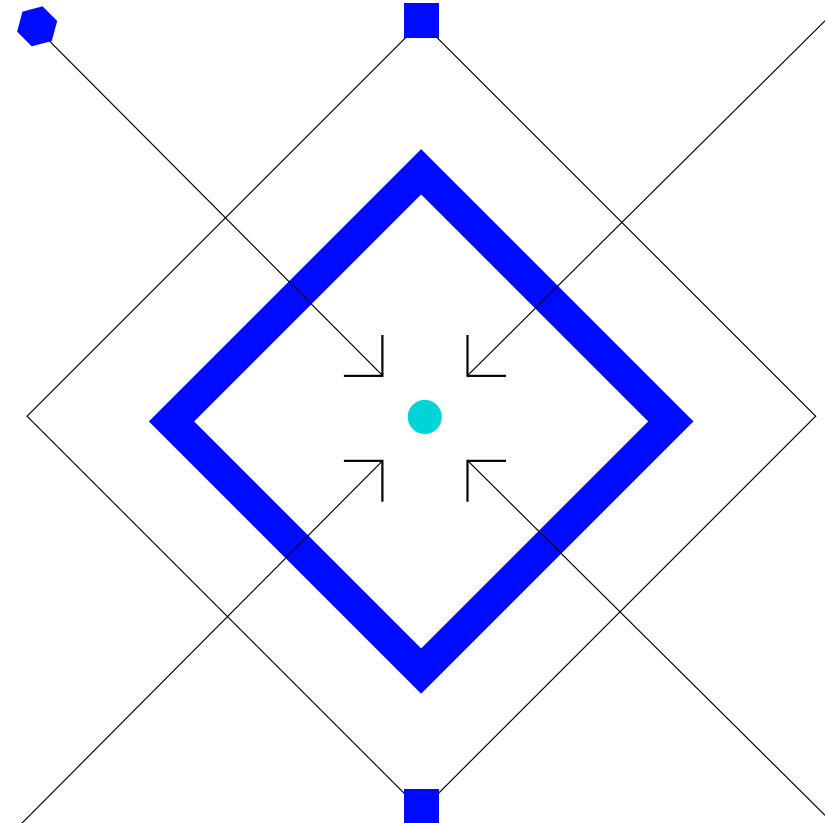
Addressing this unique convergence, the SC introduced several regulatory initiatives to establish a conducive ecosystem for the development and growth of sustainable finance, including green financing, through the ICM.

The introduction of the SC's Sustainable and Responsible Investment (SRI) Sukuk framework (Framework) in 2014 - widely regarded as a pioneering regulatory development that integrates Islamic principles with those of SRI, was one of the early and significant developments of Malaysia's sustainability agenda. Following the launch of the Framework, Malaysia contributed key 'firsts', including the issuance of the inaugural social sukuk in 2015 that funded the development of trust schools in Malaysia, and the world's first green sukuk in 2017 that financed the construction of large-scale solar photovoltaic power plants. SRI Sukuk has since been issued in Malaysia to finance a variety of projects including for green buildings, hydropower and water treatment.

Following the introduction of the Framework, developmental efforts took the form of the SRI Roadmap for the Malaysian Capital Market (SRI Roadmap), released in 2019. The five-year SRI Roadmap identified 20 strategic recommendations for a vibrant SRI ecosystem to position Malaysia as a regional SRI centre. This includes widening the range of SRI instruments, increasing the SRI investor base, building a strong SRI issuer base, instilling a strong internal governance culture, and designing an information architecture in the SRI ecosystem.

Following the SRI Roadmap, the Framework was also revised to ensure greater alignment with international standards in terms of enhanced disclosure, reporting requirements and the role of external reviewers. Central to the revision is the expansion of what constitutes eligible SRI projects. The revised SRI Sukuk framework is designed to be versatile as it now provides for the issuance of green, social and sustainability sukuk, providing issuers with greater accessibility.

Given the ample potential for advancement and to broaden product bandwidth opportunities, the SC recently introduced in June 2022 the SRI-linked Sukuk Framework (SLS Framework). The SLS Framework is anticipated to encourage and facilitate companies to raise funds to address sustainability concerns such as climate change or social issues, with features that relate to the issuer's sustainability performance and commitments. It has the potential to enable companies in high-emitting industries, as well as other industries, to transition to a low-carbon or net zero economy in line with Malaysia's agenda to achieve net zero by 2050.



