ICD THOMSON REUTERS
ISLAMIC FINANCE DEVELOPMENT REPORT 2014

HARMONY ON THE HORIZON

#IFDI2014

A Joint Initiative of

ICD
Islamic Corporation for the Development of the Private Sector

ISLAMIC FINANCE GATEWAY

THOMSON REUTERS™

enabling enterprise, building prosperity

Islamic Corporation for the Development of the Private Sector

Member of the Islamic Development Bank Group

Providing Islamic financial services and products

Promoting competition and entrepreneurship in member countries

Advising governments and businesses

Encouraging cross country investments

www.icd-idb.org

CONTENTS

EXCLUSIVE

FOREWORD

The Islamic Corporation for the Development of the Private Sector (ICD), the private sector development arm of the Islamic Development Bank (IDB), is proud to present, for the second consecutive year, findings from the Islamic Finance Development Indicator. The indicator was developed in collaboration with our partners Thomson Reuters, the world's leading provider of intelligent information for businesses and professionals.

The ICD-Thomson Reuters Islamic Finance Development Indicator (IFDI) continues to be the only development indicator that numerically measures the overall health and development of the Islamic finance industry worldwide. For the second year running, the IFDI provides readers with an unbiased multi-dimensional barometer that considers the development of the Islamic finance industry beyond mere assets growth. This year, we have expanded our universe to analyse the state of Islamic finance in 92 countries along five key dimensions: quantitative development, governance, social responsibility, knowledge and awareness.

As the Islamic finance industry continues to move towards greater maturity and gains increasing recognition and participation from new players, the need to fill the information gap becomes increasingly essential.

The IFDI and its accompanying report are designed to assist governments, regulators and policy-makers to identify their respective strengths and weaknesses and develop efficient roadmaps to expand the Islamic finance sector within their jurisdictions. Countries can also use this information to assess their position and move to create an enabling environment for the industry, with appropriate educational infrastructure, government legislation and regulatory oversight.

Finally, I would like to express my sincere appreciation to all those who have contributed to this important project and my special gratitude to Thomson Reuters on this pioneering contribution to the Islamic finance industry.

Khaled Al-Aboodi
Chief Executive Officer, Islamic Corporation for the Development of the Private Sector

Islamic Corporation for the Development of the Private Sector

Thomson Reuters in collaboration with our partner ICD, is proud to bring you the second edition of the Islamic Finance Development Report,providing a holistic view of the current state of development of the global Islamic financial services industry.

This year's report shines more light on the micro-level data that built up the indicator while presenting case studies and leadership articles from market leaders, researchers and professionals. In addition, the report also outlines key milestones during the year that have affected the development of the Islamic finance industry.

Despite total global Islamic finance assets growing to over $1.66 trillion by the end of 2013, concerted steps need to be taken by policymakers and regulators to tackle the continued fragmentation and disparate development of the industry. This requires regulators to consider the development and implementation of a holistic 5-year strategic master plan for their own jurisdiction while being cognisant of global market developments and the role of multilateral development institutions such as the Islamic Development Bank.

For 2013, we widened our data collection coverage for the Islamic Finance Development Indicator (IFDI). We expanded our universe to 92 countries from 82 last year, to cover more jurisdictions that have demonstrated actionable progress in the development of Islamic finance. We further refined our methodology to identify and collect data from hard to access institutions, including the Islamic operations of conventional institutions and we actively sought direct support where information is lacking. This has resulted in the restating of some of last year's information and the corresponding indicator values to better reflect market realities and serve as a base to measure development in the coming years.

With that, it gives me great pleasure to welcome you to the ICD Thomson Reuters Islamic Finance Development Report 2014 which we believe is destined to be the compass that allows us to direct the necessary development of the industry. The report provides a full picture of the health and development of the industry beyond the simplified analysis of asset sizes, growth rates and profitability.

We would like to thank Nadim Najjar, Managing Director, Middle East and North Africa, Thomson Reuters for his continued support and guidance for the Islamic finance business and express our special thanks to the Bahrain Institute of Banking & Finance for supporting the Knowledge section of this report with key insights from their decades of experience.

Finally, we would like to also thank our partner, the Islamic Corporation for the Development of the Private Sector, for their sustained commitment to support such initiatives, as part of their broader strategy to promote the development of the Islamic finance industry.

Dr. Sayd Farook
Global Head Islamic Capital Markets, Thomson Reuters

THOMSON REUTERS™

EXECUTIVE SUMMARY

Aerial view of a new island creation near Dubai city (United Arab Emirates)

Summary and Headlines

Islamic finance understands the word 'development' as one that signifies holistic, well-rounded development. When an individual's life is assessed from an Islamic point of view, their stock of monetary or financial wealth is the least important consideration. Instead, an individual's measurement is based on fulfilling their responsibilities towards God, family and the wider society. Similarly, measuring the performance or development of the Islamic financial services industry entails assessing it in relation to how well it has carried out its religious, economic, legal, ethical and discretionary responsibilities.

There isn't a consensus on how exactly the Islamic financial services industry should operate, what comprises a comprehensive sharia-compliant financial system, the extent to which it should interact with and relate to the conventional financial system, and how best it could uplift the socio-economic well-being of citizens.

While the Islamic financial services industry is evolving what constitutes as success has fallen back on measures of size — the level of the value of assets held, take-up and penetration rate, and rate of growth. Our Islamic Finance Development Indicator moves beyond that single dimension of quantitative development of Islamic financial institutions (IFIs) to also consider two other dimensions: inputs that fuel and drive assets, profits and demand; and socio-economic contributions. The three dimensions work in a virtuous, inter-connected cycle and include other players within the Islamic finance industry beyond the IFIs, in recognition that a measurement of a financial system must be one that involves and impacts the much wider society.

We acknowledge that our current measurement of the industry's impact on and benefits for the wider society is severely limited. The IFDI and its components will only evolve in tandem with Islamic finance market practices and standards. As to the current framework followed by the IFDI, an explanation of the components and benchmarks that all countries are measured against is presented in our Methodology section. Most are plain vanilla. As testament to differing industry views and practices with regard to sharia and corporate governance and CSR, we adopt AAOIFI and IFSB standards and requirements (each where relevant) for these components. In this sense, the IFDI framework is only prescriptive in its deference to these recommended industry standards.

Main headlines

There's an uneven level of Islamic finance development across the 92 countries assessed. While there isn't at the present time a 'one size fits all' Islamic finance model for each country's unique needs there are methods and structures that have proven to be successful and resilient. 64 points separate the leader Malaysia and tenth-placed Brunei. Malaysia is the runaway leader with an Indicator value of 93. The first chasing pack is 17 points behind and is made up of Bahrain, Oman and the UAE. This trio is chased by a bigger group of six — Qatar, Kuwait, Jordan, Pakistan, Saudi Arabia, and Brunei. While Malaysia continues to resist plateau-ing by strengthening its regulatory framework and pursuing liberalization and internationalization policies, it's the middle pack, comprising primarily of the GCC countries, which could really drive Islamic finance development and give Malaysia a run for its money.

Only 24 countries, or 26% of the IFDI universe, scored higher than the global average Indicator value of 10. Outside the top 10, 17 countries scored between 10 and 28, including 2 of the top 4 global financial centres Singapore (10 points) and the UK (16 points), and Africa's largest economy by GDP, Nigeria (10 points).

Other MENA region next in line for development. Countries in the Other MENA region which include the North African countries Morocco, Tunisia, Libya, Sudan and Egypt, and other nations such as Jordan, Lebanon, Syria and Iraq, are next in line for a development boost, which will primarily require political stability. Many in the region perform well across all indicators but largely still trail the GCC, Southeast Asian and South Asian countries.

Sharia governance is a priority for many countries. The Governance Indicator reveals that even in the absence of dedicated Islamic finance regulations or guidelines countries privilege sharia governance measures in the first instance. The next step of development for these countries is to build on that sharia base with corporate governance best practices, and enact specific regulations or guidelines for the different sectors of the industry for a systematic development.

