

Islamic Financial Services Industry Development Ten-year Framework and Strategies: A FINAL REVIEW



DEVELOPMENT,
TRANSFORMATION
AND ACCESS

MAY 2023

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FOREWORD



We are pleased to present this review of progress made in the Islamic financial services industry (IFSI). The current review marks the final assessment of the industry since the publication of the mid-term review (MTR) of the Ten-Year Framework for the development of the IFSI, issued by the Islamic Financial Services Board (IFSB) and the Islamic Research and Training Institute (now Islamic Development Bank Institute) in 2014.

This final review presents an assessment of the effectiveness of the various recommendations and initiatives in the MTR on the growth and development of the global Islamic financial services industry (IFSI) over the past years since the MTR. Structurally, the IFSI has achieved notable feats in terms of its geographical expansion, transformation, access, regulation and supervision. Islamic finance is currently present and practised in at least one, if not all, of its key segments: Islamic banking, Islamic capital markets (ICM), Islamic insurance (takāful), and other Islamic non-banking financial institutions (NBFIs) in more than 100 countries globally, with a worth of over USD 3 trillion.

Specifically, the Islamic banking sector is now systemically significant in at least 15 jurisdictions, with a worth of at least 15% of total domestic banking assets. Şukūk issuance also recorded significant growth across both sovereign and corporate divides in both Muslim and non-Muslim majority countries, and in recent instances, to fund sustainability-focused initiatives. The takāful industry, although still marginal in the IFSI, has also recorded improvements on the back of increased awareness and digitalisation. The Islamic NBFIs have been very pertinent for achieving financial and socio-economic inclusion. Charitable institutions, such as awqaf and zakāh funds, as well as socially oriented institutions such as pilgrimage funds, continue to play an important role in the financial sector and for society overall.

The financial and technical support provided by the Islamic Development Bank (IsDB) group, the various prudential standards and other technical documents issued by the IFSB, and the activities of the numerous other international Islamic infrastructure institutions have helped to sustain the growth, strengthen the resilience, and promote the soundness of the global IFSI. As such, the IFSI was able to cope with the fast-changing dynamics of the global financial ecosystem, continue to adapt to digital transformation, support the United Nations Sustainable Development Goals (SDGs), complement various Environmental, Social, and Governance (ESG) initiatives, fund infrastructural projects, and support post-COVID-19 economic recovery across many jurisdictions.

The industry's considerable achievements have not been without controversy, as voices have been raised regarding the Sharī'ah-compliance of some of the innovations introduced, especially as it relates to the issue of crypto assets, susceptibility to cyber security risk, and finding a balance between encouraging innovation and ensuring financial stability. The lack of Sharī'ah standardisation and the issue of "fatwa shopping" necessitate updated standards and guidance of appropriate disclosure requirements related to the new business models and products, Islamic banking customers, ICM investors, and takāful participants' protection.

Expansion remains concentrated, and there is a low level of general awareness about Islamic financial services and products, especially outside of the GCC, Southeast Asia, Middle East, and South Asia regions. Moreover, there is a lack of understanding of the multidimensional and evolving complex nature of systemic sectoral linkages among the key segments of the IFSI and the macroeconomy. This requires in-depth research, especially in terms of systemic risk amplification mechanisms and consequential contagion effects peculiar to the IFSI, in order to develop appropriate policy responses

Dr. Sami Al-Suwailem
Acting Director General
Islamic Development Bank Institute

and coordination among regulatory and supervisory authorities.

Enhancing global recognition of the IFSI and its inclusion in national and international development programmes remains a priority. The role of the IsDBI, IFSB, AAOIFI, IIFM, and IIRA, as well as similar international infrastructure organisations, can also not be discounted in this regard.

This final review is based on three core pillars: development, transformation, and access. Specifically, it is aimed at fostering the conditions for the industry to thrive and grow; and enhancing the value proposition and effectiveness of institutions offering Islamic financial services through various policies and initiatives. These are considered pertinent for promoting financial inclusion by expanding the set of potential users and beneficiaries of Islamic financial services.

We invite you to examine the findings of the enclosed report and its applicability to your institution, country, and sector. We remain deeply committed to furthering the development of the IFSI, and are hopeful that this report may be of service to this end.

Dr. Bello Lawal Danbatta
Secretary-General
Islamic Financial Services Board



ACKNOWLEDGEMENTS



In its 10th meeting on 26 March 2007, the Council of the IFSB approved a draft document entitled “Islamic Financial Services Industry Development (IFSI): Ten-Year Framework and Strategies”, which was jointly prepared by the Islamic Development Bank and the Islamic Research and Training Institute (IRTI at the time) and the IFSB. The Islamic Financial Services Industry Development: Ten-Year Framework and Strategies was first issued in 2007, followed by a mid-term review (MTR) issued in May 2014. In its 35th meeting held on 12 December 2019, the Council approved the proposal to review the Ten-Year Framework following a recommendation to conduct the final review. Subsequently, the IFSB and IsDBI constituted a joint working group for the final review of the Ten-Year IFSI Framework and Strategies paper.

At the direction of the IFSB’s Council, the Final Review was prepared under the supervision of the IFSB Technical Committee through a review committee established in 2021 that outlined the roadmap for the review of the Ten-Year Framework. The review committee was supported by a joint team from the IFSB Secretariat and IsDBI. The roadmap, which included proposals on the approaches and methodologies, and the work programme, was followed by an extensive process of consultation and drafting that benefited from the involvement of a team of consultants comprising Professor Habib Ahmed as the lead consultant, Professor Simon Archer, Mr. Prasanna Seshachellam, and Mr. Saiful Bahri Saroni. The Final Review Report also benefited immensely from the comments and feedback received from the IFSB Council and Technical Committee, the Review Committee for the Final Review project, as well as participants in the Final Review Roundtable convened in Jakarta (October 2022), hosted by Bank Indonesia.

In addition to thanking each of the above individuals and institutions, we would also like to express our profound gratitude to the various multilateral organisations in the IFSI for their feedback and support, the regulatory and supervisory authorities as well as institutions offering Islamic financial services (IIFS) in various jurisdictions who participated in the Final Review Survey.

The project was led by a joint working group from both the IFSB and IsDBI. The IFSB team comprised Dr. Abideen Adeyemi Adewale (Head of Research, Statistics, and Publications, IFSB) as the Project Manager, Dr. Jamshaid Anwar Chattha (former Assistant Secretary-General, IFSB at the time), Dr. Rifki Ismal (former Assistant Secretary-General, IFSB at the time), Mr. Mohamad Farook Naveer Mohideen (former Member of the Secretariat, Technical and Research, IFSB),

Mr. Ahmed Barakat (Member of the Secretariat, Technical and Research, IFSB), and Ms Natejah Ahmad (Member of the Secretariat, Communication and Awareness and Members Affairs, IFSB).

The IsDBI team included: Dr. Hylmun Izhar (Senior Economist IsDBI – Project Manager), Mr. Yahya Aleem ur Rehman, (Team Leader, Knowledge Leaders, IsDBI), Mr. Syed Faiq Najeeb (Senior Islamic Finance Specialist, IsDBI), and Dr. Gaffar A. Khalid (former Manager Islamic Finance Advisory and Technical Assistance, IsDB).

The IFSB–IsDBI Joint Secretariat thanks Prof. Dato' Dr. Azmi Omar (President and Chief Executive Officer, INCEIF), Dr. Umar Oseni (Chief Executive Officer, IILM), and Mr. Erwin Noekman (Executive Director, Insurance Council of Indonesia) for the valuable feedback and suggestions during the review of the document at the roundtable held during the International Sharia Economic Festival (ISEF) hosted by Bank Indonesia in 2022. We also appreciate the remarks provided by Prof. Tariqullah Khan (INCEIF), and Prof. Murniati Mukhlisin (former Rector, Tazkia University College of Islamic Economics, Bogor, Indonesia).

In addition, the IFSB–IsDBI Joint Secretariat would also like to thank Dr. Bello Lawal Danbatta, Secretary-General of the IFSB, and Dr. Sami Al Suwailem, Acting Director General of IsDBI, for their contribution, guidance, and supervision throughout the final review process. The Secretariat is grateful to all these individuals for their guidance, written and oral contributions, and active engagement throughout the final review process. Indeed, the Final Review of the Ten-Year Framework would not have been successful without all parties' firm commitment and cooperation. We collectively offer this vital project to our members as a strategic roadmap for developing the IFSI.

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01

**EXECUTIVE
SUMMARY**

1.1 The Ten-Year IFSI Development Framework and Strategies

The Islamic Financial Services Industry Development: Ten-Year Framework and Strategies was first issued in 2007, followed by a mid-term review (MTR) issued in May 2014. The document discussed the proposed measures to address the gaps or challenges in meeting the objectives of the Ten-Year Framework and Strategies. The roles of the public and private sectors, and other stakeholders carrying out the key recommendations, were also highlighted, taking into account the state of development of the global Islamic financial services industry (IFSI).

The MTR issued in 2014 consisted of 16 recommendations, 20 initiatives and key performance metrics to assess the progress made. The MTR also envisioned the need for a final review (FR) of the industry-wide progress.¹ The FR proposes six additional recommendations in addition to those in the MTR document and also identifies new key initiatives to support the implementation of 22 recommendations. These recommendations and various initiatives are further grouped into three themes, namely, Development, Transformation and Access.

1.2 Goals of the Final Review

The FR seeks to assess the impact of macroeconomic events, monitor progress in implementing the MTR recommendations, and propose additions or modifications to these recommendations to guide the IFSI. The current document reports the findings of this FR with the following goals in mind:

- Assess the impact of developments in the global financial system since the MTR on the respective Islamic finance segments.
- Examine the progress and current status of the recommendations and initiatives suggested in the MTR.
- Identify the gaps involved in implementing the recommendations and initiatives.
- Assess the need for a re-orientation of such recommendations and initiatives.
- Propose new recommendations and initiatives in light of the changing dynamics of both the structural and prudential developments, emerging issues, and roles of the IFSI in the global economic and financial ecosystems.

¹ The publication of the FR was delayed due to the COVID-19 pandemic, which affected the various pertinent activities such as the survey collection period, as well as offering the first major test for the IFSI on the resilience and soundness of the industry, and the effectiveness of the recommendations in the MTR.

1.3 Key Findings

Since the MTR in 2014, the IFSI has recorded structural growth and prudential resilience across its key segments. While still very much concentrated in key markets in both the Gulf Cooperation Council (GCC), Middle East and South Asia (MESA), and the Southeast Asia (SEA) regions, notable developments have also been recorded in new jurisdictions, especially in Africa, Europe, and the Commonwealth of Independent States (CIS) regions. There are now more than 1,500 institutions offering Islamic financial services (IIFS) and over 300 Islamic FinTechs across over 80 countries. The regulatory framework for the operation of Islamic finance has also been developed in many jurisdictions. This is with due regard to digital transformation in operation, supervision and regulation. Other aspects include financial inclusion, consumer protection, transparency and disclosure, and the general soundness and resilience of the industry. Numerous standards and guidelines have been issued by the Islamic Financial Services Board (IFSB) and other international standard-setting bodies that cater to the specificities of the IFSI.

Islamic finance now forms an integral part of the financial systems of both the IsDB and IFSB

member countries; and has deservedly been a key area of focus for central banks, regulators, and governments as part of their overall financial services strategies. Fostering the IFSI is consistent with policy objectives to expand consumer choice, foster financial inclusion, and attract foreign investment via both mainstream and alternative financial products and services.

As shown in Table 1.1, **the IFSI was worth USD 3.06 trillion in 2021² (compared to USD 1.87 trillion in 2014). Based on numerous financial soundness indices, the performance of the various segments of the IFSI, in most cases, surpassed the global regulatory thresholds since the MTR.** This performance also compared favourably with those of the conventional financial services industry in many developed financial markets. This is despite the numerous challenges, innovations, and developments in the global financial system since the MTR. Notable among these are oil price volatility, geopolitical tensions, trade wars, economic sanctions, internal civil unrest, the COVID-19 pandemic, financial tightening due to inflation, climate change risks, technological and digital transformation, developments in crypto assets, etc.

TABLE 1.1 Breakdown of the Global IFSI by Sector and Region (USD billion) (2021)

Region	Islamic Banking Assets	Şukūk Outstanding	Islamic Funds Assets	Takāful Contributions	Total	Share (%)
Gulf Cooperation Council (GCC)	1,212.5	332.3	46.0	12.7	1,603.5	52.4
South-East Asia (SEA)	287.5	390.3	37.5	4.7	720.0	23.5
Middle East & South Asia (MESA)	477.1	26.9	22.0	5.6	531.6	17.4
Africa	58.2	1.8	4.0	0.6	64.6	2.1
Others	68.8	24.4	45.1	0.7	139.0	4.5
Total	2,104.1	775.7	154.6	24.3	3,058.7	100.0
Share (%)	68.7	25.4	5.1	0.8	100	

Source: IFSB IFSI Stability Report 2022

² Excluding Islamic social finance.

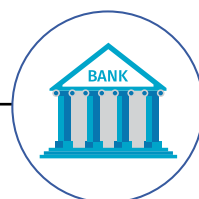
STYLISTED FACTS

**Islamic Finance Assets**

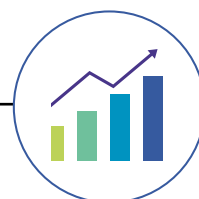
GCC region (52.4%), South-East Asia region (23.5%), Middle East and South Asia region (17.4%), Africa region (2.1%), and "Others" (4.5%)

**Islamic Finance Assets**

94.0% of Islamic banking assets are concentrated in the top three key regions

**Systemically Important Jurisdictions**

Islamic banking segment is systemically important in 15 IFSB jurisdictions

**Shukūk Outstanding**

82.5% of *shukūk* outstanding in 2021 were in jurisdictions where Islamic banking is systemically important

Source: IFSB IFSI Stability Report 2022

Sectoral classification indicates that the Islamic banking segment was worth USD 2.1 trillion as of the end of 2021 (compared to USD 1.48 trillion in 2014). In addition to several significant merger and acquisition activities that have contributed to the increased asset size, new Islamic banks – both traditional and digital – have also been established across jurisdictions. The segment remains dominant, accounting for 68.7% of the total IFSI assets, and is now systemically significant³ in 15 jurisdictions compared to 10 jurisdictions in 2014.

The Islamic Capital Markets (ICM) segment has registered y-o-y double digits growth since 2017, mainly due to the significant increase in *shukūk* issuance in both new entrant jurisdictions since the MTR and those that were issuers of *shukūk* before the MTR. The ICM segment, which accounted for 30.5% of the global IFSI assets and is estimated at USD 930.3 billion as of the end of 2021, has also seen increases in sustainability-related *shukūk* issuances.⁴ Both the Islamic funds and Islamic equity markets have also recorded improvements over time. The Islamic funds' growth can be linked to the growing appetite for Islamic funds, as more high-quality and more proprietary funds that appeal to Sharī'ah-compliant investors are being created. The Islamic equity markets' outperformance of the conventional equity markets was due to considerable investments in growth stocks, especially in the technology sector, which recorded significant performance, especially since the outbreak of the COVID-19 pandemic.

The *takāful* industry remains marginal and accounts for the smallest share of the global IFSI assets. The global gross *takāful* contributions stood at approximately USD 24.2 billion at year-end 2020.⁵ The sector is expected to record improved growth on the back of increasing market penetration across many jurisdictions via the adoption of technology, and the aftermath of the COVID-19 pandemic, which has spurred increasing awareness of the need for families to prioritise financial protection, security and stability.

The Islamic non-banking financial institutions (INBFIs) continue to grow and play an important role in meeting the objectives of the industry. Islamic investment banks, asset managers, principal investors, Islamic microfinance, and specialised financial institutions have remained active in many jurisdictions. Charitable institutions, such as *awqaf* and *zakāh* funds, as well as socially oriented institutions, such as pilgrimage funds, continue to play an important role in the financial sector and for society overall. Estimates of total potential *zakāh* collection globally range from USD 127 billion to USD 287 billion in 2017.⁶ Although their use remains limited due to, among other reasons, a lack of institutional development in many jurisdictions. The importance of this segment gained further prominence after the outbreak of the COVID-19 pandemic, in which case many jurisdictions leveraged it to mitigate the impact of the pandemic.⁷

3 The IFSB IFSI Stability Report 2022 considers the Islamic financial sector as being systemically important when the total Islamic banking assets in a country comprise more than 15% of its total domestic banking sector assets. The report uses the Islamic banking segment as the criterion for the systemic importance of Islamic finance since about 68% of Islamic financial assets are held within the banking sector.

4 Sustainability-related *shukūk*, as referred to in this report, include any type of *shukūk* instrument that is issued to achieve predefined sustainability or ESG objectives, also including green *shukūk* issuances.

5 This amount does not include the volume of businesses insured by the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), which is a member of the IsDB Group.

6 Habib Ahmed (2020). "Islamic Social Sector (*Zakāh* and *Waqf*) and Development: Principles, Status and Prospects", in Ajaz A. Khan and Affan Cheema (eds), Islamic and International Development: Insights for Working with Muslim Communities. Rugby, UK: Practical Action Publication Ltd.

7 IFSB IFSI Stability Report 2021, Chapter 3, The Role of Islamic Social Finance in a Post-COVID-19 Financial System Stability. <https://www.ifsb.org/download.php?id=6106&lang=English&pg=sec03.php>

1.4 Updated Ten-Year Framework and Strategies Recommendations

The 16 recommendations proposed in the MTR of the Ten-Year Framework and Strategies Report remain pertinent. In this FR, modest changes have been made to some of the original recommendations, new recommendations have also been added, and the updated set has been grouped according to three pillars:⁸

- **Development:** fostering the conditions for the industry to thrive and grow.
- **Transformation:** enhancing the value proposition and effectiveness of institutions offering Islamic financial services through various policies and initiatives.
- **Access:** promoting financial inclusion by expanding the set of potential users and beneficiaries of Islamic financial services.

Development	
1	Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.
5	Develop the required pool of specialised, competent, and high-calibre human capital.
6	Promote the development of standardised products through research and innovation.
8 [^]	Develop an appropriate legal, regulatory, and supervisory framework infrastructure that would effectively cater for the special characteristics of the IFSI and ensure tax neutrality.
9	Develop comprehensive and sophisticated interbank, capital, and hedging ⁹ market infrastructures for the IFSI.
12	Foster collaboration among countries that offer Islamic financial services.
14	Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.
17*	Develop and improve the ecosystem and technological infrastructure to facilitate digital transformation and transactions to develop the FinTech sector.
18*	Develop a smart, proportional, flexible, and adaptable regulatory framework to foster innovation and facilitate the growth of FinTechs.
Transformation	
2	Enhance the capitalisation and efficiency of institutions offering Islamic financial services (IIFS) to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.
4	Enhance Sharī'ah-compliance, the effectiveness of corporate governance, and transparency.
7	Enhance the implementation of the international prudential, accounting, and auditing standards applicable to the IFSI.
11	Strengthen and enhance collaboration among the international Islamic financial infrastructure institutions.
15	Foster and embrace innovative business models, including new technologies and delivery channels, in offering Islamic financial services.
16	Strengthen contributions to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.
19*	Increase the number of equity-based financial institutions and risk-sharing financing modes to have more balanced debt and equity financing in the economy to enhance financial stability and growth.
20*	Provide regulatory guidelines and taxonomies reflecting broader <i>maqāṣid</i> perspectives that incorporate environmental, social, and governance (ESG) issues and contribute to SDGs.
Access	
3	Enhance access by the large majority of the population to financial services, and enhance access to funding for retail investors, SMEs and entrepreneurs.
10	Promote financial literacy initiatives, including public awareness of the range of Islamic financial services.
13	Conduct initiatives and enhance financial linkages to integrate the domestic IFSI with regional and international financial markets.
21*	Apply broader <i>maqāṣid</i> notions of Sharī'ah-compliance in the operation of IIFS to enhance the authenticity of products, create social impact, and mitigate socio-economic challenges such as income and wealth disparities.
22*	Improve the institutional development, efficiency, and effectiveness of Islamic social finance institutions to enhance their social and developmental impacts.

[^] Modified existing recommendations

* Newly added recommendations

⁸ The original framework categorised recommendations as institutional and infrastructural; the MTR's categorisation, which is retained in this final review, focuses on the outcomes desired from the framework. The MTR document presented 16 recommendations under three themes: enablement, performance and reach.

⁹ Although the term *derivatives* was used in the 2007 document, it has been recommended that the phrase *hedging (tahawwut)* be used as a more appropriate description.

Progress made on the MTR recommendations has been mixed. Several jurisdictions have seen rapid improvement in legal and regulatory frameworks, associated market infrastructure, as well as the adoption of international standards specific to Islamic financial services. In a few other member countries, these improvements are either being presently considered or have not yet been made.

In certain countries, improved regulatory framework, increased use of technology, enhanced awareness, an increased pool of specialised talent with Islamic finance expertise, and financial market development have enabled the IFSI to continue expanding its market share. Moving forward, most of the recommendations require a greater focus from member countries in order to reach the aspirations envisioned by this Final Review of the Ten-Year Framework and Strategies report.

Key Performance Indicators have been proposed to monitor progress. As in the MTR, this FR document provided for each recommendation contained therein, the metrics for tracking progress based on a set of Key Performance Indicators (KPIs). It is suggested that member countries adopt these KPIs as important measures and track them on a regular basis. Member countries are urged to set national targets for these KPIs and record progress made towards meeting those targets. Doing so can help ensure concrete implementation and advancement of the recommendations.

A stronger implementation plan has been proposed to complement the recommendations. This plan includes concrete initiatives – to be undertaken by a range of stakeholders – to bring the recommendations to life. Among these stakeholders, regulatory and supervisory authorities (RSAs) and governments are especially important in driving implementation.

1.5 Diversity of Approaches

Member countries are a diverse group of nations. They span a range of regions, cultures, and stages of economic development. They adopt a range of legal systems, including common law, civil law, as well as Islamic law, or its combination with common or civil law. Both the IsDBI and IFSB appreciate that expectations must vary from country to country.

In conducting the FR, it was observed that diverse views were particularly salient in regard to whether:

- Countries should have specific laws for Islamic financial services or rather fit Islamic structures into a single set of financial services laws.
- Countries should adopt national-level Shari`ah boards or retain Shari`ah governance solely at the institutional level.
- RSAs should allow conventional institutions to offer Islamic financial services.
- The adoption of international standards specific to Islamic finance is essential.
- Product standardisation should be a policy objective.

While diversity of views in these areas is appreciated, a key underlying theme is that a supportive public policy stance is essential for enabling the industry to reach its full potential. Member countries have been successful under various models; each choice brings benefits and drawbacks. Nevertheless, a strong and supportive public policy stance can help contribute to greater confidence that energises the private sector.

The FR, therefore, does not seek to prescribe specific approaches to the choices above. It does, however, urge member countries to deliberate carefully on these matters and form well-considered strategies. We hold that Islamic financial services offer benefits to the people and economies of member countries, and advocate thoughtful strategies on how these benefits can best be availed.



02

METHODOLOGY

This FR has been undertaken through a methodology combining expert input, independent review, and a detailed survey. Key elements of the methodology include:

- Expert input, including drafting by a group of specialised consultants.
- A detailed survey on the state of the industry, collecting data from supervisory bodies and private sector participants.
- Robust review by both the Technical Committee of the IFSB and a set of independent reviewers (Review Committee) selected from the IFSB Technical Committee, consultation with regulatory and supervisory authorities, international intergovernmental organisations that are members of the IFSB, professional firms, Shaṛāh scholars, academicians, as well as prominent individuals, and other stakeholders of the Islamic financial services industry (IFSI).
- A series of interactive presentations and roundtable feedback. For instance, views were solicited at the roundtable discussion held in Indonesia during the International Shaṛāh Economic Festival (ISEF) on 6 September 2022.
- Discussion and approval by the IFSB Council comprising the IsDB President, Central Bank Governors, and Heads of regulatory and supervisory authorities from member countries.

This FR, therefore, combines the considered views of industry experts with a set of survey inputs from both public and private sector stakeholders. In adopting this methodology, the IsDBI and IFSB have sought a blend of both qualitative and quantitative inputs provided by a diverse set of contributors.

This FR document comprises several analytical sections, the interrelationships among which can be illustrated with the following conceptual diagram:





03

**OVERALL
ASSESSMENTS**



3.1 Commentary on Overall Progress

Tracking the overall progress of the industry is a challenging task. The degree of progress made varies substantially from sector to sector within the industry (for example, in Islamic banking as compared to ICM, *takāful*, and *retakāful*). Additionally, the advancement of the industry varies from country to country. Commentary on overall progress, therefore, can only be general in nature.

This Final Review focuses its attention on the needs of the overall IFSI. Specifically, it caters to the strategic needs for the development of Islamic banks, Islamic microfinance institutions, finance companies, asset managers, *takāful* and *retakāful* institutions, endowment agencies, and other types of financial institutions that are all essential for the industry as a whole. The FR revealed a need for a more holistic view by stakeholders in enabling the overall industry.

3.2 Summary Table of Progress on the MTR Recommendations

The table below provides a summary view of the progress made and challenges remaining for each of the 16 recommendations in the MTR:

No.	Recommendation	Areas of Progress	Challenges Remaining
1	Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.	<ul style="list-style-type: none"> - Financial sectors of member countries generally operate on a free-market basis. - Islamic financial services sectors of member countries continue to demonstrate progress in enhancing the integrity and transparency of their markets. - IIFS have evolved and developed capabilities to meet the required standards of transparency as their conventional counterparts. - In the period since the MTR, the IFSB has published transparency standards for all three segments – Islamic banking, <i>takāful</i>, and Islamic capital markets (ICM). - 70% of the RSA respondents to the IFSB survey have implemented specific standards for transparency. - IIFS are held to the same standards of transparency as their conventional counterparts. Additionally, IIFS are also bound to the Sharī'ah standards. 	<ul style="list-style-type: none"> - Member countries vary greatly in their standings in transparency, ease of doing business, and legal environment indices. - The Financial Services sector continues to evolve and undergo rapid transformation, driven by factors such as digitalisation and the need to meet socio-economic goals such as financial inclusion. This necessitates updated standards and guidance of appropriate disclosure requirements related to the new business models and products, Islamic banking customers, ICM investors, and <i>takāful</i> participants' protection. - Regulatory enablement required for fair competition by IIFS is often not present in a few jurisdictions, especially for the NBFIs.
2	Enhance the capitalisation and efficiency of IIFS to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.	<ul style="list-style-type: none"> - Islamic banks continue to maintain adequate capital adequacy and have shown resilience in the face of successive waves of stress, the most recent being the impact of the pandemic. - IIFS generally have strong capital adequacy and have shown resilience over the years, especially in relation to the successive waves of stress, the most recent being the impact of the outbreak of the COVID-19 pandemic. - IIFS are held to the same capital requirements as their conventional counterparts. - IIFS often out-perform their conventional counterparts in terms of capital efficiency (return on assets (ROA), return on equity (ROE), etc.). - IIFS are better placed to sustain the transformation they have achieved so far with reasonably good profitability and capitalisation levels. 	<ul style="list-style-type: none"> - There are few large-scale, highly capitalised, and systemically important institutions, especially Islamic banks. Viewing them as too-big-to-fail, given their propensity to generate systemic risk, may attract penalising levels of regulatory burden. - Despite their financial strengths, Islamic banks have not fully leveraged these strengths to develop and deliver products at acceptable cost levels, which would enable key socio-economic objectives like financial inclusion, reduction of inequalities, and stronger links with the real economy. - The regulatory environment for the capitalisation of Islamic NBFIs is present only in a few jurisdictions. - Limited technical guidance for the implementation of prudential standards to regulators and market players in jurisdictions with a less developed IFSI. - Limited capabilities for research and development of new products among Islamic banks to move away from imitating conventional products and services. - The absence of dedicated research institutions, academic chairs, or strong industry trade bodies to lead the initiative to develop new original Sharī'ah-compliant products that are essential to exploit the emerging opportunities from

No.	Recommendation	Areas of Progress	Challenges Remaining
			<p>the FinTech space, as well as address climate change-related risks and SDGs.</p> <ul style="list-style-type: none"> - Inadequate focus and institutional capabilities to support Islamic banks in developing products and practices to move away from imitations of conventional banking products. - The challenge of developing Shari'ah-compliant capital instruments, such as <i>shukūk</i>, that meet applicable criteria laid out in the standards issued by the IFSB, AAOIFI, IIFM, etc.
3	Enhance access by the large majority of the population to financial services.	<ul style="list-style-type: none"> - In respect of the Development pillar, the fundamental framework for enhancing financial access through Islamic banks continues to be developed. - The IFSB published a technical note on financial inclusion in the domain of Islamic finance in December 2019, which provides guidelines on how financial inclusion can be enhanced via Islamic social finance instruments and institutions. - Although an international standard for regulation of microfinance, in the IIFS domain in particular, and Islamic social finance in general, is yet to be published, there are resources developed by the IsDB via its new economic empowerment paradigm to provide guidance on broadening access through Islamic socio-economic empowerment and inclusion. - Across IFSB jurisdictions, efforts are being made to strengthen the regulatory framework for sustainable finance needed to support transitioning to a low-carbon global economy by building regulatory and supervisory capacity toward ESG risk management and developing policy documents.¹⁰ - Many regulators have developed the frameworks for microfinance, social finance, and financial inclusion initiatives across the key segments of the IFSI. - On the transformation front, progress is being made to further financial inclusion and other key socio-economic goals with newer products and practices in both traditional and FinTech channels, although it is limited, particularly in the context of the massive gap with the desired outcome. - Approximately 20% of Islamic banks surveyed reported offering microfinance facilities. - Increased use of digital platforms to cater for the financially excluded and changing demographic structure. 	<ul style="list-style-type: none"> - The untapped potential of the structural composition and dynamics of the traditional and potential customer base of IIFS. The median age of Muslims worldwide is 24 years compared to 32 years globally. Fifteen among the top 59 countries with smartphone penetration are Organisation of Islamic Cooperation (OIC) member countries. Yet, compared to 49% worldwide, 72% of the unbanked population resides in the OIC countries.¹¹ - IIFS have generally not been at the forefront of new business models (mobile banking, peer-to-peer, micro-savings, etc.) that can have a large impact on expanding access. - <i>Takāful</i> penetration, although growing, remains marginal in many jurisdictions. - Islamic finance has yet to leverage its inherent advantages arising from its core principles to better address key socio-economic goals by developing new products.

10 Notable examples in this regard are the pioneering introduction of the *Socially Responsible Investment (SRI) Shukūk Framework* issued by the Securities Commission Malaysia in 2014. Both Saudi Arabia and Oman also introduced sustainability-related debt frameworks in 2021. Other notable examples include the IsDB: Sustainable Finance Framework in 2019, the State Bank of Pakistan (SBP): *Prudential Regulations for Infrastructural Projects Financing* in 2016, and the Bank Negara Malaysia (BNM): *Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF)* in 2019. Similarly, the Otoritas Jasa Keuangan (OJK) has issued: *OJK Regulation (POJK) 51/POJK.03/2017* on Sustainable Finance Applications for Financial Services Institutions, Issuers, and Public Companies

11 Islamic FinTech Report 2018: Current Landscape & Path Forward. <https://www.dinarstandard.com/wpcontent/uploads/2018/12/Islamic-Fintech-Report-2018.pdf>

No.	Recommendation	Areas of Progress	Challenges Remaining
4	Enhance Shari'ah-compliance and the effectiveness of corporate governance and transparency.	<ul style="list-style-type: none"> - Regulations on corporate governance in general and Shari'ah governance, in particular, have been issued by supervisory and regulatory authorities in various jurisdictions. - National Shari'ah boards have been introduced in several jurisdictions to enhance governance and transparency. - New IFSB standards issued since the Mid-term review, and also a joint standard currently being developed together with AAOIFI. 	<ul style="list-style-type: none"> - Limited comprehensive guidance on minimum and best practices for various elements of Shari'ah governance. - The lack of harmonisation of Shari'ah governance structures and practices across jurisdictions. - Greater differentiation between Islamic and conventional products can help the industry demonstrate its values more clearly. - Disclosures on the features and risk profiles of Islamic finance products are often low. - Few regulatory and supervisory authorities have issued transparency and disclosure requirements and regulations as a part of financial statements of Islamic financial institutions. - Providing the prudential infrastructure for the IFSI in general and the ICM, in particular, is a major challenge for RSAs, especially in emerging markets. There has been mixed progress in the implementation of corresponding financial reporting standards issued for Islamic financial institutions issued by AAOIFI. International Financial Reporting Standards issued by the IASB do not always lead to transparency when applied to Islamic financial institutions, and those of IOSCO typically need some adaptation by the IFSB to fit ICM institutions.
5	Develop the required pool of specialised, competent, and high-calibre human capital, and ensure utilisation of state-of-the-art technology.	<ul style="list-style-type: none"> - The number and range of capacity development programmes and institutions offering them have increased significantly since the last review. This improvement is witnessed in almost all the major Islamic finance jurisdictions. - As one of the benefits induced by the pandemic, online training and certification programmes addressing the Islamic finance sector have expanded access to specialised training opportunities and the development of human capital for the Islamic finance sector. - Breakthrough educational initiatives have been launched in various Islamic finance jurisdictions. - Online training and certification programmes have taken root and are expanding access to specialised training. - Practically most IIFS provide technical training programmes, and schedule seminars and conferences for their staff. - Improved knowledge and capacity in the <i>takāful</i> industry, especially in the areas of product development, Shari'ah governance, and accounting practices. 	<ul style="list-style-type: none"> - The lack of strong institutions to develop and offer capacity-building programmes to enhance human capital for the Islamic finance sector. - Expertise in <i>takāful</i>, asset management and other sectors in NBFIs likewise remains a challenge. - Insufficient educational institutions offering degrees and professional courses in Islamic finance. - The lack of highly specialised and technologically-inclined human capital and domain experts both for operation and regulation.

No.	Recommendation	Areas of Progress	Challenges Remaining
6	Promote the development of standardised products through research and innovation.	<ul style="list-style-type: none"> - In terms of the development pillar, the Islamic banking industry continues to witness significant progress in standardising contracts and their documentation, accounting standards, and operating practices. - Institutional capacity to develop such standardised elements of the various products and services has significantly improved with the growth of a range of institutions, including but not limited to AAOIFI, IIFM, and IsDBI. - Important progress has been made in standardising certain structures (e.g., interbank and money markets and hedging instruments). - Prominent research centres have been established in member countries and beyond. 	<ul style="list-style-type: none"> - Emerging business models like FinTech, digital assets, and cryptocurrencies need to be adopted into the Islamic finance domain. - The lack of strategic focus and adequate technical capacity to incorporate them into the Islamic finance industry are posing a challenge to sustainable growth, and limit Islamic banking's potential to address socio-economic objectives. - Research and development, especially for products and services offered by IIFS, are concentrated on Islamic banking. Substantial needs remain in the ICM, <i>takāful</i>, microfinance, and other NBFIs. - The lack of Sharī'ah standardisation and issue of "fatwa shopping".
7	Enhance the implementation of the international prudential, accounting, and auditing standards applicable to the IFSI.	<ul style="list-style-type: none"> - Numerous implementation initiatives of the IFSB such as workshops, e-learning, RSAs experience sharing webinars, and translation of its standards in English to Arabic, French and Russian. - The implementation rate in the Commonwealth of Independent States (CIS) countries increased due to the collaboration between the IFSB and the National Bank of Kyrgyz Republic to translate IFSB standards into the Russian language. - A large majority of Islamic finance jurisdictions fully or "partially" follow IASB and Basel Committee standards. - The level of IFRS adoption continues to increase among Islamic finance jurisdictions. - Many jurisdictions have been successful in developing guidance to implement newer IFRS standards for Islamic banking. 	<ul style="list-style-type: none"> - Many jurisdictions remain in the process of implementing IFSB and AAOIFI standards, given the sustained growth in the market share of Islamic financial services in their markets. - Less than one-third of the RSAs responding to the IFSB survey are fully compliant with IFSB prudential standards and AAOIFI standards. - There is a continuing need for adequate technical assistance and implementation guidance for regulatory and supervisory authorities. - There is a need for capacity building of the staff of the regulators involved in the supervision and surveillance of IIFS. - There is a need to translate more IFSB standards and those of other international Islamic finance standard-setting organisations into, for instance, the Russian language to cater for the growth of the IFSI in the CIS countries.
8	Develop an appropriate legal, regulatory, and supervisory framework, as well as an IT infrastructure that would effectively cater for the special characteristics of the IFSI and ensure tax neutrality.	<ul style="list-style-type: none"> - Specific regulations for Islamic financial services are increasingly prevalent - Since the last review, the IFSB has published core principles for all the main segments of the Islamic finance industry – Islamic banking, <i>takāful</i>, Islamic capital markets (ICM), and also for effective Islamic deposit insurance systems. These core principles provide the basic building blocks for developing an appropriate legal, regulatory, and supervisory framework for the Islamic finance sector. - These core principles are also benchmarked with the global standards in the relevant segment, thus easing the implementation and reducing inconsistencies with conventional financial services regulation. 	<ul style="list-style-type: none"> - Tax neutrality, safety net (e.g., Sharī'ah-compliant deposit insurance), provisions, and other aspects are less prevalent - The lack of progress in the areas of tax equality for ICM products; and insolvency and creditor protection rights for ICM investors. - Slow progress made on the legal and regulatory framework development, especially in the Islamic NBFi sector. - Many regulators particularly in new Islamic finance jurisdictions face challenges in terms of capacity and technical expertise to implement the core principles for the regulation of Islamic finance sectors.

No.	Recommendation	Areas of Progress	Challenges Remaining
		<ul style="list-style-type: none"> - The rate of implementation of the core principles in the form of specific regulations for Islamic financial services continues to increase. - The solvency requirement and minimum capital requirement for <i>takāful</i> operators are embedded in the law and regulations for <i>takāful</i> operations. In some jurisdictions, the RSAs have issued a Takāful Act and supporting reserve and solvency guidelines for the industry to adopt within their jurisdiction. - Some countries have specific laws that are related to unique Islamic NBFIs, e.g., Tabung Haji in Malaysia, - Some other jurisdictions, especially in the Southeast Asia region, have developed ICM intermediaries' regulation. 	
9	Develop comprehensive and sophisticated interbank, capital, and hedging (<i>tahawwut</i>) market infrastructures for the IFSI.	<ul style="list-style-type: none"> - Islamic finance markets continue to benefit from the growth and development of key institutions providing the essential market infrastructure such as the International Islamic Liquidity Management Corporation (IILM) and International Islamic Financial Market (IIFM). - The IFSB published the core principles for the regulation of Islamic financial market infrastructures in December 2021, contributing to the enablement in this critical segment. - An overwhelming majority of IB respondents to the IFSB survey indicated adequate connectivity with international financial markets and participation in payment and clearing services. 	<ul style="list-style-type: none"> - The lack of active and deep markets in interbank and liquidity instruments in many Islamic finance jurisdictions. - Key asset classes (e.g., sovereign <i>shukūk</i>, corporate <i>shukūk</i>, <i>pension funds</i>) are scarce and limit the depth of markets. - Wider acceptance of using Sharī'ah-compliant products is essential to deepen the markets and strengthen the market infrastructures for the IFSI.
10	Promote financial literacy initiatives including public awareness of the range of Islamic financial services.	<ul style="list-style-type: none"> - Expansion of market share suggests increased awareness of Islamic financial services in new markets. 	<ul style="list-style-type: none"> - Awareness of <i>takāful</i> and other NBFi services often lags awareness of Islamic banking. - Expansion remains concentrated. There is a low level of general awareness about Islamic financial services and products, especially outside of the GCC, Southeast Asia, Middle East and South Asia regions. - Complementing Islamic financial information with Islamic financial education.
11	Strengthen and enhance collaboration among the international Islamic financial infrastructure institutions.	<ul style="list-style-type: none"> - Most Islamic banks have links with international financial market infrastructures, including payment & clearing services. - Increased collaboration between international Islamic financial infrastructure institutions, which are mainly the IFSB, AAOIFI, IIFM, IIRA, etc. - Joint programmes between the IFSB and other Islamic and conventional finance infrastructure institutions. - Joint standards and research between the IFSB and its RSA members. 	<ul style="list-style-type: none"> - Greater collaboration could help spur progress in areas requiring the involvement of multiple stakeholders and countries. - The performance of the Islamic banking sector in this aspect has been strong so far. The challenge in this respect would be to repeat this success in the rapidly evolving alternative payment systems and technology-based financial infrastructure, such as blockchain-based payment systems, which are likely to pose a strong alternative to traditional systems.

No.	Recommendation	Areas of Progress	Challenges Remaining
		<ul style="list-style-type: none"> - IFSB 17 – Core Principles for Islamic Finance Regulation for Banking – segment (IFSB-17) now included in the IFSB compendium of standards. 	
12	Foster collaboration among countries that offer Islamic financial services.	<ul style="list-style-type: none"> - Multilateral forums have allowed for the exchange of expertise and ideas. - Bilateral collaboration on Islamic finance has also taken place between certain countries. 	<ul style="list-style-type: none"> - Greater collaboration could spur cross-border expansion or investment. - Fewer than half of regulator respondents reported having foreign Islamic banks in their jurisdiction.
13	Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.	<ul style="list-style-type: none"> - Large, sophisticated IIFS generally enjoy access to regional and international markets. - Improved cross-border investments among banks and in the ICM. 	<ul style="list-style-type: none"> - Smaller institutions (and especially NBFIs) often lack access to markets beyond their borders. - Islamic NBFIs have not engaged with the international financial markets due to their relatively small sizes.
14	Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.	<ul style="list-style-type: none"> - Increasing intersectoral linkages in the IFSI via a network of many financial obligations and claims to and from each other whose value is contingent on the individual and collective financial soundness of interconnected sectors in the network. 	<ul style="list-style-type: none"> - There is a need for an understanding of the multidimensional and evolving complex nature of systemic sectoral linkages. This requires in-depth research, especially in terms of systemic risk amplification mechanisms and consequential contagion effects peculiar to the IFSI, in order to develop appropriate policy responses and coordination among regulatory and supervisory authorities.
15	Foster and embrace innovative business models, including new technologies and delivery channels, in delivering Islamic financial services.	<ul style="list-style-type: none"> - Increasing adoption of technology for broadening the IFSI's current outreach, exploring new horizons, identifying untapped potentials, and unlocking opportunities, especially in financially developed markets, but with minimal or no presence of Islamic finance. - RSAs have also been issuing guiding frameworks and regulations, promoting regulatory sandboxes, and the establishment of digital Islamic financial institutions. 	<ul style="list-style-type: none"> - A radical departure is required from the traditional sales and product-inclined Islamic banking model to a collaborative or competition-induced innovative model of Islamic banking and financial service delivery. - RSAs need to ensure finding a balance between encouraging technology-based financial innovation while protecting consumers, supporting business operations, and promoting financial inclusion, without infringing on the fundamental premise of Sharī'ah.
16	Strengthen contributions to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.	<ul style="list-style-type: none"> - The IFSB has been participating actively in the leading global standard setters and other global regulatory forums for the financial services industry - The IFSB has been an active participant in the Basel Committee, IOSCO, and IAIS, and has used its presence to contribute core Sharī'ah principles underlying Islamic finance to enhance the stability of the global financial system. 	<ul style="list-style-type: none"> - The need to enhance global recognition for the IFSI and inclusion in national and international development programmes. - The need to add the role of international organisations and MDBs, such as the IMF, World Bank, AfDB and ADB, to provide financing on an Islamic basis and include the role of Islamic finance in their periodical publications on the financial sector's development and stability.

3.3 Detailed Progress by Recommendation

The 22 recommendations of the Final Review (FR) of the Ten-Year Framework and Strategies Report can be broadly classified as those related to infrastructure and institutional development across three themes: **development, transformation and access**. The progress made is assessed by comparing the current status of issues identified in the recommendations with those existing during the time when the mid-term review (MTR) document was published. The statuses of the issues discussed in the FR recommendations are presented based on information gathered from two key sources: information and data from different published secondary sources, and information gathered from surveys administered by the IFSB to both the regulatory and supervisory authorities (RSAs) and institutions offering Islamic financial services (IIFS).