# Overview of the SRI-Linked Sukuk Framework

## Why

### SRI-linked Sukuk ?

Issuers are able to utilise SRI-linked sukuk proceeds for general purpose, subject to future improvements in sustainability outcomes.

Enable companies in high-emitting industries to transition into a low-carbon or net zero economy.

Partake in the nation's agenda to achieve net zero by 2050.

Attract a more diverse issuer and investor base.

[www.sc.com/regulation/guidelines](http://www.sc.com/regulation/guidelines)

## What is

### SRI-linked Sukuk ?

SRI-linked Sukuk is a sukuk where the financial and/or structural characteristics vary depending on whether the issuer achieves its predefined sustainability objectives within a predefined timeline.

## What is the

### Objective of the SRI-linked Sukuk framework ?

The objective of the Framework is to facilitate fundraising by companies whilst addressing sustainability concerns such as climate change or social agenda, with features that relate to the companies' sustainability performance commitments.

### Under the framework

Proceeds raised from SRI-linked sukuk can be used for general purpose

Provides greater transparency for investors to make an assessment on issuer's sustainability performance commitments

[www.sc.com/regulation/guidelines](http://www.sc.com/regulation/guidelines)

### Core components of the SRI-linked framework?

#### Sukuk characteristics

The financial and/or structural characteristics of the SRI-linked sukuk vary depending on whether the issuer achieves the key performance indicators (KPIs).

#### Key performance indicators

Sustainable commitments that the issuer would want to improve, e.g. reduction in CO2 emissions.

#### Sustainability performance targets

Pre-defined targets against which the KPIs are assessed, e.g. reduce CO2 emission to 50 million tonnes in year 3.

#### External review

A report prepared by an independent third party to provide an opinion on the issuer's framework and a verification of the KPIs.

#### Reporting

Issuer's obligation to report at least annually on the performance of the KPIs.

[www.sc.com/regulation/guidelines](http://www.sc.com/regulation/guidelines)

Several incentives were introduced to further complement the SRI Sukuk framework and SRI-linked Sukuk framework, as well as accelerate issuances of SRI sukuk as a fundraising instrument.

2018

● **The Green SRI Sukuk Grant Scheme**

A RM6 million (US\$1.3 million ) grant was established by the SC to assist issuers in defraying up to 90% of the external review costs for green SRI sukuk, subject to a maximum of RM300,000 (US\$71,778.96) per issuance.

2021

● **Expansion of the Green SRI Sukuk Grant Scheme**

The Grant was then expanded to also include all sukuk issued under the SRI Sukuk framework and bond issuances under the ASEAN Green, Social and Sustainability Bond Standards and renamed the SRI Sukuk and Bond Grant Scheme.

2022

● **Expansion of the SRI Sukuk and Bond Grant Scheme**

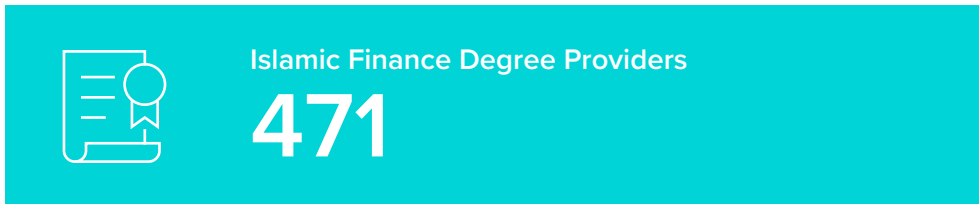
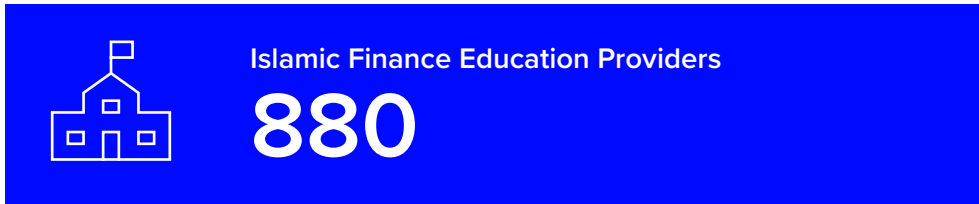
Following the issuance of the SLS Framework, the SC further expanded the SRI Sukuk and Bond Grant Scheme to include all sukuk issued under the SLS Framework.