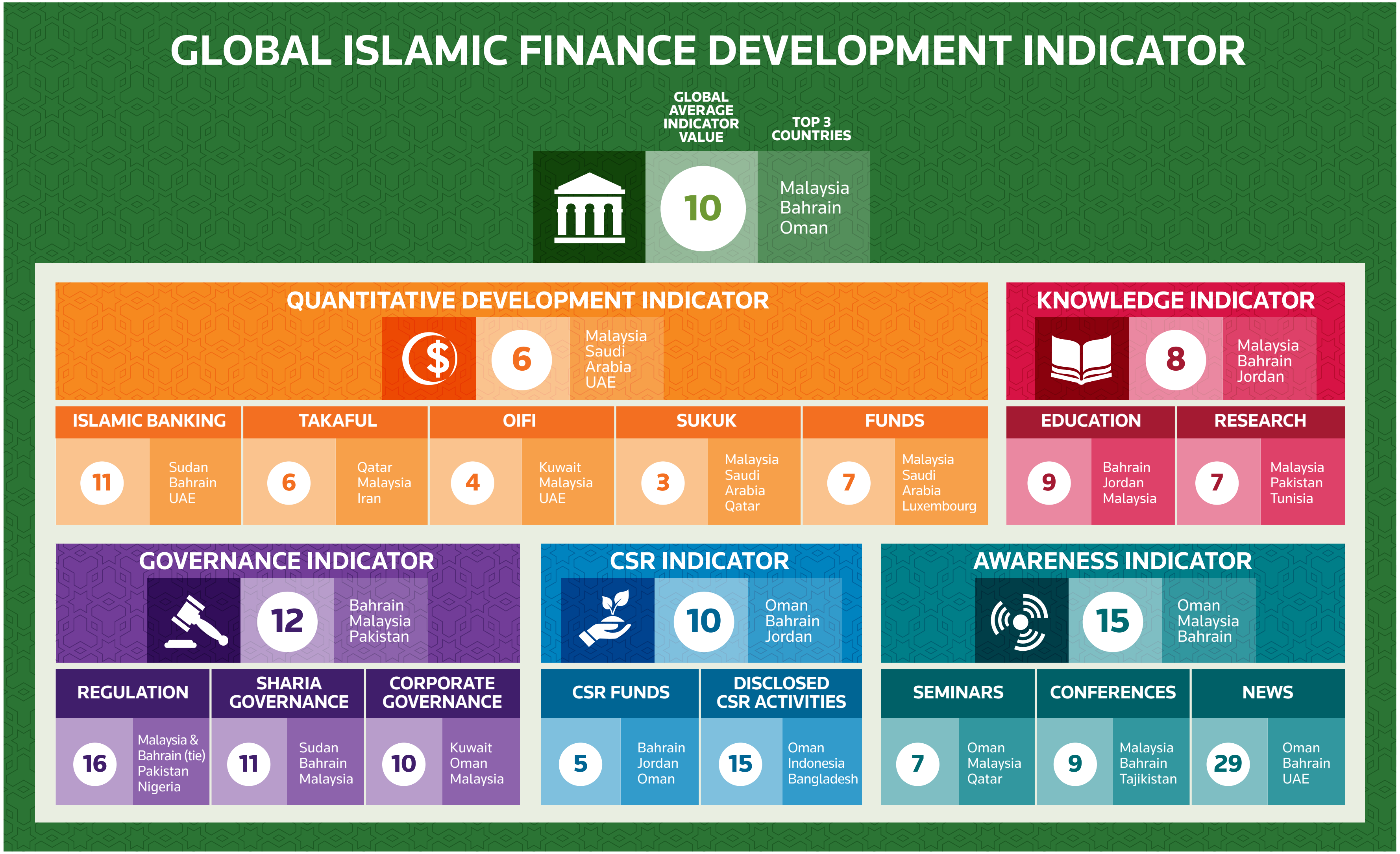
We see harmony on the horizon. There is a growing shift towards a centralised sharia oversight framework. New or emerging markets such as Oman, Morocco, Nigeria, Pakistan and Bangladesh have either established or are in the process of establishing central sharia boards at the national level, and adopting AAOIFI guidelines for sharia governance. In the GCC, with Oman finally embracing Islamic finance in 2013, the calls for greater cross-border cooperation and harmonization of regulations and practices have been growing louder. But first, each market still has to address its weakest links.

Banking continues to drive quantitative development of the industry. The aggregate value of global Islamic financial assets reached $1.658 trillion at the end of 2013. There is a significant concentration of assets in three countries — Malaysia, Saudi Arabia and Iran. Islamic banking assets accounted for 73%, or $1.2 trillion. Asset management companies have been left behind and takaful is still struggling to live up to its potential. Sukuk issuance volumes dropped from 2012's high and with the interest rate environment slowly changing the entire Islamic finance industry needs to re-think its value proposition.

It's not all about Islamic banking in Southeast Asia and the GCC. We factored in Other Islamic financial institutions (OIFIs) when considering the industry's quantitative development. India stood out. Regulations don't as yet allow Islamic banks in India but OIFIs there work within the non-banking framework to serve sharia-compliant financial needs. The country has 8 OIFIs in operation, all of which achieved positive returns in 2013. During 2013 as well, India started talking about plans to establish a Haj fund similar to Malaysia's Tabung Haji, and planning for this was confirmed in early 2014. Similar to India, Australia doesn't have Islamic banks but does have 6 OIFIs, the earliest of which dates back to 1989, when MCCA Limited started offering sharia-compliant housing finance.

We love Oman's story. The new kid on the block has had a stunning debut and ranks highly in all Indicators. Oman's successful debut rests on a strong regulatory framework.

The accuracy and reliability of the Indicator depends on the industry's level and standards of disclosure. The data employed in the IFDI when aggregating and computing indicator values include publicly disclosed information only. Hence, the IFDI is as strong and weak as the industry's level and standards of disclosure. The weakest level of disclosure is for CSR activities and CSR funds disbursed, which is disappointing considering the significance of transparency and social responsibility to sharia. Challenges were also faced due to late publication and delayed release of annual reports.


GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR
GLOBAL AVERAGE INDICATOR VALUE
TOP 3 COUNTRIES
10
Malaysia
Bahrain
Oman
QUANTITATIVE DEVELOPMENT INDICATOR
6
Malaysia
Saudi Arabia
UAE
ISLAMIC BANKING
11
Sudan
Bahrain
UAE
TAKAFUL
6
Qatar
Malaysia
Iran
OIFI
4
Kuwait
Malaysia
UAE
SUKUK
3
Malaysia
Saudi Arabia
Qatar
FUNDS
7
Malaysia
Saudi Arabia
Luxembourg
KNOWLEDGE INDICATOR
8
Malaysia
Bahrain
Jordan
EDUCATION
9
Bahrain
Jordan
Malaysia
RESEARCH
7
Malaysia
Pakistan
Tunisia
GOVERNANCE INDICATOR
12
Bahrain
Malaysia
Pakistan
REGULATION
16
Malaysia & Bahrain (tie)
Pakistan
Nigeria
SHARIA GOVERNANCE
11
Sudan
Bahrain
Malaysia
CORPORATE GOVERNANCE
10
Kuwait
Oman
Malaysia
CSR INDICATOR
10
Oman
Bahrain
Jordan
CSR FUNDS
5
Bahrain
Jordan
Oman
DISCLOSED CSR ACTIVITIES
15
Oman
Indonesia
Bangladesh
AWARENESS INDICATOR
15
Oman
Malaysia
Bahrain
SEMINARS
7
Oman
Malaysia
Qatar
CONFERENCES
9
Malaysia
Bahrain
Tajikistan
NEWS
29
Oman
Bahrain
UAE

INTRODUCTION

DOHA, QATAR - NOV 13: Construction continues unabated on Nov 13, 2013 in Doha, Qatar. Doha, is preparing it's infrastructure for the World Cup in 2022. Sophie James / Shutterstock.com

One indicator reflecting the overall health and development of the Islamic finance industry worldwide

The **ICD Thomson Reuters Islamic Finance Development Indicator ('Indicator')** is designed to represent the overall health and development of the Islamic finance industry worldwide using one composite and weighted numerical measure. The Indicator is a result of a long-term strategic partnership agreement between the Islamic Corporation for Development of the Private Sector (ICD), a member of the Islamic Development Bank Group which holds a vested interest in the development of Islamic finance, and Thomson Reuters, the global integrated information services provider.