The progress on various recommendations of the FR can be viewed from different levels and perspectives. While some recommendations relate to international institutions, others are relevant at the national level. Similarly, some recommendations are general in nature and not specifically related to all four sectoral classifications. The following section provides more detailed commentary on the progress achieved in each recommendation since the publication of the MTR. The overall assessment of the progress made on the MTR recommendations for these levels are identified in three categories: good, fair and poor.



04

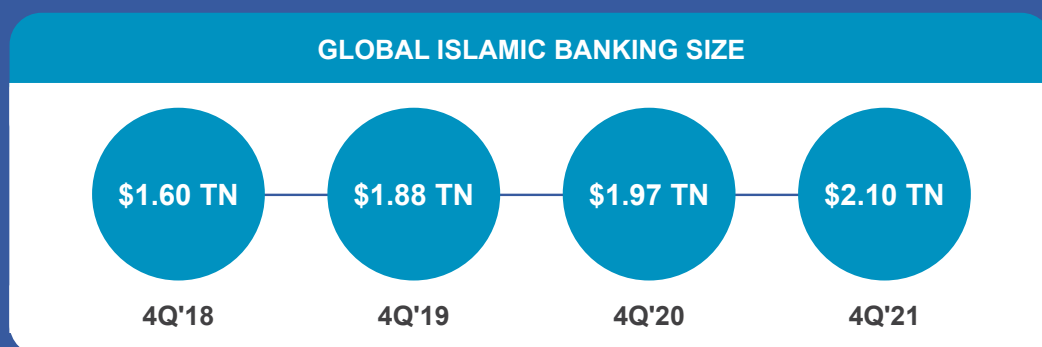
**SECTOR-LEVEL
ASSESSMENTS**

In this chapter, the performance of four Islamic finance industry segments (Islamic banking, Islamic NBFIs, *takāful* and ICM) are assessed in light of the various recommendations and initiatives in both the MTR and developments recorded in the Islamic financial services industry (IFSI) afterwards.

4.1. Overview of the Growth in Sectors

Islamic Banking

The global Islamic banking assets grew from USD 1.47 trillion in 2014 to USD 2.1 trillion in 2021. Despite increasing in USD terms, the share of the Islamic banking assets of the global IFSI assets decreased from 79% in 2014 to 68.7% in 2021.



GLOBAL ISLAMIC BANKING

CAGR ^		
ASSET	FINANCING	DEPOSITS
2.4%	4.4%	3.7%
Year-on-Year (4Q'21)		
6.5%	8.1%	7.3%

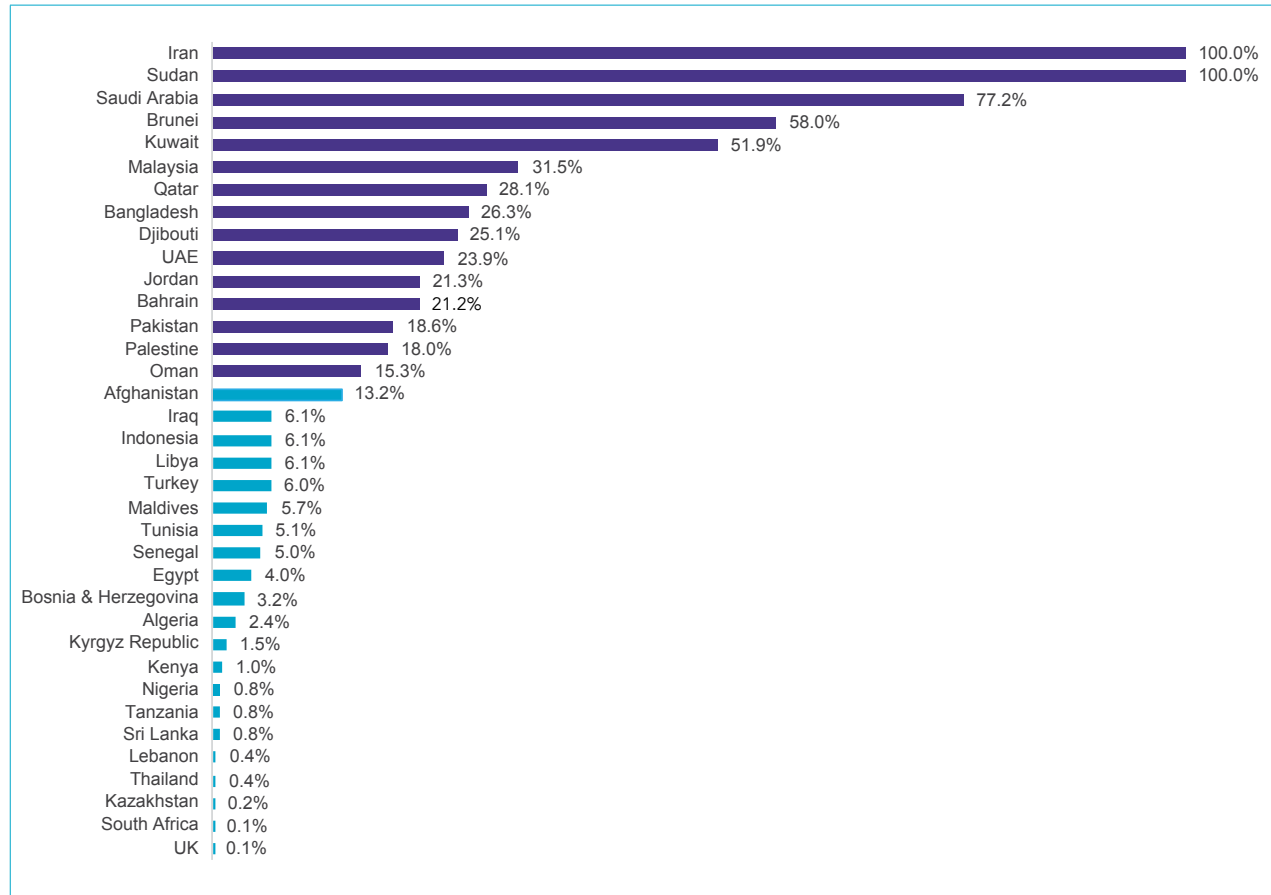
^ Compound Annual Growth Rate (June 2014 – December 2021). Data used in calculating CAGR, as well as growth rates for assets, financing and deposits, were obtained from the IFSB PSIFs, and include data from both Islamic banks and windows in Afghanistan, Bangladesh, Indonesia, Malaysia, Oman, Pakistan and Saudi Arabia, and (where available) from stand-alone Islamic banks in Bahrain, Brunei, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Nigeria, Palestine, Qatar, Sudan, Turkey, the United Arab Emirates (UAE) and the UK. Some Islamic banking jurisdictions such as Egypt, Iran, Kazakhstan and Lebanon were excluded due to data limitations.

Sources: IFSB IFSI Stability Report (various editions)

The growth rate of Islamic banking assets was 15.9% during 2012-14 (or 7.9% per year on average) and 24.7% over the period 2014-21 (or 4.1% per year on average). In at least 15 jurisdictions, the Islamic

banking segment is now systemically important with a share in total domestic banking assets exceeding 15%.

FIGURE 4.1 Islamic Banking Share in Total Banking Assets by Jurisdiction (%) (2021)



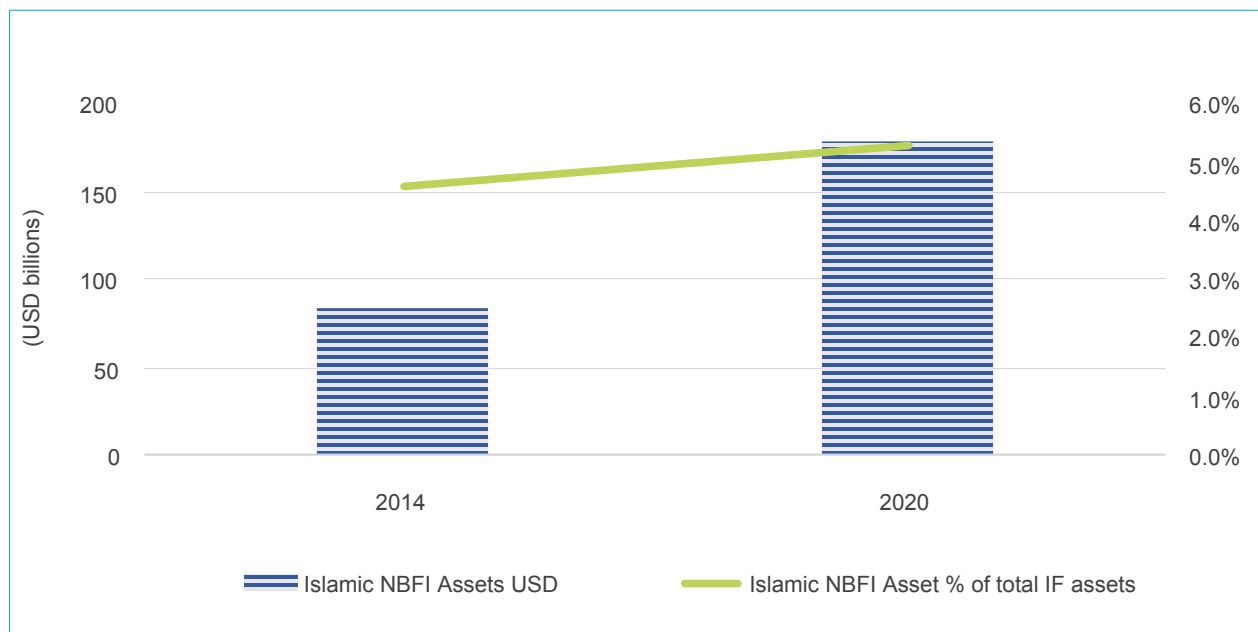
Source: IFSB IFSI Stability Report 2022.

Islamic NBFIs

Since there is no standard definition of non-banking financial institutions (NBFIs), they are identified in a variety of ways. For the purposes of this report, Islamic NBFIs can be broadly classified into the following types:

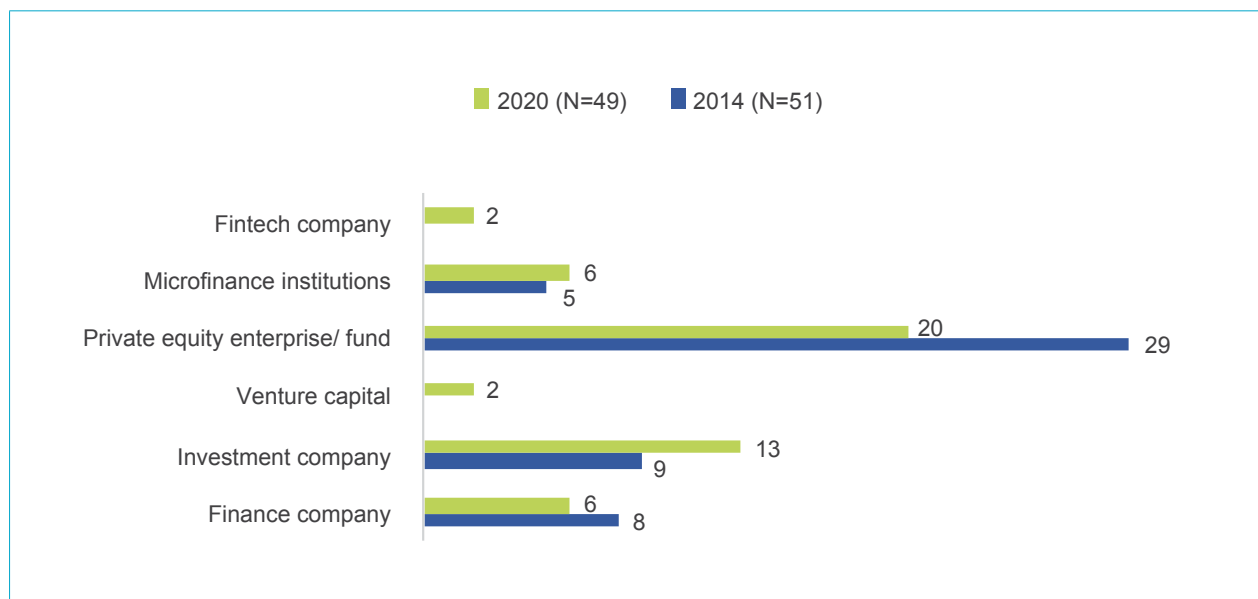
- 1. Non-banking Financing Institutions:** Venture capital firms, finance companies, private equity firms, leasing companies, mortgage companies, credit unions, pawnshops, etc.
- 2. Microfinance Institutions (MFIs):** Financial institutions providing services to the poor and microenterprises. Note that there are a
- 3. Unique Islamic NBFIs:** These NBFIs do not have counterparts in the conventional financial sector. Examples of unique Islamic NBFIs include Tabung Haji (Malaysia), *muḍārabah* companies (Pakistan), and *qarḍ al-hassan* funds (Iran).
- 4. Islamic Social Sector:** *zakāh*, *waqf* and other non-profit organisations.

FIGURE 4.2 Assets of Islamic NBFIs



Source: ICD-Thomson Reuters (2021), *Islamic Finance Development Report 2021: Advancing Economies* and ICD-Refinitiv (2020), *Islamic Finance Development Report 2020: Progressing Through Adversity*. Note: Information on Other IFIs for 2014 taken from ICD-Refinitiv (2020)

FIGURE 4.3 Number of NBFIs in Selected Jurisdictions



Source: IFSB Survey of RSAs.

The global Islamic NBFIs assets grew from USD 84 billion in 2014 to USD 178 billion in 2020, and the share of the Islamic NBFi assets of the total Islamic assets increased from 4.3% in 2014 to 5.3% in 2020. The growth rate of Islamic NBFi assets was 112% over the period 2014-20 (or 18.6% per year on average).

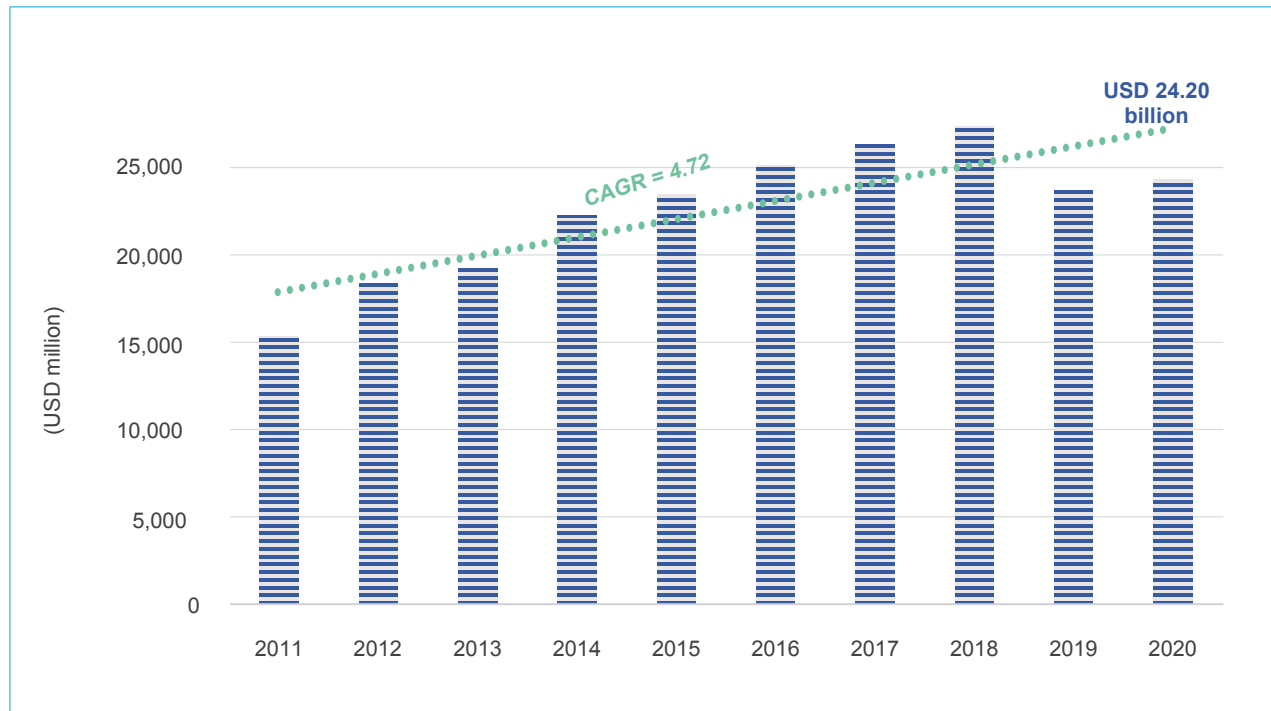
Figure 4.3 shows the number of Islamic NBFIs in a sample of eight jurisdictions from the IFSB survey. The figures indicate that the NBFi sector in these jurisdictions shrank, with the total number of NBFIs decreasing from 51 in 2014 to 49 in 2020.

Takāful

The global *takāful* contributions assets grew from USD 17.2 billion in 2012 to USD 21.4 billion in 2014 and to USD 24.2 billion in 2020. The share of the *takāful* contributions of the total Islamic financial assets remained constant at 1.1% in 2012 and 2014

and decreased to 0.9% in 2020. The growth rate of *takāful* contributions was 24.4% during 2012-14 (or an average of 12.2% per year) and 7.8% over the period 2014-20 (or 1.3% per year on average). The CAGR between 2011 and 2020 was 4.72%.

FIGURE 4.4 Global *Takāful* Contributions



Source: IFSB IFSI Stability Report 2022.

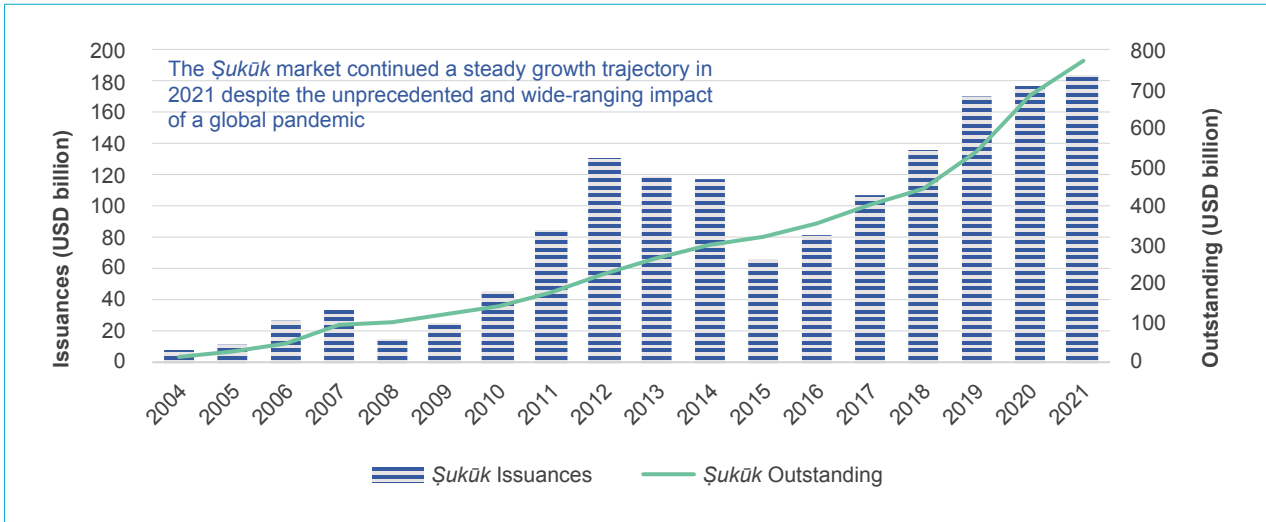
Islamic Capital Market (ICM)

The Islamic Capital Market (ICM) segment of the IFSI comprises Islamic investment banks, Islamic equities (and equity indices), Islamic Collective Investment Schemes (ICIS), fund management companies and investment providers, and brokerage

houses. The ICM also witnessed developments across jurisdictions in many areas, such as SRI *shukūk*, *waqf*, SRI funds, etc., as reported in the IFSB IFSI Stability Report 2022.¹² The growth of the key subsegments is shown in figures 4.5 and 4.6 below.

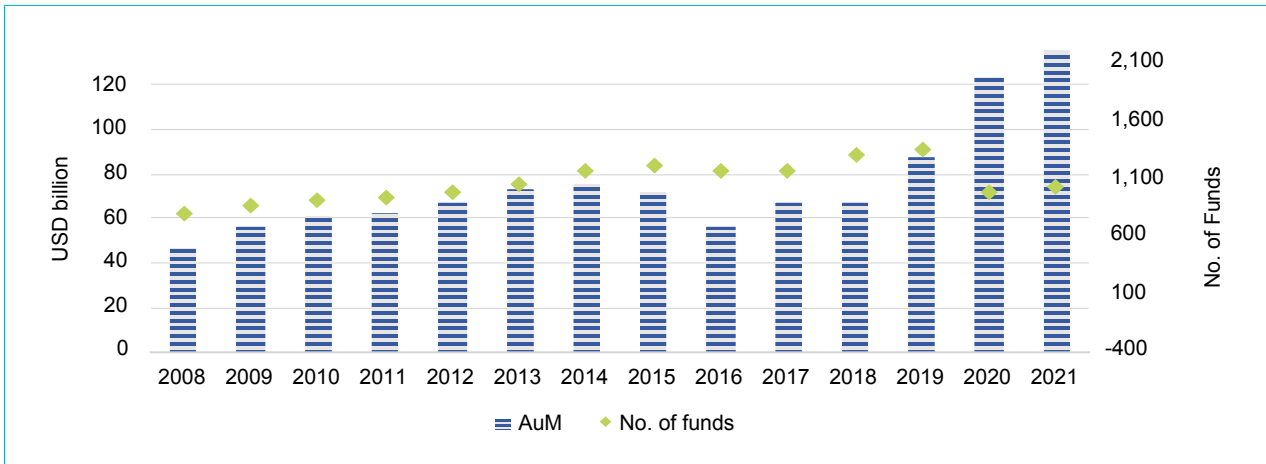
¹² <https://ifsb.org/download.php?id=6571&lang=English&pg=/sec03.php>

FIGURE 4.5 Şukūk Issuances and Şukūk Outstanding in USD: Trend (2004-21)



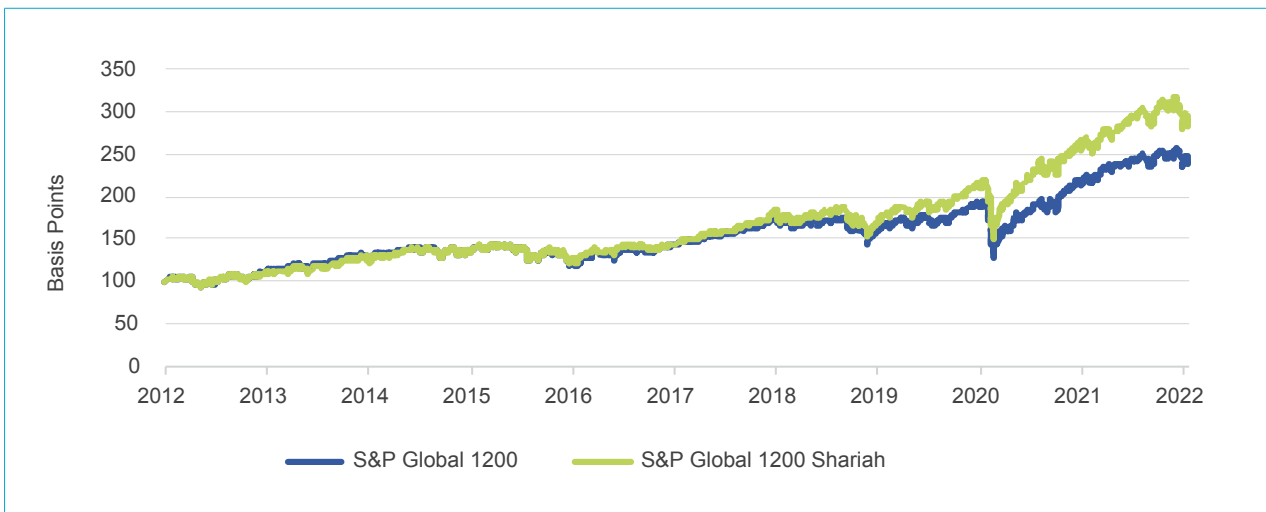
Source: IFSB IFSI Stability Report 2022

FIGURE 4.6 Assets Under Management (USD) and Number of Islamic Funds



Source: IFSB IFSI Stability Report 2022

FIGURE 4.7 Ten-Year Historical Performance of the Islamic Equity Markets



Source: IFSB IFSI Stability Report 2022

The value of total *ṣukūk* outstanding grew from USD 229.4 billion in 2012 to USD 294.7 billion in 2014 and to USD 775.7 billion in 2021, with sovereign issuances dominating the market in most jurisdictions. The corresponding share of *ṣukūk* value to the total Islamic financial assets increased from 14.5% in 2012 to 15.8% in 2014 and further to 25.4% in 2021. The growth rate of *ṣukūk* value was 28.4 % during 2012-14 (or an average of 14.2% per year) and 133.9% over the period 2014-21 (or 22.3% per year on average). Various sustainability *ṣukūk* were issued across jurisdictions, including those by the Islamic Development Bank (IsDB). In addition to the short-term *ṣukūk* issued by the International Islamic Liquidity Management Corporation (IILM), various others have also been designed and offered by Islamic banks to meet their capital requirement needs. Some are equity-based *ṣukūk*, based on a form of the *muḍārabah* contract for Additional Tier 1 capital, while others are exchange-based *ṣukūk* based on the *ijārah* contract for Tier 2 capital.

The total value of Islamic funds increased from USD 64.2 billion in 2012 to USD 75.8 billion in 2014 and to USD 154.6 billion in 2021. The corresponding share of Islamic funds to the total of Islamic financial assets remained constant at 4.1% during 2012-14 and increased to 5.1% in 2021. The growth rate of Islamic funds was 18.1 % during 2012-14 (or an average of 9% per year) and 89.7% over the period 2014-21 (or 14.9% per year on average).

Since the MTR, the global equity markets, for the most part, experienced constant growth, although with occasional pullbacks until 2020 due to the outbreak of the COVID-19 pandemic. Notwithstanding the uncertainties in the market and

the persistently high inflation, geopolitical risks, and a supply chain crisis, the Islamic equity markets rebounded in 2021, with investors driving up asset prices. Major indices rose by double digits, with the S&P 500 closing at an all-time weekly high on 24 occasions. One key trend in the equity markets since 2021 is sector rotation, which is still ongoing, with growth stocks being abandoned while cyclical and defensive sectors, such as energy and finance, were performing at record highs in early 2022.

4.2 Impact of Macro and Environmental Shifts

The national economies are passing through issues related to the climate crisis, technological revolution, and global uncertainties and risks. The impact of macro and environmental shifts that have implications for the financial sector can be viewed from various perspectives, including but not limited to: economic, societal, environmental, technological and organisational.

Sustainable Development Goals (SDGs)

The United Nations launched the *2030 Agenda for Sustainable Development* as a plan of action for people, the planet, prosperity, peace and partnership (UN 2015). The 2030 Agenda identifies bold and transformative steps in its 17 Sustainable Development Goals (SDGs) and 169 associated targets. The status of SDGs in OIC member countries in 2019 relative to other regions of the world shows relatively poor performance. Figure 4.8 shows that, while the average score of OIC member countries is higher than the African region, it is lower than all other regions.

FIGURE 4.8 Average SDG Index Score for OIC MCs and Regions, 2019



Source: Estimated from Sachs et. al (2020)

Achieving the ambitious SDGs to promote inclusive social and economic development and protect the environment would require huge investments and resources. UNCTAD (2014) estimated that developing countries will face an annual financing gap of USD 2.5 trillion to implement the SDGs. While domestically, public finance would play an important role in investing to achieve the SDGs, limited tax revenues and higher public debt levels constrain the role of government in providing all the funds required. Thus, the financial sector and the non-profit philanthropic sectors are also recognised as additional sources of finance to realise the SDGs.

Recognising the financial services industry to be a vital enabler for the real economy, four key ways

in which the financial sector can promote shared value and positively affect the SDGs are access, investment, risk, and crosscutting issues of ESG (UNGC and KPMG, 2017). Ahmed et al. (2015) identifies areas where the role of the Islamic financial sector is crucial in achieving the SDGs as financial inclusion, infrastructure financing, social finance, and stability and resilience. The functions of the financial sector and its impact on the different SDGs are shown in Table 4.1. The core principles underlying the strategy to achieve the SDGs are consistent with Islamic banking and finance tenets. While the *takāful* and Islamic NBFIs can contribute to financial access, Islamic capital markets (ICM) will play an important role in infrastructure investments.

TABLE 4.1 Islamic Financial Sector and SDGs

Financial Sector Functions	SDGs
Access <ul style="list-style-type: none"> financial inclusion individuals financial inclusion MSMEs 	SDGs 1, 2, 3, 4, 10 SDGs 5, 8
Infrastructure Investment <ul style="list-style-type: none"> investment in renewable energy investment in infrastructure 	SDGs 7, 13 SDGs 6, 9
Risk, Stability and Resilience <ul style="list-style-type: none"> incentivising sustainable production and living analysis and management 	SDG 12 SDG 11
Social Finance	SDGs 1, 2, 3, 4, 8, 10
Cross-cutting feature <ul style="list-style-type: none"> positively influence ESG practices for corporate clients and investee companies 	SDGs 13, 14, 15, 16

Source: UNGC and KPMG (2017) and Ahmed et al. (2015).

Uncertain Macroeconomic Regimes

Since the global financial crisis, monetary policy in major economies has been highly accommodative with extremely low interest rates. This trend has been exacerbated since the advent of the pandemic and the associated slowdown in economic activity in early 2020. Almost all the major governments and central banks had committed to long periods of accommodative monetary policies with ultra-low interest rates for years to come. This has led to traditional investors in fixed-return banking products going in search of higher returns, although it involved assuming higher levels of risk. This trend has proved to be a big challenge for conventional banks in the form of compression of net interest margins, a key profitability driver, and lesser demand for their liability products. The resulting scenario in global banking is characterised by a squeeze on profits and challenging prospects for growth. However, disruptions in the supply chain due to COVID-19 and

the Ukraine war have caused inflationary pressure and consequential contractionary monetary policies in major economies during recent times.

The financial sector must navigate the macro-economic uncertainties that create both risks and opportunities. The Islamic banking sector should innovate and present a suite of products to its customers, which are based on risk-sharing principles and not limited to low returns out of maturity transformation. These products should be consistent with core Sharī'ah principles as well as appropriate to the market demands, thereby offering a critical driver for a paradigm shift in the growth levels of the Islamic banking business.

The higher cost of living due to inflation will affect demand for financial services, such as *takāful* and investments, as people will be more focused

on satisfying their basic needs during hard times. *Takāful* and micro-*takāful* operators may need to review their pricing structure as well as the level of exposure during economic hard times to cater for the needs of the consumers. The catch is that it must be affordable. The regulators can work together with the industry to design and promote “friendly” products (minimal coverage and reasonable price) that fit all walks of life during economic hardship.

During 2020, the world saw both the spread of the COVID-19 pandemic and its effect on oil prices, which have had a negative impact on the ICM segment. The effects of the COVID-19 pandemic, coupled with the fall in oil prices (now largely reversed), were manifested in large portfolio losses in some funds. While many of the IIFS respondents to our survey indicated that these conditions had a negative impact on their operations, none reported major losses. However, it has impacted their ways of working (e.g., a shift to working remotely from home or a hybrid model of remote and office working; acceleration of the digital transformation process). A third of the IIFS respondents stated that the crisis had created a need for them to review their current business plan.

Environmental and Climate Crisis

The world faces long-term climate-related risks and short-term negative shocks that can potentially affect economies and the financial sector. The risks related to climate change can be broadly classified into physical risks and transition risks (FDB, 2020c). The former arises due to the economic impact of climate change, such as increased natural disasters that involve the damage caused to nature, land, infrastructure and property, while the latter arises due to adjustment towards a low-carbon economy arising from changes in tech, consumer preferences, market sentiments and climate policies.

These risks would result in underwriting losses, market losses, credit losses, and increased operational risks. The economic damages due to climate change-related weather events are estimated to be USD 630 billion between 2016 and 2018.¹³ The climate-related risks necessitate not only adopting newer approaches to risk measurement and

management but also opening up opportunities for seeking innovative ways to finance the transition to greener economies.

Governments around the world and multilateral institutions are focusing their efforts on addressing climate change and the risks driven by it. These form a significant part of the wider SDGs, which are aimed at achieving sustainable growth across the world. A wide range of multilateral initiatives, such as the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), Task Force for Climate-Related Financial Disclosure (TCFD), Greenhouse Gas Protocol (GHG Protocol), and standards set out by the global standard setters, have produced global standards and guidance for the financial services sector to develop green finance and sustainable financing methods.

The emphasis on the volatility in weather patterns as a front-burning development issue is a result of the unprecedented changes in climate. A large number of countries, characterised by a significant share of Muslims in their demographics, are exposed to material levels of climate change and risks driven by climate change. This also has implications for financing provisions by banks, investment decisions by asset managers, and underwriting services and investment portfolios of insurance firms, given that their balance sheets are potentially exposed to liability risks, asset impairment, and rising claims from climate change-related risks.

Regulators and financial institutions are building their capacity towards ESG risk management and are developing policy documents¹⁴ and products, respectively, that support the transition to sustainable finance and a low-carbon global economy. However, the lack of universal guidelines on sustainable finance could also make the burgeoning market susceptible to greenwashing from both sovereigns and corporates.¹⁵

Combined with the predominance of Islamic banking markets’ exposure to material levels of climate risk, the Islamic banking sector is in a very advantageous position to develop banking solutions and products which can aid society and governments to address climate change risks. However, the regulators for Islamic banking have

¹³ <https://www.morganstanley.com/ideas/climate-change-investment-megatrend#Footnote1>

¹⁴ Moody’s ESG Solutions (2022), *Regulatory Calendar: Latest Regulatory State of Play Across Key Jurisdictions for 2022 and Beyond*. https://assets.website-files.com/5df9172583d7eec04960799a6255a1c173ca566c9da9d291_RegulatoryCalendar_April2022.pdf

¹⁵ In November 2021, the International Sustainability Standards Board (ISSB) was created to cater for this need. <https://www.ifrs.org/groups/international-sustainability-standards-board/> (See more on this and the related workstream of the Islamic Financial Services Board (IFSB) to cater for the Islamic capital markets in Chapter 4 of this report.)

not yet responded to this opportunity by developing essential regulatory frameworks for green and sustainable financing. This is demonstrated by a remarkably low proportion of regulators responding to the IFSB survey, reporting on standards for corporate social responsibility and sustainable financing techniques.

The most obvious impact of climate change on the insurance sector will be the increase in insured property losses from extreme weather events, and development of more sophisticated risk models to address the increasing severity and frequency of catastrophic events. With losses mounting, insurers can no longer avoid or postpone addressing the impact of the changing climate on their underwriting, pricing, and investment decisions, as well as their bottom lines. *Takāful* operators stand sub-par to conventional carriers, and the impact of this nature can be catastrophic. There's no doubt that more information – through more effective disclosure – would help regulators assess the effectiveness of insurer actions to mitigate insurance risk due to climate change. And that could very well be the starting point of increased climate risk regulations.

As rising climate-related losses threaten the viability of insurers' and *takāful* operators' books of businesses and investment portfolios, many regulators either aren't aware of how prepared carriers are to deal with this threat or they aren't fully confident that carriers are indeed prepared. **Regulatory oversight on this matter plays a critical role** in educating and encouraging *takāful* operators to conduct research and analyse collected data for industry consumption and review.

Takāful operators should look to bring the oversight of climate-related risks directly under the board of directors or executive committee if they aren't already doing so. Companies should establish a clear governance structure, including the creation or assignment of dedicated roles, at both the executive and staff levels, to evaluate the potential impacts of climate-related risks. They should also embed ongoing climate risk assessment and mitigation efforts across the company, including underwriting, pricing, reserving, investing, and even new product development.

The inherent uncertainty of a changing climate, combined with the diversity and rising frequency of perils, may render the historical loss data that catastrophe models rely on less useful for future loss projections. *Takāful* operators should set up a



The world faces long-term climate-related risks and short-term negative shocks that can potentially affect economies and the financial sector. The risks related to climate change can be broadly classified into physical risks and transition risks (FSB, 2020c).

working group committee to analyse this matter and assess the required infrastructure to entertain or absorb such risks. Advanced analytics could further help companies assess historical weather records, insured property data, and assumptions regarding future climate conditions to improve risk selection and pricing. Augmenting climate change models with big data, social media information, and predictive analytics also has a huge potential to broaden risk assessment considerations significantly. Companies should include climate risk assessment more consistently in their broader enterprise risk management (ERM) framework, which can help in identifying and correlating impacts across different lines of business as well as investments. This would give *takāful* operators a holistic view of climate risk exposure, thereby helping top management with decision-making.

Growing awareness of the importance of social and environmental issues in investment is having increasing relevance for the ICM sector. The universe of Shari'ah-compliant equities has considerable overlap with that of socially responsible investment. This is logical since the screens applied for Shari'ah-compliance exclude industries such as alcoholic beverages, tobacco, weapons, etc. As noted elsewhere in this report, recently, there has been a very significant number of issuances of Green and SRI *shukūk*, especially in the Southeast Asia region.

Climate change has considerable relevance for the ICM. There is a risk of ICM assets being mispriced, as the exposure of asset values to climate change factors (e.g., severe climate shocks) may be underestimated. On the positive side, the need to fund investment to mitigate climate change, such as the reduction of carbon and greenhouse gas emissions,

is stimulating issuances of *shukūk*, especially green *shukūk*.

Impact of COVID-19

The widespread outbreak of COVID-19 in 2020 disrupted lives and livelihoods and threatened decades of development gains (World Bank, 2020b). The pandemic will have a severe negative impact and make the achievement of SDGs more challenging in many countries (UN, 2020c). The developing countries will be the worst affected, and within economies, the impact of COVID-19 is unequal and affects certain sections of the population, such as the relatively poor, adversely (Sachs et al., 2020, World Bank, 2020b). The impact of COVID-19 was severe, thus raising concerns of another “lost decade” as real household income is expected to fall back to 2013 levels¹⁶, with an estimated additional 88 to 115 million people living in extreme poverty in 2020 due to COVID-19.¹⁷

There will be a need to think about how to manage the aftermath of the pandemic and emergency situations, and focus on new ways to deal with health, and social and economic predicaments arising from them. For example, the World Bank (2020b) identifies three stages and four thematic pillars to deal with COVID-19. The three stages are relief, restructuring and resilient recovery. The four pillars constitute: saving lives; protecting the poor and the vulnerable; saving livelihoods, preserving jobs, and ensuring more sustainable business growth and job creation; and strengthening policies, institutions and investments for resilient, inclusive and sustainable recovery.

While many countries were facing funding gaps to achieve the SDGs before COVID-19, the additional funding needed to deal with the pandemic will further exacerbate the financing challenge for many developing countries. The pandemic also underscores the importance and urgency of implementing the SDGs and the Paris Agreement. Policy responses to COVID-19 require thinking of smart ways to sustain economic activities while containing the spread of COVID-19. This would require developing new ways of policymaking under

uncertainty that make local containment dependent on active learning.¹⁸ There are also calls to use COVID-19 to address the fundamental challenges facing the global economy and reset to a new normal. Other than responding to the pandemic in the near future, COVID-19 provides opportunities to recover and rebuild better in the future.¹⁹ There are calls for a new post-COVID-19 normal in which businesses are resilient, digital, inclusive and sustainable.²⁰

The pandemic has given rise to a set of risk drivers for the overall economic development and sustenance of countries and societies, many of which also affect financial institutions, including Islamic banks. These include sharply lower growth prospects as activity levels and new investments decline, lower savings levels among large sections of the population, and risk of sharply higher non-performing assets, all of which affect the sustenance of Islamic banks and their ability to contribute to socio-economic goals discussed later in this section.

The pandemic has also resulted in major changes to many aspects of people’s lives, including their work practices. The availability of appropriate technology and communication capacity in the form of the internet has led to sharply higher levels of migration to “work-from-home (WFH)” and online commerce. The unexpectedly long sustenance of the pandemic and its effects and the continued adoption of WFH across the world has increasingly convinced business leaders and consumers about the feasibility of continuing with the WFH and online commerce models. One of the clear and significant consequences over the medium term is likely to be a steady decline in demand for commercial real estate space, which includes office & retail space.

Traditionally, Islamic banks have had greater exposure to commercial real estate (CRE), given their emphasis on real asset-based financing and extensive use of lease financing (*ijārah*) in their asset portfolio. Adverse changes in the demand for CRE space, and consequently in their rents, are likely to impair the profitability of Islamic banking over the medium term.

¹⁶ OECD (2020b)

¹⁷ Lakner et al. (2020).

¹⁸ Haas et al. (2020).

¹⁹ Torres-Rahman and Nelson (2020).

²⁰ ITC (2020a, 2020b), Albaz et al (2020a).

Widening Economic Inequality

A clear global socio-economic trend observed over the better part of the last decade has been the widening gap between the haves and have-nots, commonly referred to as economic inequality. The accommodative monetary policies and low interest rates in an environment of poor wage growth and lack of adequate investments in many countries have disproportionately benefited the rich while affecting the poor with declining real wages, consumer price inflation, and low potential for savings. These trends have resulted in a sustained divergence of wealth creation and financial well-being between the rich and not-so-rich segments of most societies. This divergence is currently being aggravated by the K-shaped post-pandemic recovery being observed in many countries of the world.

One of the major reasons for the divergence observed over the past decade and the K-shaped recovery is the lack of access to much-needed and reasonably priced financial services to large sections of the population. The absence of access to financial services deprives the people of the means to save and raise capital to support their entrepreneurial activity, particularly those in the micro and small enterprise sectors. Financial inclusion strategies to provide access to financial services to all segments of the population have been recognised as critical for reducing wealth inequalities and precluding divergence in their income growth and post-pandemic recovery trends.

Islamic banking, with its core emphasis on the prohibition of *ribā*, focus on risk-sharing, and a fundamental commitment to provide fiduciary care to clients, is much better placed to further the goals of financial inclusion in comparison to conventional banking. Financing products based on risk-sharing and based on the Sharī'ah principles of fiduciary care and transparency in contractual terms is much more appropriate to micro-financing products, which are essential to support economic activity in the MSME sector. Conventional banks have consistently fared poorly in serving the needs of this segment, and whenever they did, their operating practices were devoid of any care and fairness to clients, which has resulted in the erosion of trust among their clients, as a broad trend across the globe. This facet has been discussed at length in the previous review report of the 10-year framework, which was published in 2014.

Takāful operators, although not designed to address social inequality per se, can offer financial relief to people or households when calamities strike. Such shocks hit the poorest the hardest.

In general, ICM respondents did not indicate that the pandemic had had a significant impact on their operations. Only 17 (35%) stated that the pandemic had led them to review their business plan. Interestingly, of those 17, several stated that one effect had been to induce them to focus more on IT investment and digital transformation.

Fourth Industrial (Technological) Revolution (4IR)

The digital technological revolution under the 4IR is creating unprecedented processing power, storage capacity and access to knowledge, and affecting the speed, scope, and systems. The modes and the composition of resources used in production are being transformed. Physical capital is increasingly being replaced by information-based capital, and the role of human and intellectual capital in production processes is increasing (Haskel and Westlake, 2018). Digital artifacts, and tools such as big data from different sources, artificial intelligence (data analytics) and machine learning, blockchain, and Internet of Things (IoT) are increasingly playing important roles in businesses. Digital technology is producing a new generation of business models and has the potential to break the fixed and defined physical, spatial, and temporal boundaries of traditional enterprises. Information-based entities have higher mobility, are more fluid and less structured, and products can be created and marketed in different geographical locations at low costs.