Moving forward, the SC will continue to leverage on the strength of the Malaysian capital market to further harness its potential to achieve sustainable goals. The Capital Market Master Plan 3 (CMP3) will serve as a strategic framework for the capital market taking into consideration the next phase of development that includes, among others, transforming Malaysia into a regional SRI hub, a goal that is aligned with the ICM agenda of establishing Malaysia as a regional centre for Shariah-compliant SRI.

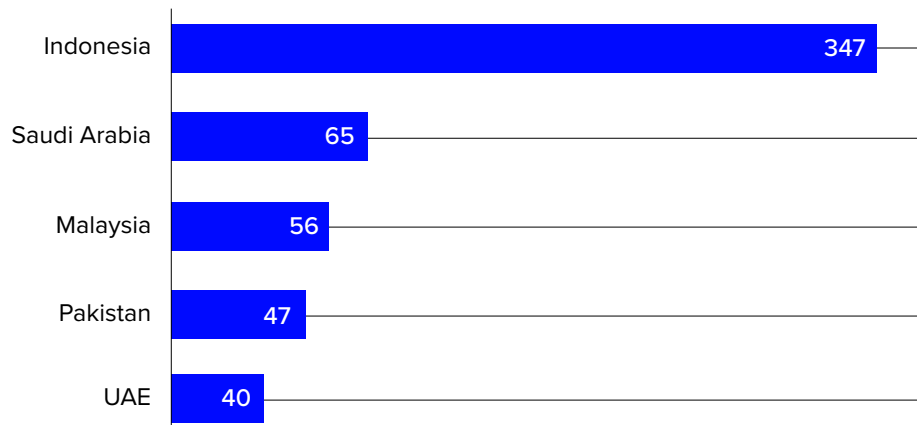
While SRI sukuk innovations in the past have demonstrated the ICM's capability in facilitating the intermediation of capital formation for commercial and sustainable purposes, the CMP3 also emphasises expanding the reach of the ICM to the broader stakeholders of the economy by supporting the sustainable development agenda through building an enabling ICM ecosystem for Islamic social finance as well as impact investing.

*As of 23 September 2022, MYR converted to US dollars based on exchange rate of US\$1 = RM4.57*

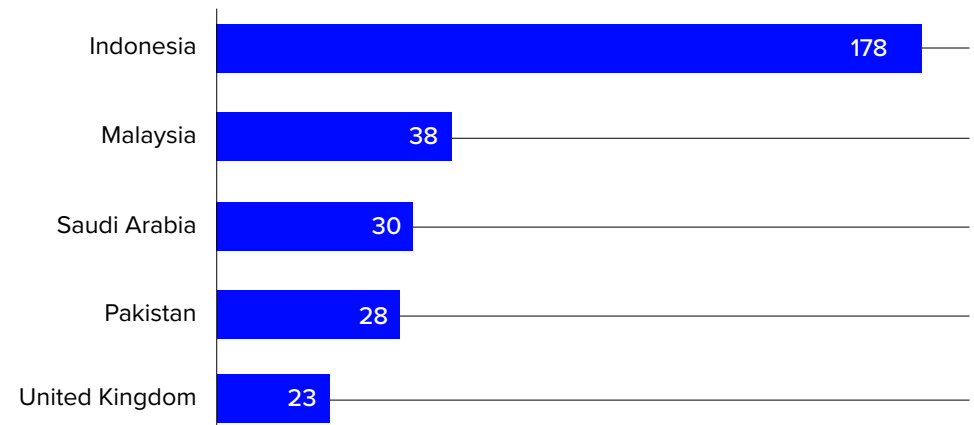
# Knowledge



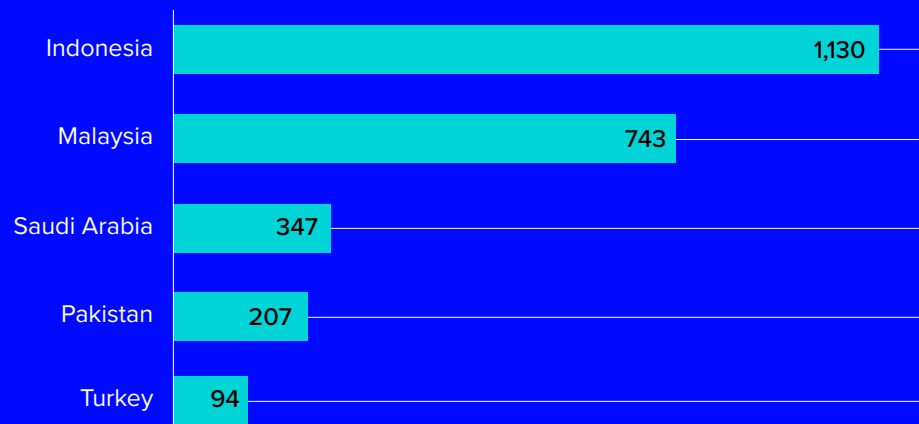
**Top Countries by Islamic Finance Course Providers (2021)**