The overall objectives underpinning the composite Indicator are straightforward - simplification, quantification, and communication. The Indicator is intended to simplify the various fragmented elements of the Islamic finance industry and make their complex phenomena quantifiable so that such information can be communicated to and understood by the wider public.

The word 'development' in Islam signifies well-rounded development. When an individual's life is assessed from an Islamic point of view, their monetary or financial wealth is the least important consideration. Instead, an individual's measurement is based on fulfilling their responsibilities towards God, family and the wider society.

Similarly, for Islamic financial institutions, any measure of performance or development entails assessing how well they have carried out their responsibilities in relation to their religious, economic, legal, ethical and discretionary responsibilities.

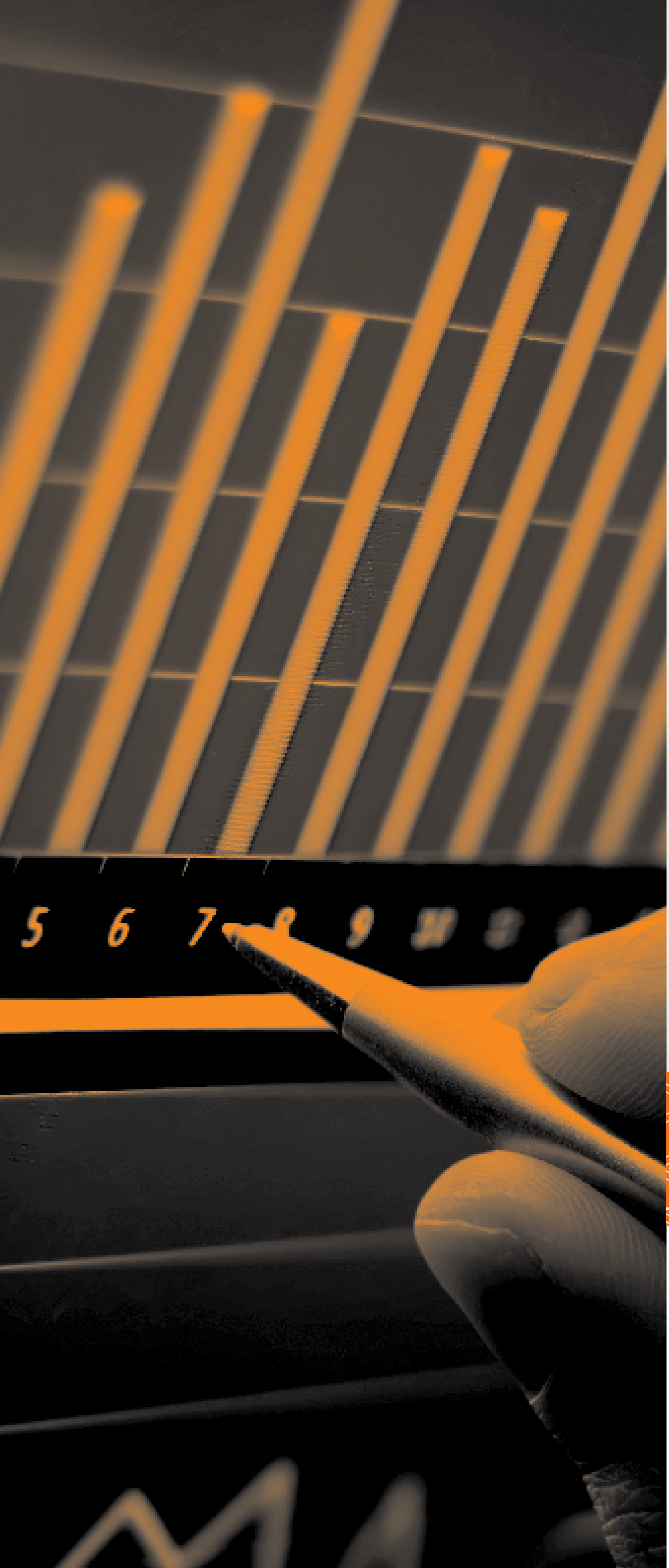
Based on this framework, we have developed the Indicator, which is a composite weighted index that measures the overall development of the Islamic finance industry by providing an aggregate assessment of the performance of all its parts, in line with the substance and spirit of Islamic principles. It is a global level composite indicator with country and unit-specific level indicators.

The key priority areas identified and addressed are five: quantitative development, knowledge, governance, corporate social responsibility and awareness.

These priority areas are the individual Indicators that are aggregated to provide the Global and Country level Indicators.

We have expanded the coverage of the IFDI this year which has led us to restate some figures from 2012. This includes the addition of new jurisdictions and the Islamic operations of conventional institutions. We also included institutions that disclosed their financial information after the issuance of our report last year and institutions that directly contacted us to provide their financial information for inclusion in the IFDI. Therefore, IFDI report 2012 is not comparable to this year's report due to the data and indicator values change.

Details of the methodology used to derive the indicator values are provided in Methodology page 169.



DATA SERVICES
Thomson Reuters Eikon and Zawya products provide access to a full spectrum of all relevant Islamic asset classes and content sets to give users the best of class research capabilities.

RESEARCH
Built on the back of the world's most extensive data capabilities, Thomson Reuters leverages its global network to provide primary source intelligence on markets, industries and institutions relevant to Islamic finance.

CONSULTING
Thomson Reuters can provide bespoke service harnessing our global knowledge network combined with our deep expertise in Islamic finance.

ISLAMIC FINANCE GATEWAY COMMUNITY
Islamic Finance Gateway (IFG) Community is the one dedicated knowledge Gateway for professionals from across different countries to converge and interact on industry issues that matter in order to generate actionable outcomes to shape and speed up the industry's growth.

To join the community:
online.thomsonreuters.com/ifg

ABOUT THOMSON REUTERS

We are the leading source of intelligent information for the world's businesses and professionals, providing customers with competitive advantage. Intelligent information is a unique synthesis of human intelligence, industry expertise and innovative technology that provides decision-makers with the knowledge to act, enabling them to make better decisions faster. We deliver this must-have insight to the financial and risk, legal, tax and accounting, intellectual property and science and media markets, powered by the world's most trusted news organization.

KNOWLEDGE SOLUTIONS POWERING DECISION MAKING
Thomson Reuters is an integrated knowledge services provider that assists the Islamic Finance industry through providing solutions that enhance transparency, clarity and accessibility of Islamic Finance to the global audience of businesses and professionals. We are proud to have been at the heart of Islamic banking since the first commercial Islamic bank was launched in 1975.

Our knowledge solutions help you gain clarity and transparency in the rapidly emerging Islamic finance industry by providing you with data services, research products and consulting services.

ISLAMIC FINANCE GATEWAY

FOR MORE INFORMATION ABOUT THE COMMUNITY REACH US AT:
Ifg.community@thomsonreuters.com

FOR RESEARCH AND CONSULTING:
Ifgeditor@thomsonreuters.com

FOR SALES AND MARKETING:
Mohammed.alsharaf@thomsonreuters.com

FOR ALL OTHER ENQUIRES:
Islamic.finance@thomsonreuters.com

Connect with Us:

THOMSON REUTERS

GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR

KUALA LUMPUR, MALAYSIA - Aprli 25: View from the top of Petronas Twin Towers on April 25, 2014 in Kuala Lumpur, Malaysia. The skyscrapers height are 451.9m and were the tallest buildings in the world. Jaromir Chalabala / Shutterstock.com

GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR

This year the IFDI covers 92 countries for five Indicators: Quantitative Development, Knowledge, Governance, Corporate Social Responsibility and Awareness. This overall Indicator is the one number that reflects the Islamic finance industry in each country across these fundamentals, hence presenting a more accurate barometer of the industry's health and development.