In the financial sector, FinTechs have the potential to break down traditional financial relationships and “economics of finance” that inhibit providing financial services to the poor. Digital technology can reduce the costs of delivery of services significantly and reach customers in remote areas.²¹ Digital payments enable people to transact in small amounts (micro-payments), which can create new business opportunities and support the development of ecommerce and on-demand services. Furthermore, big data can be used to gather information to reduce information asymmetry, a key problem in financial contracts. The information collected from big data

21 For example, McKinsey (2016) suggested that using digital technologies in finance has the potential of cutting the cost of providing financial services by 80% to 90%.

can be used to develop new credit-scoring models to provide access to a broader set of customers. The use of blockchain technology also has the potential for increased transparency and building trust.

The nature, scope, and significance of the evolutionary developments in the banking business continue to exceed expectations, and these are having a material impact on the evolution of Islamic banking. These evolutionary advances have largely been driven by rapid progress in technological capabilities and, to a lesser extent, by economic and regulatory causes.

The resulting fundamental transformations in the banking business, as a whole, pose both opportunities and challenges for the Islamic banking sector. The ability of the Islamic banking industry to achieve sustainable growth over the long term depends on its ability to innovate and meet the banking needs of its target client base in an efficient manner. Some of the fundamental transformations are still in play, and the business models are evolving rapidly with the result that eventual outcomes and the risks associated with them are in the process of being assessed. These shifts include the emergence of narrow digital banks supported by software and cloud service providers, digital currencies and assets, micro-credits, and mobile payment infrastructure, all of which could prove to be crucial in driving progress on critical objectives like financial inclusion.

Historically, the *takāful* insurance sector has been dominated by intermediaries who have played the role of understanding consumer and business needs and recommending products suitable at that moment. Internet, mobility, and social networking have changed the game over the past decade and have created a new generation of customers who demand simplicity, speed, and convenience in their interactions. These trends will accelerate, leading to a situation where customers will be more willing to buy “direct” using their online and offline “trust” network of friends and family to guide their choice. This will result in a fundamental redefinition of the role of advice and the disappearance of distributors as a sales channel. This will result in an efficient market and industry and ultimately reduce the cost (price) to the consumer tremendously. The industry will need to evolve to digital and technological platforms moving forward seeking alternative channels that can reach out to the masses efficiently. This will lead to better pricing, underwriting, and less control for the industry.

Advances in software and hardware transform “big data” into actionable insights.

Over the past two decades, technological progress in the domain of computing and communication technologies has been much higher than expected, leading to a rapid increase in computing and communication capabilities. These developments have opened new vistas for development and growth in many areas of human life. This has led to the development of technologies for collecting, processing, storing, and retrieving data securely, as well as technologies for communicating large amounts of data over long distances at great speeds. These enhanced capabilities have also been accompanied by a sharp reduction in the capital cost of processing and communication technologies, which has made them more affordable to implement.

In the world of financial services, these technological forces have driven the emergence and rapid growth of technology-based business models for the delivery of financial services, commonly referred to as FinTech. Given the rapid reduction in the cost of technology, FinTech applications have seen explosive growth across the world in many segments of the financial services industry, including banking. These models offer a range of advantages for developing and implementing solutions to address the critical needs of banking and the wider society, like financial inclusion, among others. In general, FinTech applications are expected to dominate the banking industry given their business and cost advantages over traditional brick-and-mortar banking.

Islamic banking needs to adapt to the FinTech mode of service delivery by evolving products, operating practices, and business strategies over the medium term. This is an essential element of growth for Islamic banking, not only for its sustainable growth but also for enabling Islamic banking to play its due role in socio-economic goals like reducing economic inequalities and financial inclusion. There are many reasons why institutions offering Islamic financial services (IIFS) are making this change, in particular, to save costs, have the potential for global reach, enhance customer interaction, and be on par or ahead of competitors. However, only 6 out of 14 regulators responding to the IFSB survey reported the presence of a regulatory framework for FinTech in Islamic banking. This points to significant work to be carried out in many of the Islamic banking markets in terms of establishing the essential enabling

infrastructure for FinTech development and fostering other objectives like financial inclusion.

The key here is that **digital transformation requires a fundamental shift in thinking and opens up the possibility for disruption**. Simply bolting on technology to an existing process will only get Islamic banking so far. Businesses need a **truly digital information hub** that connects employees and knowledge so that everyone can quickly access the information they need in the flow of work.

Central Bank Digital Currency (CBDC)

Almost all the leading central banks with significant volumes in the global currency markets have embarked on initiatives to establish their own digital currencies, namely their CBDCs. This ranges from countries such as China which has progressed almost close to implementation, to countries such as India which is in various stages of development and implementation, to countries such as Canada which has just started research and development efforts. Advances in underlying technologies like Distributed Ledger Technologies (DLT), and innovations in financial markets exploiting such advances are rapidly transforming the transactional markets, including those in currencies.

Digital transformations are reducing the cost of transactions and enhancing the safety and efficiency of transactions, thereby adding to the attractiveness of innovations. These factors are very much applicable to the national currencies issued and managed by the central banks, which have realised that it is a vital imperative to develop digital versions of their own currencies to match the unrelenting trend towards the digital transformation of the financial markets. The introduction of CBDCs is likely to materially reduce the time for cross-border settlements, enhance the efficiency of trade and investment transactions, reduce the exposure to counterparty risk in cross-border payment systems, as well as mitigate the level of the systemic importance of key currency clearing systems. Current trends indicate that CBDCs are likely to take a significant share of overall currency market volumes over the coming decade, although conventional currencies may continue to coexist.

It is essential that the Islamic banking sector and its constituent IIFS are adequately equipped to

adapt to this fundamental transformation relating to the emergence of CBDCs and emerging business models so that they continue to grow their market share and penetration across global markets. All the key stakeholders, including the IFSB, need to address the necessary capabilities for implementing the changes in the Islamic banking sector. There are two key implications relating to CBDCs that need to be addressed by the IFSB – Sharī'ah-compliance with the concept of digital (or crypto) assets (or currencies), which also covers CBDCs, and ensuring Sharī'ah-compliance of the innovations in business models and products driven by the emergence of CBDCs. The Central Banks of IFSB member countries and their constituent IIFS will face challenges in relation to these fundamental issues as the penetration of digital transformation in conventional financial markets continues to increase over the coming years.

The need to develop standards for design, and regulation of digital assets, including CBDCs, should be seen as a vital component of the IFSB strategy going forward in order to achieve its objectives. This needs to be supplemented by technical notes addressing several key segments focussing on Sharī'ah-compliance in operational and tactical matters of CBDCs as well as guidance on the implementation of such systems for smaller countries with significant Islamic finance markets. Work in this area may be coupled with the standards addressing digital assets or digital securities, which are rapidly emerging as a critical area in the Islamic capital market (ICM).

4.3. Progress Made on MTR Recommendations

The progress made can be assessed by comparing the current status of issues identified in the recommendations with those existing during the time when the MTR document was published. To have a comparative assessment, the statuses of the MTR recommendations are presented based on information gathered from surveys carried out by the IFSB from regulatory and supervisory authorities (RSAs) and IIFS from different industry segments with supporting evidence from published sources. The discussions of the recommendations related to international institutions are assessed based on information based on secondary sources.

FIGURE 4.9 Survey Sample Size of RSAs and IIFS

	Islamic Banking	INBFIs	Takāful	ICM
RSAs	14	8	3	6
IIFS	83	16	13	50

The assessment of the progress made on the 16 recommendations in the MTR is classified as poor (for scores less than 33%), fair (scores between 33% and 66%) and good (more than 66%). An assessment of N/A implies either “not applicable” or “not available”.

RECOMMENDATION 1: Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.

The financial markets thrive on transparency and should have fair and transparent conditions for all market participants to enhance their confidence. One feature of emerging markets is that they are less transparent than developed markets. The ability of market players to bring about progress in this area, without support from governments and public institutions, is quite limited. Financial sectors of member countries generally operate on a free market basis. IIFS are held to the same standards of transparency as their conventional counterparts. Additionally, IIFS are also bound to the Sharī'ah standards.

In terms of establishing a fair market, there are still areas needing further attention. For instance, the unrestricted profit-sharing investment accounts (UPSIA) holders in most jurisdictions still lack governance rights.²² The key issue here is the difference in risk appetite between UPSIA holders, who are typically risk-averse and seek modest but safe returns, and shareholders who are prepared to face risk in seeking higher returns. The involvement of IIFS in enabling transactions in financial markets will partly depend on the size and depth of capital markets in different countries. The development

of Islamic capital markets is diverse in different OIC member countries, and the number of Islamic capital market intermediaries is relatively small.

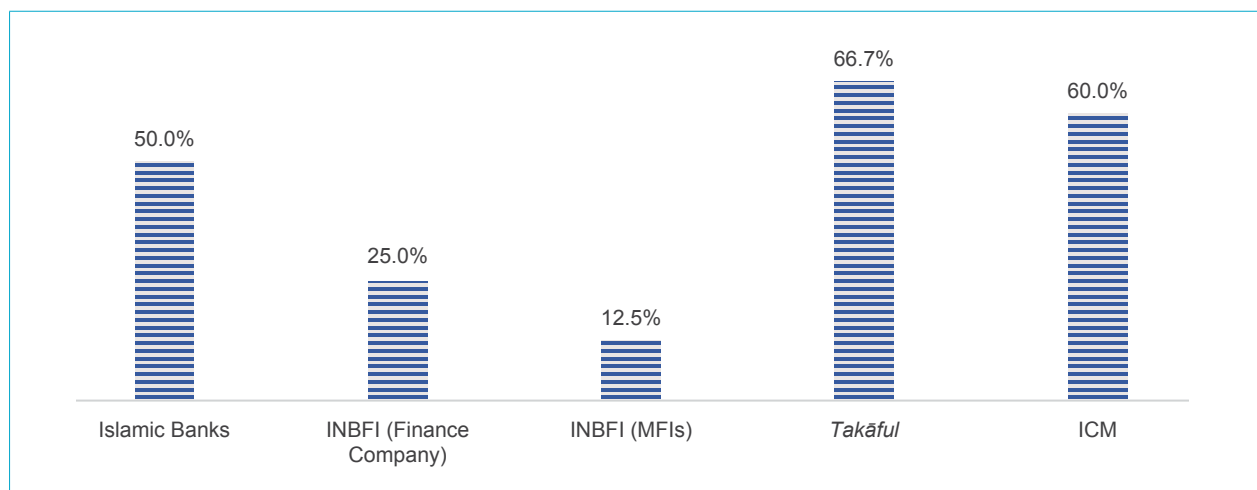
The IFSB has published transparency standards for all three segments: Islamic banking, *takāful* and Islamic capital markets. The IFSB has published the following standards related to transparency and market discipline, including the following:

- *IFSB-4 (December 2007) Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic Financial Services (Excluding Islamic Insurance (Takāful) Institutions and Islamic Mutual Funds)*
- *IFSB-19 (April 2017) Guiding Principles on Disclosure Requirements for Islamic Capital Market Products (Şukūk and Islamic Collective Investment Schemes)*
- *IFSB-25 (December 2020) Disclosures to Promote Transparency and Market Discipline for Takāful and Retakāful Undertakings*

The first financial accounting standard (FAS) issued by AAOIFI, FAS1, was the “General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions” (AAOIFI, 2020). FAS 11 of AAOIFI also provides guidelines on enhancing transparency and market discipline in Islamic financial institutions.

The adoption of transparency and disclosure by RSAs of the Islamic financial services industry (IFSI) is shown in Figure 4.10. IIFS have evolved and developed capabilities to meet the required standards of transparency as their conventional counterparts.

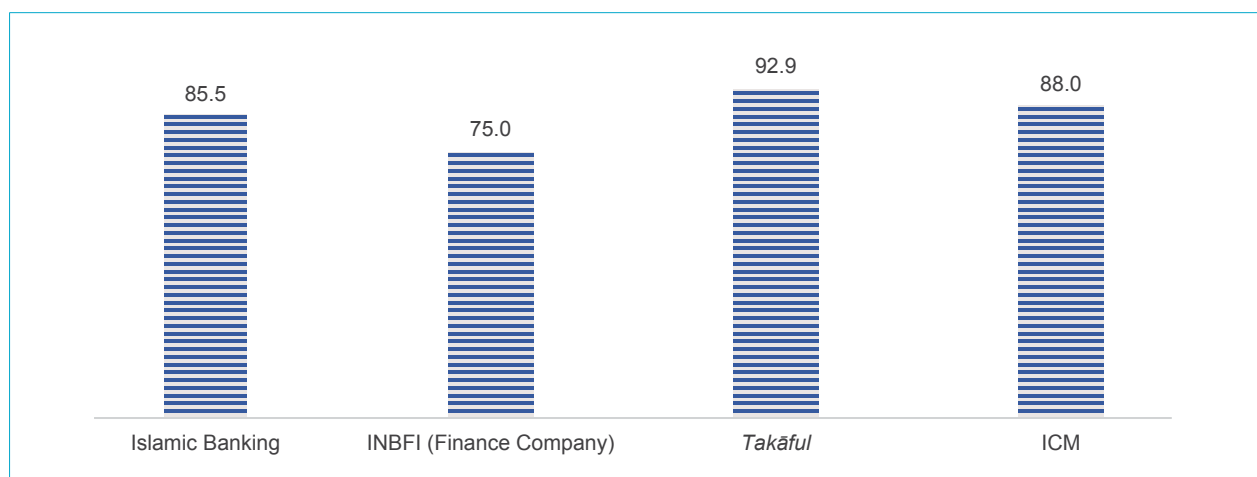
²² Adewale, A. and Archer, S. (2019). *Risk Sharing in Islamic Banking*. IFSB Working Paper Series No: WP-10/05/2019, <https://www.ifsb.org/download.php?id=5160&lang=English&pg=sec03.php>

FIGURE 4.10 Transparency and Disclosure Requirements

Source: IFSB Survey of RSAs.

While 50% of the Islamic banking RSAs have adopted prudential guidelines on transparency and disclosure specific to Islamic banks, the adoption of guidelines in the *takāful* and Islamic capital markets is 66.7% and 60.0%, respectively. In the case of Islamic NBFIs, the adoption of the guidelines has been relatively low. None of the RSAs in the survey indicated any specific disclosure guidelines for cooperatives, and only 25% of jurisdictions have guidelines for finance companies and 12.5% for Microfinance Institutions (MFIs).

Most of the Islamic financial institutions surveyed indicate that they have manual, guidance and standard operating procedures for transparency and disclosure. Figure 4.11 shows that guidelines related to transparency and disclosure are the highest for *takāful* companies (92.9%), followed by firms in the ICM (88%), Islamic banks (85.5%), and INBFIs (75%).

FIGURE 4.11 Manual, Guidance, and Standard Operating Procedures (SOP) on Transparency and Disclosure (% of IIFS surveyed)

Source: IFSB Survey of IIFS

TABLE 4.2 Summary Assessment of Recommendation 1

Assessments	Islamic Banking	INBFIs	Takāful	ICM
RSA	FAIR	POOR	FAIR	FAIR
IIFS	GOOD	GOOD	GOOD	GOOD
Infrastructure institutions	GOOD	N/A	GOOD	GOOD

RECOMMENDATION 2: Enhance the capitalisation and efficiency of IIFS to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.

Since the mid-term review (MTR), the IIFS have demonstrated commendable efficiency and capital adequacy. For instance, the Islamic banking industry across many jurisdictions entered the COVID-19 pandemic-induced crises with stable CARs and Tier-1 capital to risk-weighted assets (RWA) ratios that were also well above the IFSB's and respective jurisdictions' regulatory thresholds.²³ Generally speaking, Islamic banks have also been less prone to engaging in highly leveraged products, because Sharī'ah requires, in principle, that all financing be linked to transactions in the real economy. Similarly, while risk-sharing means of raising funds are encouraged there are restrictions on debt trading and engaging in products involving undue and excessive speculation (*gharar*).²⁴

The IFSB has sustained its focus on regulatory enablement by regularly updating its prudential standards for Islamic banks. Since 2014, six new standards related to capital adequacy that can enhance resilience have been introduced. The IFSB standards relevant to capital adequacy and resilience are shown below:

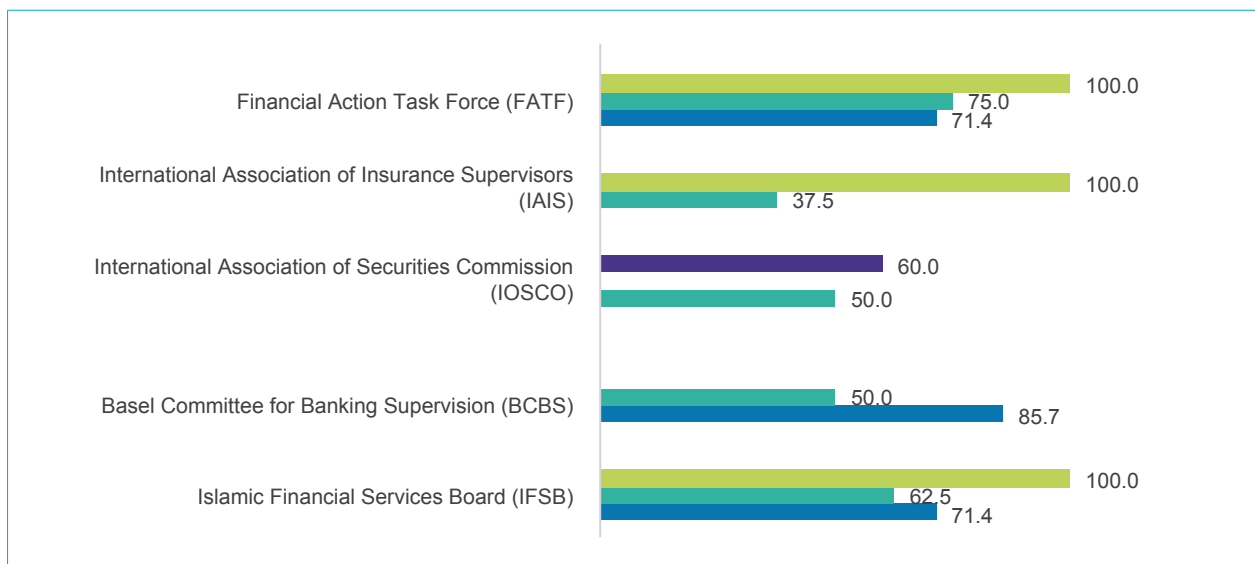
- *IFSB-1 (December 2005) Guiding Principles of Risk Management for Institutions (Other than Insurance Institutions) Offering Only Islamic Financial Services (IIFS)*
- *IFSB-2 (December 2005) Capital Adequacy Standard for Institutions (Other than Insurance Institutions) Offering Only Islamic Financial Services (IIFS)*
- *IFSB-7 (January 2009) Capital Adequacy Requirements for Şukūk, Securitisations and Real Estate Investment*

- *IFSB-11 (December 2010) Standard on Solvency Requirements for Takāful (Islamic Insurance) Undertakings*
- *IFSB-15 (December 2013) Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services Excluding Islamic Insurance (Takāful) Institutions and Islamic Collective Investment Schemes*
- *IFSB-17 (April 2015) Core Principles for Islamic Finance Regulation (Banking Segment)*
- *IFSB-18 (April 2016) Guiding Principles for Retakāful (Islamic Reinsurance)*
- *IFSB-21 (December 2018) Core Principles for Islamic Finance Regulation [Islamic Capital Market Segment]*
- *IFSB-26 (December 2021) Core Principles for Islamic Finance Regulation (Financial Market Infrastructures)*
- *IFSB-23 (December 2021) Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services [Banking Segment]*

The survey results in Figure 4.12 indicates that a large number of the RSAs in the survey have adopted international standards in their respective sectors. All the *takāful* sector RSAs have adopted IFSB, IAIS, and FATF standards, and a significant number of banking RSAs have adopted IFSB, BCBS, and FATF guidelines. About 40% and 60% of the capital market regulators in the survey have adopted the IFSB ICM standards and the IOSCO principles, respectively. Since the NBFIs sector is diverse, RSAs comply with different international standards, although the adoption varies from a low 37.5% for IAIS standards to a high of 75% for FATF guidelines.

23 Adewale, A. (2020). *Assessing the Stability of the Islamic Banking Industry Amid the COVID-19 Pandemic*. IFSB Working Paper Series WP-18/12/2020 <https://www.ifsb.org/download.php?id=5924&lang=English&pg=/sec03.php>

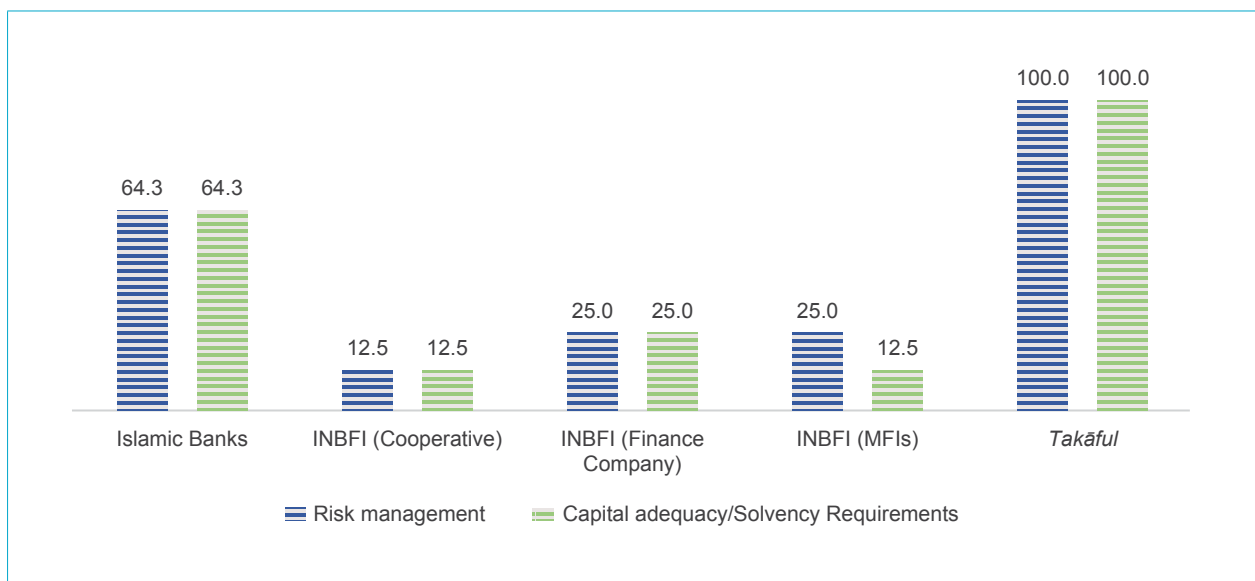
24 IFSB IFSI Stability Report 2022 <https://www.ifsb.org/download.php?id=6571&lang=English&pg=/sec03.php>

FIGURE 4.12 Compliance with International Standards (% of RSAs)

Source: IFSB Survey of RSAs.

While 64.3% of the RSAs have adopted standards and guidelines related to capital adequacy and risk management for Islamic banks, all RSAs in the sample have implemented the solvency standards

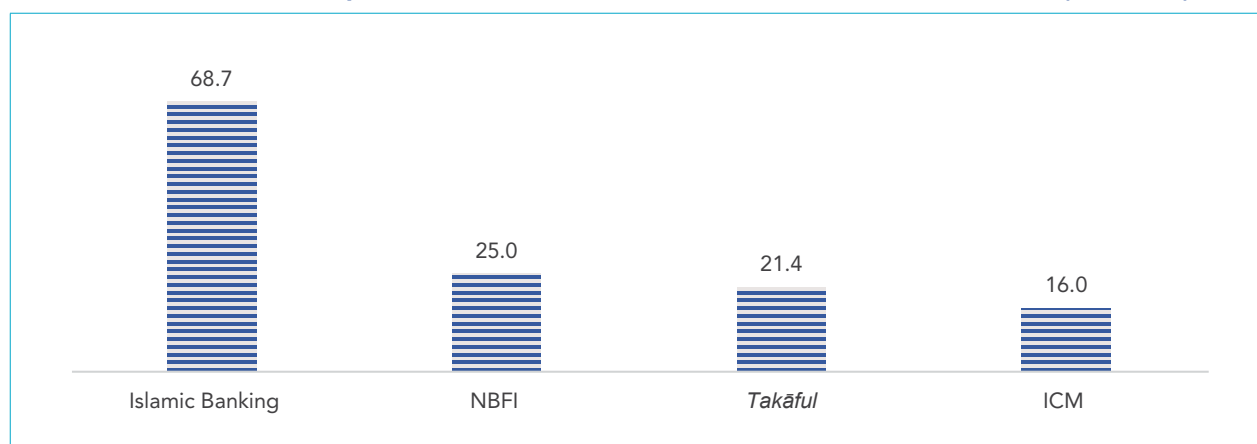
for *takāful* companies. The adoption of capital adequacy for Islamic NBFIs is relatively low, as seen in Figure 4.13

FIGURE 4.13 Instituted Capital Adequacy and Risk Management Standards Specific to Islamic Finance (% of RSAs)

Source: IFSB Survey of RSAs.

The IFSB has also focused on improving the effective implementation of enhanced capital adequacy and risk management standards among its member countries. Islamic Banks continue to maintain satisfactory capital adequacy and have shown resilience in the face of successive waves of stress, the most recent being the impact of the pandemic. There are very few large Islamic banks

which are systemically important. This is not seen as a shortfall given the focus on risks arising from systemically important banks (SIBs), and the need to promote competition in banking. This is, in fact, a positive in the current paradigm where large banks are seen as too-big-to-fail, given their propensity to generate systemic risk and attract penalising levels of regulatory burden.

FIGURE 4.14 Develop Manual, Guidance, and SOP based on IFSB Standards (% of IIFS)

Source: IFSB Survey of IIFS.

Figure 4.14 shows that 68.7% of Islamic banks among the IIFS have developed manuals, guidance, and standard operating procedures based on IFSB standards. The adoption of IFSB standards in

other segments for this purpose is relatively low at 25%, 21.4% and 16% for the non-banking financial institutions (NBFIs), *takāful* companies and ICM firms, respectively.

TABLE 4.3 Summary Assessment of Recommendation 2

Assessments	Islamic Banking	INBFIs	<i>Takāful</i>	ICM
RSA	FAIR	POOR	GOOD	N/A
IIFS	FAIR	POOR	POOR	POOR
Infrastructure institutions	GOOD	N/A	GOOD	GOOD

RECOMMENDATION 3: Enhance access by the large majority of the population to financial services and enhance access to funding for retail investors, SMEs and entrepreneurs.

The IFSB, in line with the global agenda of promoting financial inclusion as one of the SDGs, recognises the crucial role and relative importance of the Islamic financial services industry (IFSI). This is pertinent given the fact that financial exclusion is still a major development issue in Muslim-majority countries where it is estimated that, on average, approximately 9% or 40 million people across 35 of such countries financially excluded themselves from the formal financial sector due to religious reasons.²⁵ The BCBS provides core principles to regulate MFIs in general.²⁶ The IFSB also published TN-3: *Technical Note on Financial Inclusion and Islamic Finance*

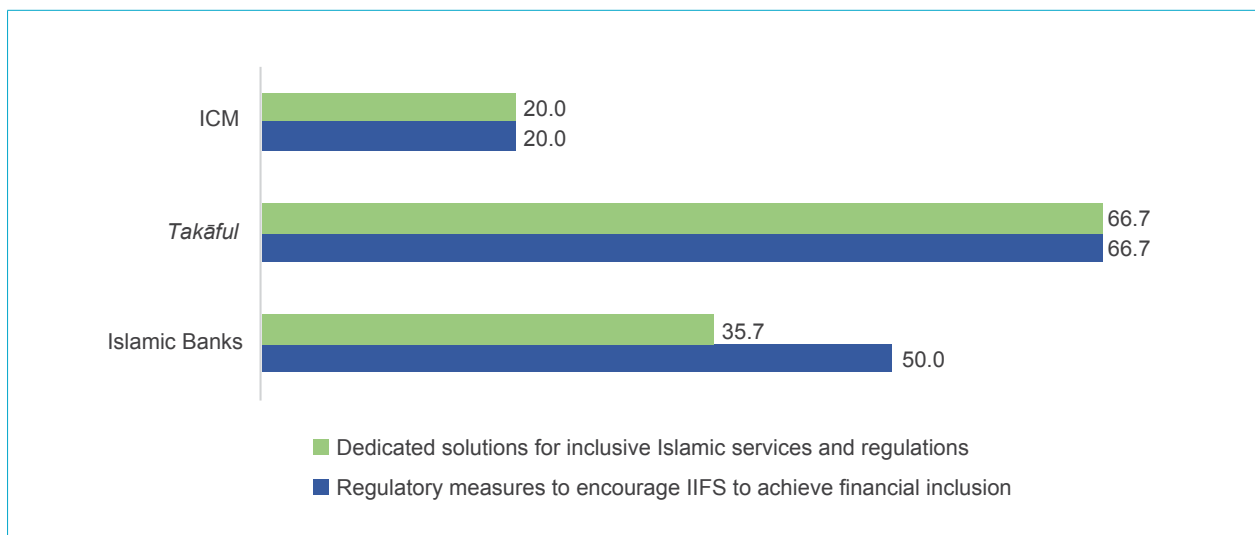
in 2019 providing regulatory guidelines for Islamic microfinance institutions, FinTech and Islamic social finance. Given the variety of institutional types involved in providing microfinance, the approach taken is to regulate according to activities and use the concept of proportionality in regulation. However, a standard for regulations of microfinance in the IIFS domain is yet to be published.

Many national regulators have developed frameworks for microfinance to enhance financial inclusion initiatives in their jurisdictions. While 50% of the RSAs in the Islamic banking segment have taken regulatory measures to encourage IIFS to achieve financial inclusion, 35.7% have dedicated solutions for inclusive Islamic financial services. The corresponding percentages for these initiatives are 66.7% and 20% for the *takāful* and ICM RSAs, respectively.

²⁵ See appendix A-1 of the IFSB Technical Note 3: <https://ifsb.org/download.php?id=5519&lang=English&pg=/published.php>

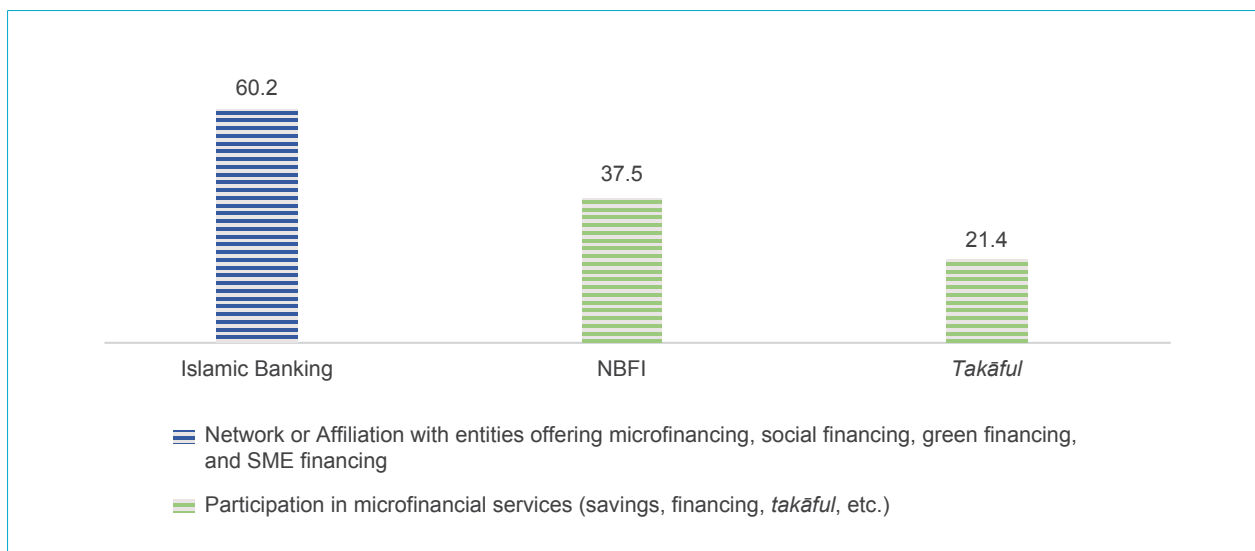
²⁶ BCBS (2010), *Microfinance activities and Core Principles for Effective Banking Supervision*, Consultative document, Basel Committee on Banking Supervision, February 2010.

FIGURE 4.15 Regulatory Measures for Financial Inclusion (% of RSAs)



Source: IFSB Survey of RSAs.

FIGURE 4.16 Financial Inclusion Initiatives (% of IIFS)



Source: IFSB Survey of IIFS.

At the level of financial institutions, 60.2% of the Islamic banks surveyed indicate that they have a network or affiliation with entities that offer inclusive financial services. More than a third (37.5%) of the INBFIs and 21.4% of the *takāful* companies provide microfinancial services.

The survey outcome indicates that micro-*takāful* is still in its early stage to show a convincing market share. The micro-*takāful* portfolio accounts for 1% of the total *takāful* revenue. *Takāful* operators have taken initiatives to incorporate micro-*takāful* as part of efforts to provide coverage to the underserved market. The necessary platform to accelerate

financial inclusion emphasises on technology and product innovation to enable improved reach to the masses.

With regard to making ICM products accessible for retail investors, IIFS respondents reported in total that retail investor funds were USD 47.2 billion in 2020. This represented an increase of only 27% over the 6 years since 2014, and suggests that only slow progress is being achieved in introducing ICM products that are “retail investor friendly”. The total volume of retail funds reported represents only about 2.5% of total funds.

TABLE 4.4 Summary Assessment of Recommendation 3

Assessments	Islamic Banking	INBFIs	Takāful	ICM
RSA	FAIR	N/A	FAIR	POOR
IIFS	FAIR	FAIR	POOR	N/A
Infrastructure institutions	N/A	FAIR	N/A	N/A

RECOMMENDATION 4: Enhance Sharī'ah-compliance, the effectiveness of corporate governance, and transparency.

The governance and Sharī'ah-compliance can be enhanced in financial institutions if international standards and guidelines are implemented. The IFSB has published Sharī'ah governance principles and corporate governance standards for different segments of the Islamic financial industry as shown below:

- *IFSB-3 (December 2006) Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (Excluding Islamic Insurance (Takāful) Institutions and Islamic Mutual Funds)*
- *IFSB-6 (December 2008) Guiding Principles on Governance for Islamic Collective Investment Schemes*
- *IFSB-8 (December 2009) Guiding Principles on Governance for Takāful (Islamic Insurance) Undertakings*
- *IFSB-10 (December 2009) Guiding Principles on Sharī'ah Governance Systems for Institutions Offering Islamic Financial Services*

AAOIFI has issued 12 standards related to governance that covers Sharī'ah governance, corporate social responsibility, central Sharī'ah

board and *shukūk* governance, and three codes of ethics standards. There has also been an increase in the adoption of international standards related to governance in different jurisdictions. The AAOIFI governance standards have been fully adopted in 15 countries (AAOIFI, 2020). In 2011, only five countries had adopted the IFSB corporate governance guidelines, and four countries implemented the disclosure document.²⁷ The survey from 2018 shows the number at 12 countries, and 19 out of 28 responding to the survey adopted the corporate governance standard and disclosure and transparency standard respectively (IFSB, 2019).²⁸

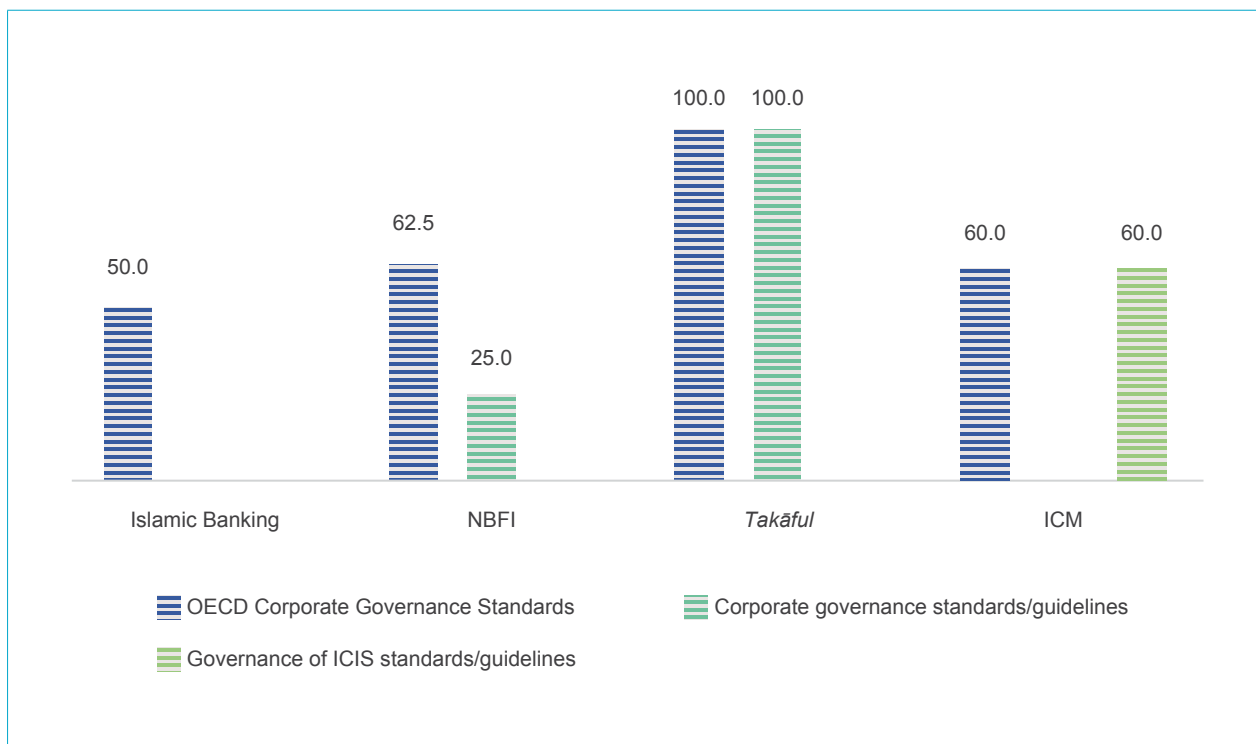
Similarly, AAOIFI has published several governance standards that also include Sharī'ah governance standards. While only five countries²⁹ adopted the AAOIFI Sharī'ah standards globally in 2012, the number has increased to 16 countries that have fully adopted these standards (AAOIFI, 2020). Furthermore, the number of countries that adopted the AAOIFI governance standards stands at 15 in 2020 (AAOIFI, 2020).

Figure 4.17 shows the adoption of governance standards by different RSAs in the survey. While the OECD corporate governance has been adopted at various levels in different segments of Islamic finance, only the RSAs of NBFIs (25%) and *takāful* (100%) have adopted specific governance standards linked to the segments. Furthermore, 60% of the RSAs of the ICM have adopted ICIS-related governance guidelines.

27 IFSB (2013), *Strategic Performance Plan 2013-2015: Identifying Strategic Goals and Key Result Areas*, Kuala Lumpur: Islamic Financial Services Board.

28 While IFSB (2020a) provides data from 2019, it does not report the adoption of these standards individually.

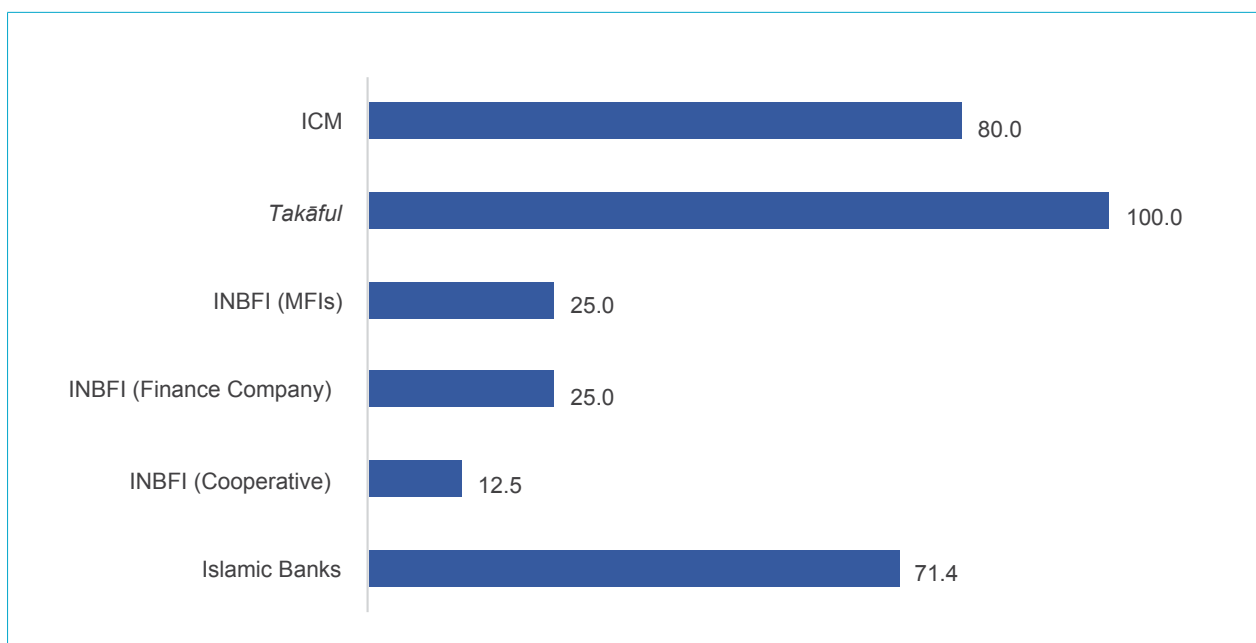
29 These countries are Bahrain, Pakistan, Sudan, and Syria ("AAOIFI—Governance and Auditing Standards", presentation at the 4th Annual IIBI – ISRA Thematic Workshop, London, United Kingdom, September 2012).

FIGURE 4.17 Governance Standards and Guidelines (% of RSA)

Source: IFSB Survey of RSAs.

Similarly, Figure 4.18 shows responses reported in the survey of RSAs relating to the laws and regulations on Sharī'ah governance. Aside from the *takāful* RSAs that all indicated having Sharī'ah legal and regulatory infrastructures, 80% among the ICM

RSAs and 71% among the Islamic banking RSAs also offered a similar response. This is in contrast to the responses obtained from the various sub-segments of the INBFI sector.

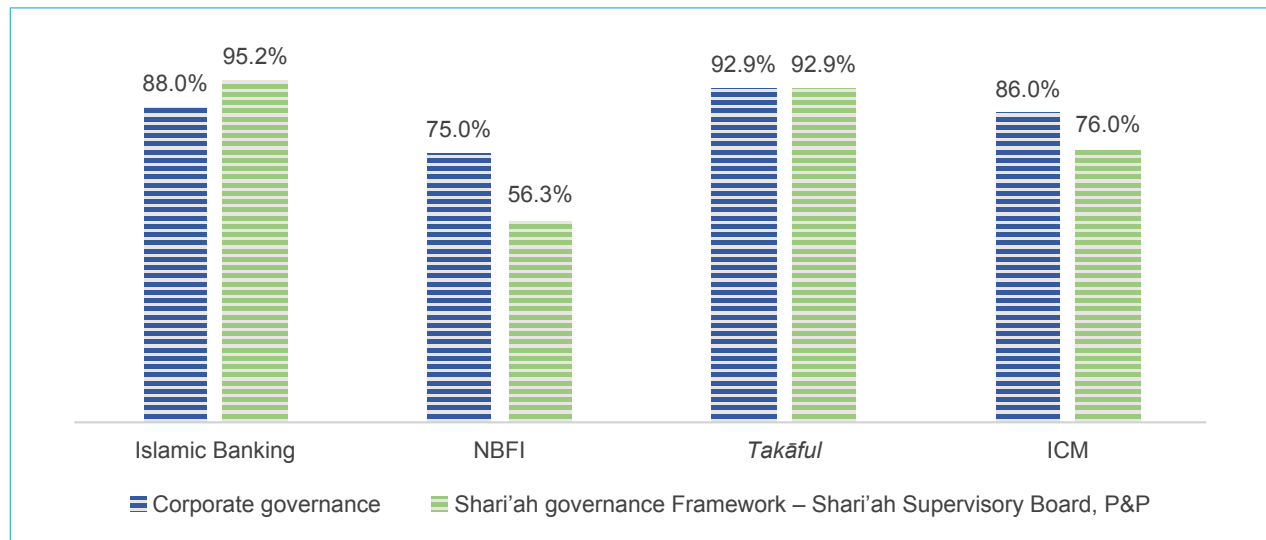
FIGURE 4.18 Sharī'ah Governance Laws and Regulatory Infrastructure (% of RSAs)

Source: IFSB Survey of RSAs.