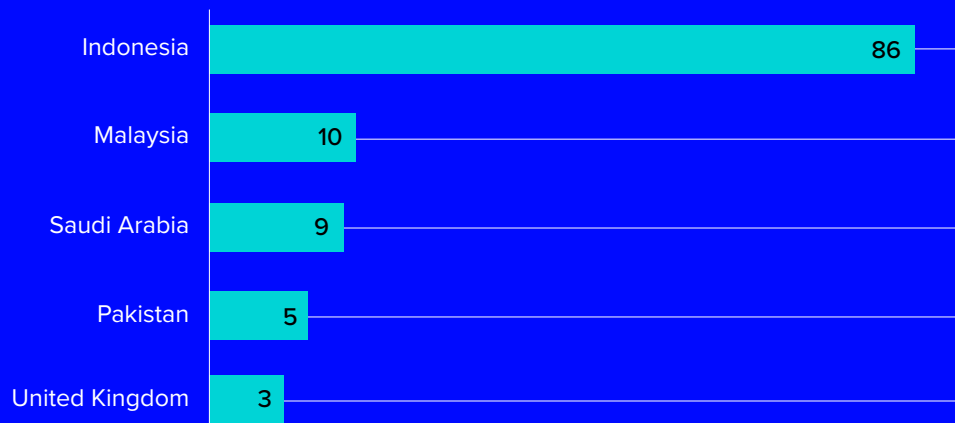
**Top Countries by Islamic Finance Degree Providers (2021)**



### Top Countries by Number of Islamic Finance Research Produced (2021)



### Top Countries by Number of Islamic Finance Journals (2021)



### **Islamic social finance research topics were a key focus for academic researchers amid continuing pandemic**

With global inequality at record-high levels and many countries still suffering from the lingering effects of the pandemic, Islamic social finance topics unsurprisingly were a key focus for Islamic finance researchers. Within Islamic social finance, zakat proved very popular as a research focus, with 129 papers referencing the Islamic social finance mechanism in their titles. Other sub-themes were financial inclusion, Islamic financial literacy and cash waqf. There was also sustained emphasis on impact and sustainable development, suggesting a greater awareness of the need to make academic contributions outcomes-focused, given the need for demonstrable use cases in real-world settings.

For the main research sub-segments, there were some interesting year-on-year changes in the volume of output. For example, CSR studies almost tripled, while research on Other Islamic Financial Institutions (OIFIs), such as non-bank financial institutions and Islamic fintechs, increased four times compared to 2020. At the same time, governance studies decreased by 60%, while Islamic banking and Islamic finance-focused research output decreased by 21% and 27%, respectively. These numbers allude to at least three main implications:

First, the decline in broad studies on Islamic banking and Islamic finance may indicate the somewhat settled nature of such issues from a research perspective, given the extant and accumulated research on Islamic banking and Islamic finance modes, as well as the relatively good availability of data for Islamic banking, compared with other more nascent segments such as Islamic fintech.

Second, the sharp decline in governance studies may hint at the settled nature of such issues in the Islamic finance world or may also simply indicate a change in focus during the pandemic to more immediate, practical and tangible issues such as social finance mechanisms (see above).

Third, the significant increase in CSR and OIFI-focused studies indicates that Islamic finance researchers are looking ahead to demonstrate the wider impact of Islamic finance for both Muslim and non-Muslim communities via demonstrable use cases, indicating a continued shift beyond purely theoretical studies and greater policy relevance.

### **Emerging topics include the circular economy and Islamic fintech; output remains concentrated among top five countries**

Some emerging topics for 2021 included the circular economy, Islamic fintech and the Jakarta Islamic index. With Indonesia's pivotal role in the global Islamic economy and the rise of both circular economy issues and Islamic fintech, it is likely these and related themes will continue to gain more emphasis by researchers in years to come.