GLOBAL IFDI INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	10
1	Malaysia	93
2	Bahrain	76
3	Oman	64
4	United Arab Emirates	57
5	Qatar	40
6	Kuwait	38
7	Jordan	36
8	Pakistan	34
9	Saudi Arabia	31
10	Brunei Darussalam	29

IFDI Headlines

- 92 countries make up the Global Islamic Finance Development Indicator.
- Global Average Indicator Value stands at 10
- 24 countries (26%) scored higher than the global average. Out of these 24, 37.5% (9) are from Other MENA, 25% (6) from GCC, 17% (4) from South Asia, 12.5% (3) from Southeast Asia, and 8% (2) from Europe
- Top 10 geographical representation — 60% GCC, 20% Southeast Asia, 10% Other MENA, 10% South Asia

Uneven development among top 10

The GCC and Southeast Asia continue to show the way forward. There is a runaway pack — Malaysia, Bahrain, Oman and UAE — that stands heads and shoulders above the global average while very little separate the bottom half of the table. There is a wide gap of 53 points separating first place Malaysia and fifth place Qatar, and 64 points between Malaysia and Brunei in tenth.

Old is gold: Malaysia and Bahrain on top

Malaysia performed consistently well across all indicators. The Southeast Asian powerhouse is Number 1 for Knowledge and Quantitative Development and first runner-up for Governance and Awareness. Its Achilles heel is CSR where it ranks a woeful eighth.

Bahrain may be small but it's big on business. It leads for Governance, comes in second for Knowledge and CSR, third in Awareness but drops down to sixth for Quantitative Development.

Oman stuns at debut, UAE hovering mid-table

The new kid on the block has had a stunning debut. Oman is the CSR and Awareness leader, ranks joint seventh with UAE for Governance, joint twelfth with Saudi Arabia for Knowledge but falls under the global average for Quantitative Development.

In fourth, the UAE is always hovering mid-table. Its weakest link is Governance where it comes in joint seventh with Oman. UAE is fifth for Knowledge, fourth for CSR and Awareness and third for Quantitative Development.

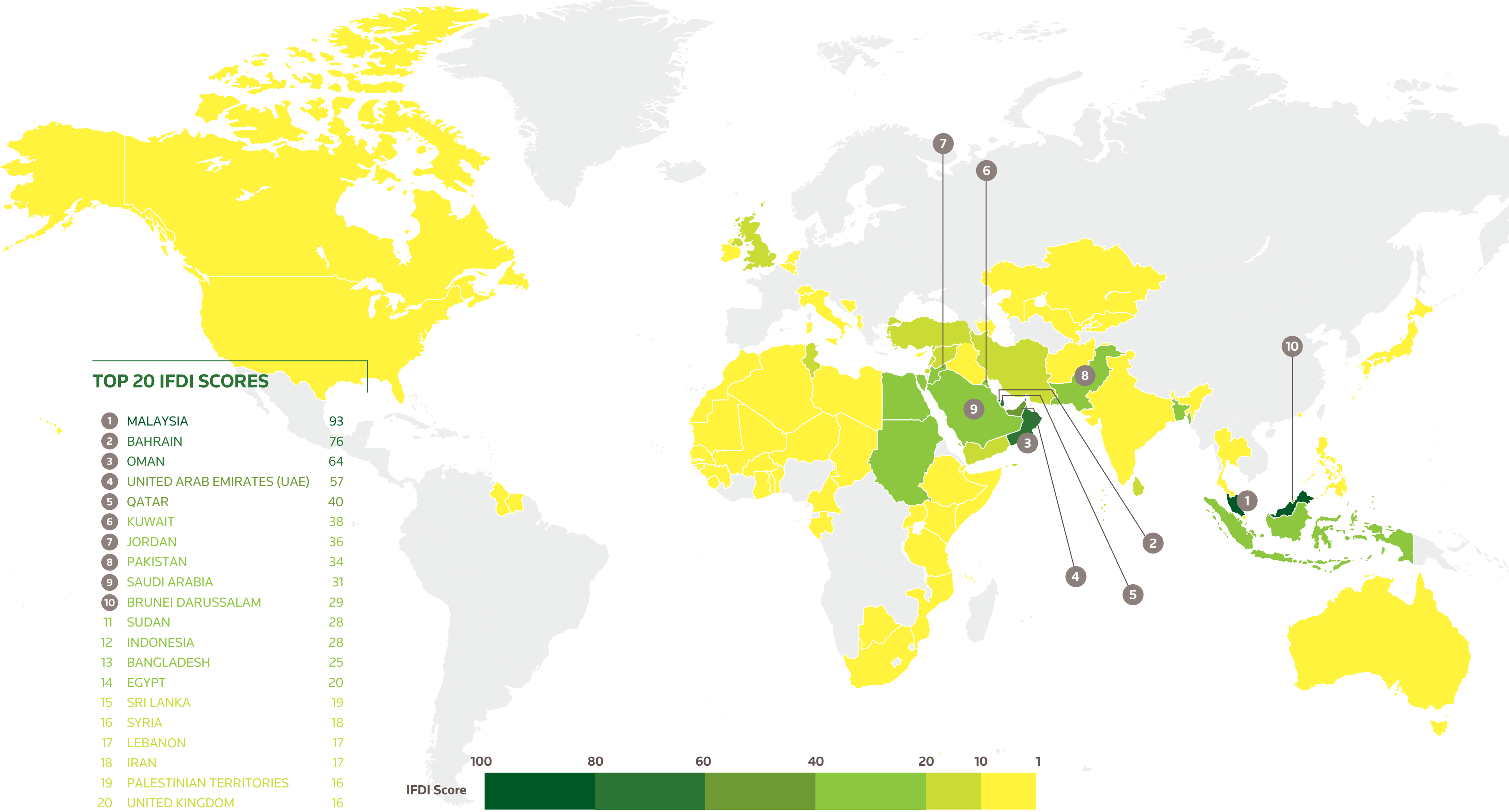
Tight at the bottom, 11 points separate fifth to tenth placed countries

Very little separate Qatar, Kuwait, Jordan and Pakistan. Among the quartet Jordan is best for Knowledge and CSR, Pakistan for Governance, Qatar for Awareness and Quantitative Development.

For the bottom two in the top 10, Saudi Arabia's strength is in Quantitative Development and CSR but needs to pull up its socks in all other areas. Brunei held its own in the top 10 for Knowledge, CSR and Awareness.

KUALA LUMPUR - MARCH 7:The Petronas Twin Towers Suspension Bridge on March 7, 2012, in Kuala Lumpur, Malaysia are the world's tallest twin tower. The skyscraper height is 451.9m. Ezz Mika Elya / Shutterstock.com

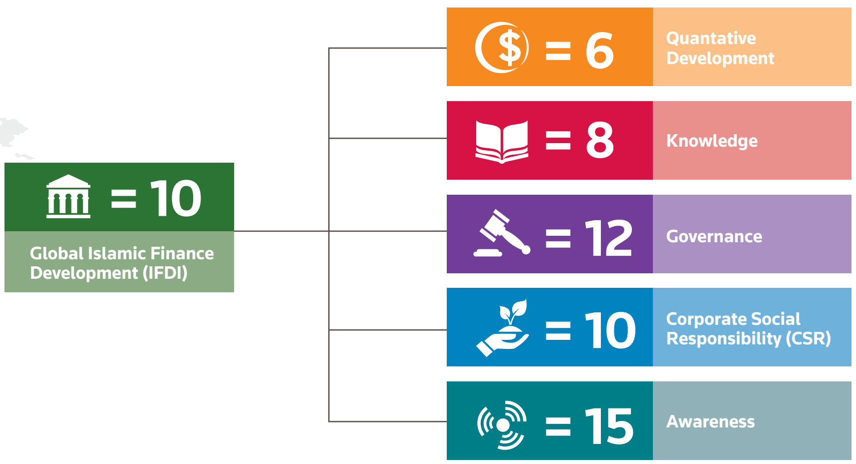
GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR LANDSCAPE