The majority of the IIFS respondents have corporate governance structures in their organisations and adhere to the RSAs' requirements in their jurisdictions. Figure 4.19 shows that IIFS in different segments have issued manuals, guidelines and standard operating procedures related to corporate

and Sharī'ah governance. The adoption of corporate governance is high in all segments ranging from 75% of INBFIs to 92.9% in the *takāful* segment. The adoption of Sharī'ah governance is above 75% in other segments except for INBFIs at 56.3%.

FIGURE 4.19 Manual, Guidance, and Standard Operating Procedures on Corporate and Sharī'ah Governance



Source: IFSB Survey of IIFS.

TABLE 4.5 Summary Assessment of Recommendation 4

Assessments	Islamic Banking	INBFIs	Takāful	ICM
RSA	FAIR	POOR	GOOD	FAIR
IIFS	GOOD	FAIR	GOOD	GOOD
Infrastructure institutions	GOOD	N/A	GOOD	GOOD

RECOMMENDATION 5: Develop the required pool of specialised, competent, and high-calibre human capital, and ensure utilisation of state-of-the-art technology.

The rapid evolution of the Islamic finance sector and the disruptions occurring in the wider financial services industry with its concomitant effects on IIFS necessitate strong institutions to develop and offer capacity-building programmes to enhance human capital for the Islamic finance sector. Islamic finance products need to use Sharī'ah finance and the laws and regulations of the countries in which the industry operates, and require specialist knowledge and skills. For example, the complexity

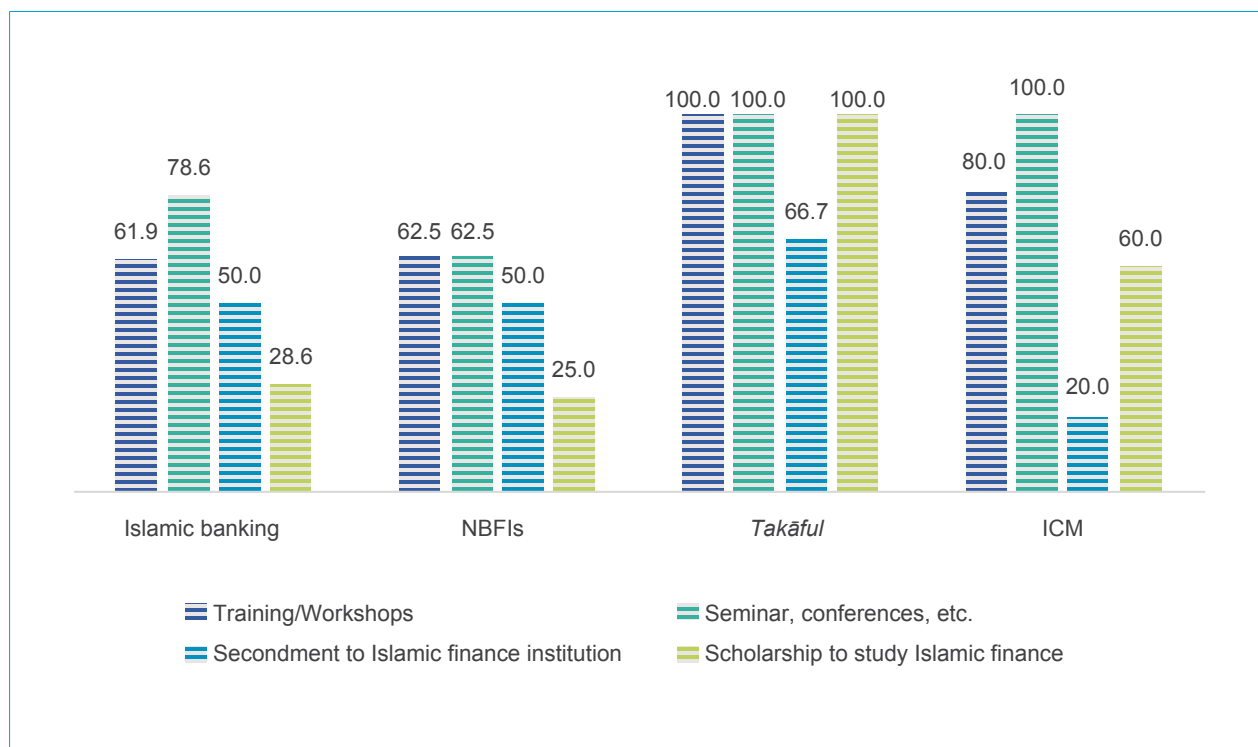
of *shukūk* structures raises issues of human capital capacity. Originators of *shukūk* tend to have recourse to specialised UK or US law firms in designing the *shukūk*. The same applies to other industry segments also.

The international infrastructure institutions have introduced some capacity-building programmes in their specific areas. For example, the IFSB has various capacity-building initiatives such as facilitating the implementation of its standards, technical assistance, policy advice, and self-assessment that can be used by the RSAs involved with Islamic banking, *takāful* and ICM. AAOIFI has introduced professional qualifications such as Certified Sharī'ah Adviser and Auditor (CSAA) and Certified Islamic Professional Accounting (CIPA).

Figure 4.20 shows the capacity-building initiatives taken by the RSAs of different segments that responded to the survey. Most of the *takāful* and

ICM RSAs seem to have taken initiatives to enhance the capacity of their staff, followed by the Islamic banking RSAs and INBFIs.

FIGURE 4.20 Capacity Building (% of RSAs)

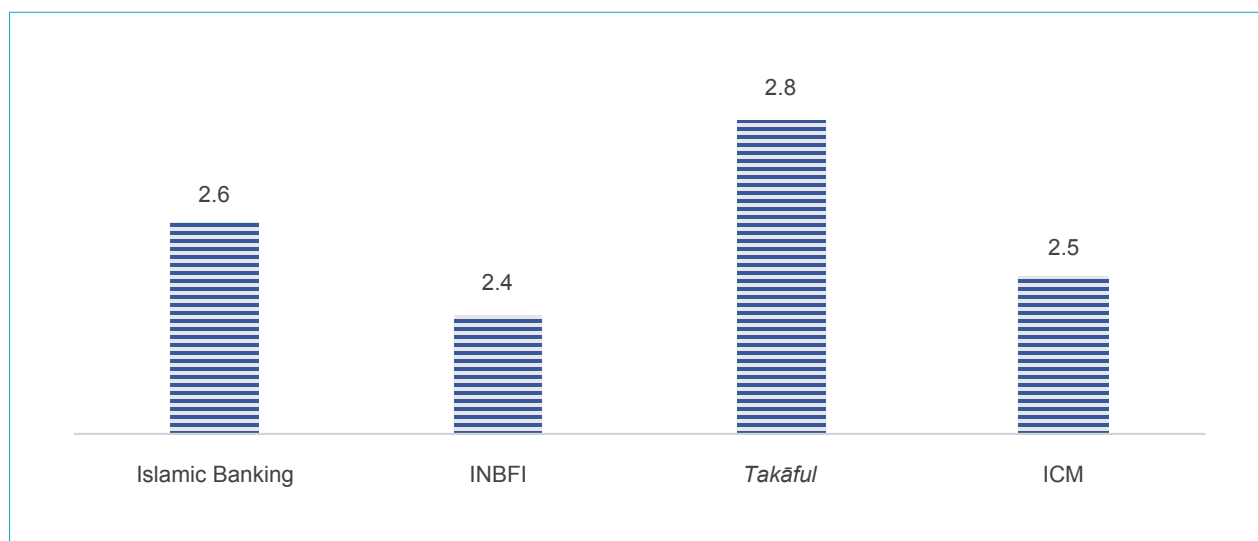


Source: IFSB Survey of RSAs.

Figure 4.21 shows the status of human capital in different segments of the industry. Lower numbers indicate a lack of skills is significant. As such, the INBFI sector seems to face challenges of getting

people with the right skills (scoring 2.4), followed by ICM, Islamic banking and *takāful*, with scores of 2.5, 2.6 and 2.8, respectively.

FIGURE 4.21 Lack of Skilled Human Capital (Average Scores of IIFS)
(1 = Very Significant; 2 = Significant; 3 = Less Significant; 4 = Insignificant)



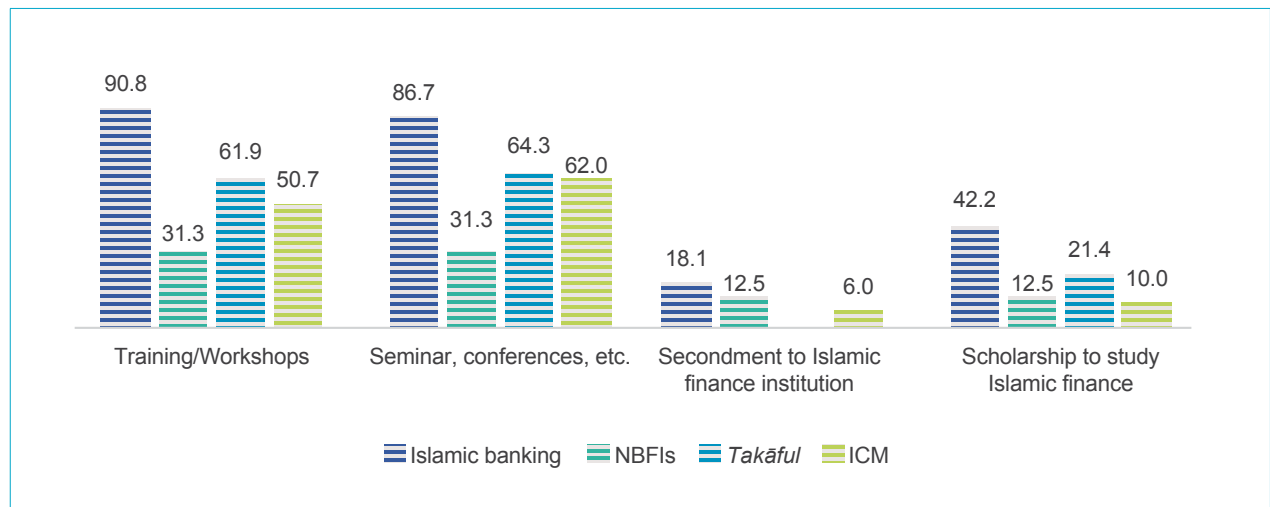
Source: IFSB Survey of IIFS

The number and range of capacity development programmes and institutions offering them have increased significantly since the last review. This improvement is witnessed in almost all the major Islamic finance jurisdictions. Many IIFS have taken initiatives to enhance the human capital quality of their staff members. Figure 4.22 shows the various initiatives taken by different segments. Relative to the other segments, Islamic banking seems to be the most active in advancing the knowledge and skills through training, workshops, seminars, conferences, secondment to other financial

institutions, and providing scholarships for further studies.

One of the benefits induced by the pandemic was online training and certification programmes, thus expanding access to specialised training opportunities and the development of human capital for the Islamic finance sector. While close to 90% of Islamic banking IIFS respondents offer training programmes of various types, 80% of those include offering online training content as well.

FIGURE 4.22 Capacity Building Initiatives (% of IIFS)

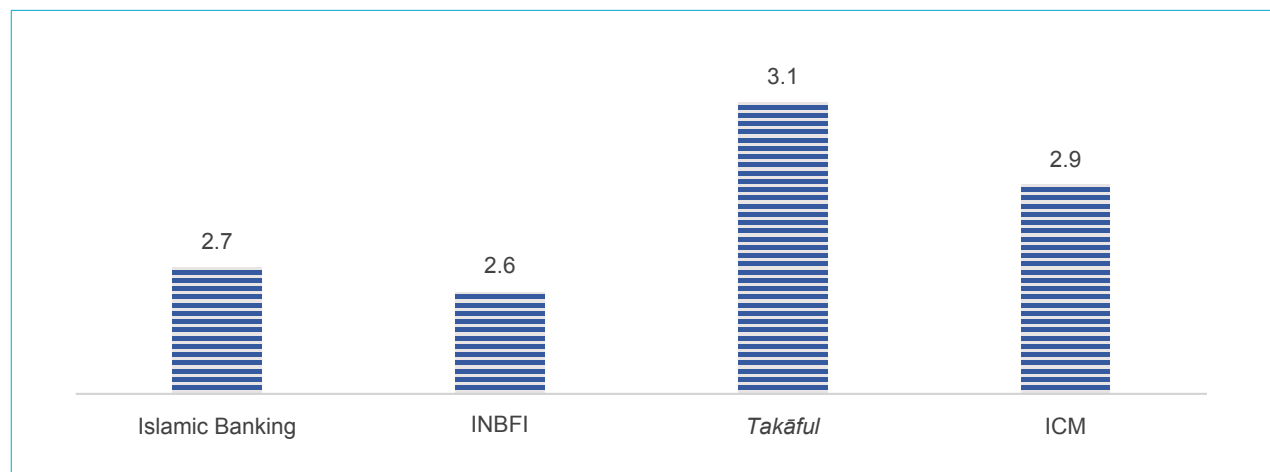


Source: IFSB Survey of IIFS

Figure 4.23 shows the degree of the lack of IT infrastructure for different segments of the Islamic financial industry. The *takāful* segment has a relatively good IT infrastructure, followed by the ICM,

with scores of 3.1 and 2.9, respectively. This is in contrast to the Islamic banking and INBFI segments, with lower scores of 2.6 and 2.7, respectively.

FIGURE 4.23 Lack of IT Infrastructure (Average Scores of IIFS)
(1 = Very Significant; 2 = Significant; 3 = Less Significant; 4 = Insignificant)



Source: IFSB Survey of IIFS

TABLE 4.6 Summary Assessment of Recommendation 5

Assessments	Islamic Banking	INBFIs	<i>Takāful</i>	ICM
RSA	FAIR	FAIR	GOOD	FAIR
IIFS	FAIR	POOR	FAIR	FAIR
Infrastructure institutions	N/A	N/A	N/A	N/A

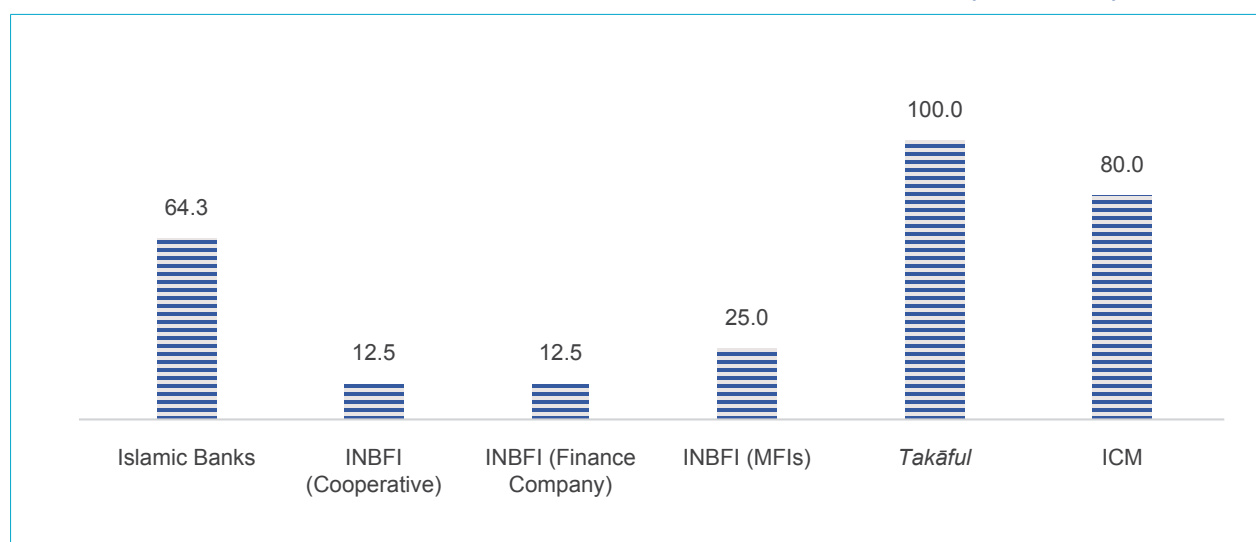
RECOMMENDATION 6: Promote the development of standardised products through research and innovation.

Varying Sharī'ah opinions can introduce legal uncertainties and hinder the growth of the Islamic finance industry. The Islamic financial industry continues to witness significant progress in standardising contracts and their documentation, accounting standards, and operating practices. Institutional capacity to develop such standardised elements of the various products and services has significantly improved with the growth of a range of institutions, including but not limited to AAOIFI and the IIFM. In particular, the AAOIFI Sharī'ah standards can play an important role at the global level in cross-border transactions by using standardised products

across different jurisdictions. AAOIFI has published 60 Sharī'ah standards relating to different aspects of financial transactions that can be used by different segments of the industry. However, the adoption of AAOIFI Sharī'ah standards in different jurisdictions is still low with 16 countries adopting the Sharī'ah standards (AAOIFI, 2020).

At the national level, many RSAs have introduced Sharī'ah standards for Islamic financial products to harmonise the application of Sharī'ah within their jurisdictions. Figure 4.24 shows that while all the RSAs in the *takāful* segment have introduced Sharī'ah standards, 80% of the ICM RSAs and 64% of the Islamic bank RSAs have done so. The regulatory input on Sharī'ah standards for the INBFI segment, however, has been low.

FIGURE 4.24 Sharī'ah Standards for Islamic Financial Products (% of RSAs)

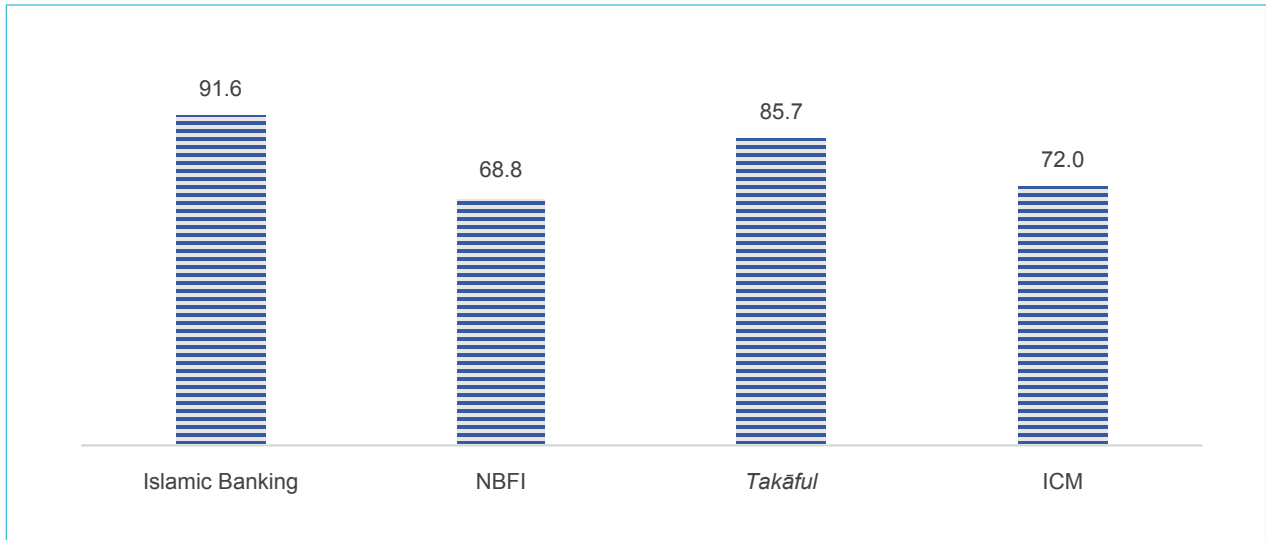


Source: IFSB Survey of RSAs

Figure 4.25 shows the use of manual, guidance and standard operating procedures (SOP) for standardised Sharī'ah contracts in different segments of the Islamic finance industry. The use

of standardised Sharī'ah contracts is the highest for the Islamic banking segment (91.6%), followed by the *takāful* segment (85.7%), ICM (72%), and INBFI (68.8%).

FIGURE 4.25 Manual, Guidance, and Standard Operating Procedures (SOP) for Standard Sharī'ah-Compliant Contracts (% of IIFS)

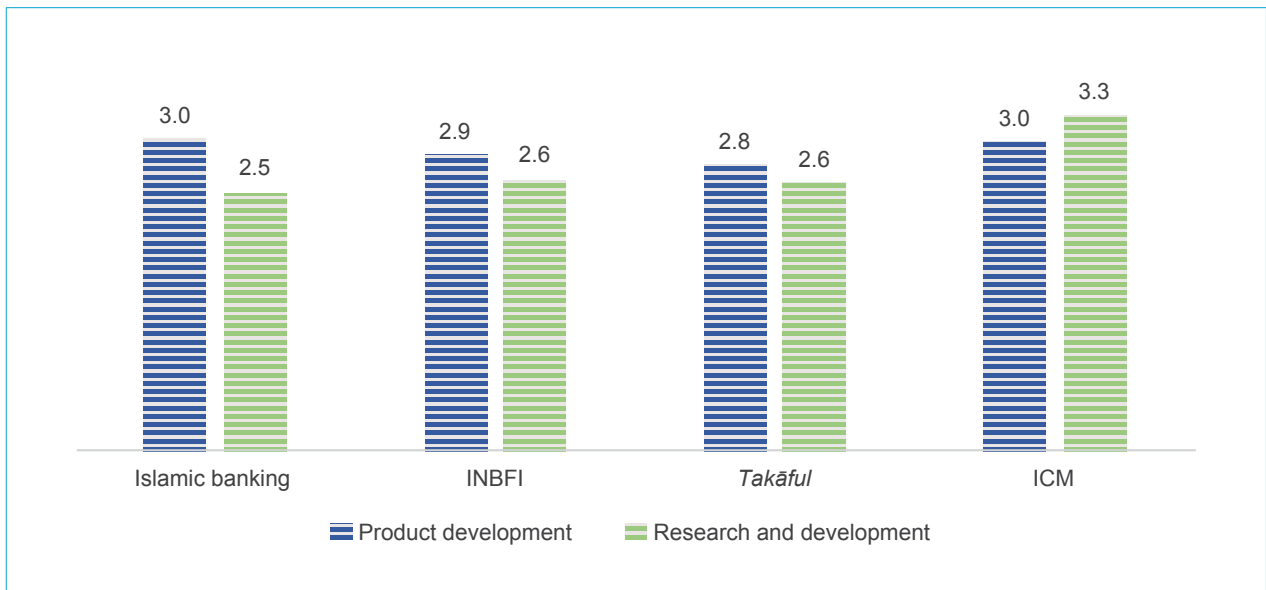


Source: IFSB Survey of IIFS

Figure 4.26 shows the capacities of IIFS in product development and research and development (R&D). The capacity for product development and R&D in the ICM is good (scores of 3 and 3.3, respectively). In the case of Islamic banking, the capacity for

product development is good (score of 3), but lower at 2.5 for R&D. For the *takāful* and INBFI segments, the capacities are below good for both product development and R&D.

FIGURE 4.26 Capacities of IIFS for Product Development and Research (Average Scores of IIFS) (1 = Inadequate; 2 = Adequate; 3 = Good; 4 = Advance)



Source: IFSB Survey of IIFS

TABLE 4.7 Summary Assessment of Recommendation 6

Assessments	Islamic Banking	INBFIs	<i>Takāful</i>	ICM
RSA	FAIR	POOR	GOOD	GOOD
IIFS	GOOD	FAIR	FAIR	GOOD
Infrastructure institutions	GOOD	GOOD	GOOD	GOOD

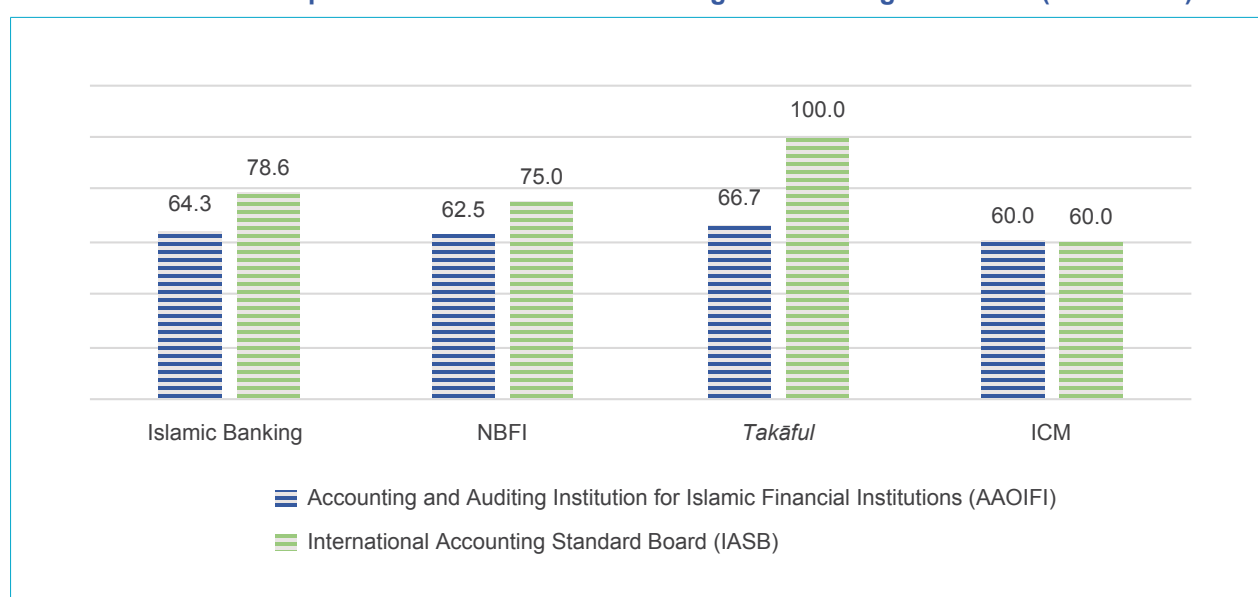
RECOMMENDATION 7: Enhance the implementation of the international prudential, accounting, and auditing standards applicable to the IFSI.

Since Islamic financial institutions use Islamic financial contracts that have accounting implications, AAOIFI accounting and auditing standards would be the appropriate standards to use. AAOIFI has introduced a total of 35 Financial Accounting Standards (FAS) and six auditing standards. While AAOIFI accounting standards were used in five countries only in 2012,³⁰ the number increased to

18 in 2020 (AAOIFI, 2020). Nonetheless, many jurisdictions continue to be involved in the process of implementation of the IFSB and AAOIFI standards, given the sustained growth in the market share of Islamic financial services in their markets.

Figure 4.27 shows the adoption of international accounting and auditing standards by different RSAs based on the survey outcome. While the adoption of standards of the International Accounting and Standard Board (IASB) is relatively high in most Islamic finance segments, the adoption of AAOIFI standards by RSAs is in the range of 60% and above.

FIGURE 4.27 Adoption of International Accounting and Auditing Standards (% of RSAs)



Source: IFSB Survey of RSAs

Figure 4.28 shows the adoption of specific accounting and auditing standards related to different Islamic finance segments by different RSAs in their jurisdictions. While 100% of the *takāful* RSAs have introduced Islamic accounting standards, the corresponding percentages for

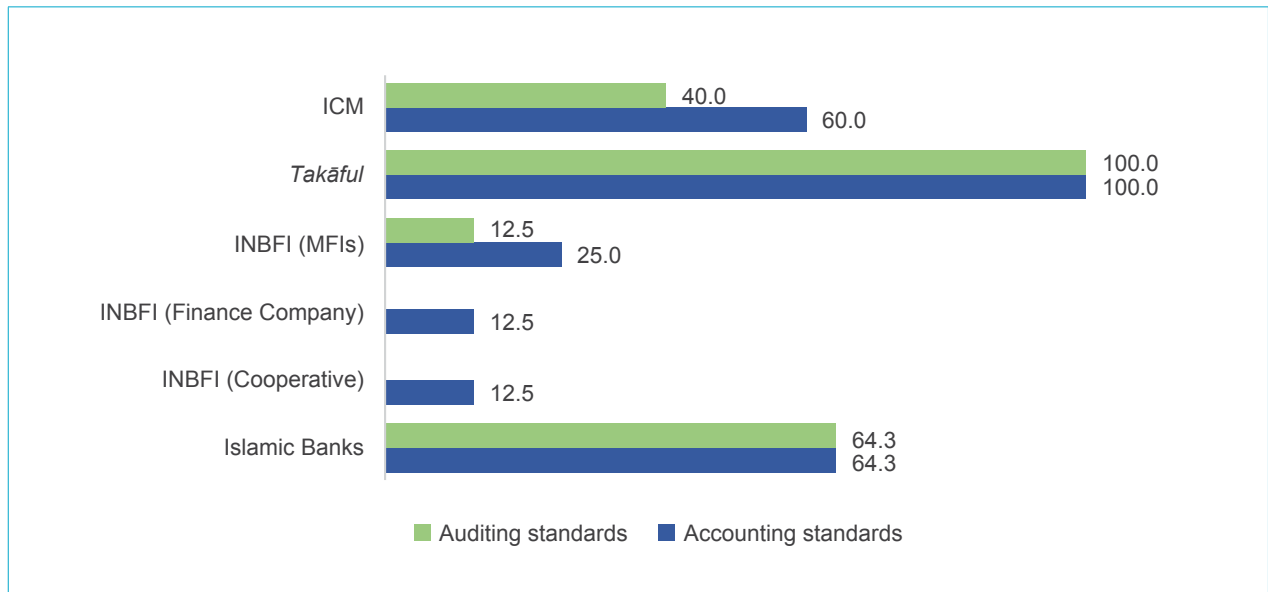
Islamic banking and ICM are 64.3% and 60%, respectively. In contrast, fewer RSAs that oversee NBFIs segments have introduced Islamic accounting and auditing standards. While the *takāful* operators' survey exhibits conflicting regulations and a lack of infrastructure, the regulators have made every

30 These countries are Bahrain, Jordan, Qatar, Sudan and Syria ("AAOIFI--Governance and Auditing Standards", presentation at the 4th Annual IIBI – ISRA Thematic Workshop, London, United Kingdom, September 2012).

effort to ensure the gaps are narrowed. From the *takāful* survey, 67% of the regulators “Disagree” that there is a conflict between the rules and regulations

in their jurisdictions and those of the international standards.

FIGURE 4.28 Accounting and Auditing Standards for IIFS (% of RSAs)

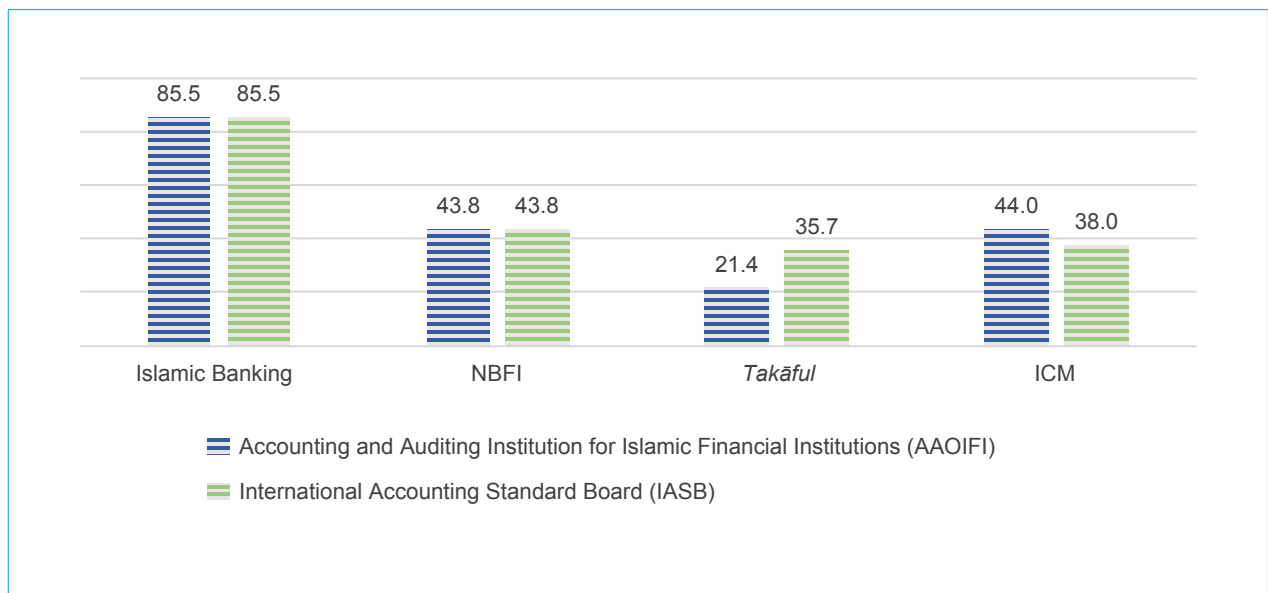


Source: IFSB Survey of RSAs

At the level of institutions offering Islamic financial services (IIFS), figure 4.29 shows that 85.5% of the sample Islamic banks have introduced manual, guidance, and Standard Operating Procedures

(SOP) related to both AAOIFI and IASB standards. The adoption of AAOIFI standards by the IIFS in the INBFI and ICM segments is less than 50%, and 21.4% in the case of the *takāful* segment.

FIGURE 4.29 Manual, Guidance, and Standard Operating Procedures (SOP) related to International Accounting Standards (% of IIFS)



Source: IFSB Survey of IIFS

The main reason that accounts for the low adoption of international standards in the *takāful* segment is conflicting rules and regulations in the surveyed jurisdictions, as affirmed by 45% of *takāful* companies. Furthermore, table 4.30 shows the

capacity of IIFS in accounting and reporting. While Islamic banks and INBFIs score above good (3.3 and 3.1, respectively), the averages of *takāful* and the ICM are lower at 2.9 and 2.8, respectively.

FIGURE 4.30 Capacity in Accounting and Reporting (% of IIFS)
(1 = Inadequate; 2 = Adequate; 3 = Good; 4 = Advance)



Source: IFSB Survey of IIFS

These responses, together with those from the ICM IIFS, present a somewhat negative picture of the state of the regulatory infrastructure for the ICM. It

is not evident that any significant progress has been made since the MTR.

TABLE 4.8 Summary Assessment of Recommendation 7

Assessments	Islamic Banking	INBFIs	Takāful	ICM
RSA	FAIR	FAIR	FAIR	FAIR
IIFS	GOOD	FAIR	POOR	FAIR
Infrastructure institutions	GOOD	GOOD	GOOD	GOOD

Recommendation 8: Develop an appropriate legal, regulatory, and supervisory framework, as well as an IT infrastructure that would effectively cater for the special characteristics of the IFSI and ensure tax neutrality.

An enabling legal and regulatory framework is essential for the development of the IFSI. Different financial segments would require different supportive laws. For example, for *shukūk* issuances, key legal issues include bankruptcy law, the creditor

protection regime, and in the case of exchange-based *shukūk*, property law, including the existence of property registers and the possibility of effecting a “true sale” of a real asset (necessary for creating an asset-backed structure). Other well-known problems include a lack of tax equality for ICM products, and insolvency and creditor protection rights for ICM investors.

Since the mid-term review (MTR), the IFSB has published core principles for all the main segments of the Islamic finance industry; Islamic banking, *takāful*, and ICM. These core principles provide the

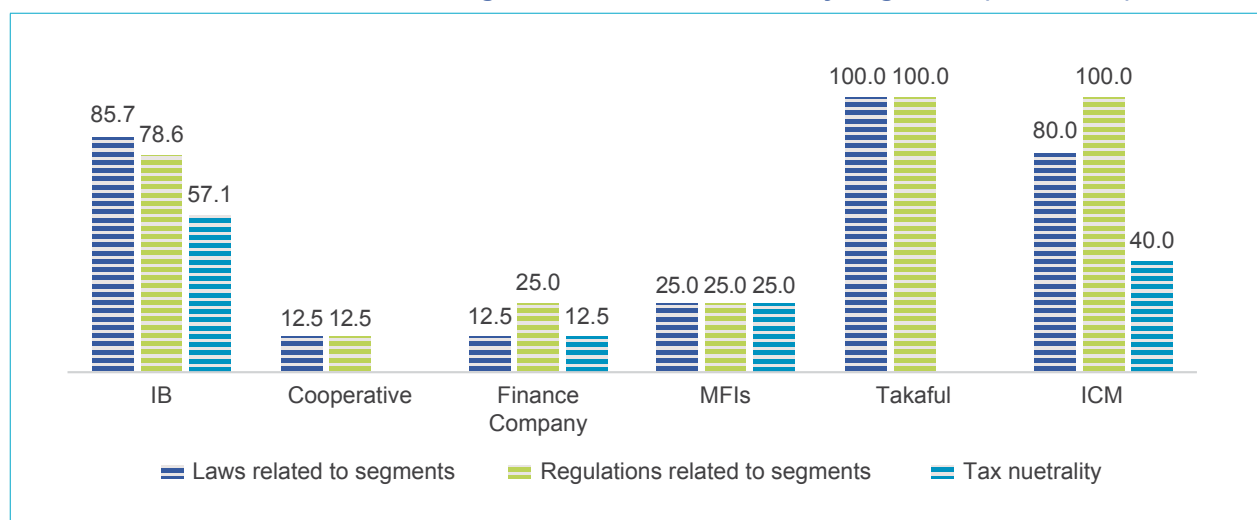
basic building blocks for developing appropriate legal, regulatory, and supervisory frameworks for the Islamic finance sector. These core principles are also benchmarked with the global standards in the relevant segment, thus easing the implementation and reducing inconsistencies with conventional financial services regulation. As indicated, the IFSB has also issued a technical note on financial inclusion that covers NBFIs such as microfinance institutions.

Regulatory bodies for the NBFIs sector are varied across different countries in terms of the regulatory bodies. For example, ICM intermediaries are regulated by the Brunei Darussalam Central Bank in Brunei, Otoritas Jasa Keuangan (OJK) in Indonesia, and the Securities Commission Malaysia in Malaysia (Sukmana and Rusgianto, 2019). The regulation of microfinance institutions also varies in different countries. In Pakistan, microfinance banks are regulated by the State Bank of Pakistan, and

non-banking microfinance companies are under the purview of the Securities and Exchange Commission, Pakistan. Similarly, microfinance banks in Indonesia are regulated by the OJK and cooperatives-based microfinance institutions (BMTs) are regulated by the Ministry of Cooperatives.

Figure 4.31 shows the status of the legal and regulatory framework under which different segments operate. While the figure shows that the majority of the RSAs indicate the existence of laws related to Islamic banking, *takāful*, and ICM segments (85.7%, 100%, and 80%, respectively), the laws supporting the INBFIs can be found in a small number of jurisdictions (between 12.5% and 25%). Similar trends can be seen with regard to the regulations of different segments. The tax neutrality laws have been implemented in 57.1% of jurisdictions for Islamic banks, 40% of the countries for ICM, and 25% or fewer jurisdictions for INBFIs.

FIGURE 4.31 Laws and Regulations related to Industry Segments (% of RSAs)



Source: IFSB Survey of RSAs.

Survey results of eight RSAs indicate that legal and regulatory framework exists only for finance companies, and there are no legal and regulatory infrastructure for other types of NBFIs. Figure 4.31

shows that 12.5% of the RSAs indicate that there is a law for establishing finance companies, and 25% indicate that regulations and tax neutrality related law exists in their jurisdictions.

TABLE 4.9 Summary Assessment of Recommendation 8

Assessments	Islamic Banking	INBFIs	<i>Takāful</i>	ICM
RSA	GOOD	POOR	GOOD	GOOD
IIFS	N/A	N/A	N/A	N/A
Infrastructure institutions	GOOD	FAIR	GOOD	GOOD

Recommendation 9: Develop comprehensive and sophisticated interbank, capital, and hedging (*tahawwut*) market infrastructures for the IFSI.

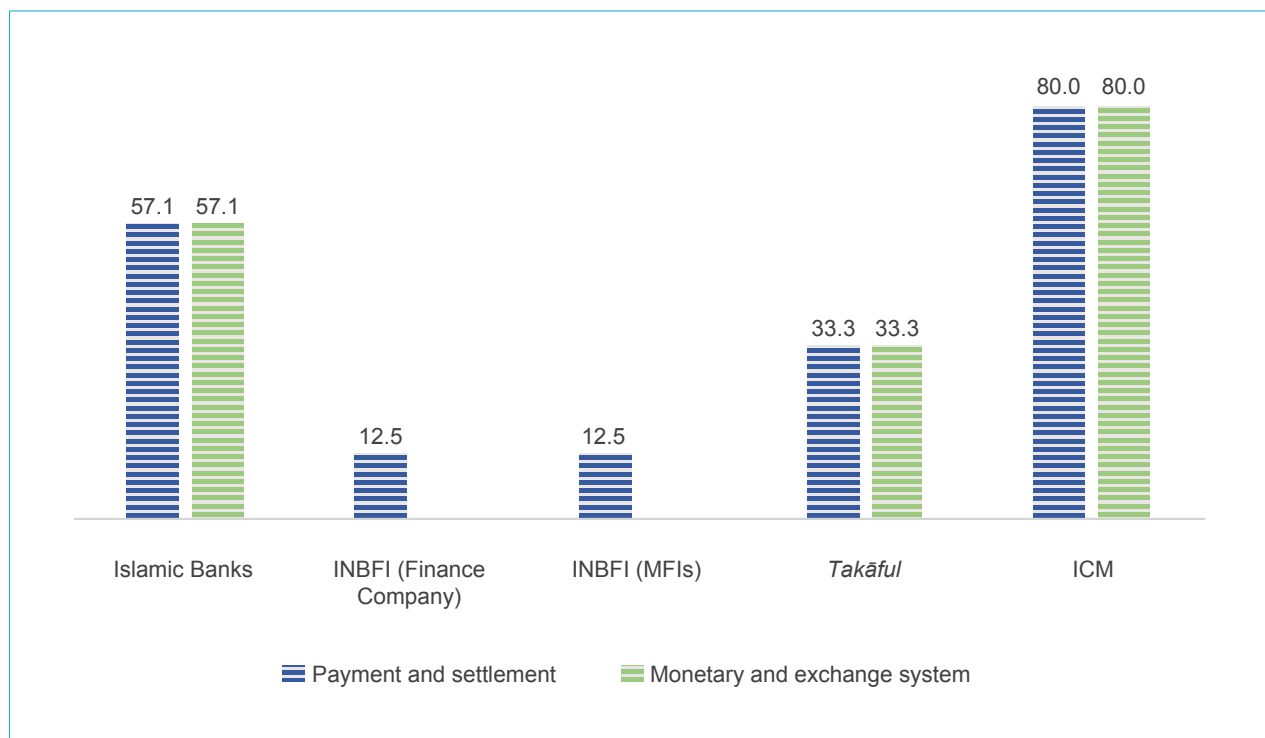
Wider acceptance of using Sharī'ah-compliant products is essential to deepening the markets and strengthening the market infrastructures for the IFSI. Islamic finance markets continue to benefit from the growth and development of key institutions providing the essential market infrastructures such as the International Islamic Liquidity Management Corporation (IILM) and the International Islamic Financial Market (IIFM). Notably, the implementation of IIFM standards on interbank transactions and hedging (*tahawwut*) have a great potential to strengthen related market infrastructures in the IFSB member countries. The IFSB published the core principles for the regulation of Islamic financial market infrastructures in December 2021, contributing to the enablement in this critical segment. Furthermore, the IFSB issued Technical Note 1, entitled Technical Note

on Issues in Strengthening Liquidity Management of Institutions Offering Islamic Financial Services: The Development of Islamic Money Markets, to provide guidelines for the development of the Islamic money markets.