By geographical focus, Indonesia, Malaysia and Nigeria were countries that appeared in numerous studies across the board. This pattern may help indicate why Islamic social finance topics were popular, given the populous nature of all three countries and central role that each of these major Islamic markets play for Islamic finance. Moreover, a handful of countries accounted for the vast majority of research output on Islamic finance: researchers based in Malaysia and Indonesia alone accounted for 63% of studies in 2021, while the top five countries - Indonesia, Malaysia, Pakistan, Saudi Arabia and Turkey - accounted for 77% of research output.

In terms of methods, evidence-based studies and case study-focused papers were especially prominent, while bibliometric and comparative analyses were also common.

In sum, as the world gradually moves towards a post-pandemic but uncertain macroeconomic environment, building resilient mechanisms for social and economic protection across Organisation of Islamic Cooperation (OIC) countries has been a key research focus in Islamic markets in 2021.





### Islamic finance education gradually moves beyond core markets but more top-tier journal articles are needed

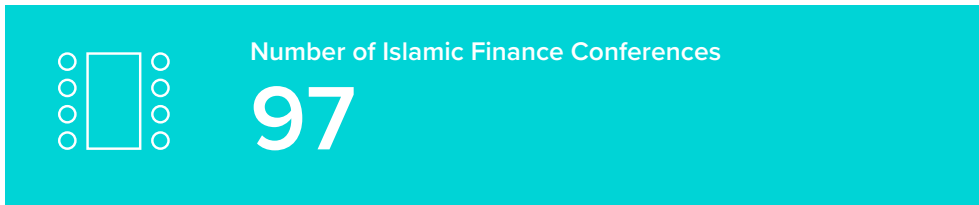
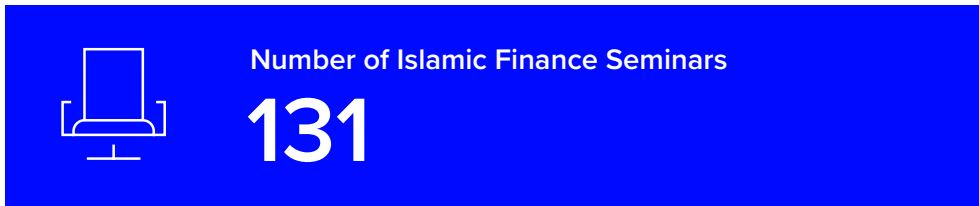
Islamic finance education is growing in importance among academic institutions worldwide but there remains a high concentration among the leading countries in this space. Five countries – Malaysia, Saudi Arabia, Pakistan, the UAE and the UK – accounted for both 45% of total Islamic finance course providers and 46% of total Islamic degree providers. At the same time, there are encouraging signs that Islamic finance education is taking root beyond these five core countries: the next 21 countries for Islamic finance course providers have five or more Islamic course providers each, including non-OIC countries such as Australia, South Africa, United States, Singapore and Sri Lanka.

Similarly, the next 22 countries for Islamic finance degree providers all have at least three Islamic finance degree providers each, including non-OIC countries such as India, United States, and Singapore. Taken together, these findings suggest Islamic finance education is now an increasingly mainstreamed component of higher education across the globe.

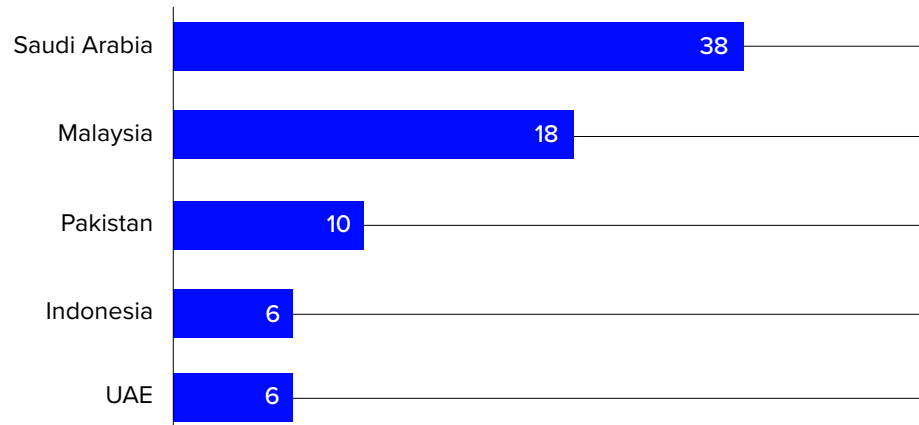
However, anecdotal evidence continues to suggest, like 2020, that Islamic finance papers accepted in top-ranked peer-reviewed journals in 2021 remain relatively low. While this issue will take time to resolve, more explicit targeting of these journals by Islamic finance research-focused institutions would be welcome, especially in leading journals such as the Journal of Business Ethics, Journal of Finance, and other top-tier globally recognised and heavily cited journals. In the meantime, research output in Islamic finance and economy focused journals remains robust, with 124 such journals currently, most of which are published out of Indonesia.