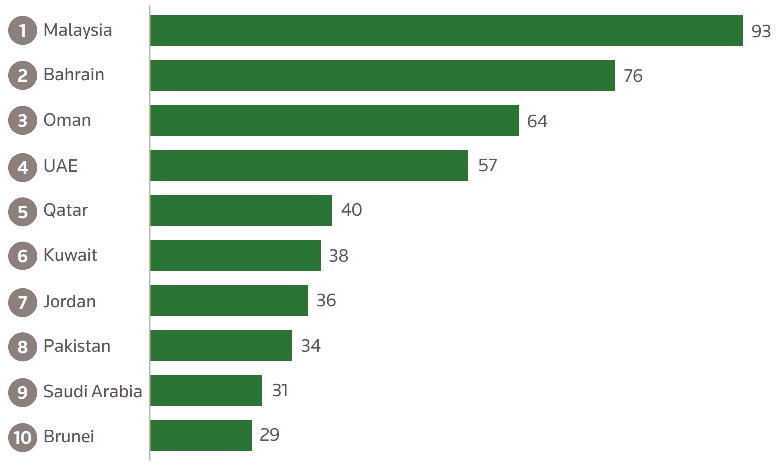
TOP 20 IFDI SCORES

1	MALAYSIA	93
2	BAHRAIN	76
3	OMAN	64
4	UNITED ARAB EMIRATES (UAE)	57
5	QATAR	40
6	KUWAIT	38
7	JORDAN	36
8	PAKISTAN	34
9	SAUDI ARABIA	31
10	BRUNEI DARUSSALAM	29
11	SUDAN	28
12	INDONESIA	28
13	BANGLADESH	25
14	EGYPT	20
15	SRI LANKA	19
16	SYRIA	18
17	LEBANON	17
18	IRAN	17
19	PALESTINIAN TERRITORIES	16
20	UNITED KINGDOM	16

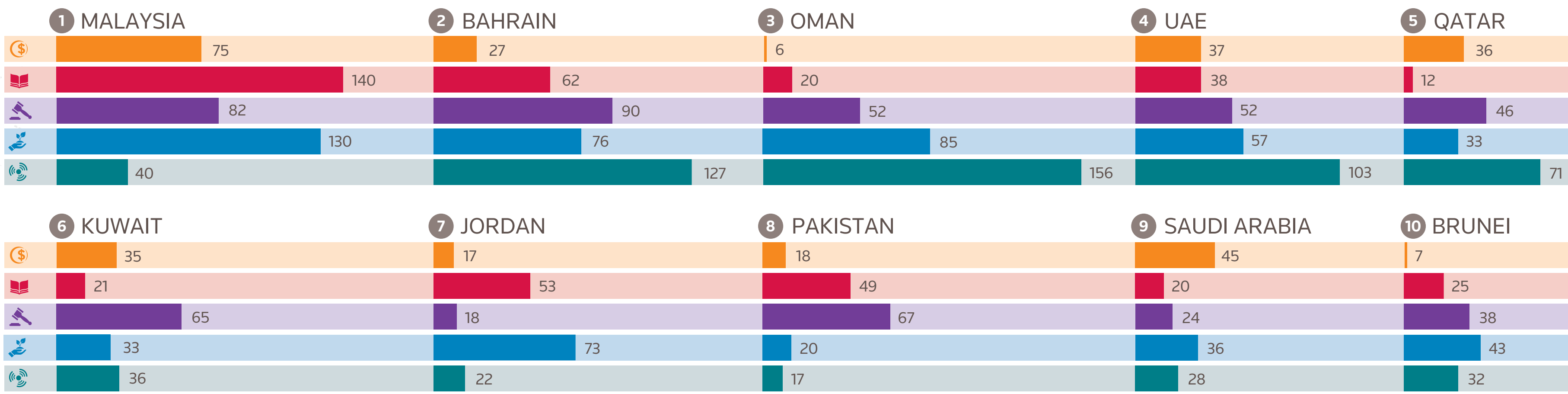
GLOBAL AVERAGE



TOP 10 OVERALL IFDI RANKING



IFDI SCORE FOR EACH INDICATOR



ISLAMIC FINANCE BACKGROUND

Interest in Islamic economics and finance started mushrooming in Muslim countries in the Middle East, Southeast Asia and South Asia in the 1950s.

This interest was very quickly harnessed into action and following a handful of failed early attempts, sharia-compliant banks started taking root from the mid-1970s. By the 1990s Islamic banking had grown to such an extent as to attract the attentions of international conventional banks, which promptly set up their own sharia-compliant businesses. By this time as well, growth and expansion of the industry beyond banking and into the capital market and stock exchanges warranted a dedicated and more focused oversight of its evolving practices; the first of the industry's infrastructure bodies, AAOIFI, was established.

By the 2000s Islamic finance had stepped out of its niche market as demand for its services picked up pace worldwide. With an increasing awareness of what could now be called an Islamic financial system, the market experienced significant growth.

When the financial crisis hit in 2008 Islamic institutions proved to be more resilient than conventional ones, and even though growth slowed significantly in 2009, faith in Islamic financial institutions did not wane. Throughout the financial crisis Islamic banks were still able to increase shareholder wealth by improving equity positions and generating profitable returns. Total growth in equity was 43.3% between 2004 and 2011.

During this period the larger and more mature Islamic finance centres started to flex more muscle in the international arena. As Islamic finance more confidently stepped out the world's financial centres also started to harbour their own Islamic finance ambitions. London is chasing Kuala Lumpur and Dubai for the right to be called the world's Islamic finance hub and Hong Kong and Luxembourg are racing to follow the UK in tapping the sukuk market and attract sharia-compliant business.

Today, Islamic financial institutions operate in over 58 countries. Islamic banks are offering new and more sophisticated products for both retail and wholesale markets. A more complete suite of products and instruments has also been developed to help financial institutions manage liquidity and hedge risks. Islamic finance is by no means 'fully-developed' but is in a far stronger and more influential position now to work across borders to take the development of the industry forward.

Islamic Finance Development

1950s: Discussions surrounding Islamic economics and finance emerge and books on the subjects are published; experimental banks are set up

1960s: The first modern Islamic savings bank is opened in Mit Ghamr, Egypt, and a sharia-compliant savings and investment institution, Tabung Haji, is established in Malaysia

1970s: Developments in Islamic banking with Islamic banks opening in UAE, Kuwait, Bahrain, Egypt, Saudi Arabia and Sudan. Islamic finance begins to gain an international presence

1980s: More Islamic banks are established in countries such as Malaysia and Bangladesh; Iran and Sudan adopt interest-free banking system; start of introduction of regulations for Islamic banks in Bahrain and Malaysia

1990s: Increased regulation of Islamic banks as Bahrain develops the international Islamic accounting standards organisation, AAOIFI; sukuk market begins to develop as the first sukuk are issued; Dow Jones Islamic Market Index is launched

Early 2000s: Many industry infrastructure institutions are established including CIBAFI, IIFM, IFSB, LMCIIRA, and IICRA; Bahrain issues Financial Trust laws; Dubai announces steps to create the first sharia-compliant stock exchange; many conventional banks offer Islamic services

2008 - 2009: The financial crisis hits, Islamic banks initially perform better than conventional banks but were hit when the crisis hits the real economy

2010 - 2012: Islamic banks recover and are performing well; more sukuk are issued

MALACCA, MALAYSIA - DECEMBER 24: Muslim lady preparing halal food on MARCH 24, 2014 in Malacca, Malaysia. Restaurants in Melaka are famous for asam pedas (spicy sour dishes). ENCIK KOPI O / Shutterstock.com

Key Milestones 2013

TOTAL GLOBAL IF ASSETS IN 2013
$ 1.658 TRILLION

JAN

Disclosure
PAKISTAN: State Bank of Pakistan (SBP) issued regulations to standardize the disclosure of Islamic banks within the country

IFI
BAHRAIN: Three Bahraini Islamic banks finalize merger

IFI
OMAN: First Oman Islamic bank starts operations

News
OMAN: News covering Islamic Finance start of operations in Oman

FEB

Sharia governance
DUBAI: Dubai Government to standardize Islamic banking with a new National Sharia Authority

MAR

News
UK: UK government launches the country's Islamic Finance Task Force

APR

Funds
MALAYSIA: Malaysia reveals $500 mln fund for halal industry

Research
US & MALAYSIA: New research partnership formed between Deloitte, INCEIF and the University of Reading