While most *shukūk* issuances tend to be heavily over-subscribed, a main institutional weakness of using *shukūk* as a liquidity instrument has been the lack of liquid secondary markets. Many *shukūk* are not listed on securities exchanges and are traded over the counter. A comment frequently made is that investors in *shukūk* follow a buy-and-hold policy, which limits availability to new would-be investors.

Figure 4.32 shows the percentage of RSAs from the survey that have reported supporting infrastructure related to interbank, capital and hedging (*tahawwut*) markets in Islamic finance. While 80% of the ICM and 57.1% of the Islamic banking RSAs indicated having a sound payment and settlement infrastructure and monetary and exchange system. The numbers for *takāful* and INBFIs are 33.3% and 12.5%, respectively.

FIGURE 4.32 Infrastructure of interbank and capital market infrastructures (% of RSAs)

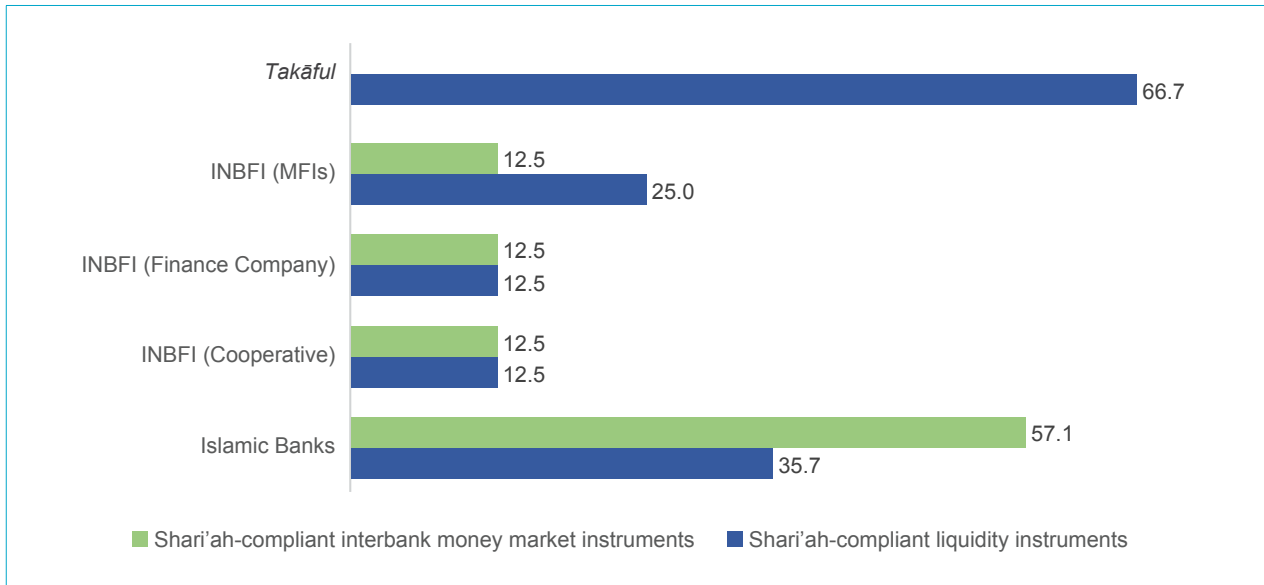


Source: IFSB Survey of RSAs

Figure 4.33 shows the RSAs that have standards and guidelines for Shari’ah-compliant liquidity and interbank money market instruments. While 66.7% of the *takāful* RSAs indicate having standards for Shari’ah-compliant liquidity instruments, the

corresponding figures are 35.7% for Islamic banks and 12.5% to 25% for INBFIs. The standards for Shari’ah-compliant interbank money markets exist in 57.1% of the jurisdictions and 12.5% in the case of INBFIs.

FIGURE 4.33 Standards & Guidelines on Liquidity and Interbank Money Market Instruments (% of RSAs)

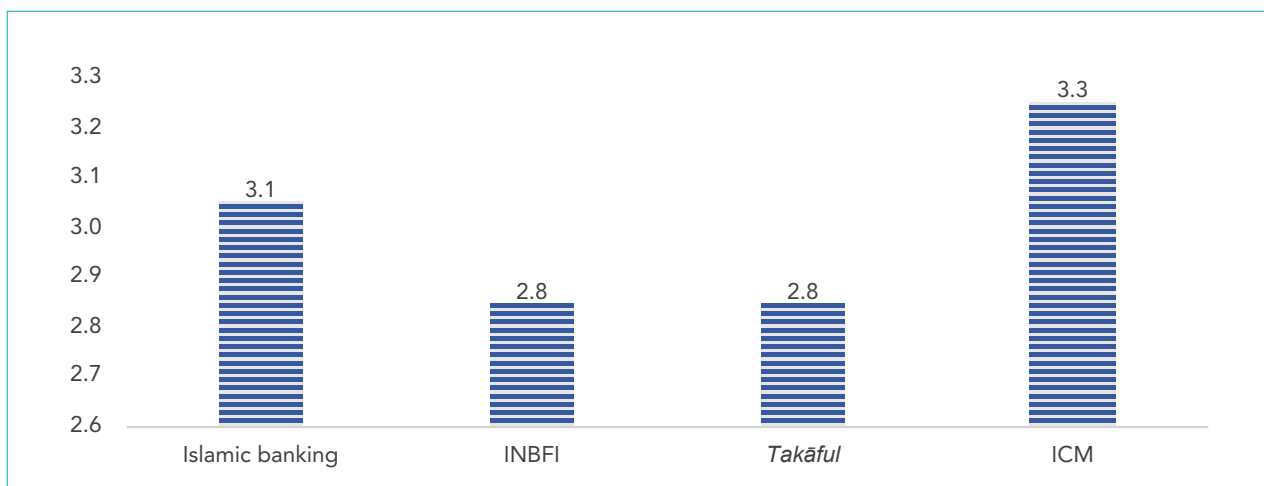


Source: IFSB Survey of RSAs

Figure 4.34 reports the survey results on the capacity of IIFS in liquidity management. The average scores of liquidity management capacity are good for the ICM and Islamic banking segments (3.3 and 3.1, respectively). However, the liquidity management capacity has scores of 2.8 for the *takāful* and INBFI segments. An overwhelming

majority of Islamic banking respondents indicated adequate connectivity with international financial markets and participation in payment and clearing services. However, more than 50% of the Islamic banking respondents have cited a lack of active and deep markets in interbank and liquidity instruments.

FIGURE 4.34 Capacity in Liquidity Management (Average Score of IIFS)
(1 = Inadequate; 2 = Adequate; 3 = Good; 4 = Advance)



Source: IFSB Survey of IIFS

TABLE 4.10 Summary Assessment of Recommendation 9

Assessments	Islamic Banking	INBFIs	Takāful	ICM
RSA	FAIR	POOR	FAIR	GOOD
IIFS	GOOD	FAIR	FAIR	GOOD
Infrastructure institutions	GOOD	N/A	GOOD	GOOD

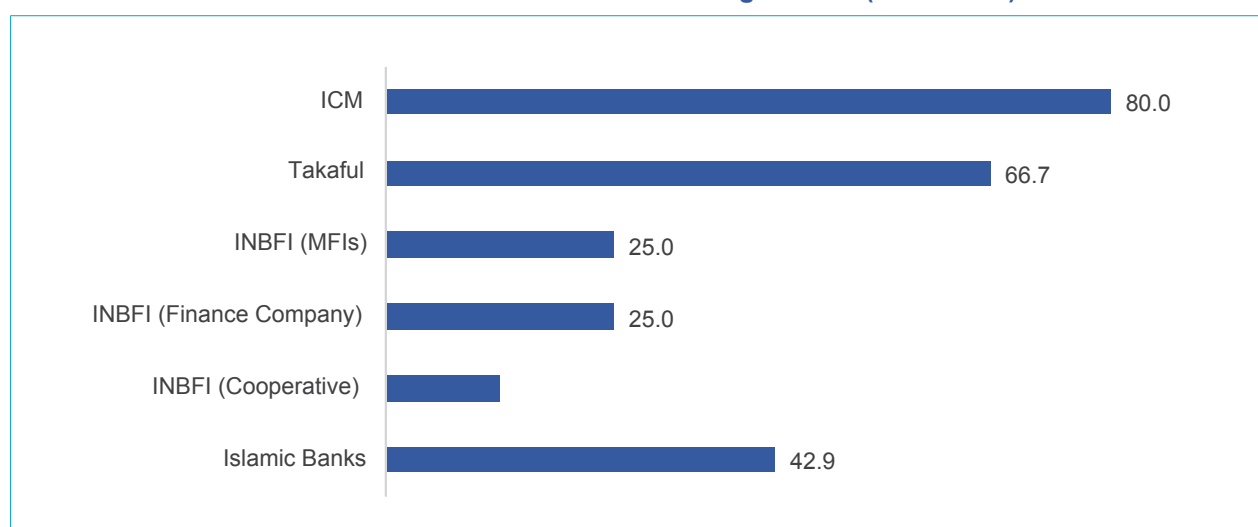
RECOMMENDATION 10: Promote financial literacy initiatives, including public awareness of the range of Islamic financial services.

Stagnation in the market share and growth rate of some of the Islamic financial segments underlines the need for sustained efforts to promote public awareness of Islamic finance. Islamic financial literacy would also include knowledge, skill, attitude, and behaviour reflecting Islamic teachings.³¹ Awareness and financial literacy are important and directly linked to consumer protection as customers must know and understand the risk-return features of products they buy. In many cases, consumer protection laws require financial institutions to disclose all relevant information about the products they sell. For example, regulations in Indonesia require financial institutions to be transparent about the features of their products.³²

Islamic financial products have a couple of issues that are important in terms of consumer protection and disclosure. Many products have complex structures, and financial institutions should inform clients about these in a clear manner. Since many clients use Islamic finance for religious reasons, Sharī'ah-related issues must also be disclosed to the customers.

Figure 4.35 shows the customer protection regulations that promote financial literacy in different Islamic finance segments. While 80% of the ICM RSAs indicate having consumer protection regulations, the corresponding figures for the *takāful* and Islamic banking segments are 66.7% and 42.9%, respectively. The consumer protection regulations for different sectors under the INBFI segments are prevalent in a relatively small number of jurisdictions ranging from 12.5% for cooperatives to 25% for finance companies and Microfinance Institutions (MFIs).

FIGURE 4.35 Customer Protection Regulations (% of RSAs)

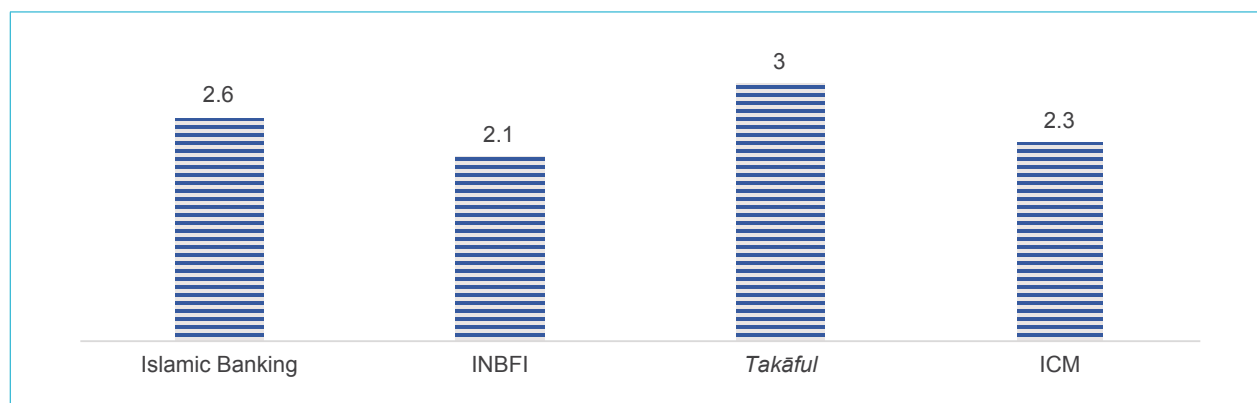


Source: IFSB Survey of RSAs

³¹ Rahim et. al. (2016)

³² Bank Indonesia Regulation Number 7/6/Pbi/2005 Concerning Transparency in Bank Product Information and Use of Customer Personal Data.

FIGURE 4.36 Lack of Awareness on Products and Services Offered (Average of IIFS)
(1 = Inadequate; 2 = Adequate; 3 = Good; 4 = Advance)



Source: IFSB Survey of IIFS

There are a significant number of IIFS that report a lack of awareness to be a very substantial and significant issue. For example, 36% of respondent Islamic banks cited a lack of awareness of Islamic banking products and services as a very significant. Figure 4.36 shows that a lack of awareness is not a significant issue for the *takāful* sector (score of 3). However, awareness of products and services is an issue in the Islamic banking, ICM, and INBFI average segments, with scores of 2.6, 2.3, and 2.1, respectively. Some of the IIFS are taking initiatives to increase awareness of Islamic financial products.

For example, the survey indicates that 43.8% of the NBFIs have a budget for raising public awareness of Islamic financial products, and 56.3% disclose the Sharī'ah structures to their clients. Similarly, *takāful* operators have registered tremendous progress in public awareness, with 50% of the respondents indicating to have incorporated public awareness as the company's KPI and have incorporated *takāful* public awareness as part of their CSR. Malaysia has a high level of public awareness about *takāful* and its services.

TABLE 4.11 Summary Assessment of Recommendation 10

Assessments	Islamic Banking	INBFIs	Takāful	ICM
RSA	GOOD	POOR	FAIR	FAIR
IIFS	FAIR	FAIR	GOOD	FAIR
Infrastructure institutions	N/A	N/A	N/A	N/A

RECOMMENDATION 11: Strengthen and enhance collaboration among the international Islamic financial infrastructure institutions.

There have been some recent initiatives among international Islamic financial infrastructure institutions to enhance the development of the Islamic financial sector. In this regard, the Islamic Development Bank Group (IsDB) and various other RSAs have played a significant role in establishing several infrastructure institutions, such as the AAOIFI, IFSB, IIFM, IIRA and IILM. The IFSB's Strategic Performance Plan (SPP) 2022-24, approved by the IFSB Council at its 39th meeting,

proposed the establishment of an IFSB Consultative Group (ICG) to engage the industry stakeholders and infrastructure bodies to consult more widely on issues and developments in the global financial services industry with a focus on assessing the impact of such issues on the IFSI.

There have been many collaborative efforts among international Islamic infrastructure institutions to develop different standards and guidelines related to the IFSI. Developing the Ten-Year Framework, its MTR, and this final assessment are examples of collaboration between the IsDB Group and the IFSB to advance the Islamic finance industry. Other examples include the Working Groups for the IFSB for developing different prudential standards

that include members from different international infrastructure institutions. For example, IFSB-21: *Core Principles for Islamic Finance Regulation [Islamic Capital Market Segment]* covers issues related to the ICM intermediaries, including members from the International Monetary Fund (IMF) and IsDB. The IFSB and the International Association of Deposit Insurers (IADI) jointly issued a standard on *Core Principles for Effective Islamic*

Deposit Insurance Systems. The Working Group for TN-3: *Technical Note on Financial Inclusion and Islamic Finance* included members from the Alliance for Financial Inclusion (AFI), IsDB and IMF. Another example is the collaboration between the IFSB and IILM, with regard to the HQLA status of IILM *shukūk*. More recently, the IFSB and AAOIFI have come together to develop an updated version of Shari'ah Governance Standards.

TABLE 4.12 Summary Assessment of Recommendation 11

Assessments	Islamic Banking	INBFIs	Takāful	ICM
RSA	N/A	N/A	N/A	N/A
IIFS	N/A	N/A	N/A	N/A
Infrastructure institutions	GOOD	GOOD	GOOD	GOOD

RECOMMENDATION 12: Foster collaboration among countries that offer Islamic financial services.

Countries have come together under the umbrella of different organisations to enhance the development of the IFSI. For example, the Association of National Development Finance Institutions in member countries of the Islamic Development Bank (ADFIMI) acts as an internationally ethically responsible player for enhancing the equity and welfare of the region by “recognising the role of the DFIs and the financial sector industry in promoting trade and investment in sustainable economic development.” Being an affiliate of the IsDB, it promotes the use of Islamic finance for development purposes.

Other than the IsDB and infrastructure institutions such as the IFSB and AAOIFI, some affiliate institutions of the Organisation of Islamic Cooperation (OIC) have taken many initiatives that enhance cooperation among countries to promote Islamic financial services. For example, the COMCEC Financial Cooperation Working Group brings together experts from member countries regularly to share knowledge and experiences, best practices, and develop a common understanding as well as approximate policies, which include Islamic finance. It has published various policy-oriented research on different aspects of Islamic finance and provides technical assistance to implement some of the policies in member countries.

The Statistical, Economic, and Social Research and Training Centre for Islamic Countries (SESRI) produces data and information on different aspects of OIC member countries, including Islamic finance. The OIC’s COMCEC Capital Markets Regulators Forum acts as a collaboration mechanism to explore a level playing field for cooperation and technical assistance areas between the OIC and COMCEC member states’ capital market regulatory authorities. This forum seeks to encourage the implementation of regulatory standards and develop regulatory capability, thereby achieving the objectives of investor protection, market development, and fair and efficient markets. The OIC Exchange Forum’s objective is to contribute to the further development of the OIC capital markets and to strengthen the collaboration among OIC exchanges and post-trade institutions.

Finally, the OIC International Islamic Fiqh Academy is the highest global jurisprudential body that issues Islamic resolutions on different contemporary issues, including Islamic finance. While there has been a collaboration among international multilateral institutions, such as the IsDB and standards-setting bodies such as the AAOIFI, IFSB, and OIC affiliate bodies, the collaborative efforts seem to be disjoint. Furthermore, the focus of the collaborative efforts of these international multilateral organisations has been on issues related to Islamic banking, *takāful*, and the ICM. With the exception of development banks and MFIs, discussions on developing the other verticals of the INBFI sector are limited. This is partly because the Islamic NBFi sector is still small in most OIC member countries.

TABLE 4.13 Summary Assessment of Recommendation 12

Assessments	Islamic Banking	INBFIs	<i>Takāful</i>	ICM
RSA	N/A	N/A	N/A	N/A
IIFS	N/A	N/A	N/A	N/A
Infrastructure institutions	FAIR	POOR	FAIR	FAIR

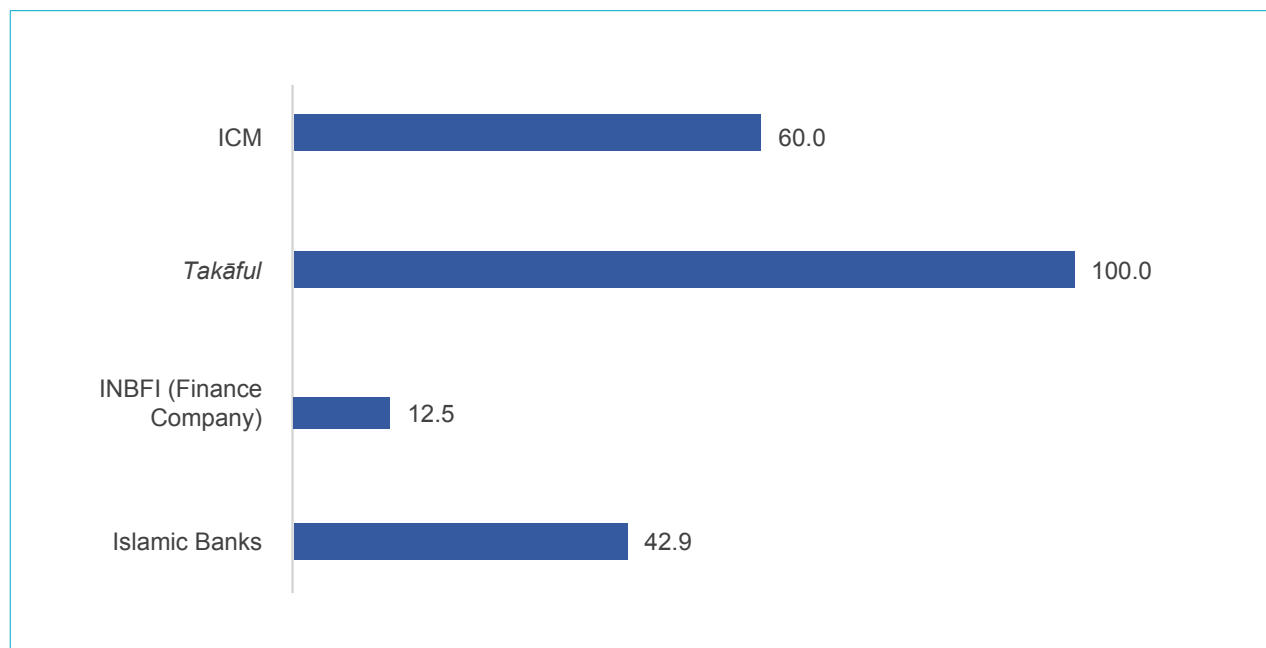
RECOMMENDATION 13: Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.

Traditionally, the financial linkages of the domestic financial sector and international financial markets occur with higher levels of cross-border financial transactions. The MTR mentioned the development of the international *shukūk* market as a means of providing domestic institutions access to funding beyond their borders. Such linkages are facilitated if ICM institutions follow international prudential and disclosure standards. However, this is an area in which further progress is needed.

Large Islamic banks, *takāful* companies, and Islamic capital market intermediaries such as investment banks can play an important role in the issuances

of some international *shukūk*, in which both Islamic and conventional investment banks from different countries have acted as lead managers. Smaller IIFS and NBFIs have not engaged with the international financial markets due to their relatively small sizes. Recently, some Islamic FinTechs have been engaged in activities that involve cross-border investments. However, supportive regulations on cross-border financial transactions must exist for these transactions to take place.

Figure 4.37 shows the status of cross-border financial transactions indicated by RSAs of different industry segments in the IFSB survey. While 100% of the *takāful* RSAs indicate the existence of regulations for cross-border financial transactions, 60% of the ICM and 42.9% of the Islamic banking segments have such regulations. Only 12.5% of the INBFI RSAs confirm the existence of regulations related to cross-border transactions.

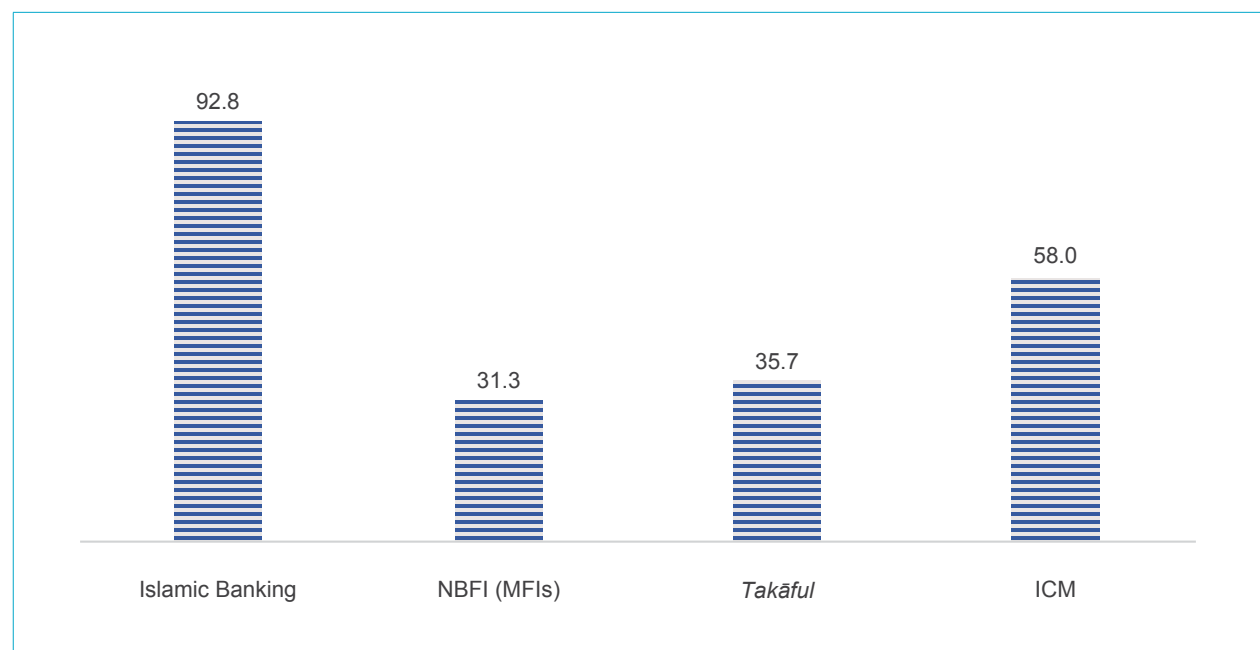
FIGURE 4.37 Regulations on Cross-Border Financial Transactions (% of RSAs)

Source: IFSB Survey of RSAs

Figure 4.38 shows the linkages that IIFS from different segments have with regional and international markets. A significant percentage of Islamic banks (92.8%) indicate having links with international markets, followed by 58% of the ICM

IIFS. The links of *takāful* operators and INBFIs with the international markets are relatively weak with 35.7% and 31.3%, respectively, indicating having such relationships.

FIGURE 4.38 Links with Regional and International Financial Markets (% of IIFS)



Source: IFSB Survey of IIFS.

TABLE 4.14 Summary Assessment of Recommendation 13

Assessments	Islamic Banking	INBFIs	<i>Takāful</i>	ICM
RSA	FAIR	POOR	GOOD	FAIR
IIFS	GOOD	POOR	FAIR	FAIR
Infrastructure institutions	N/A	N/A	N/A	N/A

RECOMMENDATION 14: Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.

The development of different types of financial institutions and instruments in different industry segments is complementary and can create synergies. For example, capital market intermediaries such as investment banks not only contribute to developing capital market products

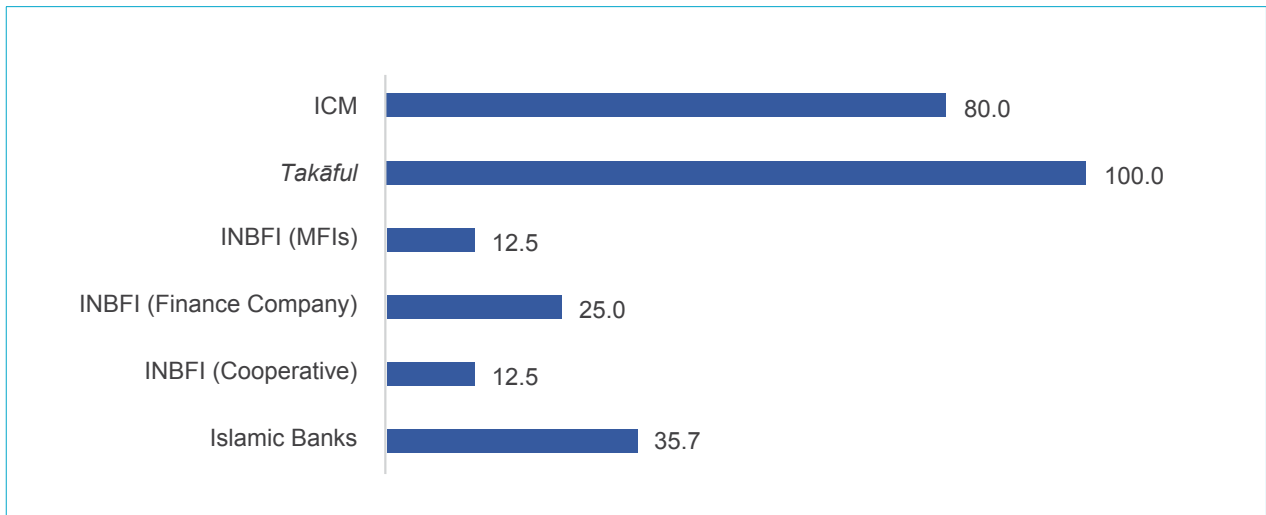
but also help sell them to institutional investors. Similarly, Islamic banks need Sharī'ah-compliant liquid financial assets for liquidity management purposes, while the ICIS and other Islamic funds and *takāful* undertakings require appropriate ICM products in which to invest. Similarly, NBFIs, such as MFIs, can raise funds using capital markets or online platforms.

In some jurisdictions, market intermediaries other than securities firms (e.g., banking or credit institutions, insurance providers, and pension and superannuation funds) may engage in securities activities. However, they may be subject to a

different regulatory authority, for all or some of their activities (IFSB 2018: 22-23). In such cases, there may be a need for different regulatory bodies to coordinate enabling policies to make the interactions efficient. At the international level, the creation of the IILM Corporation may be seen as an example of progress and the result of strategic planning as set out in the original IsDBI-IFSB Ten-Year Framework.

While the information on the collaboration of RSAs from different industry segments is not available, figure 4.39 shows the percentage of RSAs having strategic plans to develop the respective Islamic financial sectors. While a large majority of the *takāful* and ICM RSAs have strategic plans (100% and 80%, respectively), only 35.7% of the Islamic bank RSAs have such plans. The RSAs having strategic plans for different NBFIs verticals ranges from 12.5% to 25%.

FIGURE 4.39 Strategic Plan for The Development of Sector (% of RSAs)

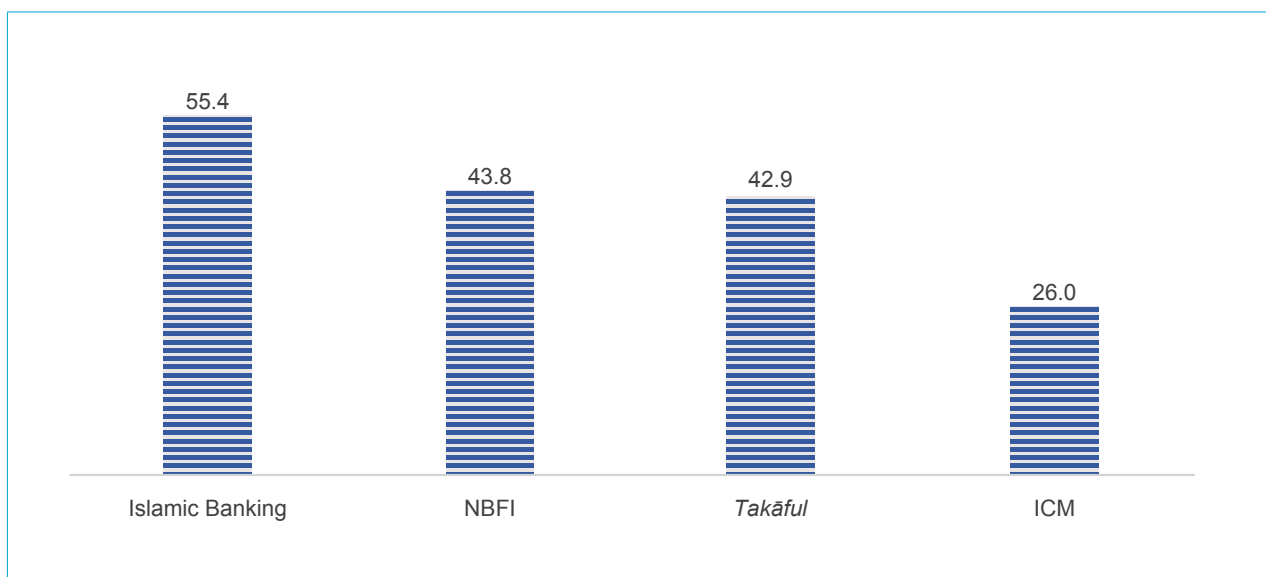


Source: IFSB Survey of RSAs

Figure 4.40 shows the percentage of IIFS making strategic alliances with other financial institutions. More than half of the Islamic banks (55.4%) have

made strategic alliances with other IIFS. The percentage of IIFS in the INBFI, *takāful*, and ICM segments are 43.8%, 42.9% and 26%, respectively.

FIGURE 4.40 Strategic Alliance with Other Islamic Financial Institutions (% of IIFS)



Source: IFSB Survey of IIFS

TABLE 4.15 Summary Assessment of Recommendation 14

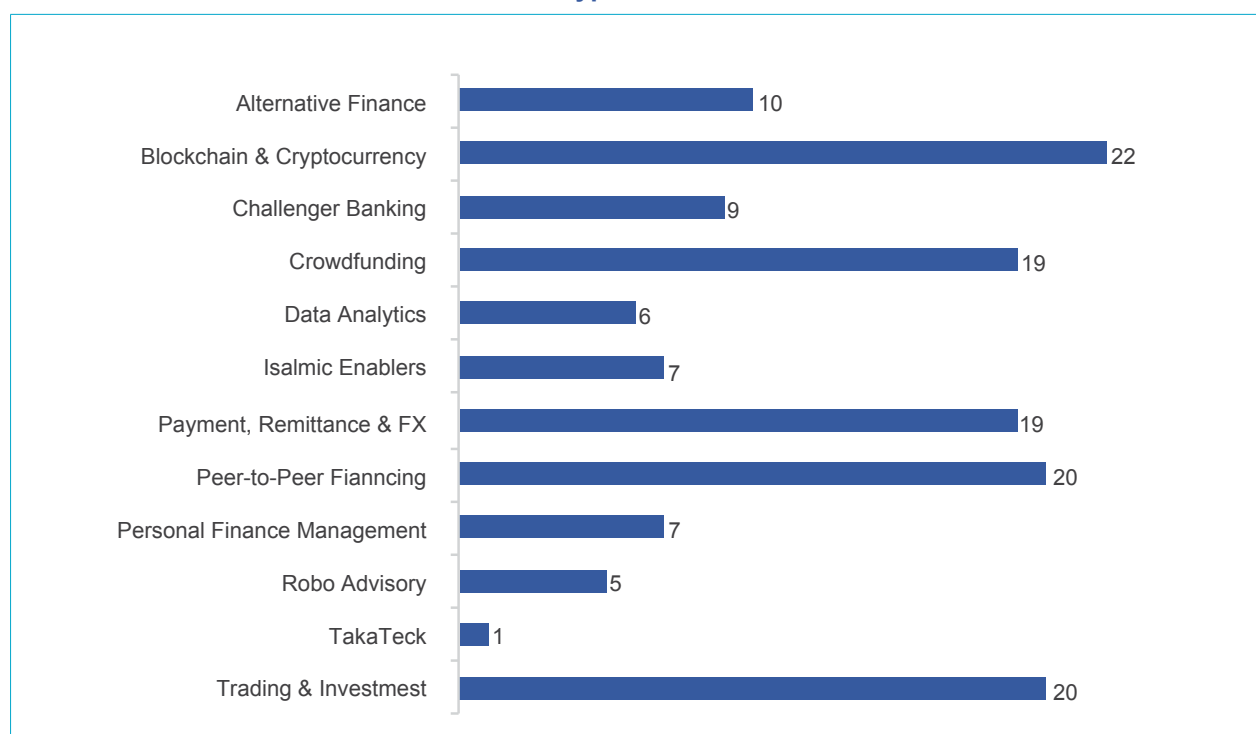
Assessments	Islamic Banking	INBFIs	<i>Takāful</i>	ICM
RSA	FAIR	POOR	GOOD	GOOD
IIFS	FAIR	FAIR	FAIR	POOR
Infrastructure institutions	N/A	N/A	N/A	N/A

RECOMMENDATION 15: Foster and embrace innovative business models, including new technologies and delivery channels, in offering Islamic financial services.

While most financial institutions have been introducing technology in their operations, FinTechs have emerged to provide various types of financial services. The total number of Islamic FinTechs was 145 in 2020. Figure 4.41 shows the distribution of types of FinTechs globally, and Figure 4.42 shows their distribution according to regions. While nine

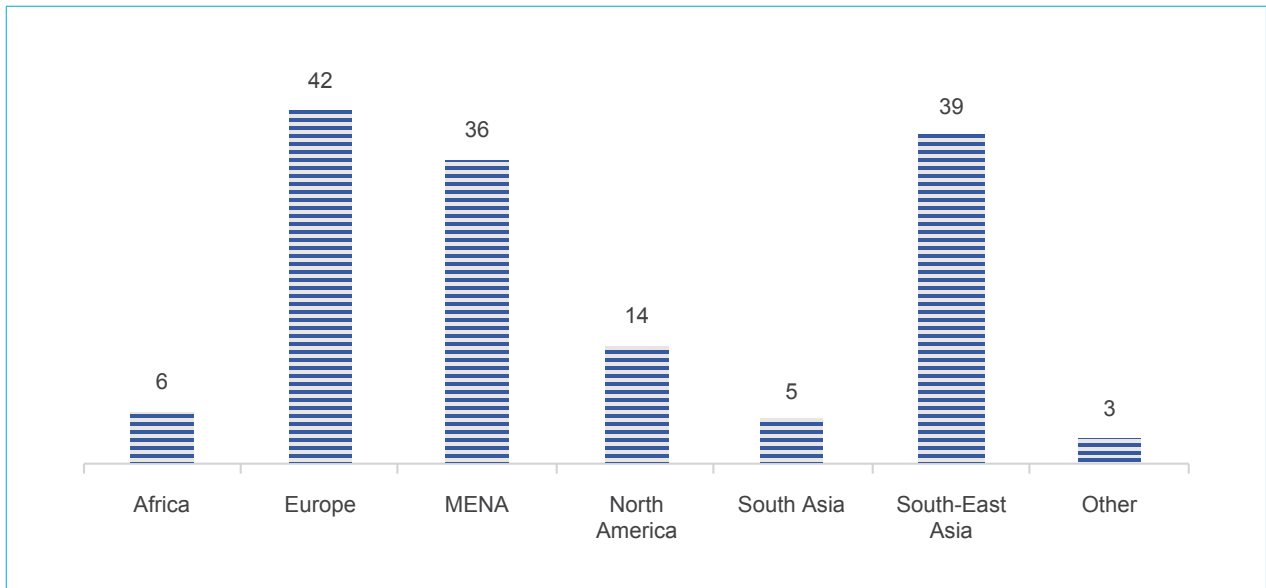
FinTechs were challenger banks and one was a *takāful* FinTech, all the remaining fell under non-banking financial institutions (NBFIs).

The development of Islamic FinTechs, however, has been diverse with some countries making significant progress and others lagging behind, as shown in figure 4.40. It is interesting to see that the growth of Islamic FinTechs appears to be high in countries with Muslim minorities such as Europe and North America. This is an indication that Islamic FinTechs can be used to provide Shari`ah-compliant services in countries where it is difficult to establish Islamic banks due to legal and regulatory reasons.

FIGURE 4.41 Types of Islamic FinTechs

Source: IFN (2020)

FIGURE 4.42 Regional Distributions of Islamic FinTech 2020

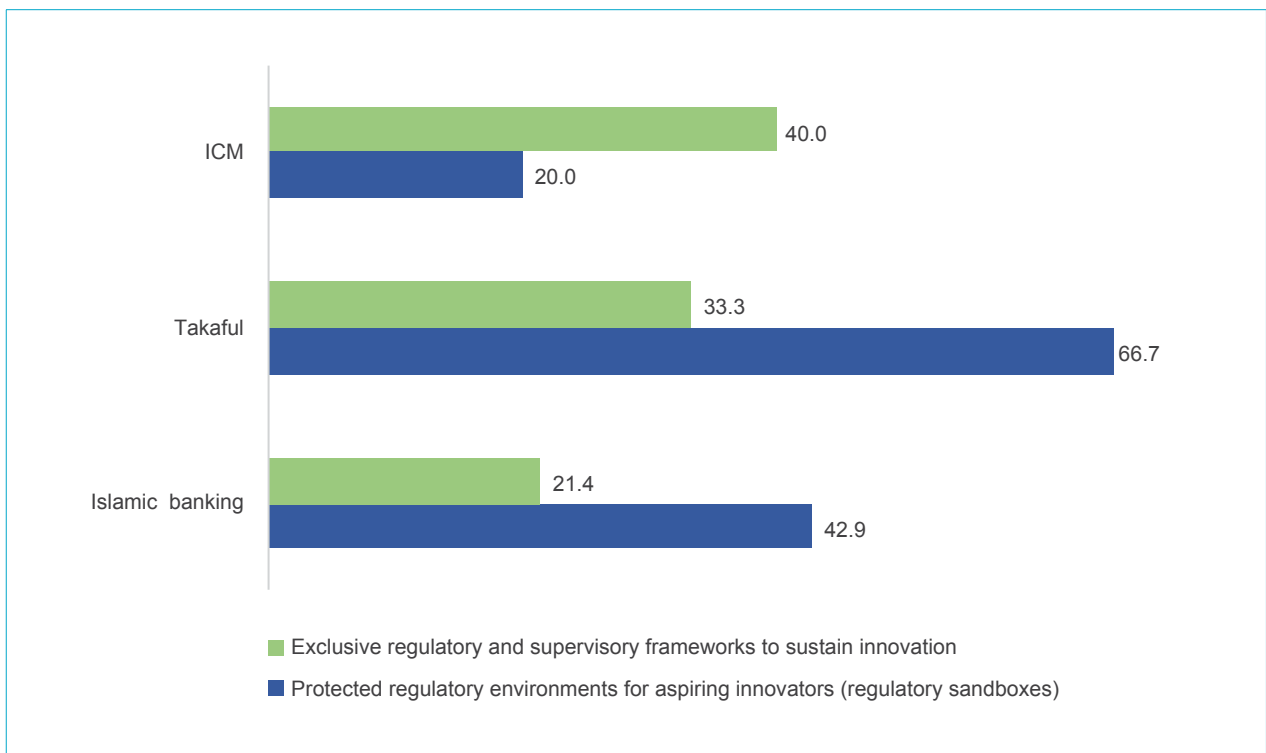


Source: IFN (2020)

The RSAs of different industry sectors have taken various measures to promote the FinTech industry. Figure 4.43 shows the general measures taken to support the development of FinTech. Many RSAs have introduced specific regulatory and supervisory frameworks to sustain innovation. While 40% of the ICM RSAs have introduced frameworks for innovation, a relatively lower percentage of *takāful*

and Islamic banking RSAs have established these frameworks (33.3% and 21.4%, respectively). While 66% of the *takāful* RSAs have introduced protected regulatory environments for FinTechs (such as sandboxes), 42.9% and 20% of the Islamic banking and ICM RSAs, respectively, have done so in their jurisdictions.

