

Beat: Business

# ISLAMIC FINANCE DEVELOPMENT INDICATOR 2019 SHIFTED DYNAMICS IN ISLAMIC FINANCE

## REVISION OF ISLAMIC FINANCE REGULATIONS

Paris Washington Dc, Dubai, 03.02.2020, 20:34 Time

**USPA NEWS** - Islamic finance assets grow 3 percent in 2018 to US\$ 2.5 trillion; the Sukuk asset class continues strong growth, rising 10 percent in 2018 to US\$ 470 billion; developed markets continue to revise Islamic finance regulations and frameworks; Islamic FinTech gained pace with the issuance of blockchain-based micro-Sukuk and a spate of developments in the U.K. and U.S. markets. The Islamic Corporation for the Development of the Private Sector (ICD) (ICD-PS.org), the private sector development arm of the Islamic Development Bank (IsDB) and Refinitiv, the world's leading provider of intelligent information for businesses and professionals, last week released the key findings of the seventh edition of the Islamic Finance Development Report at the Indonesia Sharia Economic Festival 2019.

According to the Islamic Finance Development Report 2019, the Islamic finance industry's assets grew to US\$ 2.5 trillion in 2018 from US\$ 2.4 trillion in 2017, a rise of 3 percent. This growth slowed from previous years, however, this was particularly noticeable in some of the industry's main markets where the wider economy is sluggish. Ayman Sejny, the CEO of ICD, said: "Despite the stressed global economic environment and sluggish growth which are impacting the industry, we have found that the dynamics in the industry are changing. Sukuk are leading the industry's growth, with global issuance since its introduction surpassing US\$ 1 trillion in 2018 and continuing to grow. The industry and surrounding ecosystem are also being constantly reshaped by innovation. This is particularly in the areas of financial technology and sustainability which aligns with the strategies of ICD."

### INDUSTRY DEVELOPMENT SLOWS PARTICULARLY IN LEADING MARKETS-----

Industry development slows, particularly in leading markets. The report also collates an annual score for the overall health of the global Islamic finance industry. The Islamic Finance Development Indicator (IFDI) aggregates scores across five component areas "Quantitative Development, Knowledge, Governance, Corporate Social Responsibility, and Awareness" for the 131 countries where Islamic finance has a presence. Malaysia, Bahrain and the UAE continue to spearhead developments in the industry, while Uzbekistan, Ethiopia, Cyprus and Indonesia are among the biggest gainers in the rankings as a result of improvements in their financial and supporting ecosystem metrics.

### DESPITE SLOWING GROWTH IN SOME SECTORS SUKUK CONTINUES TO POWER AHEAD-----

Despite slowing growth in some sectors, Sukuk continues to power ahead. Growth in the industry's biggest sector, Islamic banking, slowed to 2 percent in 2018, largely in line with slowing growth for the global economy. Islamic banking assets totaled US\$ 1.76 trillion. Many Islamic banks or windows are also undergoing transformations through either reorganization or consolidation. Despite the slower growth, new banks and markets continue to enter the market, as seen in Ethiopia, Algeria and Afghanistan. Also, new liquidity tools are being developed to help grow existing Islamic banking markets, as seen in Oman, the UK and Pakistan. Takaful operators and other Islamic financial institutions (OIFIs) account for the remaining share of Islamic financial institution assets, with a respective US\$ 46 billion and US\$ 140 billion reported for 2018. Both sectors are seeing transformational activities in their main markets, which should lead to stronger growth in coming years, particularly in Saudi Arabia and the UAE. Developments in InsurTech and FinTech are also set to transform these sectors.

In contrast with other sectors, the global slowdown did not impede the Sukuk asset class from continuing its strong growth, with a rise of 10 percent to US\$ 470 billion in 2018. Sukuk issuances in 2018 reached US\$ 125 billion, a similar total to the previous year. New innovative Sukuk forms and structures have emerged in 2018 and 2019 such as waqf, blockchain-based and gold-based Sukuk, in addition to green Sukuk, which were first introduced in 2017 in Malaysia and have since expanded into new markets. Islamic funds, which performed strongly in 2017, declined to US\$ 108 billion in 2018 as a result of weaker performances for most of the funds managed, in line with the global economic slowdown.

### GOVERNMENT INITIATIVES TO DEVELOP ISLAMIC FINANCE INDUSTRY CONTINUE-----

Government initiatives to develop Islamic finance industry continue. Governments also played their part in developing roadmaps and regulations to advance particular sectors of the industry and their supporting ecosystems. One such example is Indonesia's Masterplan of Sharia Economy 2019-2024, which encompasses a development framework, strategies and action plans for the country's Islamic finance industry. Regulatory frameworks are also being enhanced. The UAE and Malaysia are currently working to improve Shariah oversight, while Morocco, the Philippines and Bangladesh have introduced new Islamic finance regulations in 2019.

## FINTECH CONTINUES TO SHAPE THE INDUSTRY WITH NEW DEVELOPMENTS IN DIGITAL SOCIAL FINANCE

FinTech continues to shape the industry, with new developments in digital social finance. FinTech is another area that is actively changing the dynamics of the industry, as seen, for example, in the recent issuance in Indonesia of blockchain-based micro Sukuk ““ a world first ““ and in the role of Islamic FinTechs in promoting the industry in the U.K. and the U.S. during 2018. Crypto-assets are also being looked into by Shariah scholars and regulators in developed Islamic finance markets such as Bahrain and Malaysia. Another notable development is the emergence of digital platforms for applications in Islamic social finance, which can help in achieving the UN’s Sustainable Development Goals. One standout example of this development is the UNCHR’s Refugee Zakat Fund, which has successfully enabled zakat funds to be raised online. ISLAMIC FINANCE DEVELOPMENT INDICATOR BACKGROUND-----

Developed by ICD and Refinitiv, the Islamic Finance Development Indicator is a composite weighted-index that measures the overall development of the Islamic Finance industry by providing an aggregate assessment of the performance of all its parts, in line with the objectives of Islamic principles. The indicator is released annually, along with a full report detailing each country- and unit-specific indicator and their raw numbers. Each indicator within the composite indicator’s constituents is equally weighted and aggregated. In addition, normalization is required prior to any data aggregation as the variable indicators in a data set have different measurement units. For the Country Composite Indicator level, indicators are normalized to allow for meaningful comparisons over time for a given country and between countries. Various economic indicators (e.g., population size) are considered, while the health of the Islamic finance industry is measured in each country. On behalf of Islamic Corporation for the Development of the Private Sector (ICD). Source: Islamic Corporation for the Development of the Private Sector (ICD)

### Article online:

<https://www.uspa24.com/bericht-16448/islamic-finance-development-indicator-2019-shifted-dynamics-in-islamic-finance.html>

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V.i.S.d.P. & Sect. 6 MDSStV (German Interstate Media Services Agreement): Jedi Foster P/O Rahma Sophia Rachdi

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Official Federal Reg. No. 7442619