MAY

Conference
MALAYSIA: 10th Islamic Financial Services Board Summit 2013

JUN

Conference
UK: 2013 London Sukuk Summit

News
TUNISIA: talks about Islamic Finance potential growth in Tunisia after Thomson Reuters report

Regulation
NIGERIA: Issuance of Sukuk and Funds law

JUL

Seminars
RUSSIA: Opportunities available for Tatarstan companies to attract Islamic finance

CG
QATAR: Issued new rule for governance and risk management covering Islamic finance

Sharia governance
MALAYSIA: Islamic Financial Services Act 2013 comes into effect; sharia scholars made legally accountable for Islamic financial products

AUG

IFI
INDIA: Kerala govt gets RBI nod for Islamic banking

SEPT

OCT

News
UK: Heavy news coverage following UK PM announcement for plans to issue sukuk

NOV

News
UAE: News coverage increases following winning bid for Expo 2020 and GIES

DEC

Conference
BAHRAIN: 20th anniversery of The World Islamic Banking Conference (WIBC)

Education
MIDDLE EAST: Deloitte collaborates with the Finance Accreditation Agency (FAA) for world-class Islamic Finance training standards in the Middle East

ISLAMIC FINANCE FACT SHEET
TOP 15 LARGEST ISLAMIC FINANCE ECONOMIES

RANK	COUNTRY	ISLAMIC FINANCE ASSETS ($ MILLION)	ISLAMIC FINANCIAL INSTITUTIONS	ISLAMIC BANKING ASSETS ($ MILLION)	TAKAFUL ASSETS ($ MILLION)	DISCLOSED CSR FUNDS ($ MILLION)	EDUCATION INSTITUTIONS	RESEARCH PAPERS (2011 - 13)	SHARIA SCHOLARS REPRESENTATION	NEWS ARTICLES	SEMINARS & CONFERENCES
	Global	1,657,998	993	1,214,274	27,840	388	477	1,363	837	14,490	231
1	Malaysia	423,285	76	170,280	8,596	31	44	421	188	2,626	52
2	Saudi Arabia	338,106	99	264,345	11,045	74	25	45	67	1,405	4
3	Iran	323,300	54	319,008	4,206	6	1	15	–	140	1
4	United Arab Emirates	140,289	73	113,102	1,905	85	39	41	50	3,006	18
5	Kuwait	92,403	92	82,911	122	23	9	16	62	668	1
6	Qatar	81,027	38	59,047	517	–	7	6	30	1,088	9
7	Bahrain	64,644	57	59,807	534	47	21	30	55	1,238	9
8	Turkey	51,161	5	44,730	–	–	2	10	–	479	11
9	Indonesia	35,629	78	19,169	417	36	17	45	94	270	6
10	Bangladesh	18,938	38	18,676	220	13	10	11	136	57	3
11	Pakistan	14,647	54	9,605	94	4	24	141	41	504	6
12	Egypt	12,086	26	11,499	–	–	7	12	26	61	1
13	Sudan	8,034	44	7,904	–	–	6	5	58	187	1
14	Jordan	7,430	12	7,052	96	33	14	15	18	181	1
15	Switzerland	6,575	3	–	–	–	3	3	3	37	–

Kuala Lumpur skyline at night.

EXCLUSIVE

Daud Vicary Abdullah

Mohd-Pisal Zainal

MALAYSIA: FROM ONE BANK TO INTERNATIONAL MARKETPLACE

By Daud Vicary Abdullah and Mohd-Pisal Zainal

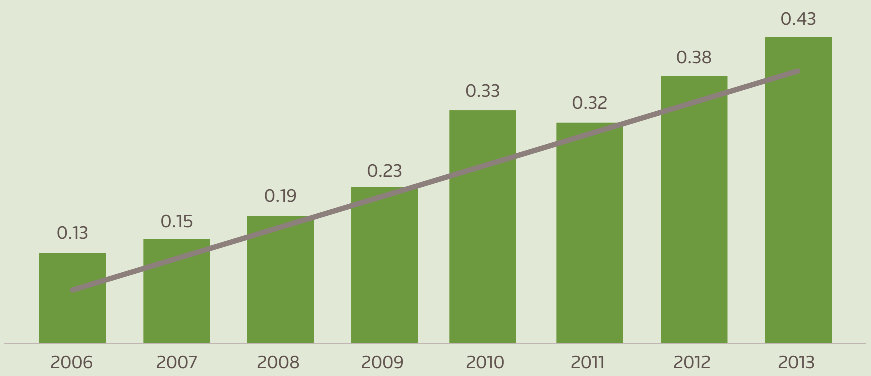
Malaysia's Islamic financial system has its roots in the Pilgrims Savings Fund Corporation (now widely known as Tabung Haji), the brain-child of Royal Professor Ungku Aziz. The Corporation, established in 1962, not only provided the platform for Muslims to accumulate enough savings to afford their hajj pilgrimage but also opened a completely new avenue for them to invest in accordance with Islamic principles. Since then the Malaysian government and financial regulators have been central to the development of the country's Islamic finance industry, which operates in parallel with the conventional system.

In the 1960s and 1970s, other factors also influenced and contributed to the increasing demand for Islamic banks in Malaysia. These include: Egypt's Mit Ghamr Savings Bank (1963-1967), regarded as a pioneering non-interest-based risk-sharing bank; the establishment of the first Islamic banks in the Middle East in the 1970s starting with Dubai Islamic Bank and Islamic Development Bank in 1975; the conversion of Iran's and Sudan's financial systems to become sharia-compliant; and Pakistan's attempts at becoming fully sharia-compliant.

First stage of development: 1983 to 1992

In 1983 Malaysia enacted the Islamic Banking Act and the Takaful Act followed in 1984. These paved the way for the establishment of Bank Islam Malaysia Berhad (Bank Islam) and Takaful Malaysia, the first Islamic bank and takaful operator in the country, respectively. Since the establishment of these two institutions, various measures, fiscal incentives and regulations have been put in place to promote growth and a level playing field for the Islamic financial services industry.

Malaysia Islamic Banking Assets 2006 - 2013 (Rm Billion)



In this first stage of Malaysia's Islamic finance industry, banking was the key component and the government focused on developing and introducing a large number and wide range of different types of sharia-compliant financial instruments to meet Bank Islam's growing needs. By the end of 1992, 20 Islamic financial instruments covering a wide area of activities had been created. However, despite Bank Islam's progress throughout the country, the government realised that in order for Islamic banking to be a viable alternative to conventional banking, the Islamic banking sector needed to be enlarged.

Second stage of development: 1993 to 2000

In order to enlarge the Islamic banking sector, the authorities introduced an interest-free banking scheme in 1993. The scheme allowed conventional banks to offer Islamic financial products and services through 'Islamic windows' with the operations and sources of funds of the windows being completely separated from those of their holding conventional banks. The scheme injected the element of competition into the Islamic banking industry, and over time encouraged efficiency. It succeeded in pushing up market share for Islamic banking, albeit below 1% at the time. By the end of 1993, the Malaysian Islamic finance industry had a wide range of instruments as well as distribution channels with Islamic bank branches nationwide. The second stage was also marked by two notable initiatives: the establishment of the Islamic Interbank Money Market to facilitate transactions at the wholesale level; and the creation of two apex sharia bodies — the National Shari'ah Advisory Council at the Securities Commission Malaysia (SC) to oversee the Islamic Capital Market and Bank Negara Malaysia to oversee Islamic banking and takaful. Malaysia's Shari'ah Advisory Councils remain the sole source of sharia interpretation for all Islamic financial institutions in the country, ensuring the industry uniformity in interpretation. From this second stage emerged the current stage of growth which focuses on liberalisation and internationalisation.