FIGURE 4.43 Measures to Support Development of FinTech (% of RSAs)

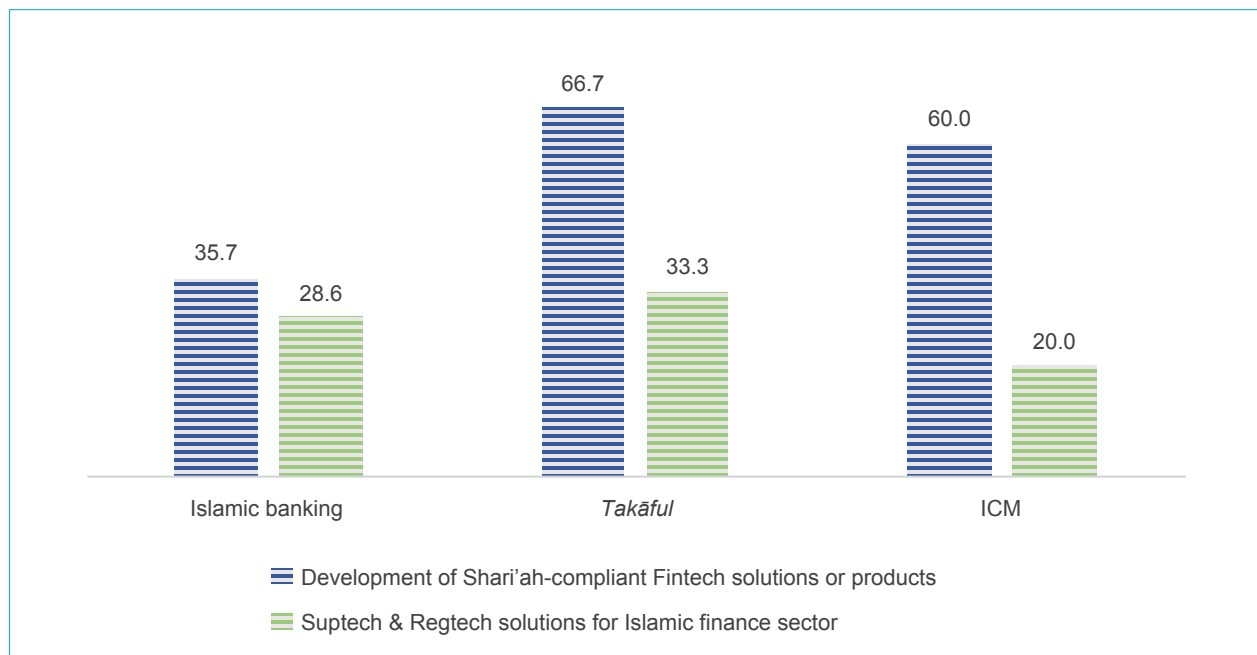


Source: IFSB Survey of RSAs

Figure 4.44 shows the specific initiatives taken by RSAs to promote Islamic FinTechs. The majority of the *takāful* and ICM sectors have taken measures to support the development of Shari'ah-compliant FinTech solutions (66.7% and 60%, respectively). However, 35.7% of Islamic banking regulators have taken such initiatives. Introducing RegTech and

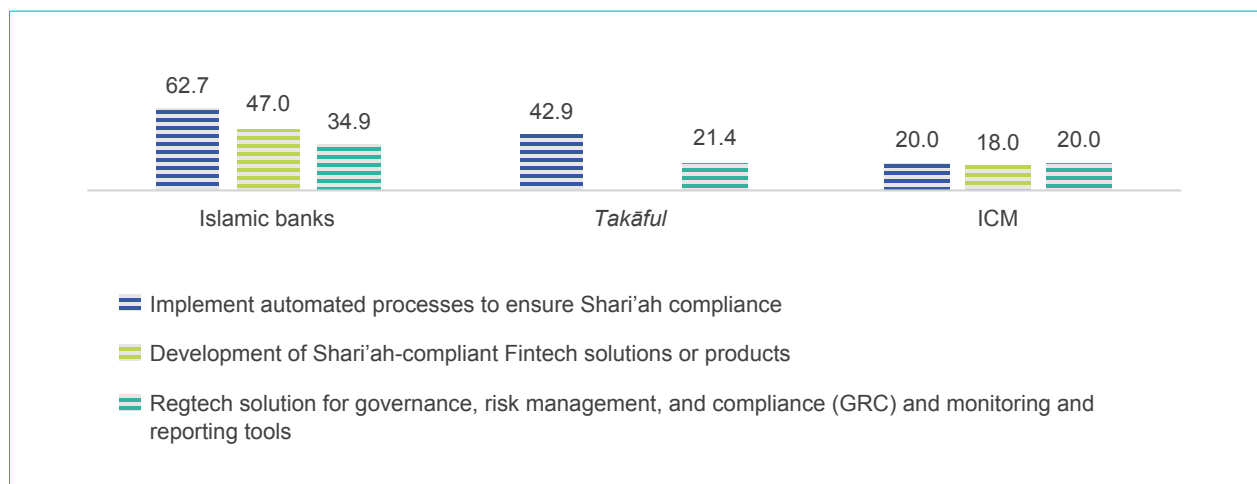
SupTech solutions to the Islamic finance sector is relatively low for all industry sectors, with 33.3% of the *takāful* RSAs followed by 28.6% of the Islamic banking RSAs and 20% of the ICM RSAs. Although not shown in the table, the survey reveals that 37.5% of the INBFI RSAs have taken initiatives to promote Islamic FinTechs.

FIGURE 4.44 Initiatives Taken to Promote Islamic FinTechs (% of RSAs)



Source: IFSB Survey of IIFS

FIGURE 4.45 Use of Technology (% of IIFS)

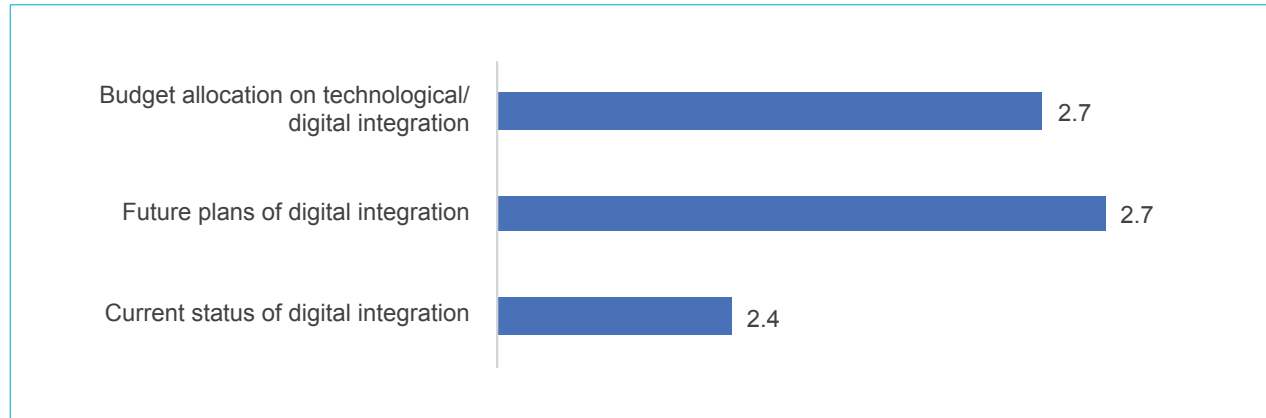


Source: IFSB Survey of IIFS

Figure 4.45 shows the percentage of IIFS using technology to develop products and systems. Overall, more Islamic banks are using technologies to automate Shari'ah-compliance, developing FinTech solutions, and coming up with RegTech solutions compared to IIFS in the *takāful* and ICM sectors. The INBFI segment also seems to have

taken steps to introduce technology. The survey of IIFS in the sector shows digital integration to be lagging. Figure 4.46 shows that the budget allocation score is 2.7, which falls below the "good" threshold of 3. The same is the case with the current and future statuses of digital integration, which are 2.4 and 2.7, respectively.

FIGURE 4.46 Digital Integration in INBFIs (Average Scores)
(1 = Inadequate; 2 = Adequate; 3 = Good; 4 = Advance)



Source: IFSB Survey of IIFS

TABLE 4.16 Summary Assessment of Recommendation 15

Assessments	Islamic Banking	INBFIs	<i>Takāful</i>	ICM
RSA	FAIR	FAIR	FAIR	FAIR
IIFS	FAIR	FAIR	FAIR	POOR
Infrastructure institutions	N/A	N/A	N/A	N/A

RECOMMENDATION 16: Strengthen contributions to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.

In 2018, the International Monetary Fund (IMF) Executive Board approved the endorsement of the IFSB-17 “Core Principles for Islamic Finance Regulation” (CPIFR) for the banking sector and their assessment methodology for the purposes of undertaking financial sector assessments and preparing Reports on the Observance of Standards and Codes (ROSCs), for both fully Islamic banking systems as well as systemically significant Islamic banking systems in dual banking markets. This was also followed by the inclusion of IFSB-17 in the IFSB’s Compendium on Key Standards for Sound Financial Systems.

The IFSB has been an active participant at the Basel Committee, IOSCO and IAIS, and has used its presence in global regulatory forums to contribute core Sharī’ah principles underlying Islamic finance to enhance the stability of the

global financial system. However, the launching of the SDGs and Paris Agreement (COP 21) in 2015, and the increased global risk and uncertainties in the post-COVID era call for changing roles of the financial industry. Given the huge gaps in financing the SDGs and the impending climate crisis, there is a need to reshape financing that is more inclusive and sustainable. In this regard, Islamic finance can play an important role in providing an ethical and social vision of finance by focusing on its values and principles. This should go beyond the engagement of Islamic infrastructure institutions with other international multilateral organisations and leading global standard setters in introducing global regulatory reforms for the financial services industry. For example, the International Monetary Fund established an External Advisory Group consisting of Islamic standards-setting bodies and multilateral institutions, including the IFSB, AAOIFI, IIFM, IsDBI (then IRTI), etc. in 2017, to assist in identifying policy issues and enhance coordination with stakeholders in Islamic finance.³³

Islamic finance has become more global and is recognised by various international organisations and forums such as the G20. Islamic finance has

³³ <https://www.imf.org/external/themes/islamicfinance/>

been included in discussions at G20 meetings to enhance the role of finance in development. For example, the Communiqué of G20 Finance Ministers and Central Bank Governors Meeting in 2015 called for the World Bank Group and Islamic Development Bank Group to leverage Islamic finance with a focus on financing SMEs.³⁴ In 2021, the IsDB participated in the 3rd G20 Global Partnership for Financial Inclusion (PPFI) meeting as an implementing partner.³⁵

The G20 also organised a seminar entitled “Unlocking Innovative Financing Schemes and Islamic Finance to Accelerate a Just Energy Transition in Emerging Economies.”³⁶ Although there have been dialogues and discussions at the global level, there is a need for RSAs and institutions offering Islamic financial services (IIFS) to introduce the ethical and social values of Sharī’ah in Islamic financial practice. A good example of such an initiative is the Value Based Intermediation Framework introduced by Bank Negara Malaysia.

TABLE 4.17 Summary Assessment of Recommendation 16

Assessments	Islamic Banking	INBFIs	Takāful	ICM
RSA	N/A	N/A	N/A	N/A
IIFS	N/A	N/A	N/A	N/A
Infrastructure institutions	FAIR	FAIR	FAIR	FAIR

Tables 4.18 - 4.21 present the summary of the statuses of different industry segments for different recommendations from the perspectives of RSAs, IIFS, and international infrastructure institutions.

TABLE 4.18 Summary Assessment of Status: Islamic Banking

Islamic Banking	RSA	IIFS	Infrastructure institutions
RECOMMENDATION 1: <i>Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.</i>	FAIR	GOOD	GOOD
RECOMMENDATION 2: <i>Enhance the capitalisation and efficiency of institutions offering Islamic financial services (IIFS) to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.</i>	FAIR	FAIR	GOOD
RECOMMENDATION 3: <i>Enhance access by the large majority of the population to financial services and enhance access to funding for retail investors, SMEs and entrepreneurs.</i>	FAIR	FAIR	N/A
RECOMMENDATION 4: <i>Enhance Sharī’ah-compliance, the effectiveness of corporate governance, and transparency.</i>	FAIR	GOOD	GOOD
RECOMMENDATION 5: <i>Develop the required pool of specialised, competent, and high-calibre human capital.</i>	FAIR	FAIR	N/A
RECOMMENDATION 6: <i>Promote the development of standardised products through research and innovation.</i>	FAIR	GOOD	GOOD
RECOMMENDATION 7: <i>Comply with the international prudential, accounting, and auditing standards applicable to the IFSI.</i>	FAIR	GOOD	GOOD
RECOMMENDATION 8: <i>Develop an appropriate legal, regulatory, and supervisory framework, as well as an IT infrastructure that would effectively cater for the special characteristics of the IFSI and ensure tax neutrality.</i>	GOOD	N/A	GOOD

34 <http://g20.org.tr/wp-content/uploads/2015/11/Communique-G20-Finance-Ministers-and-Central-Bank-Governors-Meeting-Washington-DC.pdf>

35 <https://www.isdb.org/economic-empowerment/news/isdbs-participation-as-an-implementing-partner-to-the-3rd-g20-global-partnership-for-financial-inclusion-gpfi-meeting-under-the-italian-g20-presidency>

36 <https://g20.org/sustainable-finance-and-sharia-financing-become-options-to-achieve-energy-transition-target/>

Islamic Banking	RSA	IIFS	Infrastructure institutions
RECOMMENDATION 9: <i>Develop a comprehensive and sophisticated interbank, capital, and hedging infrastructure for IFIs, and strengthen interbank lines and capital flows with emerging economies that are key centres of global economic growth.</i>	FAIR	GOOD	GOOD
RECOMMENDATION 10: <i>Promote financial literacy initiatives, including public awareness of the range of Islamic financial services.</i>	GOOD	FAIR	N/A
RECOMMENDATION 11: <i>Strengthen and enhance collaboration among international Islamic financial infrastructure institutions.</i>	N/A	N/A	GOOD
RECOMMENDATION 12: <i>Foster collaboration among countries that offer Islamic financial services.</i>	N/A	N/A	FAIR
RECOMMENDATION 13: <i>Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.</i>	FAIR	GOOD	N/A
RECOMMENDATION 14: <i>Contribute meaningfully to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.</i>	FAIR	FAIR	N/A
RECOMMENDATION 15: <i>Foster and embrace innovative business models, including new technologies and delivery channels, in delivering Islamic financial services.</i>	FAIR	FAIR	N/A
RECOMMENDATION 16: <i>Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.</i>	N/A	N/A	FAIR

TABLE 4.19 Summary Assessment of Status: INBFIs

NBFIs	RSA	IIFS	Infrastructure institutions
RECOMMENDATION 1: <i>Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.</i>	POOR	GOOD	N/A
RECOMMENDATION 2: <i>Enhance the capitalisation and efficiency of institutions offering Islamic financial services (IIFS) to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.</i>	POOR	POOR	N/A
RECOMMENDATION 3: <i>Enhance access by the large majority of the population to financial services and enhance access to funding for retail investors, SMEs and entrepreneurs.</i>	N/A	FAIR	FAIR
RECOMMENDATION 4: <i>Enhance Shari'ah-compliance, the effectiveness of corporate governance, and transparency.</i>	POOR	FAIR	N/A
RECOMMENDATION 5: <i>Develop the required pool of specialised, competent, and high-calibre human capital.</i>	FAIR	POOR	N/A
RECOMMENDATION 6: <i>Promote the development of standardised products through research and innovation.</i>	POOR	FAIR	GOOD
RECOMMENDATION 7: <i>Comply with the international prudential, accounting, and auditing standards applicable to the IFSI.</i>	FAIR	FAIR	GOOD
RECOMMENDATION 8: <i>Develop an appropriate legal, regulatory, and supervisory framework, as well as an IT infrastructure that would effectively cater to the special characteristics of the IFSI and ensure tax neutrality.</i>	POOR	N/A	FAIR
RECOMMENDATION 9: <i>Develop a comprehensive and sophisticated interbank, capital, and hedging infrastructure for IFIs, and strengthen interbank lines and capital flows with emerging economies that are key centres of global economic growth.</i>	POOR	FAIR	N/A
RECOMMENDATION 10: <i>Promote financial literacy initiatives, including public awareness of the range of Islamic financial services.</i>	POOR	FAIR	N/A

NBFIs	RSA	IIFS	Infrastructure institutions
RECOMMENDATION 11: Strengthen and enhance collaboration among international Islamic financial infrastructure institutions.	N/A	N/A	GOOD
RECOMMENDATION 12: Foster collaboration among countries that offer Islamic financial services.	N/A	N/A	POOR
RECOMMENDATION 13: Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.	POOR	POOR	N/A
RECOMMENDATION 14: Contribute meaningfully to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.	POOR	FAIR	N/A
RECOMMENDATION 15: Foster and embrace innovative business models, including new technologies and delivery channels, in delivering Islamic financial services.	FAIR	FAIR	N/A
RECOMMENDATION 16: Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.	N/A	N/A	FAIR

TABLE 4.20 Summary Assessment of Status: Takāful

Takāful	RSA	IIFS	Infrastructure institutions
RECOMMENDATION 1: Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.	FAIR	GOOD	GOOD
RECOMMENDATION 2: Enhance the capitalisation and efficiency of institutions offering Islamic financial services (IIFS) to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.	GOOD	POOR	GOOD
RECOMMENDATION 3: Enhance access by the large majority of the population to financial services and enhance access to funding for retail investors, SMEs and entrepreneurs.	FAIR	POOR	N/A
RECOMMENDATION 4: Enhance Sharī'ah-compliance, the effectiveness of corporate governance, and transparency.	GOOD	GOOD	GOOD
RECOMMENDATION 5: Develop the required pool of specialised, competent, and high-calibre human capital.	GOOD	FAIR	N/A
RECOMMENDATION 6: Promote the development of standardised products through research and innovation.	GOOD	FAIR	GOOD
RECOMMENDATION 7: Comply with the international prudential, accounting, and auditing standards applicable to the IFSI.	FAIR	POOR	GOOD
RECOMMENDATION 8: Develop an appropriate legal, regulatory, and supervisory framework, as well as an IT infrastructure that would effectively cater to the special characteristics of the IFSI and ensure tax neutrality.	GOOD	N/A	GOOD
RECOMMENDATION 9: Develop comprehensive and sophisticated interbank, capital, and hedging infrastructure for IFIs, and strengthen interbank lines and capital flows with emerging economies that are key centres of global economic growth.	FAIR	FAIR	GOOD
RECOMMENDATION 10: Promote financial literacy initiatives, including public awareness of the range of Islamic financial services.	FAIR	GOOD	N/A
RECOMMENDATION 11: Strengthen and enhance collaboration among international Islamic financial infrastructure institutions.	N/A	N/A	GOOD
RECOMMENDATION 12: Foster collaboration among countries that offer Islamic financial services.	N/A	N/A	FAIR
RECOMMENDATION 13: Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.	GOOD	FAIR	N/A

<i>Takāful</i>	RSA	IIFS	Infrastructure institutions
RECOMMENDATION 14: <i>Contribute meaningfully to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.</i>	GOOD	FAIR	N/A
RECOMMENDATION 15: <i>Foster and embrace innovative business models, including new technologies and delivery channels, in delivering Islamic financial services.</i>	FAIR	FAIR	N/A
RECOMMENDATION 16: <i>Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.</i>	N/A	N/A	FAIR

TABLE 4.21 Summary Assessment of Status: ICM

ICM	RSA	IIFS	Infrastructure institutions
RECOMMENDATION 1: <i>Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.</i>	FAIR	GOOD	GOOD
RECOMMENDATION 2: <i>Enhance the capitalisation and efficiency of institutions offering Islamic financial services (IIFS) to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.</i>	N/A	POOR	GOOD
RECOMMENDATION 3: <i>Enhance access by the large majority of the population to financial services and enhance access to funding for retail investors, SMEs and entrepreneurs.</i>	POOR	N/A	N/A
RECOMMENDATION 4: <i>Enhance Sharī'ah-compliance, the effectiveness of corporate governance, and transparency.</i>	FAIR	Good	GOOD
RECOMMENDATION 5: <i>Develop the required pool of specialised, competent, and high-calibre human capital.</i>	FAIR	FAIR	N/A
RECOMMENDATION 6: <i>Promote the development of standardised products through research and innovation.</i>	GOOD	Good	GOOD
RECOMMENDATION 7: <i>Comply with the international prudential, accounting, and auditing standards applicable to the IFSI.</i>	FAIR	FAIR	GOOD
RECOMMENDATION 8: <i>Develop an appropriate legal, regulatory, and supervisory framework, as well as an IT infrastructure that would effectively cater to the special characteristics of the IFSI and ensure tax neutrality.</i>	GOOD	N/A	GOOD
RECOMMENDATION 9: <i>Develop a comprehensive and sophisticated interbank, capital, and hedging infrastructure for IFIs, and strengthen interbank lines and capital flows with emerging economies that are key centres of global economic growth.</i>	GOOD	Good	GOOD
RECOMMENDATION 10: <i>Promote financial literacy initiatives, including public awareness of the range of Islamic financial services.</i>	FAIR	FAIR	N/A
RECOMMENDATION 11: <i>Strengthen and enhance collaboration among the international Islamic financial infrastructure institutions.</i>	N/A	N/A	GOOD
RECOMMENDATION 12: <i>Foster collaboration among countries that offer Islamic financial services.</i>	N/A	N/A	FAIR
RECOMMENDATION 13: <i>Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.</i>	FAIR	FAIR	N/A
RECOMMENDATION 14: <i>Contribute meaningfully to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.</i>	GOOD	POOR	N/A
RECOMMENDATION 15: <i>Foster and embrace innovative business models, including new technologies and delivery channels, in delivering Islamic financial services.</i>	FAIR	POOR	N/A
RECOMMENDATION 16: <i>Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.</i>	N/A	N/A	FAIR

4.4 Opportunities and Challenges Ahead

The macro and environmental shifts in trends identified above and the discussions on the progress made on the MTR framework recommendations provide the backdrop for identifying the opportunities and challenges for the Islamic finance industry. The post-pandemic business culture has accelerated the thought process to conduct business effortlessly end-to-end. Companies are being “forced” to operate with minimal resource requirements but functional at full-scale operation. The pandemic has caused companies to rethink their operational structure, manpower requirement, logistics, etc, which will ultimately drive toward cost efficiency, optimum product reach out, better risk assessment, and profitable venture. This is a strategic initiative that requires every stakeholder to understand, embrace, and allocate resources to drive this initiative.

The future outlook for the financial services sector will be dictated by a confluence of multiple paradigm shifts, including significant advances in technological capabilities, socio-economic challenges such as widening income disparities, increased uncertainties in the post-COVID-19 era, climate risk, and a sharp focus on Sustainable Development Goals (SDGs). Given this context, the opportunities and challenges facing Islamic finance are discussed below.

4.4.1 Opportunities

The huge demand for funds to promote the SDGs calls for not only increasing the quantity of financing but also for changing its focus and quality. This calls for seeking new sources of funds and also discussing how these can be used. In particular, there will be a need to provide inclusive finance to all segments of the population and also sustainable financing to build the economic and social infrastructures more efficiently and effectively. Given the values and principles of Sharī'ah that govern Islamic finance, there are great opportunities for the industry to develop suitable products that can serve different markets. The key opportunities of the Islamic finance industry are discussed below.

Financial Inclusion

Islamic finance can play an important role in providing financial services to a large number of

households and micro and small enterprises who do not have access to finance and also do not engage with the interest-based financial system due to religious reasons. Islamic finance has made an entry into many new markets, including countries where Muslims constitute a relatively minor share of the total population. With increasing levels of financial inclusion, the potential market for Islamic finance continues to grow and presents an attractive opportunity for the industry. The characteristics of Islamic banking are more suitable to serve the needs of newer customers from economically weaker segments brought into the banking market by financial inclusion, given its emphasis on fiduciary care and the prohibition on *ribā*. In many countries, the customer segments addressed by financial inclusion strategies tend to overlap with potential customers for Islamic banking due to their faith-based preferences. This overlap enhances the potential for Islamic banking to grow and increase its market share while contributing to the much-desired financial inclusion goals.

To capitalise on this opportunity, Islamic financial institutions need to develop products and practices that are rooted in Sharī'ah principles, rather than mimicking the products of conventional banks. Such strategies are likely to benefit customers with increased access to financial services while supporting the sustainable growth of Islamic banks. While this trend is likely to be relevant to traditional Islamic banking markets, they are equally critical for newer markets for Islamic banking. Success in providing access to financial services with fiduciary care and a fair approach for economically weaker sections of the population is likely to enhance the growth potential for Islamic banking by attracting customers without faith-based preferences.

Islamic banks, however, have not been forthcoming in providing finance to a large section of poorer households and micro and small enterprises. For example, SME lending as a percentage of the total private sector lending for Islamic banks is only 2.4% compared to around 12% for conventional banks (IFC, 2014). While the supply of Islamic finance is low, on the demand side, there is a strong preference for Islamic finance in many Muslim countries. For example, the percentage of SMEs that prefer Islamic finance in Saudi Arabia, Morocco, Yemen, and Iraq were 90%, 54%, 37% and 35%, respectively (IFC, 2014:34). This creates opportunities for Islamic financial institutions in general and the Islamic MFIs and FinTechs, in particular, to fill the gap.

For the ICM, financial inclusion primarily means making investment products available to retail investors via, for instance, more ICIS-oriented offers. In this regard, the major opportunity for the ICM segment lies in the expansion of the provision of the ICIS and other Islamic funds to the retail sector or mass market. Arguably, having more retail investors in (open-ended) funds would make assets under management more stable. The evidence from the IFSB survey indicates that this is only progressing slowly. More might be achieved if relevant FinTech solutions were developed. IT-based solutions offer an opportunity to make accelerated progress, and a number of respondents to the survey indicated that they had plans to use IT to provide easier access to their products. IT may also be used effectively in marketing to the mass market.

Infrastructure Investments

Sustainable economic and social infrastructures are key to achieving economic development and SDGs. COMCEC (2019) reported that the status of overall infrastructure in OIC member countries is relatively poor on average compared to other regional groupings, and most countries will face huge financing gaps to invest in infrastructure projects. The study indicated a sample of 13 OIC member countries would require estimated infrastructure investment requirements of USD 7.2 trillion during 2016–40 and will face a deficit of USD 1.6 trillion under the current investment trends. Thus, there is an opportunity for Islamic finance to fill this gap and help countries achieve the SDGs.

Since the MTR, the need for infrastructural development has been a key driver for *shukūk* issuance.³⁷ Islamic finance contracts and structures have also been used for various brownfield and greenfield infrastructural projects either to bridge the infrastructural financing gap in general or to specifically complement conventional infrastructural financing.³⁸ Some notable examples include the Doraleh container terminal project in Djibouti, Queen Alia international airport project in Jordan, and both the foundation wind project and Karachi Thatta dual

carriageway project in Pakistan. Others are the East Klang valley expressway project in Malaysia, Prince Muhammad Bin Abdulaziz International Airport in Saudi Arabia, the Konya health campus project in Turkey,³⁹ and numerous other projects funded by *shukūk* across many jurisdictions.

Since the liabilities of banks are short-term and liquid, and the infrastructure investments are long-term and illiquid, investments by Islamic banks in infrastructure projects have been meagre. As a result, infrastructure projects use institutional investors and capital markets to raise funds. Islamic capital market intermediaries such as pension funds, and social finance such as investment *waqf*, have opportunities to play an important role in mobilising funds for infrastructure development.

As stated in an IFSB working paper on Islamic infrastructure financing,⁴⁰ the commendable supporting role of the IsDB in bridging the core infrastructural gap in member countries is noteworthy.⁴¹ In addition, the various Islamic finance infrastructure organisations have also played commendable complementing roles. For instance, the IFSB is currently developing a Guidance Note on Deepening the Islamic Capital Market, which briefly touches on aspects relating to Islamic infrastructure financing, as well as the need to provide international best practices and practical guidance on a comprehensive basis as it relates to raising infrastructural finance, and increasing the participation of institutional investors in this regard. Notably, the IIFM is also playing a crucial role in developing standardised documentation and templates for Islamic infrastructural finance contracts.

Sustainable Finance

The global community has achieved a general consensus on the science behind climate change, its potential adverse impact on humanity, and the imperative to address the risks arising therefrom. The financial services sector is widely seen as a critical lever in the overall system to manage climate change risks, both from the perspective of adverse

37 IFSB Survey on Deepening the Islamic Capital Markets, 2022, reveals that, for instance, in Nigeria sovereign *shukūk* issued for infrastructural development is always oversubscribed.

38 World Bank, IsDB, PPIAF (2017). *Mobilising Islamic Finance for Infrastructure Public-Private Partnership* <https://ppp.worldbank.org/public-private-partnership/library/mobilizing-islamic-finance-infrastructure-ppps>

39 Ibid

40 Adewale A.A. (2022) *Islamic Infrastructure Financing in a Post-COVID-19 Era: Imperatives, Prospects, Challenges* <https://www.ifsb.org/download.php?id=6774&lang=English&pg=sec03.php>

41 In addition to enormous funding resources provided to members, the IsDB, together with the Arab Petroleum Investments Corporation (APICORP), has recently established a private sector-focused infrastructure financing initiative to the tune of USD 1 billion <https://www.isdb.org/news/apicorp-and-isdb-partner-in-us-1-billion-infrastructure-financing-initiative>

impact on financial institutions, and the sector's unique position to influence climate change and related socio-economic challenges. It is now widely agreed that women and sections of society lacking access to financial services are more vulnerable to the deleterious impacts of climate change risks. Therefore, efforts and frameworks to address climate change need to be coordinated with the programmes and policies to address financial inclusion and women's empowerment. The overall climate and social inequalities are driving the financial industry to integrate environmental, social, and governance (ESG) factors in financing.

Over the recent past, a set of critical global frameworks have emerged, focussing on the need to address climate change risks, ensure sustainable financing, and build back the world in a better manner. The key organisations in this domain are the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), the Sustainable Insurance Forum (SIF), the Task Force on Climate-related Financial Disclosures, the Sustainability Accounting Standards Board (SASB) and the Carbon Disclosure Project (CDP). Going forward, it would be critical for financial institutions to be able to demonstrate compliance with the standards set out by these organisations in respect of their contribution to the wider goal of addressing climate change, ensuring financial stability, and mitigating the risks of climate change to their own safety and soundness.

Even though the broader objectives of Sharī'ah (Maqāṣid al Sharī'ah) align with ESG principles, Islamic finance is lagging in incorporating ESG-related issues in its operations. Studies show that integrating ESG issues in financing and investment decisions can enhance economic returns in the long term. The Islamic financial sector can take the lead by incorporating these dimensions in operations and help contribute to sustainable development. Islamic NBFIs, particularly the capital market intermediaries, can introduce investments that integrate ESG and Sharī'ah-compliance to increase both the economic returns and social impact. The major opportunities for the ICM segment lie in SRI and sustainable and ethical investments. Progress has already been made in green investments with the green *shukūk* issuances in many jurisdictions. However, it should be noted that ICM market players are investors in, rather than issuers of *shukūk*. More could be done to develop and market ethical funds that are Sharī'ah-compliant but also attractive to non-Muslim investors.



Over the recent past, a set of critical global frameworks have emerged, focussing on the need to address climate change risks, ensure sustainable financing, and build back the world in a better manner.

Social Finance

As indicated, the funds required to finance the SDGs are huge. Traditional financial institutions cannot finance some of the SDGs that are targeted toward the poor and social development such as health. Given the prevalence of poverty in OIC member countries, the Islamic social sector (*zakāh*, *waqf*, and *ṣadaqah*) can be used to enhance social development for the poorer sections of the population. The estimate of potential global *zakāh* collection ranges from USD 200 billion and USD 1 trillion annually, and the estimates of the value of global *waqf* assets range from USD 410 billion to USD 3 trillion (Tok et al., 2022). A 5% return on USD 1 trillion of *waqf* assets would yield USD 50 billion that can be used for social and economic development purposes. While the potential of using Islamic social finance to raise funds is great, the sector has not contributed to social development significantly due to a lack of management and inefficiencies. Thus, there is an opportunity to enhance the role of Islamic social finance in providing necessary funds that can promote social and developmental goals.

Technology-Driven Transformation

Paradigm shifts in available technological capabilities and the sharply falling cost of employing them, have the potential of offering to force FinTech-driven transformation in the broader financial services sector. Digital technology has the potential of providing financial services to all segments of the population, which is not possible in the physical world. It has the ability to develop new products and modes of service delivery that are not only compatible with emerging technologies but can exploit the opportunities being offered by the disruptive trends sweeping the financial services sector in general.

Digital transformation encompasses the changes to business technology, culture, and processes that drive better business outcomes, including a better customer experience. Artificial intelligence technology and digital application should be the base for cost and expense structure in developing the organisation's business transformation.

Given the wide-ranging benefits the financial services industry and the wider economy stand to gain from leveraging the innovation and capabilities offered by FinTech, it is inevitable to use advanced technologies in Islamic finance. Availing the opportunities to meet the financial needs in the digital era would require developing innovative operational models and products across the Islamic financial sector to enhance resilience and contribute to financial inclusion, infrastructure financing, and social finance.

Being prepared and capable of exploiting those opportunities is critical for the Islamic banking sector to contribute towards the primary socio-economic objectives of financial inclusion and bridging the income-inequality gaps. All relevant stakeholders in the Islamic banking sector need to work together to enable the fruition of FinTech-driven transformation, as it is essential to maintain the Islamic banks' competitive edge and their ability to serve customers in a Sharī'ah-compliant manner. The use of leading-edge technology is not just an enabling factor in delivering cost-effective financial services. However, it is a critical success factor for Islamic banking in sustaining its growth and transformation, as well as achieving socio-economic goals like financial inclusion and reducing income gaps.

FinTechs can enhance financial inclusion, create opportunities for asset management services, and also contribute to Islamic social finance to benefit all segments of the population. Big data and artificial intelligence can be used by banks and *takāful* operators to assess the credit quality and risks of clients. Decentralised finance uses digital technology in the form of peer-to-peer financial networks to remove third parties in financial transactions. Since some of the NBFIs and FinTechs are not as stringently regulated as banks, digital technology creates opportunities to create digital financial firms that can promote financial inclusion in a more efficient manner.

Regtech and Suptech for Islamic Finance

The drivers of FinTech and the consequent innovation on the business side can also be leveraged by the regulators to deliver effective risk-based regulation of Islamic banking, on both traditional and FinTech models. The use of the latest technological capabilities in regulation and supervision, termed RegTech and SupTech, would enable the supervisors to achieve more efficient use of their scarce supervisory resources by more accurate assessment of risk profiles of Islamic banks and well-calibrated, dynamic resource allocation capabilities. Currently, SupTech tools are available to support effective supervisory oversight on FinTech-driven business models such as mobile banking, which need to cover a huge volume of transactions as well as advanced tools such as AI-based portfolio credit risk monitoring, and NLP-based tools for monitoring compliance with disclosure rules. These tools need to be adapted for the supervision of Islamic banks and supported by suitable risk-based supervision practices for Islamic banking supervisors to ensure effective oversight balanced with the preclusion of undue regulatory burden, particularly for Fintech business models.

It is a key imperative for regulators of all segments of the Islamic financial industry, as well as the IFSB, to work towards developing risk-based regulation and supervision processes and tools which can be employed in the RegTech and SupTech domains as well as in implementing them within a fairly short period of time. Using RegTech and SupTech can lower regulatory compliance costs significantly. In particular, failure to do so would disadvantage the Islamic banking sector in terms of enjoying a well-balanced regulatory oversight, an undue regulatory burden, a weaker oversight of sector-wide risks, and an inaccurate appreciation of risks from innovative FinTech models. On the other hand, SupTech implementation by Islamic banking supervisors is a significant opportunity to further the competitive advantage of Islamic banks in enabling their growth and market penetration.

4.4.2. Challenges

The overall average growth rates of Islamic financial assets have slowed down from 8.9% during 2012-14 to 7.4% during 2014-20. In

particular, with the exception of *sukūk* issuances which saw an increase in growth rates, the average growth rates of other industry segments have declined in the 2014-20 period from the 2012-14 period. Similarly, the IFSB survey results from 8 jurisdictions also indicate the number and size of the NBFIs have decreased over time. These trends are alarming, given that Islamic financial assets had witnessed double-digit growth rates in the past. Moving forward, there is a need to understand the challenges that Islamic finance faces to develop appropriate policies that can enhance its growth.

Creating a Unique Proposition

Recognising that the Shari'ah-compliance dimension creates a unique value proposition for the customers of Islamic finance, the industry continues to face a critical challenge related to its identity. The innovations in the industry need to differentiate themselves distinctly from conventional finance. The success and growth of the financial sector are critically dependent on the trust enjoyed among their clients, given that there is a tendency to adopt a very legalistic approach to Shari'ah-compliance (form rather than substance), rather than emphasising the more ethical aspects. Since a large percentage of customers engage with Islamic finance due to religious convictions, a key challenge relates to credibility and authenticity in terms of Shari'ah-compliance with products and services.

In the period under review, innovation and product development in the Islamic banking sector have primarily been limited to adapting conventional banking products using suitable Islamic contracts. In order to achieve a high level of trust with their clients, Islamic banks must aim to provide products and services, which are firmly rooted in Shari'ah principles rather than relying on products that resemble conventional banking products. Islamic banks must aim to provide a suite of products that evoke a strong conviction among their customers that they are Shari'ah-compliant and leave the customer with a higher level of satisfaction on that score. This would require a greater degree of need for innovation to deliver a unique value proposition to target customers that addresses both the financial aspects and Shari'ah-compliance of the products involved.



All relevant stakeholders in the Islamic banking sector need to work together to enable the fruition of FinTech-driven transformation...

Aligning Islamic finance values and principles in operations can change the qualitative nature of the industry's performance. The fundamental Shari'ah principles on which Islamic banking is based are consistent with the concepts identified for addressing the primary socio-economic objectives of this day such as widening inequalities. These include wider acceptance of financial concepts, such as risk-sharing and emphasis on fiduciary care towards banking clients, which builds much-needed trust in the banking world. Islamic banking products and systems are inherently suitable for delivering greater access to banking services, which positions Islamic banking at the forefront of financial inclusion strategies. It is essential for Islamic banks to leverage the inherent benefits arising from their commitment to Shari'ah principles in developing products and strategies for enabling the achievement of financial inclusion goals, in both quality and effectiveness. The role of Islamic banking in driving progress in financial inclusion goals is critical to building trust with the weaker sections of society and enhancing access to much-needed financing, thereby contributing to the sustainable growth of the overall economy. Furthermore, the links of Islamic finance to the real economy will also enhance investments in social and economic infrastructures.

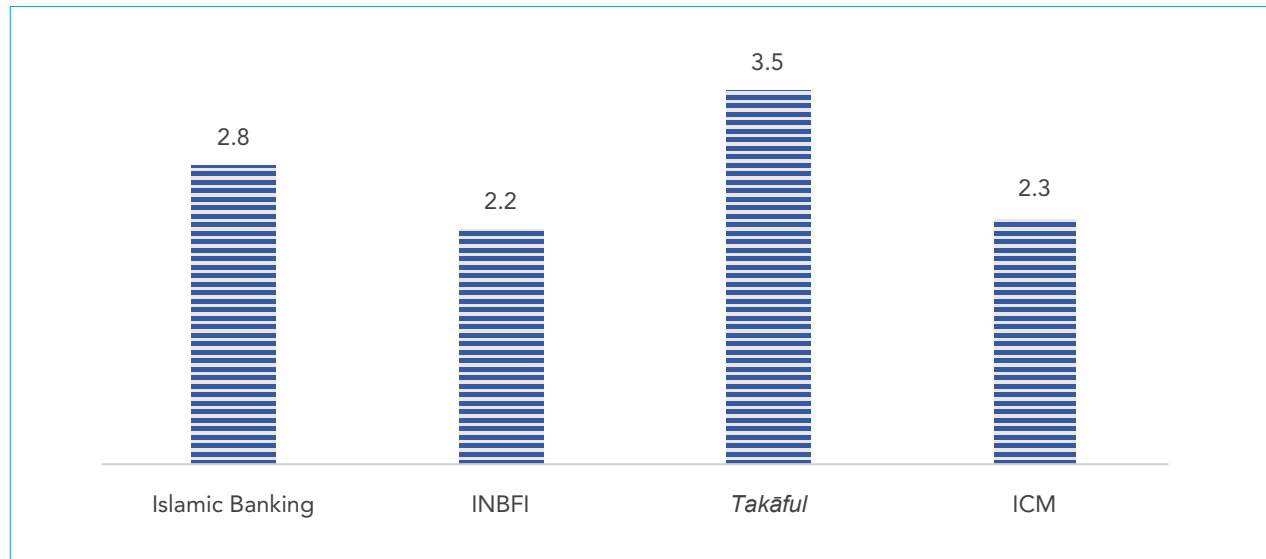
While Islamic financial institutions may not be forthcoming to deliver the ethical and social value propositions of Shari'ah, there may be a need for regulators to provide guidance. This approach can be seen in many ESG-related initiatives introduced by the regulators in the West such as the EU Sustainable Finance Taxonomy. Similarly, the value-based intermediation initiated by Bank Negara Malaysia is a good example of how Islamic finance can be guided to contribute to social and sustainable development.

Products Innovation

A key challenge faced by Islamic finance is the lack of products and services that can meet the different needs of the customer. New product lines offer another path to faster growth or fatter profit margins. The IFSB survey of IIFS shows concerns about the lack of products and services in different

industry segments. While the *takāful* sector has adequate products (score of 3.5), other industry segments lack products and services, with the average score of Islamic banks being 2.8 and scores of the ICM and INBFIs scoring 2.3 and 2.2, respectively (see Figure 4.47).

FIGURE 4.47 Lack of Products and Services (Average and Services)
(1 = Very Significant; 2 = Significant; 3 = Less Significant; 4 = Insignificant)



Source: IFSB Survey of IIFS

A disproportionately high share of innovation in Islamic banking has occurred on the assets side of the balance sheet of Islamic banks. Islamic banks also need to innovate in developing a suite of liability products that would ensure the funding for the sustainable growth of their business, particularly considering the focus on liquidity and long-term stability in the funding profile. This has led to the absence of adequate and reliable Sharī'ah-compliant funding avenues for Islamic banks and driven them to rely on liability products that mimic conventional banking products.

In many markets, Islamic banks continue to benefit from the faith-based preferences of customers in depositing their funds while tolerating sub-optimal returns provided by them. In the past, this has helped Islamic banks access low-cost funding to meet their liquidity needs as well as achieve higher margins on their financing books.

Beyond products for customers, there is also a need for supporting risk management, treasury, and liquidity management products. The survey of NBFIs reveals a lack of appropriate Sharī'ah-compliant

products and instruments are challenges facing the IIFS. Half of the NBFIs indicate facing challenges that are significant or very significantly related to risk management instruments, and the numbers are 68.8% and 56.3% of the INBFIs for liquidity management tools and treasury instruments, respectively.

Human Capital

The evolution and growth of Islamic finance continue to be challenged by the lack of an adequate talent pool for various key functions, such as product development, risk management, and regulation and compliance, among others. IFC (2014) identifies problems of financing SMEs in nine Arab countries as weak management, a lack of financial documentation, and a conservative lending approach, resulting in highly non-performing loans.

As discussed under Recommendation 5 above, all sectors indicate facing challenges of getting people with the right skills, with the concern being more serious in the INBFI, ICM, and Islamic banking

sectors in that order. There is a need to develop customised talent to address areas of future focus and identified challenges, including, but not limited to, Sharī'ah-compliant FinTech, leveraging Islamic banking to address financial inclusion, product development with a focus on sustainable finance, and climate risk management.

Many new institutions of learning for Islamic finance, as well as research institutions, have been established or developed over the past decade, thereby increasing the capacity to produce skilled and knowledgeable professionals for Islamic banking. However, the growth in business activity and the number of new Islamic banks have driven a far higher rate of demand growth for Islamic finance professionals. This leaves us with a continuing need to nurture talent and develop human resources at various levels that are consistent with the broad strategic aims of the Islamic banking industry.

While there are many Islamic institutions providing Islamic finance training and certification, most of them focus on Islamic banking and, to some extent, capital markets. In contrast, very few educational programmes provide training on other segments, such as the *takāful* and Islamic NBFIs. The IFSB survey reveals that 43.8% of the NBFIs indicate facing significant or very significant challenges related to a lack of skilled human capital.

Risks, Stability and Resilience

The global financial crisis of 2008 and the recent COVID-19 pandemic show that negative shocks can create a crisis and affect economies and livelihoods negatively. While some sources of negative shocks are exogenous (such as COVID-19), many crises originate endogenously within the financial sector. There is, thus, a need for a stable financial system that can contribute to sustainable development. An economy with a diversified financial sector that entails a large NBFIs sector would be more stable and also be able to dampen the impact of a crisis originating from other sources. Furthermore, the prevalence of equity modes of financing relative to debt would make the financial system more stable.