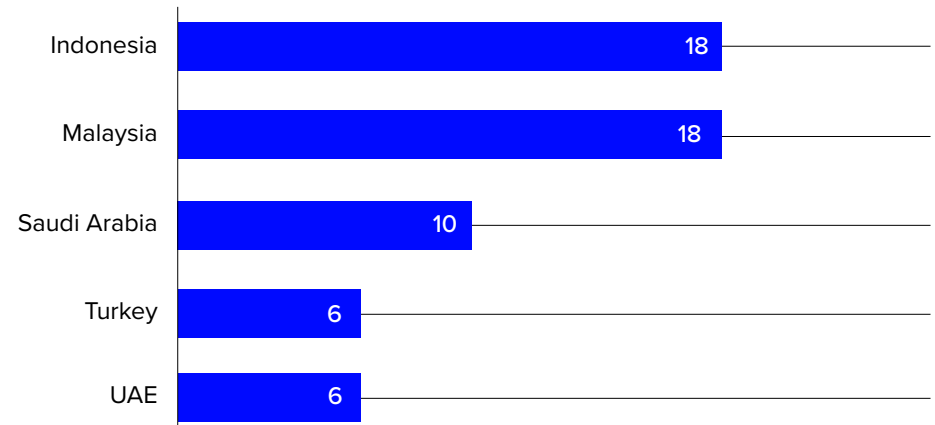
# Awareness



Top Countries by Number of Islamic Finance Seminars (2021)

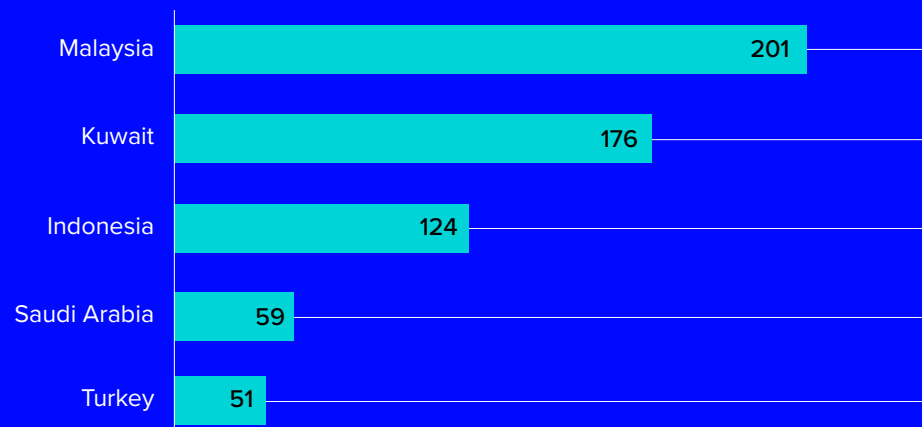


Top Countries by Number of Islamic Finance Conferences (2021)