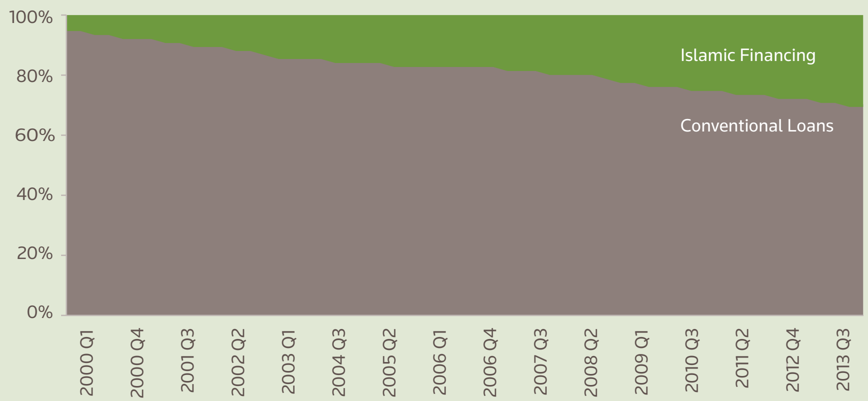
Third and current stage of development

Two strategic documents — Bank Negara Malaysia's (BNM) 10-year Financial Sector Master Plan (2001-2010) and Financial Sector Blueprint (2011-2010), and the SC's 10-year Capital Market Masterplan (2001 - 2010) and Capital Market Masterplan 2 (2011 - 2020) — place Islamic financial services and the Islamic capital market in the mainstream of Malaysia's economic agenda, and set out specific strategic reforms and goals. This stage is marked by the liberalisation of the market through the licensing of foreign Islamic banks. The Malaysia International Islamic Financial Centre (MIFC) initiative — a community network of financial and market regulatory bodies, government ministries and agencies, financial institutions, human capital development institutions and professional services companies that participate in the field of Islamic finance — was launched to better position Malaysia as the preferred international Islamic finance marketplace. Dedicated education, training and research institutions were also established. These included: Institute of Islamic Banking and Finance Malaysia (IBFIM), International Centre for Education in Islamic Finance (INCEIF), International Shari'ah Research Academy for Islamic Finance (ISRA), Securities Industry Development Corporation (SIDC) and SC's ICM-Capital Market Development Fund initiatives.

Banking

The Islamic banking sector has been the driving force of the global Islamic finance industry, making up approximately 80% of total Islamic finance assets. In Malaysia, Islamic banking has been in operation for 30 years and has evolved from one bank to an industry of 37 banking institutions. There are five categories of licenses issued to Islamic banking institutions in Malaysia: full-fledged Islamic bank, Islamic subsidiary (of a financial conglomerate), Islamic banking window (of a conventional bank), international Islamic bank, and development financial institution. Currently, 15 institutions are licensed as Islamic banks, 14 as Islamic windows, five as development financial institutions and four as international Islamic banks. In terms of foreign equity participation, 16 of the 37 Islamic banking institutions currently operating in Malaysia are foreign banks.

Assets under Management (AuM) and Number of Funds



In terms of asset size, the industry recorded an average growth rate of 16.85% from 2002 to 2012 compared to 6.37% in the conventional banking industry, according to central bank data. As at March 2013, Islamic banks enjoyed a market share of 25.9%.

Capital market

While Malaysia continues to compete with other markets to be a global Islamic banking marketplace, the country's Islamic capital market is widely regarded to be the most advanced in the world. The institutionalisation of a comprehensive legislative, regulatory, legal, tax and sharia framework for the ICM facilitates its development and growth. As a result of the comprehensive framework, Malaysia offers a wide range of ICM products — sharia-compliant securities, sukuk, Islamic unit trusts, exchange traded fund and real estate investment trusts.

List of Financial Institutions in Islamic Banking Industry in Malaysia

	ISLAMIC BANKS	ISLAMIC WINDOWS - INVESTMENT BANKS	DEVELOPMENT FINANCIAL INSTITUTIONS
DOMESTIC BANKS	1. Affin Islamic Bank Bhd 2. AmIslamic Bank Bhd 3. Bank Islam Malaysia Bhd 4. Bank Muamalat Malaysia Bhd 5. CIMB Islamic Bank Bhd 6. Hong Leong Islamic Bank Bhd 7. Maybank Islamic Bhd 8. RHB Islamic Bank Bhd	1. AmInvestment Bank Bhd 2. Maybank Investment Bank Bhd 3. CIMB Investment Bank Bhd 4. KAF Investment Bank Bhd 5. MIDF Investment Bank Bhd 6. Alliance Investment Bank Bhd 7. OSK Investment Banj Bhd 8. Kenanga Investment Bank Bhd	1. Bank Kerjasama Rakyat Malaysia Bhd 2. Bank Perusahaan Kecil & Sederhana Malaysia Bhd 3. Bank Pembangunan Malaysia Bhd 4. Export-Import Bank of Malaysia Bhd 5. Bank Simpanan Nasional

	ISLAMIC BANKS	ISLAMIC WINDOWS	INTERNATIONAL ISLAMIC BANKS
FOREIGN BANKS	1. Kuwait Finance House Bhd 2. Al Rajhi Banking & Investment Corporation Bhd 3. Asian Finance Bank Bhd 4. HSBC Bank Malaysia Bhd 5. OCBC Al Amin Bhd 6. Standard Chartered Saadiq Bhd	1. Citibank Bhd 2. Deutsche Bank Bhd 3. BNP Paribas Malaysia Bhd	1. Alkhair International Islamic Bank Bhd 2. PT Bank Syariah Muamalat Indonesia 3. Deutsche Bank A.G 4. Elaf Bank B.S.C

Source: BNM, 2014

Stock broking and fund management

At the same time, Malaysia is home to leading Islamic fund management and Islamic stock-broking companies that offer sharia-compliant products and services alongside their conventional businesses. Malaysia has achieved some noteworthy milestones in the Islamic fund management industry as well, beginning with the establishment of two Islamic unit trust funds in 1993. In 2005, Malaysia launched the world's first Islamic Real Estate Trust. There are currently eight licensed Islamic fund management companies which constitute about 9% of the total fund management companies in Malaysia. Of the eight, six have equity participation from foreign multinational players. The future growth of the sector looks bright as new initiatives to push internationalisation are put in place. This includes a mutual recognition agreement in 2013 between SC and the Dubai Financial Services Authority for the cross-border marketing and distribution of Islamic funds between the two Islamic financial markets.

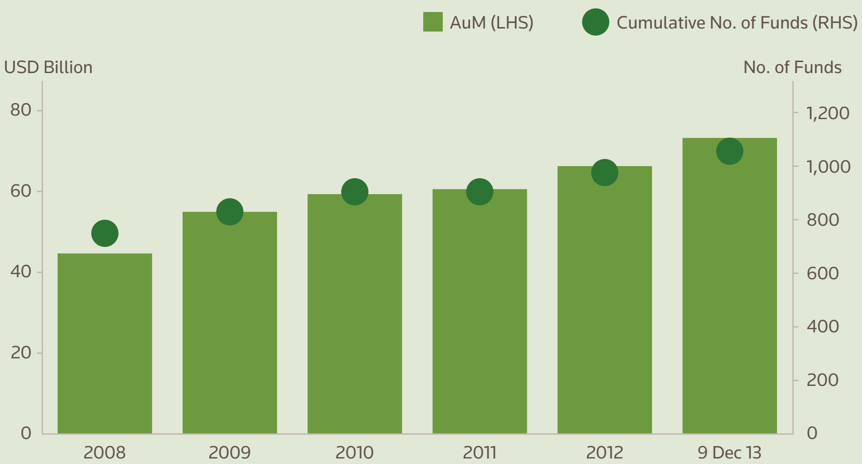
Sukuk

With more than 85% of the equity market sharia-compliant, Malaysia is also the world's largest issuer of sukuk. The country is home to 69% of the total number of sukuk issued from 1996 to Q3 2013; this adds up to 2,438 international and domestic Islamic papers issued. Malaysia had a total of $325 billion sukuk issued from 1996 to Q3 2013, with 67% sovereign, 13% quasi and 20% corporates.