Given that Islamic finance has a preference for equity-based financing and the dominant mode of financing of Islamic banks is debt-based, expansion of Islamic NBFIs that use various modes of financing that are linked to the real economy can potentially enhance the stability of the financial sector. Increased risks also have the potential for

the *takāful* sector to develop new products that can mitigate the risks.

Risks and Operational Resilience

The financial industry is operating in an environment with high levels of risks arising from global geopolitical uncertainties, climate crises, and technological developments. The recent experience of the financial industry, including the Islamic finance sector, in dealing with the consequences of a large, systemic, and unexpected risk event – the COVID-19 pandemic – has highlighted the criticality of the operational resilience of the IIFS. The need to achieve a high level of operational resilience is critical for sound operations and sustainable growth of IIFS, as the possibility of more such black swan risks with the potential to deliver material adverse impacts, is likely to be much higher in the future. Having experienced the challenges of having to deal with the consequences of the COVID-19 pandemic, the global financial regulatory community has stepped up to prepare the financial services sector to deal with any similar risk events in the future.

The Islamic finance industry institutions should also focus their efforts on enhancing their operational resilience to a very high level so that they are not seen as weaker entities vulnerable to the adverse impact of such black swan events. The inability to demonstrate a high level of operational resilience to deal with such risks, which ranges from pandemics to cyber-attacks, will detract from the competitiveness of IIFS. Incidents of such risks affecting Islamic finance can potentially damage the franchise value of IIFS and limit their ability to achieve sustainable growth.

The Islamic financial services industry (IFSI) must prepare for dealing with climate risks which are now considered investment risks. Companies should include climate risk assessment more consistently in their broader enterprise risk management framework, which can help in identifying and correlating impacts across different lines of business as well as investments. This would give *takāful* operators a holistic view of climate risk exposure, thereby helping top management with decision-making.

While Islamic banks and other financial intermediaries must integrate ESG risks into risk assessment and mitigation strategies, the *takāful* industry must deal directly with new types of risks arising from environmental crises. The rising climate-related losses can threaten the viability

of *takāful* operators' books of businesses and investment portfolios, and they must be prepared to meet this challenge. Regulatory oversight on this matter plays a critical role to educate and encourage *takāful* operators to conduct research and analyse collected data for industry use and review.

Beyond the common risks facing the financial industry, Islamic finance faces additional risks that are not well understood. Islamic financial products are complex, often involving layers of transactions and third parties beyond the financial institution and client, which can introduce additional risks (Kammer et al., 2015).

Environmental and Climate Change Crisis

In addressing climate change and the risks driven by it, the integration of Shari'ah must extend beyond a compliance approach to how it affects real change in the behaviour and culture of the Islamic financial institutions towards embracing the sustainability strategy. For example, in the *takāful* industry, it is suggested to include the consideration of ESG principles and Maqāṣid al Shari'ah as part of the key determinants in the underwriting, claims, investment activities, and other processes within the organisation. The *takāful* operators may also take into consideration the risks related to the negative impacts in the underwriting process, such as climate risk, biodiversity loss and deforestation, labour and human rights abuse, pollution, corruption etc., either directly or through their supply chain. Islamic banks may also include sustainability risk in the financing approval process, even though the nature of business will provide high returns to banks. However, the implementation of this suggestion requires further assessment and confirmation of the possible impacts and market disruption that may be created in the process.

Technology Related Risks

While FinTechs create opportunities for increasing efficiency and financial inclusion, they also entail risks that need to be dealt with. The risks include consumer and investor protection; the clarity and consistency of regulatory and legal frameworks, and the potential for regulatory arbitrage and contagion; the adequacy of existing financial safety nets, including lender-of-last-resort functions of central banks; and potential threats to financial integrity (IMF and WB, 2018: para 4). Saal et

al. (2017) identified challenges for FinTechs in emerging markets as low levels of formal financial services, lower income and financial literacy levels, underdeveloped technology and venture capital ecosystems, and weak financial infrastructures, such as undeveloped payments systems, customer credit data, telco and internet coverage, and power and legal enforcement of contracts. Furthermore, cyber-security and identity theft are also serious risks that need to be considered.

Other than the impending climate risks, the use of technology in finance will increase cyber risks. Given the wide-ranging benefits, the financial services industry and the wider economy stand to gain from digital technologies, the only option is to develop and implement effective mitigation and control strategies to address cyber risk. These strategies and the consequent implementation tools and methodologies are not likely to be idiosyncratic to the Islamic banking sector and would typically be common to those used by the wider financial services industry.

However, it is critical to highlight the threat posed by Cyber risks to Islamic banks and persuade them to implement Cyber security measures and strategies in an effective manner. Failure to do so might expose Islamic banks to potential cyber-attacks, which can lead to the destruction of their franchise, including adverse effects on the whole Islamic banking sector if Islamic banks were to be seen as weak in Cyber security.

The growth of the FinTech sector in the future will depend on the digital infrastructure in place in different jurisdictions. As indicated under Recommendation 5, the lack of IT infrastructure is considered a challenge faced by the Islamic banking and INBFI sectors. The IFSB survey on IIFS shows that 37.6% of the NBFIs indicate that they face significant or very significant challenges related to the lack of IT infrastructure.

There are numerous discussions and developments on IT and digital transformation between the industry and regulators. The regulators have put effort to ensure that the IT infrastructure and digital platform environment are conducive for the industry to expand their services while mitigating risks. It is up to the individual financial institutions to incorporate IT infrastructure as part of their ongoing strategic action business plan.

Financial Literacy

On the demand side, Islamic financial literacy can hinder the growth of Islamic finance. Financial literacy is an important instrument for consumer protection and applies to clients of all industry segments. While for the ICM, clients must understand the risk-return features of different asset types, for NBFIs that are financing clients, the financial and Sharī'ah knowledge of the products is relevant. As shown under Recommendation 10 above, a lack of understanding of Islamic financial products is significant for all Islamic finance industry segments other than *takāful*.

While the challenge of financial literacy must be tackled at different levels, institutions offering Islamic financial services (IIFS) can play an important role in raising the awareness of their clients. For example, the relatively high scores for *takāful* operators in financial literacy can be explained by the steps taken by the industry to keep the public aware of its existence and the services rendered. The RSAs have also played their roles in educating the public and the industry on *takāful*. Only a small pocket of society may lack the knowledge of *takāful*, which can be overcome by strategically reaching out using digital platforms and social media.

Legal and Regulatory Framework

Since the financial sector is one of the most regulated industries in contemporary economies, a lack of supporting legal and regulatory frameworks can inhibit the growth of the financial sector in general. New developments and risks are changing the regulatory landscape of the financial sector. There was a major overhaul of banking regulations after the global financial crisis (GFC). The regulatory framework for banks has become very stringent after the GFC and increases the costs constraining their growth. Furthermore, the impairment of assets and increase in risk-weighted assets due to COVID-19 will reduce the banking sector's capacity to support the real economy in the near future (PWC, 2020a).

While the regulatory changes in the aftermath of the GFC have made the banking sector well-capitalised and stable, the regulatory regimes for other sectors need attention. The NBFI sector is not as robust. The IFSB survey of RSAs discussed under Recommendation 8 shows that most of the countries surveyed had laws and regulations related to Islamic banking, *takāful*, and ICM. However, only a few countries had jurisdictions with laws



The growth of the FinTech sector in the future will depend on the digital infrastructure in place in different jurisdictions.

and regulations related to NBFIs. There is a need to enact supporting laws and regulations for all segments of Islamic finance in general and different verticals of the INBFI sector in particular.

The industry and the regulatory bodies need to focus on developing risk-based regulations to support the FinTech-driven transformation in the Islamic banking industry. Policymakers and regulators need to adopt a flexible and dynamic approach, with a risk tolerance calibrated to encourage the innovation required to enable the success of FinTech entities in the IFSI. The regulators and the industry should also devote attention to understanding the needs of customers in this changing world of increasing digital access and be open to developing products that would magnify the potential of Islamic finance in meeting socio-economic goals like financial inclusion.

Furthermore, the FinTech sector is expected to grow in the future, and that would require an appropriate legal and regulatory framework. The factors responsible for the progress achieved in FinTech, and better supervisory capabilities through RegTech and SupTech in terms of generational progress in technological capabilities, are also responsible for the proliferation of cyber risk, the most ominous risk faced by the financial services sector. The challenge for regulators is to understand the risks in various FinTech verticals and develop an appropriate risk-based regulatory approach to help promote an efficient, effective, and resilient FinTech sector.

Regulators can also play a part in promoting sustainable financing by providing an enabling legal and regulatory framework. Almost all the global standard setters have embarked on well-defined programmes to develop standards and capabilities among the financial services regulators to design and implement frameworks and regulations for addressing risks arising from climate change and sustainable financing.

Given the impending environmental crisis, standards addressing climate change risks and wider sustainable financing techniques for the Islamic finance sector, and regulations to enable IIFS to adopt global standards for sustainable development, should be a vital component of the IFSB standards. In addition to developing the necessary standards for sustainable financing and green capital markets in a Sharī'ah-compliant manner, there is a need to focus on capacity development among the RSAs to implement these standards in a timely manner. IFSB's programmes aimed at capacity development need to include workshops and other efforts addressing these areas. The IFSB needs to forge collaborations with the NGFS and TFCD, among other global standard setters, to develop customised sustainable financing standards for the Islamic finance sector.

While the stringent regulatory framework introduced after the GFC is increasing the costs of banks and constraining their growth, it creates opportunities for other sectors to grow. In particular, the NBFIs and FinTechs have opportunities to expand in markets that Islamic banks do not serve due to regulatory burdens. However, the growth of the Islamic NBFi and FinTech sectors would partly depend on a supporting legal and regulatory framework. The survey results show that the current overall regulatory framework for NBFIs is relatively poor, and there is room for improvement.

4.5. Additions or Amendments to Framework Recommendations

The 16 Recommendations presented in the MTR were grouped across three themes or pillars: enablement, performance and reach. The period since the MTR of the 10-year framework and recommendations has been marked by paradigm shifts in the overall environment and the core operating model of financial services businesses in general. Given the current developments and future aspirations, the recommendations can be revised by considering the context in terms of the development aspirations and the changing environment under which the Islamic financial industry is operating. Accordingly, in this assessment study, the themes in the MTR (enablement, performance and reach) have been changed to new pillars of development, transformation and access. While development deals with issues fostering the conditions for the industry to thrive and grow, transformation relates to qualitative changes to enhance Islamic finance

value propositions in all efforts, policies, and initiatives in all sectors within the IFSI. Finally, access focuses on expanding the potential users and beneficiaries of Islamic financial products by increasing financial inclusion.

The recommendations of the MTR are reviewed and amended, and new recommendations are suggested after considering the current issues and future prospects related to the climate crisis, technological revolution, global uncertainties in the post-COVID-19 era, and achieving the SDGs. Additions or amendments of recommendations in the light of the pillars of development, transformation, and access are discussed next.

4.5.1. Development

The financial industry performs important functions related to payment systems, mobilisation and allocation of funds, and risk management that promotes economic development. Since many Muslims do not engage with the conventional financial sector due to religious convictions, the development of Islamic finance has become an essential development tool in many Muslim countries. In particular, achieving the SDGs will require huge resources, and the financial sector can play an important role in mobilising resources that can contribute to sustainable development in an increasingly uncertain environment. The recommendations that are related to the sound development of the Islamic financial sector are presented below.

Recommendation 1: *Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.*

No change suggested: This is a crucial recommendation for the development of the IFSI. The survey of RSAs suggests that while the status of transparency and disclosure requirements is fair for the Islamic banking, *takāful* and ICM sectors, the status for the INBFi segment is poor. The RSAs must ensure that the operations of the IIFS in all segments are in a free, fair, and transparent manner.

Recommendation 5: *Develop the required pool of specialised, competent, and high-calibre human capital, and ensure the utilisation of state-of-the-art technology.*

No change suggested: The quality of human capital will determine the future development of Islamic finance. Responses to the IIFS survey indicate that the overall human capital is fair for the Islamic banking, *takāful*, and ICM sectors, but the status for the INBFI segment is poor. There is room for improvement in developing human capital and utilising state-of-the-art technology in all sectors of the industry.

Recommendation 6: *Promote the development of standardised products through research and innovation.*

No change suggested: While the use of standardised products by IIFS in Islamic banking and ICM sectors is good, it is fair in the *takāful* and INBFI sectors. Islamic products require Sharī'ah approval, and only a small number of countries have national Sharī'ah boards or authorities, which can hamper the standardisation of products. Greater product standardisation not only can enhance growth but also facilitate access. The RSAs can help in the standardisation of products by providing Sharī'ah standards that can be used to develop the products.

Recommendation 7: *Enhance the implementation of the international prudential, accounting, and auditing standards applicable to the IFSI.*

No change suggested: The growth and stability of the financial sector depend on implementing sound accounting and auditing standards. However, Islamic finance uses Sharī'ah-compliant contracts that require different accounting treatment. While the survey of the RSAs indicates the adoption of international Islamic prudential, accounting, and auditing standards is fair in all the segments of the industry, there is room for improvement.

Recommendation 8: *Develop an appropriate legal, regulatory, and supervisory framework, as well as an IT infrastructure that would effectively cater to the special characteristics of the IFSI and ensure tax neutrality.*

Change suggested: This is a composite recommendation that needs to be broken down into two separate proposals. Given the importance

of digital technology in driving the development of the financial sector, it is suggested to have a separate recommendation related to digital infrastructure (see recommendation 17). Thus, the amended Recommendation 8 will focus on the legal, regulatory, and supervisory frameworks of the IFSI. It is suggested that the Recommendation be changed to the following:

Amended Recommendation 8: *Develop an appropriate legal, regulatory, and supervisory framework that would effectively cater to the special characteristics of the IFSI and ensure tax neutrality.*

Recommendation 9: *Develop comprehensive and sophisticated interbank, capital, and hedging (tahawwut) market infrastructures for the IFSI.*

No change suggested: The survey shows that the liquidity infrastructure in the sample jurisdictions is good for the ICM, fair for the Islamic banking and *takāful* segments, and poor for the INBFI segment. There is a need to enhance the liquidity infrastructure for all Islamic finance segments to ensure their growth.

Recommendation 12: *Foster collaboration among countries that offer Islamic financial services.*

No change suggested: While recognising the differences in the political and legal systems of different countries, the global growth of the Islamic financial industry would require coordination and collaboration among different countries to develop a common understanding of the basic principles of Islamic finance and its role in development. In this regard, international multilateral organisations and infrastructure institutions can play an important role.

Recommendation 13: *Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.*

No change suggested: The survey of IIFS shows that while the financial linkages of Islamic banks are good, it is fair for the *takāful* and ICM sectors and poor for INBFIs. There is a need to continue to enhance the linkages to enhance synergies and growth of Islamic finance. For example, the mid-term review (MTR) mentioned the development of the international *shukūk* market as a means of providing domestic institutions access to funding beyond their borders.

Recommendation 14: *Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.*

No change suggested: This recommendation was added to the MTR. The IFSB RSAs survey shows that the strategic plans for linkages between the different components of Islamic financial services for the ICM and *takāful* segments to be good. However, it is fair for Islamic banks and poor for INBFIs. Moving forward, there is a need to develop strategic plans to expand the INBFI sector by identifying the linkages and synergies with other sectors. This will be particularly true for FinTechs that will be grouped under the NBFi sector.

New Recommendations

Recommendation 17: *Develop and improve the ecosystem and technological infrastructure to facilitate digital transformation and transactions to develop the FinTech sector.*

The rationale for suggestion: FinTech-driven transformation is identified as a significant and emerging opportunity for the IFSI to drive its growth and enhance financial inclusion. It is well-accepted that high levels of financial inclusion facilitate narrowing the socio-economic divide and contribute to SDGs. The pandemic has shown that people who have access to and use digital technology are more resilient than those who do not, and there are suggestions for making connectivity a fundamental right (DB, 2020). However, the growth of the Islamic FinTech sector will depend on the ecosystem and digital infrastructure that can support financial transactions. Among others, enabling digital infrastructure for financial services would include digital connectivity infrastructure, a

digital payments system and credit infrastructure, and a well-disseminated personal digital ID system (Pazarbasioglu et al., 2020). Furthermore, since establishing FinTechs would require investments, a vibrant venture capital industry would be needed to help promote them. In this regard, Islamic venture capital and private-equity firms can play an important role.

Recommendation 18: *Develop a smart, proportional, flexible, and adaptable regulatory framework to foster innovation and facilitate the growth of FinTechs.*

Other than enabling digital infrastructure, the development of the FinTech sector would require supporting smart regulations. There is a need to have appropriate financial-services regulations that strike a balance between protecting investors, consumers, stability, and the growth of FinTechs. While recognising the benefits of FinTechs, such as democratising finance and provision of services more efficiently, the regulators must also mitigate the risks and protect the consumers. In particular, the threat of cyber risk and identity theft is increasing in frequency and intensity. It is essential to develop, implement, and enforce cyber security guidelines and other regulations to enable IIFS to manage technological risk exposures. Furthermore, the RSAs can introduce other facilitative programmes, such as sandboxes and innovation hubs, as a part of a smart regulatory framework to promote the sector.

4.5.2. Transformation

All countries have signed up to achieve the ambitious SDGs. However, COVID-19 during the past two years and the impending crisis, and the increased global risks would make achieving the SDGs more challenging. The financial sector must transform the qualitative nature of financing by incorporating ESG factors in its operations. The financial industry must transform to meet the new demand for sustainable development that will take place in an increasingly uncertain environment with climate risks and technological transformations. Furthermore, the digital revolution will also transform the organisational structures and business models of financial institutions. The recommendations that are relevant to transformation are presented in a subsequent subsection.

Recommendation 2: *Enhance the capitalisation and efficiency of IIFS to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.*

No change suggested: This recommendation is important to ensure the resilience of IIFS during uncertain and turbulent times. The survey results, however, indicate that the adoption of IFSB standards is fair for the Islamic banking sector and poor for the INBFI, *takāful*, and ICM sectors. Moving forward, there is a need to increase the adoption of the IFSB standards in different jurisdictions.

Recommendation 4: *Enhance Sharī`ah-compliance, the effectiveness of corporate governance, and transparency.*

No change suggested: Since Sharī`ah-compliance is a unique feature of Islamic finance defining its identity, it is important for IIFS to have good governance structures, as not doing so can lead to reputational damage. The survey of IIFS shows that the Islamic banking, *takāful*, and ICM sectors registered a “good” performance in terms of Sharī`ah-compliance, the effectiveness of corporate governance, and transparency, while the INBFI sector scores “fair”.

Recommendation 11: *Strengthen and enhance collaboration among the international Islamic financial infrastructure institutions.*

No change suggested: Different international organisations and infrastructure institutions are collaborating to advance the growth and prominence of the IFSI. However, going forward, there is a need to reorient the direction of the activities of these organisations to help support the IFSI to adopt new technologies, navigate the risks, and contribute to the SDGs.

Recommendation 15: *Foster and embrace innovative business models, including new technologies and delivery channels, in offering Islamic financial services.*

No change suggested: This recommendation was added to the MTR. Going forward, this recommendation is very relevant to the growth of the IFSI in general and FinTechs in particular. The impact of FinTech and the innovative business models it has brought to the financial services industry is clearly seen as vital factors for advancing financial inclusion in an efficient manner.

Recommendation 16: *Strengthen contributions to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.*

No change suggested: This recommendation was added to the MTR. The Islamic financial system can benefit from the values and principles of Islamic finance that focus on ethical principles, encouraging equity-based financing and linking finance to the real economy. The engagement of different international infrastructure institutions with global stakeholders has been fair and can be enhanced further.

New Recommendations

Recommendation 19: *Increase the number of asset and equity-based financial institutions and risk-sharing financing modes to have more balanced debt and equity financing in the economy to enhance financial stability and growth.*

The rationale for suggestion: In addition to factors such as the lack of market discipline and prudential regulations, lax credit granting practices, etc., most economic and financial crises have roots in excessive debt levels. As indicated, global debt levels have increased to a record of USD 305 trillion in the first quarter of 2022, representing 348% of global GDP.⁴² High levels of debt introduce fragilities and can lead to bankruptcies that can result in huge losses and hardships at both micro

42 <https://eurofinancialreview.com/2022/05/18/global-debt-soars-to-record-high-over-305-trillion/>

and macro levels. A recent example of turmoil in Sri Lanka shows the harmful impact high levels of debt can impose on the economy.

While prudential regulations post-GFC have bolstered the resilience of the global financial services industry, another way of bringing about stability in economic and financial systems is to use more asset and equity-based modes of financing. Risk sharing is considered by some authorities to be a fundamental principle that underlies the potential of Islamic banking to ensure financial stability, minimise the negative impacts of excessive debt, strengthen the link between the real and financial sectors, and promote shared prosperity among various stakeholders based on allocative efficiency and equity. The ethos and values of Sharī'ah, therefore, should encourage the use of equity modes of financing and minimise the use of debt.

Notwithstanding, the limited use of risk-sharing contracts is due to factors like the high regulatory risk weights required on *muḍārabah* and *mushārahah* assets (excluding diminishing *mushārahah* for home purchase finance) and the agency and transaction costs attached to such assets.⁴³ Another factor is the lack of human resources with the requisite knowledge and understanding of the specificities of risk-sharing contracts.⁴⁴

While it may be difficult for Islamic banks to use asset and equity-based modes of financing due to different reasons, risk-sharing financing can be enhanced by increasing the share of asset and equity-based INBFIs (such as leasing companies, venture capital firms, and private equity funds) and securities. Furthermore, asset and equity-based financing tend to be long-term and can have a positive impact on growth.

Recommendation 20: Provide regulatory guidelines and taxonomies reflecting a

broader maqāṣid perspective that incorporate environmental, social, and governance (ESG) issues and contribute to SDGs.

The rationale for Suggestion: This recommendation is based on the need to capitalise on the vast and emerging opportunities provided by the strong trends towards sustainable financing, green capital markets, and ESG and SDG-friendly investments. The global move towards sustainable financing and investments aimed at advancing SDGs can be identified as a critical emerging opportunity for the growth of Islamic finance. In this regard, the regulatory framework and implementation guidance are vital to enabling IIFS to capitalise on the growth potential offered by the sustainable financing market, as well as facilitate the competitiveness of IIFS by ensuring compliance with the evolving global standards aimed at advancing SDGs and sustainable financing. This would entail ensuring that the adoption and implementation of such standards are complemented with adequate risk management processes, monitoring, reporting and communication, as well as national and international cooperation and coordination.

Notable examples in this regard are the pioneering introduction of the *Socially Responsible Investment (SRI) ṣukūk Framework* issued by the Securities Commission Malaysia in 2014,⁴⁵ and in both Saudi Arabia and Oman, which introduced sustainability-related debt frameworks in 2021,⁴⁶ the IsDB, *Sustainable Finance Framework* in 2019,⁴⁷ the State Bank of Pakistan (SBP), *Prudential Regulations for Infrastructural Projects Financing* in 2016, and the Bank Negara Malaysia (BNM), *Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF)* in 2019.⁴⁸ Similarly, the Otoritas Jasa Keuangan (OJK) has issued, *OJK Regulation (POJK) 51/POJK.03/2017* on "Sustainable Finance Applications for Financial Services Institutions, Issuers and Public Companies." Also, the notion of Maqāṣid al Sharī'ah can be used to identify the values and principles that promote social and sustainable development. Specifically,

43 Adewale, A. & Archer, S. (2019), *Risk-Sharing in Islamic Banking*. IFSB Working Paper No: WP-10/05/2019. <https://www.ifs.org/download.php?id=5160&lang=English&pg=sec03.php>

44 Rosnah Omar (2016), *Credit Risk Management Policy (CRMP) for Mushārahah Profit and Loss Sharing Contracts (MPLSC): A Case Study of an Islamic Bank in Malaysia*. Unpublished PhD. Thesis Submitted to the IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia

45 According to the Securities Commission Malaysia, "the SRI- ṣukūk framework facilitates the financing of eligible SRI projects encompassing natural resources, renewable energy, energy efficiency, community, and economic development and *waqf* properties or assets."

46 Based on the recommendations of the Task Force on Climate-Related Financial Disclosures, the IFSB has also included limited climate and sustainability-related disclosures in some of its issued standards and is currently working on a guidance note on sustainability in Islamic capital markets.

47 According to the IsDB, "the framework provides a model for Islamic banks and financiers seeking to align their financing with SDGs across their financing portfolios."

48 The VBIAF is a guidance document jointly produced by the Bank Negara Malaysia and a few other organisations within and outside Malaysia. In addition to serving as a reference guide for financial institutions that want to incorporate ESG risk considerations in their own-risk management system, the VBIAF also "aims to facilitate the implementation of an impact-based risk management system for assessing the financing and investment activities of Islamic financial institutions in line with their respective VBI commitments." <https://www.bnm.gov.my/-/value-based-intermediation-financing-and-investment-impact-assessment-framework-guidance-document>

a *maqāṣid*-based index can be developed by infrastructure institutions such as AAOIFI or the IFSB. The role of the IsDB is also well-noted in this regard, especially its inclusion of climate change action as part of its core institutional mandate.

4.5.3. Access

The inclusion of all households and businesses to access and use financial services is essential to improve lives, reduce poverty, and promote economic growth. Data, however, show a significant percentage of the population in the OIC countries does not have access to basic financial services. From a regulatory perspective, increasing financial access would require striking a balance between the objective of inclusion and those of stability, integrity and protection (Tomilova and Valenzuela, 2018). The recommendations that can enhance access to financial services for all segments of the population are presented below.

Recommendation 3: *Enhance access by the large majority of the population to financial services and enhance access to funding for retail investors, SMEs and entrepreneurs.*

Although financial access and inclusion is an overarching goal and necessary for achieving the SDGs, traditional financial institutions have been reluctant to provide financial services to the poor and microenterprises due to higher risks and costs. The IIFS survey shows that while Islamic banking and INBFIs perform fairly in terms of financial inclusion, the *takāful* sector performs poorly. Thus, there is a need to take appropriate steps to enhance financial inclusion. More could be done to develop and market ethical funds that are Sharī'ah-compliant but also attractive to non-Muslim investors. Moreover, in the ICM sector, there is also a need to develop more ICIS oriented for retail investors.

Recommendation 10: *Promote financial literacy initiatives, including public awareness of the range of Islamic financial services.*

No change suggested: Financial literacy is a demand-side issue and necessary for customers

to make informed financial decisions. Given the unique features of Islamic finance, there is a need to take the initiative to enhance the literacy of Islamic financial products. The overall public awareness of Islamic financial services is fair for the Islamic banking, INBFIs and ICM sectors. A lack of knowledge about Islamic financial products can lead to less demand, which can hamper the growth of the industry.

New Recommendations

Recommendation 21: *Apply broader maqāṣid notion of Sharī'ah-compliance in the operation of IIFS to enhance the authenticity of products, create social impact, and mitigate socio-economic challenges such as income and wealth disparities.*

The rationale for suggestion: Focusing on the narrow notion of legal compliance with Sharī'ah rules will not be able to serve the social goals of Islamic finance. There is a need to broaden the concept of Sharī'ah-compliance by including *maqāṣid* perspectives and incorporating ESG-related issues in the operations of IIFS. Aligning the practice of IIFS with the values and goals of Sharī'ah must be translated into innovative business models and authentic products that serve the needs of the community.

Recommendation 22: *Improve the institutional development, efficiency, and effectiveness of Islamic social finance institutions to enhance their social and developmental impacts.*

The rationale for suggestion: The potential of using *zakāh*, *waqf*, and *ṣadaqah* for financial inclusion and social purposes is huge. As indicated, the potential global *zakāh* collection ranges from USD 200 billion and USD 1 trillion annually, and the estimated value of global *waqf* assets ranges from USD 410 billion to USD 3 trillion (Tok et al., 2022). While the developmental impact of these Islamic social institutions is difficult to measure, it seems likely that these institutions are not being used optimally. Given the huge funding gap to achieve the Sustainable Development Goals (SDGs), the potential of using these traditional social instruments is huge. While *zakāh* cannot be used for microfinance, as it must be transferred to the beneficiaries, it can be used along with microfinance to support capacity building

and create synergies to support the poor and needy. New models in which cash *waqf* and *ṣadaqah* can be used for different types of financial services,

such as interest-free loans and micro-*takāful*, can contribute significantly to alleviating poverty and reducing vulnerability against negative shocks.

TABLE 4.22 Summary of Recommendations Related to Development

Existing Recommendations	Comments
RECOMMENDATION 1: <i>Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.</i>	No change
RECOMMENDATION 5: <i>Develop the required pool of specialised, competent, and high-calibre human capital.</i>	No change
RECOMMENDATION 6: <i>Promote the development of standardised products through research and innovation.</i>	No change
RECOMMENDATION 7: <i>Enhance the implementation of the international prudential, accounting, and auditing standards applicable to the IFSI.</i>	No change
RECOMMENDATION 8: <i>Develop an appropriate legal, regulatory, and supervisory framework, as well as an IT infrastructure that would effectively cater for the special characteristics of the IFSI and ensure tax neutrality.</i> Amended to: <i>Develop an appropriate legal, regulatory, and supervisory framework that would effectively cater for the special characteristics of the IFSI and ensure tax neutrality.</i>	The recommendation is amended. Since digital infrastructure is crucial moving forward and key to the development of FinTechs, it is added as an additional recommendation. See recommendation 17.
RECOMMENDATION 9: <i>Develop comprehensive and sophisticated interbank, capital, and hedging infrastructures for the IFSIs.</i>	No change
RECOMMENDATION 12: <i>Foster collaboration among countries that offer Islamic financial services</i>	No change
RECOMMENDATION 14: <i>Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.</i>	No change
New Recommendations	Comments
RECOMMENDATION 17: <i>Develop and improve the technological ecosystem and infrastructure to facilitate digital transformation and transactions to develop the FinTech sector.</i>	The growth of digital finance and FinTechs would require a supporting digital ecosystem and infrastructure.
RECOMMENDATION 18: <i>Develop a smart, proportional, flexible, and adaptable regulatory framework to foster innovation and facilitate the growth of FinTechs.</i>	Other than introducing smart regulations related to FinTechs that can promote sustainable and inclusive development, other facilitative programmes, such as sandboxes and innovation hubs, can be introduced.

TABLE 4.23 Recommendations Related to Transformation

Existing Recommendations	Comments
RECOMMENDATION 2: Enhance the capitalisation and efficiency of institutions offering Islamic financial services (IIFS) to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.	No change
RECOMMENDATION 4: Enhance Sharī'ah-compliance, the effectiveness of corporate governance, and transparency.	No change
RECOMMENDATION 11: Strengthen and enhance collaboration among the international Islamic financial infrastructure institutions.	No change
RECOMMENDATION 15: Foster and embrace innovative business models, including new technologies and delivery channels, in delivering Islamic financial services.	No change
RECOMMENDATION 16: Strengthen contributions to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.	No change
New Recommendations	Comments
RECOMMENDATION 19: Increase the number of asset and equity-based financial institutions and risk-sharing financing modes to have more balanced debt and equity financing in the economy to enhance financial stability and growth.	There is a need to move towards more risk-sharing modes of financing to reduce overall debt levels and promote financial stability. This can be done by promoting more asset and equity-based NBFIs such as venture capital and private equity.
RECOMMENDATION 20: Provide regulatory guidelines and taxonomies reflecting a broader maqāṣid perspective that incorporate environment, social, and governance (ESG) issues and contributes to SDGs.	Providing regulatory guidelines and taxonomies of maqāṣid perspectives and ESG criteria would help IIFS transform their operations to inclusive and sustainable financing and contribute to SDGs.

TABLE 4.24 Recommendations Related to Access

Existing Recommendations	Comments
RECOMMENDATION 3: Enhance access by the large majority of the population to financial services and enhance access to funding for retail investors, SMEs and entrepreneurs.	No change
Recommendation 10: Promote financial literacy initiatives including public awareness of the range of Islamic financial services.	No change
RECOMMENDATION 13: Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.	No change
New Recommendations	Comments
RECOMMENDATION 21: Apply a broader notion of Sharī'ah-compliance in operations of IIFS to create social impact and mitigate socio-economic challenges like income and wealth disparities.	There is a need to broaden the notion of Sharī'ah-compliance from narrow legal compliance to a broader notion of Sharī'ah-compliance that includes Maqāṣid al Sharī'ah to increase the social and developmental roles of Islamic finance.
RECOMMENDATION 22: Improve the institutional development, efficiency, and effectiveness of Islamic social finance institutions to enhance their social and developmental impacts.	The potential of using zakāh, waqf, and ṣadaqah for social purposes is huge and these should be developed and institutionalized to positively contribute to SDGs.



05

**RECOMMENDATIONS
AND METRICS**



5.1 Key Performance Indicators for Measuring Progress

Drawing on the recommendations from the mid-term review (MTR) and considering the additions and amendments in this document reflecting the current status and future prospects, appropriate key performance indicators (KPIs) are identified in Table 5.1.⁴⁹ It should be noted that the MTR has a list of indicators for recommendations 1-16 that are relevant and applicable. However, some of these KPIs have been changed due to the availability of new data sources. Furthermore, new KPIs are added for the MTR and new recommendations.

⁴⁹ World Bank and IMF (2005), *Financial Sector Assessment: A Handbook*, Chapter 2, Table 2.1, p. 18, provides specific sectoral indicators for financial development.

TABLE 5.1 KPIs for Recommendations

Recommendations	KPIs
<p>RECOMMENDATION 1: <i>Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.</i></p>	<p>1.1 Progress made by member countries on World Bank Worldwide Governance Indicators (WGI)</p> <p>1.2 Progress made in the status of the World Bank regulatory quality index measuring policies and regulations that promote private sector development.</p> <p>1.3 Progress made in the status of World Bank CPIA transparency accountability and corruption index.</p> <p>1.4 Number of countries with national Islamic financial services master plans.</p> <p>1.5 Growth of assets in different Islamic financial industry segments.</p> <p>1.6 Growth in Islamic finance infrastructure (number of institutions offering Islamic financial services and their outreach).</p>
<p>RECOMMENDATION 2: <i>Enhance the capitalisation and efficiency of institutions offering Islamic financial services (IIFS) to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.</i></p>	<p>2.1 Progress made in-depth, efficiency, and stability of the IFSI (in line with the World Bank Global Financial Development Database).</p> <p>2.2 Average capital adequacy of IIFS from different industry segments.</p> <p>2.3 Average ROE and ROA of IIFS from different industry segments.</p> <p>2.4 Growth in the market capitalization of capital markets.</p> <p>2.5 Improvements in asset quality indicators.</p>
<p>RECOMMENDATION 3: <i>Enhance access by the large majority of the population to financial services and enhance access to funding for retail investors, SMEs and entrepreneurs.</i></p>	<p>3.1 Progress made in access (in line with World Bank Global Financial Development Database).</p> <p>3.2 Percentage of the population with access to Islamic financial services.</p> <p>3.3 Number of Islamic microfinance institutions in member countries.</p> <p>3.4 Percentage of Islamic banks offering SME and entrepreneurial finance.</p> <p>3.5 Number of member countries with SME and entrepreneurial finance programmes (public sector or NGOs) that are Sharī'ah-compliant.</p> <p>3.6 Share of SMEs financing of total Sharī'ah-compliant financing.</p>
<p>RECOMMENDATION 4: <i>Enhance Sharī'ah-compliance, the effectiveness of corporate governance, and transparency.</i></p>	<p>4.1 Number of member countries with national Sharī'ah standards or national Sharī'ah boards.</p> <p>4.2 Number of countries adopting international Sharī'ah standards in their supervision framework.</p> <p>4.3 Number of countries adopting international corporate governance and disclosure standards for Islamic IIFS.</p>
<p>RECOMMENDATION 5: <i>Develop the required pool of specialised, competent, and high-calibre human capital.</i></p>	<p>5.1 Percentage of countries with Islamic finance education available (within general educational institutions or specialised Islamic finance institutes).</p> <p>5.2 The number of educational degrees and courses on Islamic finance.</p> <p>5.3 The number of specialised internet-based programmes and courses on Islamic finance.</p> <p>5.4 The number of professional qualifications and continuous professional development (CPD) courses related to Islamic finance.</p> <p>5.5 Number of professionals receiving industry-specific qualifications.</p>
<p>RECOMMENDATION 6: <i>Promote the development of standardised products through research and innovation.</i></p>	<p>6.1 Number of countries with regulatory Sharī'ah parameters.</p> <p>6.2 Number of standardised products for the IIFS in different industry segments and specialised sectors like SMEs and purposes such as infrastructure, climate change, sustainable finance, etc.</p> <p>6.3 Number of quality research publications on innovation and product development in Islamic finance.</p> <p>6.4 Number of specialised products aimed at Islamic finance.</p>

Recommendations	KPIs
<p>RECOMMENDATION 7: <i>Comply with the international prudential, accounting, and auditing standards applicable to the IFSI.</i></p>	<p>7.1 Percentage of countries requiring compliance with applicable, Islamic finance industry-specific prudential, accounting, and auditing standards as generated by industry standard-setting bodies.</p> <p>7.2 Number of IIFS applying Islamic finance industry-specific prudential, accounting, and auditing standards.</p> <p>7.3. Collaboration of Islamic infrastructure institutions with international standard-setting bodies such as the Basel Committee, IAIS, IOSCO and IASB.</p>
<p>RECOMMENDATION 8: <i>Develop an appropriate legal, regulatory, and supervisory framework that would effectively cater for the special characteristics of the IFSI and ensure tax neutrality.</i></p>	<p>8.1 Number of countries that have laws supporting different types of IIFS.</p> <p>8.2 Number of countries that have bespoke regulations for different types of IIFS.</p> <p>8.3 Number of countries with laws that ensure tax neutrality for Islamic financial transactions.</p> <p>8.4 Number of countries with bespoke regulations to cater to the digital transformation in Islamic finance.</p>
<p>RECOMMENDATION 9: <i>Develop comprehensive and sophisticated interbank, capital, and hedging infrastructures for the IFIs, and strengthen interbank lines and capital flows with emerging economies that are key centres of global economic growth.</i></p>	<p>9.1 Percentage of member countries with domestic Islamic interbank markets.</p> <p>9.2 Number of member countries with developed regulations and market infrastructure for Islamic capital markets.</p> <p>9.3 Number of liquidity management instruments used by IIFS.</p> <p>9.4 Availability, usage, and adequacy of Shari'ah-compliant standing facilities, LOLR, Shari'ah-compliant policy, and interbank market rates, etc.</p>
<p>RECOMMENDATION 10: <i>Promote financial literacy initiatives, including public awareness of the range of Islamic financial services.</i></p>	<p>10.1 Number of countries with financial literacy and awareness-raising programmes on Islamic finance (as standalone programmes or part of broader financial literacy).</p> <p>10.2 Number of online digital programmes to enhance Islamic financial literacy.</p> <p>10.3 Percentage of Islamic banking, takāful, Islamic capital markets, and Islamic microfinance activities as a proportion of the total for the respective sector.</p>
<p>RECOMMENDATION 11: <i>Strengthen and enhance collaboration among international Islamic financial infrastructure institutions.</i></p>	<p>11.1 Number of collaborative projects between infrastructure institutions.</p> <p>11.2 Impact assessment analysis of collaborative projects between infrastructure institutions.</p> <p>11.3 Number of collaborative events organised by infrastructure institutions.</p>
<p>RECOMMENDATION 12: <i>Foster collaboration among countries that offer Islamic financial services.</i></p>	<p>12.1 Number of collaborative projects (multilateral and bilateral) between countries that offer Islamic financial services (e.g., technical assistance on regulation, public awareness campaigns, etc.).</p>
<p>RECOMMENDATION 13: <i>Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.</i></p>	<p>13.1 Number of initiatives underway in member countries to link domestic IIFS with regional and international financial markets (e.g., the facilitation of introductions between the IIFS and overseas capital market participants)</p> <p>13.2 Number of issuances of cross-border Islamic financial instruments.</p> <p>13.3 Observer or delegate status for Islamic finance services infrastructure bodies on international regulatory bodies.</p>

Recommendations	KPIs
<p>RECOMMENDATION 14: <i>Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.</i></p>	<p>14.1 Regular tracking of the industry-level KPIs.</p> <p>14.2 Inclusion of Islamic finance statistics in the national and regional statistics of member countries.</p> <p>14.3 Participation in the Islamic Financial Sector Assessment Programme (iFSAP), an initiative that provides supplementary templates on Islamic finance for the World Bank–IMF Financial Sector Assessment Programme.</p> <p>14.4 Participation in self-assessment, peer review, and IMFWB FSAP on the basis of Core Principles for Islamic Finance Regulation.</p>
<p>RECOMMENDATION 15: <i>Foster and embrace innovative business models, including new technologies and delivery channels, in delivering Islamic financial services.</i></p>	<p>15.1 Percentage of the IIFS utilising the internet, mobile banking, and other forms of alternative channels.</p> <p>15.2 Number of Islamic FinTechs in the country.</p> <p>15.3 Number of research or product development centres to develop products and business models which are Sharī'ah based.</p>
<p>RECOMMENDATION 16: <i>Strengthen contributions to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.</i></p>	<p>16.1 Participation by Islamic infrastructure institutions and regulators in reviews of the overall financial system at international forums (e.g., the G20, Basel Committee, IMF, World Bank, etc.).</p> <p>16.2 Explicit reference and consideration of Islamic finance principles in communiqués and proceedings of key international forums (e.g., the G20, Basel Committee, IMF, World Bank, etc.).</p> <p>16.3 Number of dialogues held between OIC central banks, stock exchanges, and regulatory authorities on various issues of Islamic finance.</p> <p>16.4 Number of papers prepared, or international events organised, providing an Islamic perspective on the current and long-term strategic issues pertaining to the global financial system.</p>
NEW RECOMMENDATIONS	
<p>RECOMMENDATION 17: <i>Develop and improve the ecosystem and technological infrastructure to facilitate digital transformation and transactions to develop the FinTech sector.</i></p>	<p>17.1 Percentage of adults using digital payments system.</p> <p>17.2 Number of countries with digital credit reporting systems.</p> <p>17.3 Percentage of the population with mobile and broadband connectivity.</p> <p>17.4 Number of countries with Islamic FinTech and the number of institutions offering Islamic FinTech education, incubators and training, etc.</p>
<p>RECOMMENDATION 18: <i>Develop a smart, proportional, flexible, and adaptable regulatory framework to foster innovation and facilitate the growth of FinTechs.</i></p>	<p>18.1 Number of countries with FinTech regulations.</p> <p>18.2 Number of countries with regulatory sandboxes and innovation hubs for Islamic FinTech development.</p>
<p>RECOMMENDATION 19: <i>Increase the number of asset and equity-based financial institutions and risk-sharing financing modes to have more balanced debt and equity financing in the economy to enhance financial stability and growth.</i></p>	<p>19.1 Number of countries with supporting legal and regulatory frameworks for equity-based IIFS such as VC and private equity funds.</p> <p>19.2 Number of assets and equity-based NBFIs in the country.</p> <p>19.3 Number of innovative equity-based products used by IIFIs.</p> <p>19.4 Share of equity-based modes of financing in Islamic finance.</p>

Recommendations	KPIs
<p>RECOMMENDATION 20: <i>Provide regulatory guidelines and taxonomies reflecting a broader Maqāṣid perspective that incorporate environment, social, and governance (ESG) issues and contribute to SDGs.</i></p>	<p>20.1 Number of countries with regulatory guidelines and taxonomies for ESG-related practices for Islamic finance.</p> <p>20.2 Percentage of countries developing and implementing dedicated sustainable financing and green <i>ṣukūk</i> frameworks.</p> <p>20.3 Percentage of countries developing prudential supervision for climate-change risks.</p> <p>20.4 Market share of green <i>ṣukūk</i> or other sustainable financing instruments in Islamic capital markets.</p> <p>20.5 Number of countries using IFSB TN-3 to develop regulations for Islamic MFIs.</p>
<p>RECOMMENDATION 21: <i>Apply broader maqāṣid notion of Sharī'ah-compliance in operations of IIFS to enhance the authenticity of products, create social impact and mitigate socio-economic challenges such as income and wealth disparities.</i></p>	<p>21.1 Number of IIFS with microfinance programmes.</p> <p>21.2 Average ESG ratings of the IIFS.</p> <p>21.3 Number of IIFS using ESG screening to make financing decisions.</p>
<p>RECOMMENDATION 22: <i>Improve the institutional development, efficiency, and effectiveness of Islamic social finance institutions to enhance their social and developmental impacts.</i></p>	<p>22.1 Volume of national <i>zakāh</i> collection as a percentage of GDP.</p> <p>22.2 Percentage of <i>zakāh</i> organisations supporting financial inclusion efforts.</p> <p>22.3 Total size of the <i>waqf</i> sector in the country.</p> <p>22.4 Number of <i>waqf</i> organisations involved with providing micro financial services.</p>



06

**IMPLEMENTATION
PLAN**

6.1 Initiatives to Support Implementation

This section presents the initiatives that can be taken under each recommendation and identifies the stakeholders who should be responsible for implementing them. While ultimately, the growth of Islamic financial services will come from IIFS from different industry segments, this will require an enabling ecosystem and legal and regulatory environment that is provided by other stakeholders, for instance, the Islamic Development Bank (IsDB), governments, and RSAs.⁵⁰ An Islamic Financial Development Index, similar to that developed by the World Bank for overall financial development, can also be provided to track the development of Islamic finance in respective jurisdictions and to encourage them to improve their ratings in such an index.