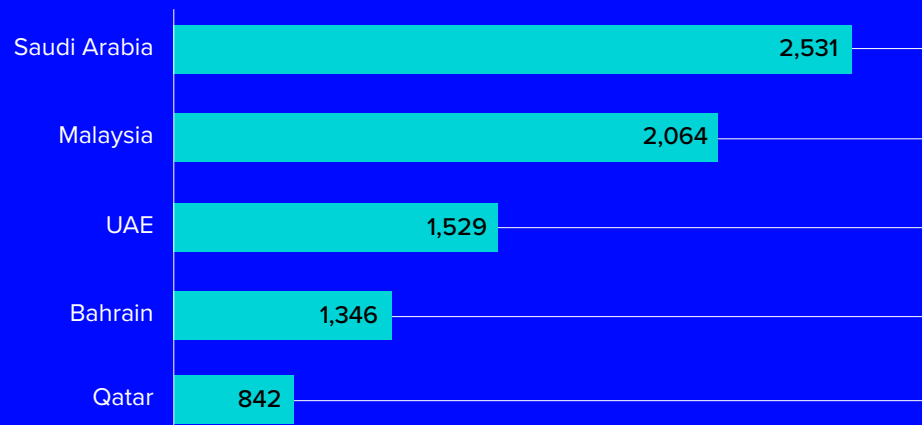




### Top Countries by Number of Islamic Finance Virtual Events (2021)



### Top Countries by Number of Islamic Finance News (2021)



### **Malaysia and Kuwait host most Islamic finance events, mostly virtual**

The number of Islamic finance events increased to 1,053 events in 2021 from 844 in 2020, indicating more efforts to spread Islamic finance awareness globally. These do not include conventional finance events that may also incorporate elements of Islamic finance, especially if the host country has a large Islamic finance presence such as in the GCC. Virtual events were the biggest growth driver, while the number of conferences and seminars remained almost constant.

The bulk of the events were hosted in Malaysia or by Malaysian-based entities (in the case of virtual events). Most of the events were hosted by Bursa Malaysia that mostly focused on spreading awareness of Islamic investment for the local audience. Different academic players held Islamic finance events in Malaysia as well, which is expected given the important role Islamic finance education plays in developing the industry.

Kuwait was the second-biggest host of Islamic events. Kuwait University's Islamic Economics Club showcased a wide variety of topics on the industry and included speakers from different parts of the world and from different industries.

### **Indonesia is ramping up awareness initiatives to tackle low Islamic finance literacy**

When it comes to awareness, Indonesia is third, driven by a number of key organisations such as KNEKS and BAZNAS. Islamic finance also forms part of financial regulator OJK's 2021-2025 National Strategy on Indonesian Financial Literacy. The strategy is based on the 2019 National Survey on Financial Literacy and Inclusion which saw a lower Islamic finance literacy index (8.93%) compared to the conventional equivalent (37.72%). It also saw regional differences where the majority of provinces in the islands of Sumatra, Java and West Nusa Tenggara have higher index results.

In order to improve Islamic finance literacy, OJK depended on different initiatives such as education and Training of Trainers programmes. OJK also reported that Islamic finance education forms 46.7% of such initiatives as of September 2021, compared to 13.6% in 2020. These awareness campaigns were also carried out on social media and via podcasts.

### **Saudi Arabia is the latest country to host Islamic finance awards as it keeps track of its ambition to become an Islamic finance hub**

By type of event organiser, most of the Islamic finance events were held by education providers (32%) followed by regulators (21%). In addition, the most common form of events was webinars/seminars, followed by workshops/e-workshops. Other events include roadshows, award ceremonies and festivals. Some of these events, such as festivals, covered the overall Islamic economy and not just Islamic finance; this

trend can be mostly seen in countries that have strategies to upscale their Islamic economies such as Malaysia and Indonesia.

While there were a limited number of awards on Islamic finance globally, the Saudi government is working towards creating a "Global Award for Islamic Finance" as part of its Financial Sector Development Program. This aims to promote the Islamic finance industry and drives innovations, research and initiatives in the industry. The categories for the award include aspects like research contributions and scientific papers, and sustainable Islamic investments. Saudi Arabia had 107 Islamic finance events in 2021, most of which were online.

### **Sukuk drives Islamic finance news coverage for Egypt, Bangladesh and the UK**

For Islamic finance news coverage in English, which reaches a larger international audience, a few countries stood out in 2021 especially for sukuk news. Egypt saw a rise in sukuk news while the government was working towards its sukuk law and around the time it announced the planned issuance for the sovereign's first-ever sukuk. In addition, many corporates in Egypt continued to issue sukuk or announced their planned issues during the year.

Another country that saw more Islamic finance news coverage because of sukuk was Bangladesh with BEXIMCO issuing the country's first green corporate sukuk. Bangladesh also sold its first sovereign sukuk in the first quarter. Most Islamic finance news in Bangladesh mainly covered the performance of its Islamic banks.

Sukuk news also made its way back into the UK media when the government returned to the sovereign sukuk market with its second-ever issuance.

# 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 – Financial Performance, Governance, Sustainability, 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 score of 200.