Furthermore, the progress of the IFSI must take place in the context of countries trying to achieve the SDGs with prospects of benefitting from technological revolution and operating in an uncertain environment mired by the climate crisis. The initiatives identified below reflect this context and identify the steps that can promote the development of the IFSI in a balanced, sustainable, and stable way to achieve the contemporary and future needs related to achieving the SDGs. The role of the IsDB is important in this regard, especially in coordinating and partnering with member countries via their respective ministries and government agencies. The specific initiatives under different recommendations and the relevant stakeholders who can implement them are presented in Table 6.1.

⁵⁰ A strengthened role of the IsDB is required in this regard, especially in terms of helping to promote the various recommendations and initiatives to governments for inclusion in their respective financial development plans.

TABLE 6.1 Initiatives to Support Implementation

Recommendations	Initiatives/Actions	Stakeholders
PILLAR 1: DEVELOPMENT		
RECOMMENDATION 1: <i>Facilitate and encourage the operation of free, fair, and transparent markets in the Islamic financial services sector.</i>	Improve the overall legal and regulatory ecosystem for free and fair markets, and improve governance and transparency.	Relevant government bodies, RSAs.
	Integrate Islamic finance in national development plans.	Relevant government bodies, RSAs.
	Introduce national Islamic financial services master plans.	Relevant government bodies, RSAs.
RECOMMENDATION 5: <i>Develop the required pool of specialised, competent, and high-calibre human capital.</i>	Increase offerings of Islamic finance education and training.	Educational institutions
	Introduce specialised skill development training programmes to enhance the skills and knowledge of the workforce for RSAs and IIFS.	Educational institutions, specialised training providers, and industry organisations.
RECOMMENDATION 6: <i>Promote the development of standardised products through research and innovation.</i>	Develop Islamic financial products by increasing interaction between the industry participants, Sharī'ah scholars, and academia.	IsDB, educational institutions, Sharī'ah scholars, and Professionals from the industry.
	Develop templates for Islamic financial products.	RSAs
	Develop Sharī'ah parameters for Islamic financial contracts.	RSAs
	Adopt and use AAOIFI Sharī'ah standards in developing products.	RSAs, IIFS.
RECOMMENDATION 7: <i>Comply with the international prudential, accounting, and auditing standards applicable to the IFSI.</i>	Adopt and use IFSB prudential standards and guidelines.	RSAs, IIFS.
	Adopt and use AAOIFI accounting and auditing standards.	RSAs, IIFS.
RECOMMENDATION 8: <i>Develop an appropriate legal, regulatory, and supervisory framework that would effectively cater to the special characteristics of the IFSI and ensure tax neutrality</i>	Introduce appropriate laws for different segments of the IFSI (including INBFIs).	Relevant government bodies
	Develop international regulatory standards and guidelines for the IIFS for different industry segments (including INBFIs).	IFSB, RSAs.
	Implement and enforce the international regulatory standards for the IIFS.	RSAs
	Adjust tax laws to ensure tax neutrality for Islamic financial transactions.	Relevant government bodies
RECOMMENDATION 9: <i>Develop comprehensive and sophisticated interbank, capital, and hedging infrastructures for the IFIs, and strengthen interbank lines and capital flows with emerging economies that are key centres of global economic growth.</i>	Create liquidity infrastructure and ecosystems for Islamic money and capital markets.	Relevant government bodies, central banks, and RSAs.
	Increase <i>shukūk</i> issuances that can be used for liquidity management and traded across borders.	IILM, relevant government bodies, and financial and non-financial corporates.
	Develop instruments for risk mitigation and short-term liquidity management.	RSAs, IIFIs.
	Foster credit quality information-providing institutions that support the provision of Islamic finance.	Credit rating agencies, industry associations.

Recommendations	Initiatives/Actions	Stakeholders
PILLAR 1: DEVELOPMENT		
RECOMMENDATION 12: <i>Foster collaboration among countries that offer Islamic financial services.</i>	Establish an international forum to publicise and exchange knowledge and good practices for IIFS.	International multilateral organisations, infrastructure institutions.
	Harmonise, where possible, regulation and regulatory frameworks across borders.	International multilateral organisations, infrastructure institutions, relevant government bodies, and RSAs.
	Form a “Technical Assistance and Linkage Network” to enhance cooperation among countries and exchange good practices.	IIFS, Regulators, Education Institutions, and Islamic Social Institutions.
	Form working groups for G2G collaboration.	International multilateral institutions, COMCEC, RSAs, IIFS, etc.
RECOMMENDATION 14: <i>Develop an understanding of the linkages and dependencies between different components of Islamic financial services to enable more informed strategic planning to be undertaken.</i>	Develop strategic growth plans at national levels for different IFSI segments by considering the interlinkages between them.	Relevant government bodies, RSAs.
	Facilitate inter-linkages between different segments of the IFSI to benefit from synergies.	RSAs, IIFIs from different industry segments.
	Incorporate Islamic finance data in statistical and official reporting (including INBFIs and FinTechs).	Relevant government bodies, RSAs, industry associations, and research organisations.
RECOMMENDATION 17: <i>Develop and improve the ecosystem and technological infrastructure to facilitate digital transformation and transactions to develop the FinTech sector.</i>	Establish digital infrastructure for financial services, such as digital payments systems, credit infrastructure, and digital ID, which are essential for technology-led operations that duly comply with Shari’ah governance requirements.	Relevant government bodies, RSAs, and private sector technology entities (internet and mobile service providers).
	To incentivise innovation and support Tech initiatives by providing research and innovation grants.	
RECOMMENDATION 18: <i>Develop a smart, proportional, flexible, and adaptable regulatory framework to foster innovation and facilitate the growth of FinTechs.</i>	Establish research & development infrastructure and calibrated regulatory policies to foster innovation in FinTechs.	RSAs, private sector entities.
	Introduce a smart regulatory framework for FinTechs that strikes a balance between protecting consumers, stability, and growth of FinTechs.	IFSB, RSAs.
	Remove regulatory constraints, promote innovation, and establish incubation programmes, sandboxes, and innovation hubs to foster the growth of FinTechs.	RSAs, private sector entities.
	Develop and publish prudential regulatory standards on statutory requirements for cyber security arrangements, along with technical notes addressing any idiosyncrasies of IIFS in relation to their exposure to cyber risk.	IFSB, RSAs.
	Organise technical assistance workshops for RSAs to build capacity on FinTech-related issues including regulatory frameworks.	International multilateral organisations, IFSB.

Recommendations	Initiatives/Actions	Stakeholders
PILLAR 2: TRANSFORMATION		
RECOMMENDATION 2: <i>Enhance the capitalisation and efficiency of institutions offering Islamic financial services (IIFS) to ensure that they are adequately capitalised, well-performing, resilient, and on par with international standards and best practices.</i>	Implement a tiered and proportional regulatory framework commensurate with the risks in different types of IIFS and FinTechs.	RSAs, IIFS.
	Improve risk management capabilities and practices of the IIFS to deal with unique risks arising in Islamic finance.	IIFS
	Take steps to address new cyber risks including a focus on the development of cyber security methodologies and guidance for IIFS.	RSAs, IIFS.
	Raise awareness among the RSAs and IIFS on climate change risks, and the potential adverse impacts on the safety and soundness of IIFS, as well as wider financial stability.	RSAs, IIFS.
RECOMMENDATION 4: <i>Enhance Sharī'ah-compliance, the effectiveness of corporate governance, and transparency.</i>	Adopt and implement international standards on corporate governance and transparency.	RSAs, IIFS.
	Strengthen national Sharī'ah governance frameworks by adopting international standards.	RSAs, IIFS.
RECOMMENDATION 11: <i>Strengthen and enhance collaboration among international Islamic financial infrastructure institutions.</i>	Establish an international forum to exchange knowledge and good practices for IIFS.	International multilateral organisations, infrastructure institutions.
	Follow up on the initiatives suggested in the ten-Year Strategic Plan Review.	IsDB, IFSB, other infrastructure institutions.
RECOMMENDATION 15: <i>Foster and embrace innovative business models, including new technologies and delivery channels, in delivering Islamic financial services.</i>	Promote innovations using digital technologies to develop new business models that can provide inclusive financial services efficiently and effectively.	IIFS, entrepreneurs, and educational institutions.
	Promote research and innovation to expand competitive and affordable financial products and services.	Educational institutions and research centres, Industry associations, RSAs, IIFS, and Islamic social finance institutions.
	Invest in R&D and innovation to develop authentic Sharī'ah-based products.	IsDB, educational institutions, research centres, and IIFIs.
RECOMMENDATION 19: <i>Increase the number of asset and equity-based financial institutions and risk-sharing financing modes to have more balanced debt and equity financing in the economy to enhance financial stability and growth.</i>	Establish enabling legal and regulatory framework for equity-based IIFS such as venture capital and private equity firms.	Relevant government bodies, RSAs.
	Enhance strategic planning and product development capabilities to develop business models consistent with the core tenets of Islamic finance, such as risk-sharing, to contribute to the mitigation of socio-economic challenges such as income and wealth disparities.	IIFS, education, and research organisations.
	Establish a diversified financial sector with a larger share of INBFIs and FinTechs.	Regulators, IIFS, private sector entities, and entrepreneurs.
	Create incentives to introduce more diverse affordable products with different risk-return features including asset and equity-based products.	IIFS


Recommendations	Initiatives/Actions	Stakeholders
PILLAR 2: TRANSFORMATION		
RECOMMENDATION 20: <i>Provide regulatory guidelines and taxonomies reflecting a broader maqāṣid perspective that incorporate environment, social, and governance (ESG) issues and contribute to SDGs.</i>	Develop a comprehensive regulatory framework and implementation guidance for Sharī'ah-based products and services to contribute to financial inclusion and SDGs.	IIFSB, RSAs.
	Develop standards and guidelines for sustainable financing, ESG investing, and financing and management of climate risks.	IIFSB, RSAs.
	Introduce prudential risk management and capital adequacy requirements that reflect the climate-related risk exposures of IIFS.	IIFSB, RSAs and IIFS.
	Diversify financing to newer sectors such as microfinancing, renewable and alternative energy	IIFS
PILLAR 3: ACCESS		
RECOMMENDATION 3: <i>Enhance access by the large majority of the population to financial services and enhance access to funding for retail investors, SMEs and entrepreneurs.</i>	Increase financial inclusion by providing financial services to poorer households and micro and small enterprises (MSEs).	IIFS (Islamic MFIs, INBFIs), Islamic FinTechs, and Islamic social finance institutions.
	Revitalise <i>zakāh</i> and <i>awqaf</i> for greater financial inclusion and make them an integrated part of the Islamic financial system.	Governments, IIFS, and Islamic social finance institutions.
	Ensure that regulations allow for the use of new technology (FinTechs) to provide affordable services.	Regulators, IIFS and Fintech.
RECOMMENDATION 10: <i>Promote financial literacy initiatives including public awareness of the range of Islamic financial services.</i>	Initiate programmes to enhance financial literacy and awareness of Islamic financial products.	Regulatory authorities, IIFIs, and educational institutions.
RECOMMENDATION 13: <i>Conduct initiatives and enhance financial linkages to integrate domestic IFSIs with regional and international financial markets.</i>	Support initiatives to deepen international linkages through engagement with counterparts.	Relevant government bodies, RSAs, and IIFS.
	Provide support and engage with newly opened markets through technical assistance and advice.	International multilateral organisations, infrastructure institutions, RSAs, and IIFS.
RECOMMENDATION 16: <i>Strengthen contributions to the global dialogue on financial services, offering principles and perspectives to enhance the global financial system.</i>	Establish an international forum to discuss issues related to the development of the Islamic financial industry (similar to the Financial Stability Board of the G20).	International multilateral organisations, infrastructure institutions, RSAs, and IIFIs.

Recommendations	Initiatives/Actions	Stakeholders
PILLAR 3: ACCESS		
RECOMMENDATION 21: <i>Apply broader Maqāṣid notion of Sharī'ah-compliance in operations of the IIFS to enhance the authenticity of products, create social impact and mitigate socio-economic challenges like income and wealth disparities.</i>	Establish a multilateral working group to lead the efforts in developing a strategic plan for global Islamic finance and building business models which are consistent with the spirit of Sharī'ah.	IsDBI, infrastructure institutions, relevant government bodies, RSAs, IIFS, Sharī'ah scholars, and education institutions.
	Bridge the gap between the theoretical <i>maqāṣid</i> perspectives, concepts, and practice of Islamic finance.	IsDBI, Educational institutions, Sharī'ah scholars, and Professionals from the industry.
	Provide a regulatory overview to ensure the authenticity of Islamic financial products.	Central National Sharī'ah Board, IIFS
	Provide guidelines on using broader Sharī'ah perspectives to enhance the social and environmental impact.	Central National Sharī'ah Board, International Fiqh Academies.
	Develop a framework of <i>maqāṣid</i> performance rating for IIFS (and corporations) that informs on ESG performance and impact.	RSAs, rating agencies and CIBAFI.
RECOMMENDATION 22: <i>Improve the institutional development, efficiency, and effectiveness of Islamic social finance institutions to enhance their social and developmental impacts.</i>	Establish a legal and regulatory framework for the development of Islamic social finance institutions (<i>zakāh</i> , <i>waqf</i> , non-profits, and social enterprises).	International organisations (such as World <i>Zakāh</i> Forum), relevant government bodies.
	Develop guidelines for effective and efficient governance and management of operations of Islamic social finance institutions.	International organisations, relevant government bodies and Islamic social institutions.
	Create organisational models and products that can create synergies between Islamic social finance institutions and IIFS to enhance social and developmental impacts.	IIFS, Islamic social finance institutions.
	Develop an Islamic social finance Index to track the development of the Islamic social finance sector in respective jurisdictions, and to encourage them to improve their ratings in such an index.	RSAs, IIFS and Islamic social finance institutions.



07

**FUTURE OUTLOOK
FOR THE IFSI**



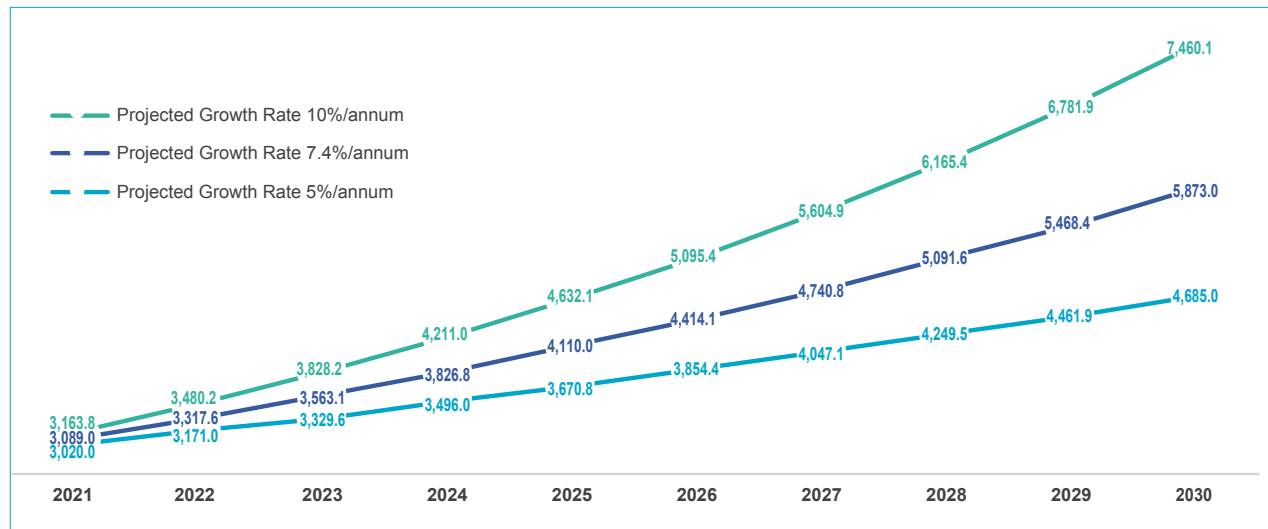
The future outlook can be viewed both in terms of the quantitative growth expectations of the size of the Islamic financial industry and also qualitative changes. However, the quantitative growth of the industry will partly depend on the qualitative changes that will determine the direction of the industry in the future. In particular, to be relevant in the future, the Islamic financial industry must contribute to the national priorities of accomplishing the ambitious SDGs, which would require huge resources. This must be done by embracing the technologies to deliver services more efficiently and effectively in an increasingly risky environment. After presenting the projections of the size of the IFSI for 2030, the key qualitative changes that the industry should undertake are discussed.

7.1 Projections of Size and Composition of the Islamic Financial Services Industry (IFSI)

Figure 7.1 shows the projected size of the IFSI in 2030 under different assumptions of growth rates. If the industry grows at 7.4% annually, which has been the average annual growth rate during 2014-20, then the projected size of the IFSI is expected to be USD 5.87 trillion. If, however, keeping with

the decline in growth rates, the future growth rate declines to 5% annually, then the size of the industry will be USD 4.86 trillion in 2030. With an optimistic annual growth rate of 10%, the projected size of the IFSI would be USD 7.46 trillion.

FIGURE 7.1 Islamic Finance Assets Growth Projections (USD Billions)

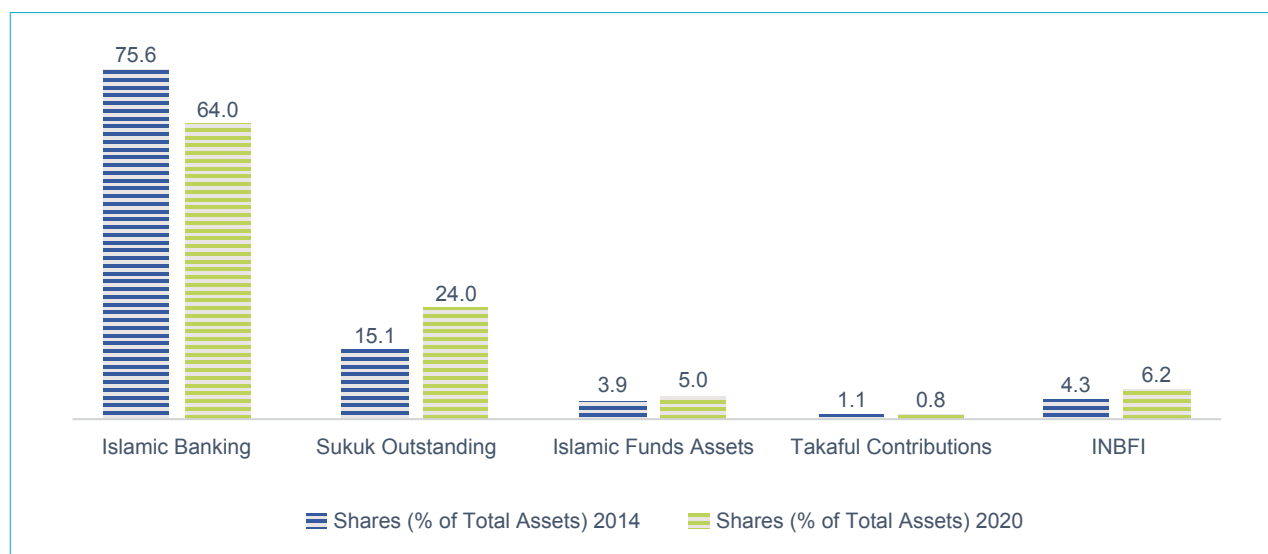


Source: IFSB Secretariat Workings

Data from 2014-20 shows that the composition of the different sectors of the IFSI is changing due to the differences in growth rates. While the shares of the Islamic banking and *takāful* sectors have decreased, *shukūk*, funds, and INBFIs shares have increased during the period. In particular, the share of Islamic banking has dropped from 75.6% in 2014

to 64% in 2020, and the share of *shukūk* outstanding increased from 15.1% to 24% during the same year. These trends are expected to continue in the future. However, compared to the Islamic banking and *shukūk* segments, the *takāful* and INBFI sectors still remain very small.

FIGURE 7.2 Changing Composition of Islamic Finance Industry (%) 2014-2020



Source: IFSB Survey of IIFS

7.2 Projected Transformations

Not only will the composition of the IFSI change, but the industry must transform qualitatively to grow quantitatively and remain relevant in the future. At a foundational level, the concept of Shari'ah-compliance must realign from its current narrow definition of legal compliance to the broader notion that includes the *maqāṣid* perspective. This is because there is a tendency to adopt a very legalistic approach to Shari'ah compliance (form rather than substance) rather than emphasising the more ethical aspects.

This transformation would be necessary not only to be relevant in light of the demands for providing sustainable and inclusive finance to achieve the SDGs but also to sustain operations under an increasingly uncertain environment. The transformation at the operational level can be enabled by using digital technologies to develop innovative products and organisational formats that can contribute to social and developmental objectives. The specific areas that will be relevant for the IFSI in the future are discussed below.

SDGs and Sustainable Infrastructure Finance

Given that all countries have signed up to achieve the Sustainable Development Goals (SDGs), which will require huge resources, the financial sector can play an important role in filling the gap. Sustainable finance aligns the financing to sustainable development and increases the economic, social, and environmental impact of investments (OECD and UNDP, 2020). Given the broader social and ethical values of Shari'ah, the Islamic financial sector can contribute to the SDGs through financial inclusion, infrastructure financing, and social finance to increase the impact (Ahmed et al., 2015). There must be a realignment of the IFSI towards these activities.

While Islamic banks can contribute to financial businesses that promote environmental sustainability, they have limits in providing microfinance and financing large infrastructure projects due to the short-term and liquid features of their liabilities. INBFIs and Islamic social finance institutions can play an important role in enhancing financial inclusion. Similarly, capital markets can play an important role in contributing to infrastructure financing. Of the IIFS in the ICM that responded to the survey, 25% stated that they

had developed and issued Shari'ah-compliant products that finance SRI projects. Although some progress has been made in issuances of green *ṣukūk*, SRI *ṣukūk*, and sustainable *ṣukūk*, the share must be increased further. Shari'ah-compliant funds were mentioned by several respondents as having been launched or planned. Providing a clear taxonomy and guidelines for sustainable *ṣukūk* in different jurisdictions can enhance the transformation of the ICM towards more sustainable product offerings.

Digital Transformation

Technological forces are driving the emergence and rapid growth of technology-based business models for the delivery of financial services in the form of FinTechs. There are many reasons why financial institutions are embracing digital technologies, in particular, to save cost, have the potential for global reach, enhance customer interaction, and be at par or ahead of competitors. Given the reduction in the cost of technology, FinTech applications have seen explosive growth across the world in many segments of the financial services industry. These models offer a range of advantages for developing and implementing solutions to address the critical needs of the financial sector and the wider society, such as financial inclusion, among others. In general, FinTech applications are expected to be adopted by the banking industry given their business and cost advantages over traditional brick-and-mortar banking and legacy IT systems.

While technology can be leveraged for the greater good, organisations not adopting technology fast enough will eventually lose out. Thus, many organisations go into digital transformation because of the "fear of missing out". What typically starts as a well-intentioned initiative can become a gigantic monster to maintain if not managed properly, and often, a very expensive endeavour. As a result, underlying issues, such as legacy systems, inefficient processes, and resistance to change, remain unaddressed. Moving forward, there is a need to think about digital transformation strategically and implement a well-thought-out programme. The regulators can steer the economy toward a digital economy and stress digital security besides developing the infrastructure, applications, company systems, and incentives towards creating a digital community. Trust and confidence are two key elements that would guarantee consumers' acceptance of technology.

In the future, the bulk of innovation in the sector will come from new FinTechs that will offer different types of financial services. A key innovation that will affect Islamic banking is open banking, whereby information held by them can be shared with other financial organisations and FinTechs. This will enable FinTechs to provide services that banks are providing. Furthermore, decentralised financing provides alternative avenues through which financial intermediation can take place, and this will also affect traditional banking practices. FinTechs also provide opportunities to establish non-banking financial institutions (NBFIs) that can offer asset- and equity-based products. Another innovation that can affect banks in a fundamental way would be Central Bank Digital Currencies (CBDCs). CBDCs will change the payment system and will also affect the scope of money creation by the banking system. The implications of these innovations on banking practices must be thought out while planning for the future. Islamic banks must continuously innovate if they are to grow and remain competitive.

Managing Increased Risks and Uncertainties

Beyond traditional risks that financial institutions face, the industry will face new risks that are not well understood. While the low probability, high-impact black-swan events such as COVID-19 are unpredictable, there are two key risks that are known yet difficult to mitigate. These are climate risks and risks related to emerging technologies. Climate risk is recognised as a new source of risk that will adversely impact economies and affect the stability of financial systems. However, the financial industry lacks methodologies that can successfully assess and analyse this impending risk. The traditional risk management approaches are not suitable for climate risks that have features of deep uncertainty, non-linearity, and endogeneity (Battiston et al., 2021). There is thus a need to increase the capabilities of managing climate risks for the long-term growth of IIFS in different segments. While climate risk will translate to investment risks for financial institutions, it poses a different type of problem for *takāful* and *retakāful* companies. New approaches to risk assessment need to be incorporated to design appropriate products that can deal with climate risk itself and also its impact on other risks in existing products such as home insurance.

The other key risks arise from digital transformations. While the digital revolution can potentially benefit the financial sector, it also introduces many risks.

In a financial system where all are interconnected; individuals, governments, and companies will be exposed to all types of cyber threats. As the impact of the COVID-19 pandemic continues to drive businesses into remote operations, cybercriminals will be emerging in greater numbers and attacks are expected to rise in frequency. Whether businesses are operating remotely on a temporary basis or more permanently in the future, cybercrime will continue to be a threat to their viability. The regulators must pay particular attention to providing guidance on mitigating technological risks while promoting FinTechs and digitalisation in the financial market and industry. While IIFS and Islamic FinTechs must seize digital transformation opportunities as they are key to growth, they also need to ensure that cyber risks and criminal activities are mitigated to remain resilient in the future.

Financial Inclusion

A significant percentage of households and micro and small enterprises in OIC member countries do not have access to financial services. While a large percentage of the population remains financially excluded, it can be considered an opportunity and a potential market that can be served. In this regard, digital technology can play an important role as it can resolve the key constraints arising in financial inclusion. Traditional financial institutions using legacy systems do not serve MSEs due to acute information asymmetry problems and high costs of providing services. Digital technology, such as the Internet of Things (IoT), big data, and artificial intelligence, opens up opportunities to use data and information that will help process information that was not previously available and serve these under covered markets. For example, FinTechs can develop new models of using and processing data to assess the credit quality of clients and make financing decisions and deliver services at much lower costs.

Given the ethical and social values of Sharī'ah, the IFSI can play an important role in enhancing financial inclusion in the future. However, with the exception of a few cases, the Islamic banking sector has not been forthcoming in providing microfinance services. Furthermore, the Islamic microfinance sector is also relatively small. For example, The micro-*takāful* portfolio accounts for 1% of total *takāful* revenue. A first step for the IFSI to serve the vast unserved market is to adopt the broader notion of Sharī'ah-compliance that incorporates Maqāṣid al Sharī'ah, which will induce them to provide

financial services to all segments of the population. Microfinance (and risk-sharing investments) need the development of human resources, i.e., personnel competent in managing the risks inherent in these types of financing. Beyond Islamic banks; Islamic FinTechs, INBFI, *takāful*, and Islamic social institutions can serve this unserved market and accelerate market penetration and potentially increase revenues.

Using digital technologies can play an important role in enhancing financial inclusion by tapping into digital tools of big data and artificial intelligence to assess credit quality, and provide financing to the financially excluded segments of the population at lower costs. Using appropriate technology can reduce costs, speed up processes, and better reach the masses, which ultimately benefits the community.

For example, the potential for *takāful* operators to gain access to real-time data about every physical thing they cover is compelling and can lead to a vision of how the industry can leverage expertise on risk to help customers significantly. This creates a ripple effect in actuarial, underwriting, policy service, claims, and essentially every other area of the business. Similarly, while there is a lack of progress in the availability of retail-oriented Islamic investment funds, digital transformation in the ICM would make its products more available to the mass market. FinTechs can play a role in bringing ICM products to the wider public by providing information on and facilitating access to these products.

Islamic Social Finance

Islamic social finance, such as *zakāh*, *waqf*, and *sadaqah*, is a huge sector that can potentially contribute to creating social and development impacts. As indicated, the potential global *zakāh* collection ranges from USD 200 billion to USD 1 trillion annually, and the estimates of the value of global *waqf* assets range from USD 410 billion to USD 3 trillion (Tok et al., 2022). A 5% return on USD 1 trillion of *waqf* assets would yield USD 50 billion that can be used for social and economic development purposes. While the potential funds that can be raised from these sources are huge, they are not being used optimally in many jurisdictions. Developing the Islamic social finance sectors can generate huge funds that can be used for social and development purposes. This would require coming up with innovative organisational models that can enhance the efficiency and effectiveness of



A first step for the IFSI to serve the vast unserved market is to adopt the broader notion of Sharī`ah-compliance that incorporates Maqāṣid al Sharī`ah, which will induce them to provide financial services to all segments of the population.

these institutions and increase their capabilities to contribute to achieving the SDGs.

Human Resources

The success of the IFSI in delivering social and sustainable finance under increasingly uncertain environments will ultimately depend on the quality of human capital that will drive the industry forward. The qualitative change toward sustainable and social finance will need diverse types of knowledge and skills. Other than the traditional knowledge of Sharī`ah, finance, and legal systems, the transformation of the IFSI will also require knowledge and skills in a range of new areas and themes, such as information technology, innovation, entrepreneurship, ESG, and understanding and assessing newer types of cyber and environmental risks, as well as personnel competent in managing the risks inherent in these types of financing. This would require introducing a wide variety of novel courses and programmes at educational and training institutions and research centres. A key challenge in the provision of knowledge for the future would be to understand the needs and develop a curriculum that can serve these needs.

7.3 Future IFSI: Diverse, Impactful, Resilient, Sustainable

The future financial needs of societies go beyond providing the basic financial services that banks have traditionally supplied. The financial industry must be able to serve social and sustainable purposes and must do this in an environment that will be more uncertain. The values of Islamic finance align with environmental protection and financial inclusion. While Islamic finance has been

dominated by Islamic banking, the future of the IFSI should be diversified with larger shares of the NBFi, *takāful*, and FinTech sectors. The current size of the non-banking segments of the IFSI, however, is small. Furthermore, the survey results from eight jurisdictions indicate that the Islamic NBFi sector itself is not very diverse, with only three types of NBFis (cooperatives, finance companies, and microfinance institutions).

Looking forward, there is a need to promote other types of Islamic NBFis beyond Islamic banks to meet the needs of sustainable development. Islamic microfinance institutions can enhance financial inclusion and venture capital, and private equity firms can fund new enterprises and contribute to economic development. The latter INBFis use risk-sharing modes of financing that make the overall financial sector more stable. While the number of traditional NBFis, such as microfinance institutions, venture capital, and private equity firms, must increase, there is also a need to develop new innovative entities reflecting Islamic values and principles, which will further diversify the INBFi sector. Examples of unique INBFis include *hajj* funds in Malaysia and Indonesia, *muḍārabah* companies in Pakistan, and Baitul Maal wa Tamwil (BMT) in Indonesia. In this regard, FinTechs provide opportunities to develop innovative organisational formats and business models that can serve different financial needs in a sustainable and prudent manner.

Other than being more stable, a diversified financial system can also create synergies within the IFSI that can contribute to sustainable development. For example, venture capital and private equity firms can help promote entrepreneurship, which would include financing new Islamic FinTechs. Similarly, *hajj* funds and specialised Islamic funds (such as IsDB's Awqaf Properties Investment Fund) can help the development of *waqf* properties that increase their revenues which can be used for social and development purposes.

Given the developmental needs of the future, there will be a need to develop a diversified IFSI that can serve the financial needs of all segments of the population, contribute to mitigating income inequalities, provide sustainable financing for infrastructure development, protect the environment, and be resilient to shocks. This would, however, necessitate using new innovative organisational formats and business models beyond traditional banks. The development of a diversified IFSI with the INBFi and FinTech sectors would require inputs from various stakeholders. The international multilateral organisations and infrastructure institutions need to develop the relevant standards and guidelines; governments and RSAs must establish an enabling legal and regulatory framework; entrepreneurs must take initiatives to establish innovative financial enterprises; IIFS must fund these initiatives on a risk-sharing basis, and educational institutions and research centres must produce and disseminate the required diverse knowledge and skills that can build the human resources which can drive the innovative organisations and products of the IFSI of the future.



08

**COMMITMENTS
FROM THE
SPONSORS**

The opportunities and challenges facing the Islamic financial services industry (IFSI) require mutual collaboration by a wide range of stakeholders. As the originators and sponsors of the Ten-Year Framework, the IFSB and IsDBI acknowledge a special responsibility to foster this collaboration.

We are actively supporting the implementation of the amended recommendations of the final review in multiple ways:

OUTREACH	Circulation by the IFSB, IsDB Group, and distribution partners.
	Downloading copies onto a dedicated website as well as the IFSB and IsDB websites.
	Discussions at the IFSB, IsDB, and partner events.
	Webinars on selected themes.
FOLLOW-UP	Monitoring Key Performance Indicators.
	Follow-up on implementation of key initiatives driving the recommendations.
SUPPORT	Information queries.
	IFSB and IsDB resources.
	Requests for technical assistance.

Outreach

In the course of preparing this report, we have engaged key stakeholders of the IFSB and the IsDB Group, as well as a number of industry experts. In addition to making it directly available to IFSB and IsDBI stakeholders, we have identified a number of distribution partners to ensure the widest readership. We are also planning discussions of the report findings at the IFSB, IsDBI and partner events in order to encourage implementation in member countries. Selected themes will also be discussed on webinars hosted by the sponsors.

Follow-up

The final review, like the mid-term review of the Ten-Year Framework, is meant to be a living document. We have deliberately added Key Performance Indicators for the enumerated recommendations to enable relevant institutions and member countries to track their individual progress. We also intend to monitor the industry-wide progress on these recommendations on a continuous and comparative basis reflecting observed trends and developments in IsDBI and IFSB initiatives, publications and events.

Support

Readers who would like further information about the Ten-Year Framework are encouraged to contact us. The IFSB is pleased to share its global prudential standards and guiding principles, including the latest published reports as well as exposure drafts. More information can be found on the IFSB website at www.ifsb.org. The IsDBI also has a wide range of resources for reference, including research publications, industry data, and training resources. More information can be found on the IsDBI website at www.isdbinstitute.org.

In addition to general support, the IFSB and IsDBI can, where feasible, offer expertise or technical assistance to interested institutions and member countries for the customised application of the recommendations contained in this report and implementation plan at their institution or in their market. For details, please contact us at the email addresses below.

Islamic Financial Services Board

Web: www.ifsb.org/

Email: ifsb_sec@ifsb.org

Islamic Development Bank Institute

Web: www.isdbinstitute.org

Email: isdbi@isdb.org

Appendix 1: Additional Resources

Reports, Books, and Working Papers by Sponsors

The Final Review offers a comprehensive framework for the continued development of the IFSI. Readers will nonetheless benefit from other publications that may offer complementary metrics, more details by sector or country, or annual reporting. We have, therefore, provided web links to some of the most pertinent industry-level analytical reports and industry development indicators for further reading. Such other resources include books, academic papers, directories, information services, and statistics which also play important roles.

Report or Indicator	Publisher	Website Links
IFSB IFSI Stability Report, Research Working Papers, Issues Paper Series, Implementation Guidelines, and Summit Proceedings.	IFSB	https://www.ifsb.org/sec03.php
IFSB Standards, Technical Notes, and Guidance Notes.	IFSB	https://www.ifsb.org/published.php
Prudential and Structural Islamic Financial Indicators.	IFSB	https://www.ifsb.org/psifi_01.php
IsDB Annual Reports	IsDB	https://www.isdb.org/publications?pub_q=&pubcat=annual--annual-report
IsDBI Annual Reports	IsDBI	https://isdbinstitute.org/product-category/annual-reports/
IsDBI Books and Proceedings	IsDBI	https://isdbinstitute.org/product-category/books-proceedings/
IsDBI Knowledge Review	IsDBI	https://isdbinstitute.org/product-category/knowledge-review/
IsDBI Reports	IsDBI	https://isdbinstitute.org/product-category/reports/
IsDBI Working Papers	IsDBI	https://isdbinstitute.org/product-category/working-papers/

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Appendix 3 : Glossary of Arabic Terms

<i>Awqaf (singular waqf)</i>	Religious endowment – that is, a voluntary and irrevocable dedication of one’s wealth or a portion of it, in cash or kind (such as a house or a garden), and its disbursement for Sharī’ah-compliant purposes.
<i>Fatāwa (singular fatwa)</i>	A juristic opinion or pronouncement of facts given collectively by the <i>Sharī’ah</i> board, or individually by a mufti, or a <i>faqīh</i> on any matter pertinent to <i>Sharī’ah</i> issues, based on the appropriate methodology.
<i>Fiqh</i>	Knowledge of the legal rulings pertaining to conduct, which has been acquired from specific evidence in the <i>Sharī’ah</i> .
<i>Ijārah</i>	An <i>ijārah</i> contract refers to an agreement made by an institution offering Islamic financial services to lease to a customer an asset specified by the customer for an agreed period against specified instalments of lease rental.
<i>Muḍārabah</i>	<i>Muḍārabah</i> is a contract between the capital provider and a skilled entrepreneur, whereby the capital provider would contribute capital to an enterprise or activity, which is to be managed, by the entrepreneur as the <i>muḍārib</i> (or labour provider). Profits generated by that enterprise or activity are shared in accordance with the terms of the <i>muḍārabah</i> agreement, while financial losses are borne solely by the capital provider unless the losses are due to the <i>muḍārib</i> ’s misconduct, negligence, or breach of contracted terms.
<i>Qard/Qard al-hassan</i>	A non-interest-bearing loan intended to allow the borrower to use the loaned funds for a period, with the understanding that the same amount of the loaned funds would be repaid at the end of the agreed period.
<i>ReTakāful</i>	Islamic re-insurance.
<i>Sharī’ah</i>	Sum total of the Islamic system as revealed to Prophet Muhammad (PBUH) and as recorded in the Qur’an, as well as deducible from the Prophet’s divinely guided lifestyle called the <i>Sunnah</i> .
<i>Ṣukūk (sing. Sakk)</i>	<i>Ṣukūk</i> (certificates) each of which represents the holder’s proportionate ownership in an undivided part of an underlying asset where the holder assumes all rights and obligations to such an asset.
<i>Tabarru’</i>	Grant of property by a person with complete legal capacity without any compensation. In the context of <i>takāful</i> operations, <i>tabarru’</i> is the amount of contribution to be relinquished by the <i>takāful</i> participant as a donation for fulfilling the obligation of mutual help and to be used to pay claims submitted by eligible claimants.
<i>Tahawwut</i>	Islamic hedging
<i>Takāful</i>	<i>Takāful</i> is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a specified loss. In a <i>takāful</i> arrangement, the participants contribute a sum of money as <i>tabarru’</i> (donation) into a common fund, which will be used for mutual assistance of the members against specified loss or damage.
<i>Wa’ad</i>	A promise to perform certain action(s) in the future.
<i>Waqf</i>	In Islamic terms, <i>waqf</i> refers to a religious endowment i.e., a voluntary and irrevocable dedication of one’s wealth or a portion of it - in cash or kind (such as a house or a garden), and its disbursement for Sharī’ah-compliant projects.
<i>Wadiah</i>	An amount deposited whereby the principal is guaranteed.
<i>Zakāh</i>	Annual almsgiving by Muslims based on accumulated wealth. It is obligatory for all who are able to do so.

Appendix 4: List of Abbreviations

AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
BCBS	Basel Committee on Banking Supervision
BI	Bank Indonesia
BMT	Baitul Maal wa Tamwil
BRI	Bank Rakyat Indonesia
CAGR	Compound annual growth rate
CGAP	Consultative Group to Assist the Poor
CIBAFI	General Council for Islamic Banks and Financial Institutions
DRs	Depository Receipts
EU	European Union
FSA	Financial Services Authority
FSAP	Financial Sector Assessment Programme
FX	Foreign exchange
GCC	Gulf Cooperation Council
GDP	Gross domestic product
IASB	International Accounting Standards Board
ICD	Islamic Corporation for the Development of the Private Sector
ICM	Islamic capital markets
IDB	Islamic Development Bank
iFSAP	Financial Sector Assessment Programme for Islamic Financial System
IFIs	Islamic financial institutions
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IFSI	Islamic financial services industry
IIFM	International Islamic Financial Market
IIFS	Institutions offering Islamic financial services
IILM	International Islamic Liquidity Management Corporation

IIRA	Islamic International Rating Agency
IMF	International Monetary Fund
INCEIF	International Centre for Education in Islamic Finance
IOSCO	International Organisation of Securities Commission
IsDB	Islamic Development Bank
ISRA	International <i>Shari'ah</i> Research Academy for Islamic Finance
IT	Information technology
KPIs	Key Performance Indicators
MENA	Middle East and North Africa
NBFIs	Non-banking financial institutions
NGOs	Non-governmental organisations
OIC	Organisation of Islamic Cooperation
OJK	Otoritas Jasa Keuangan (Financial Services Authority)
PRA	Prudential Regulatory Authority
REITs	Real estate investment trusts
RM	Ringgit Malaysia (Malaysian currency)
ROA	Return on assets
ROE	Return on equity
RSAs.	Regulatory and Supervisory Authorities
R&D	Research and development
SDGs	Sustainable Development Goals
SECP	Securities and Exchange Commission of Pakistan
SME	Small and medium enterprise
TID	The Investment Dar
UK	United Kingdom
US	United States
USD	US dollar

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معهد البنك الإسلامي للتنمية
Islamic Development Bank Institute

Islamic Development Bank Institute
A Member of the Islamic Development
Bank (IsDB) Group

8111 King Khalid St.
Al Nuzlah Al Yamania Dist.
Unit No. 1
Jeddah 22332-2444
Kingdom of Saudi Arabia

⊕ www.isdbinstitute.org



**ISLAMIC FINANCIAL
SERVICES BOARD**

Islamic Financial Services Board
Level 5, Sasana Kijang
Bank Negara Malaysia
2, Jalan Dato' Onn
50480 Kuala Lumpur
Malaysia

⊕ www.ifsb.org