The data employed in the Islamic Finance Development Indicator (when aggregating data and computing indicator scores) 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	Country Indicator Level	Specific Indicator Level
Present one single indicator to show the pulse of the global Islamic finance industry's overall health	Assess the current state and growth potential of Islamic finance within each country	Measure growth within different key areas of the industry
Provide an indicator that is reliable and unbiased	Highlight the performance of Islamic finance institutions in particular markets	Enhance Islamic finance market transparency and efficiency
Inform Islamic finance stakeholders and investors about the industry's performance	Track progress and provide comparisons across different countries and regions	Identify issues that are preventing growth within the industry
Gauge future industry growth		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 2022 covers 136 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  
Egypt  
Iran  
Iraq  
Jordan  
Lebanon  
Libya  
Mauritania  
Morocco  
Palestine  
Sudan  
Syria  
Tunisia  
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  
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  
Namibia  
Niger  
Nigeria  
Rwanda  
Senegal

Seychelles  
Sierra Leone  
Somalia  
Somaliland  
South Africa  
Tanzania  
Togo  
Uganda  
Zambia  
Zimbabwe

# Contributors



## REPORT AUTHORS

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**Shereen Mohamed**  
Senior Research Analyst  
and Project Leader

**Tayyab Ahmed**  
Senior Research Analyst

## REPORT CONSULTANTS

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**Mustafa Adil**  
Head of Islamic Finance

**Redha Al Ansari**  
Head of Islamic Finance Research

## IFDI TEAM

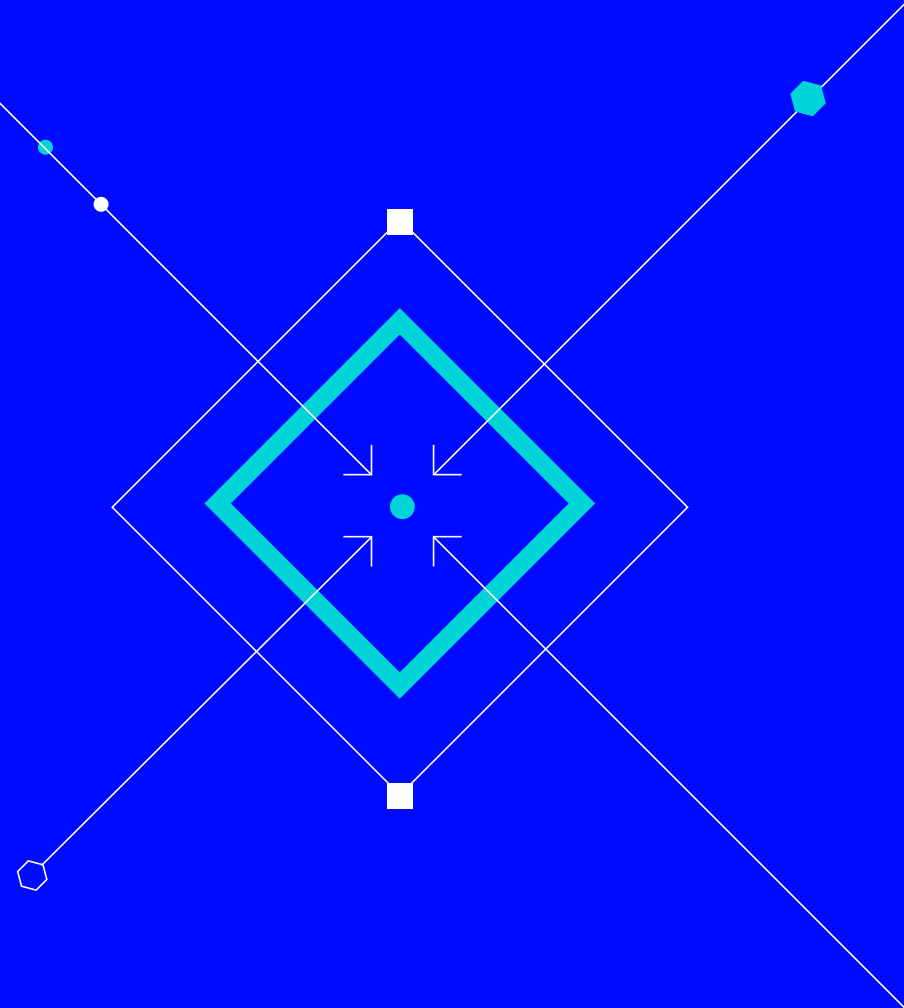
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Hasnah Al Sharqi

## Disclaimer

The data in this report is believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings and conclusions that the report delivers are based on information gathered in good faith from both primary and secondary sources, the accuracy of which we are not always in a position to guarantee. The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of Refinitiv.

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