Takaful

Just as the Islamic banking sector started life with one bank, Malaysia's takaful industry was established in 1984 with one operator — Takaful Malaysia. Since then, Malaysia's takaful industry has been gaining momentum and increasingly recognised as a significant contributor to Malaysia's overall Islamic financial system. The takaful sector has undergone several growth stages and milestones. On May 22, 2008, all takaful operators officially agreed among themselves to sign the inter-takaful operator agreement to set a common standard to regulate and control matters related to pre-contract examination for agents, agency registration system and code of ethics and compliance of the general takaful tariff for motor and fire businesses. The implementation of the inter-takaful operator agreement was with the objective to make the industry stronger in terms of streamlining market practices among operators as well as harmonising the takaful and conventional insurance industry.

Assets under Management (AuM) and Number of Funds



Ancillary services

On the support side, there are over 31 law firms that offer Islamic finance related services, two rating agencies, three accounting and auditing firms, three research houses and nine training providers in the country. Such institutions and services serve to build a holistic system, support innovation and develop upon existing expertise in the area of global Islamic finance.

Current legislation

Malaysia's Islamic finance industry is currently regulated under the new Islamic Financial Services Act 2013 (IFSA) which came into force on 30 June 2013. The act replaced the Islamic Banking Act 1983 and Takaful Act 1984 and incorporates elements from the Payment System Act 2003 and Exchange Control Act 1953. The new law provides for greater clarity on the legal and prudential requirements underpinned by sharia principles and underlines the need to move towards a sharia-based system with closer links to the real economy.

Daud Vicary Abdullah and Mohd-Pisal Zainal

Daud Vicary is President and Chief Executive Officer of INCEIF — The Global University of Islamic Finance. He can be reached at dvicary@inceif.org. Mohd-Pisal Zainal is Director, Center of Research and Publications at INCEIF. He can be reached at mpisal@inceif.org

The authors express their thanks for the research assistance provided by Ms. Malika Akhatova, a graduate student at INCEIF.

QUANTITATIVE DEVELOPMENT INDICATOR

QUANTITATIVE DEVELOPMENT INDICATOR

The Quantitative Development Indicator is a weighted index of Islamic Financial Institutions (IFIs), per country, that generate Islamic financial products and services.

QUANTITATIVE DEVELOPMENT INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	6
1	Malaysia	75
2	Saudi Arabia	45
3	United Arab Emirates	37
4	Qatar	36
5	Kuwait	35
6	Bahrain	27
7	Sudan	25
8	Iran	21
9	Pakistan	18
10	Indonesia	18

Quantitative Development Rationale

Financial institutions are considered the backbone of the industry given their size and track record. The QD Indicator provides an assessment of industry size, depth and performance, which together give insight into the long-term sustainability of the industry as a whole.

To assess the quantitative development of IFIs and markets, it is necessary to look at all the sub-sectors of the industry and review their quantitative dimensions. We consider the five sub-sectors of the Islamic finance industry: Islamic banking, Takaful, Other IFIs (including investment companies, micro-finance institutions), Sukuk and Funds.

The framework assesses the development of each sector in terms of size and performance. The metrics should provide unit-specific (institution / instrument) and country-specific average measures of size such as total assets, total number of standalone IFIs and windows, and listed institutions. In the context of funds and sukuk, specific metrics unique to each are constructed. The performance metrics provide unit-specific (institution / instrument) and country-specific average measures on the performance of IFIs and instruments, such as the average stock price performance, return on assets, return on equity or the bid/ask spread (for sukuk). We then arrive at the QD Indicator Value after adjusting for economic factors such as GDP, total banking assets and population size (methodology towards the end of this report) to allow for comparability across countries. As such, the quantitative development of each country as reflected by their Indicator Value does not necessarily correspond to their ranking for size in absolute numbers.

Quantitative Development Headlines

- 79% (73 countries) of the IFDI universe of 92 countries contributed to the Quantitative Development Indicator
- Global Average Indicator Value is 6
- 23 of the 73 contributing countries (32%) scored higher than the global average
- Of the 23 countries that scored higher than the global average, 30% (7) are from Other MENA, 22% (5) GCC, 17% (4) South Asia, 13% (3) Southeast Asia, 9% (2) Europe, 4% (1) North America, and 4% (1) from Africa
- Top 10 geographical representation — 50% GCC, 20% Southeast Asia, 20% Other MENA, 10% South Asia

ANALYSIS OF DATA IN ABSOLUTE VALUES

Malaysia and Saudi Arabia lead, other GCC countries follow

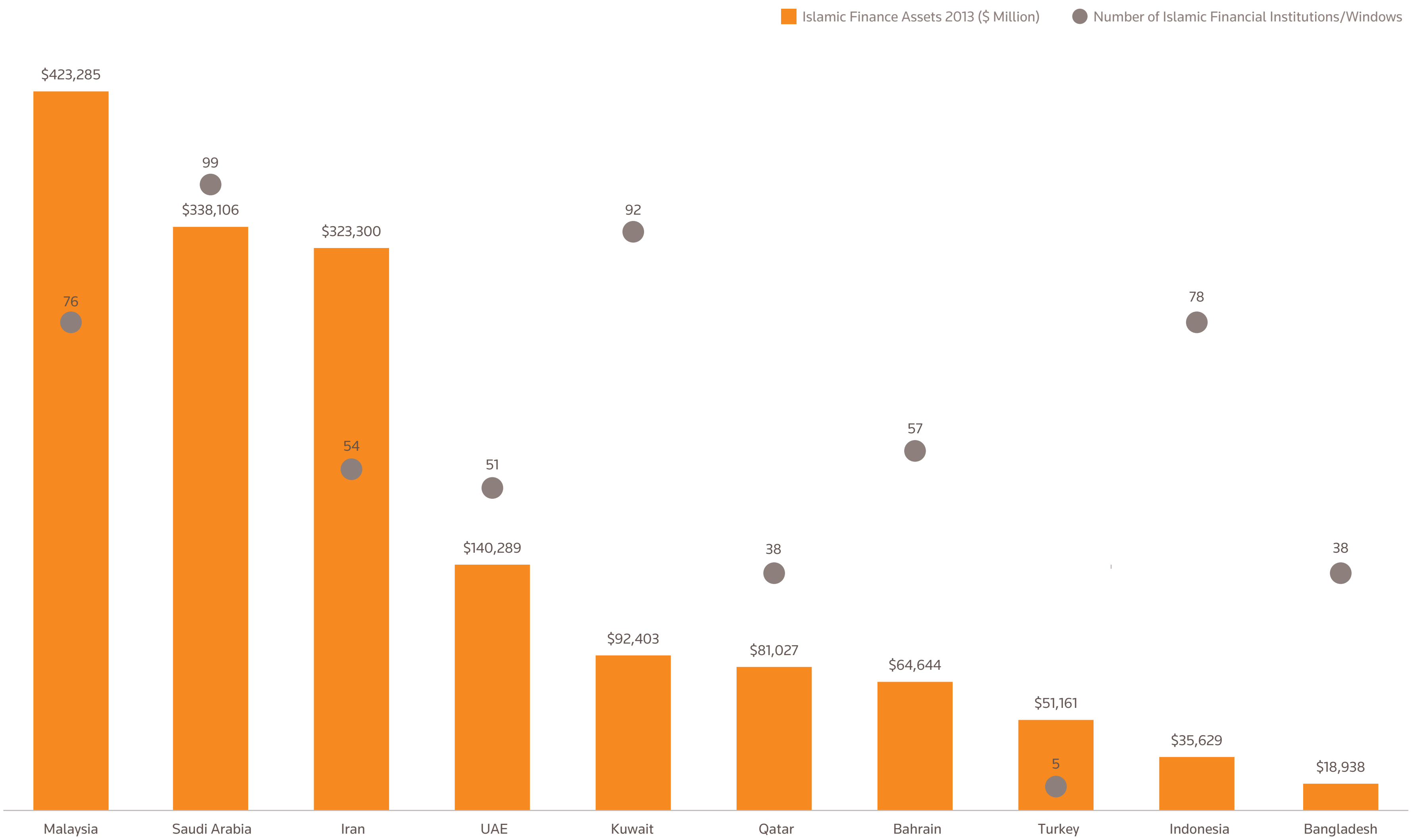
The growth of the Islamic finance industry is driven by IFIs and market size. It is hence expected that countries with the most number and value of assets top our ranking. In this regard Malaysia and Saudi Arabia are runaway leaders.

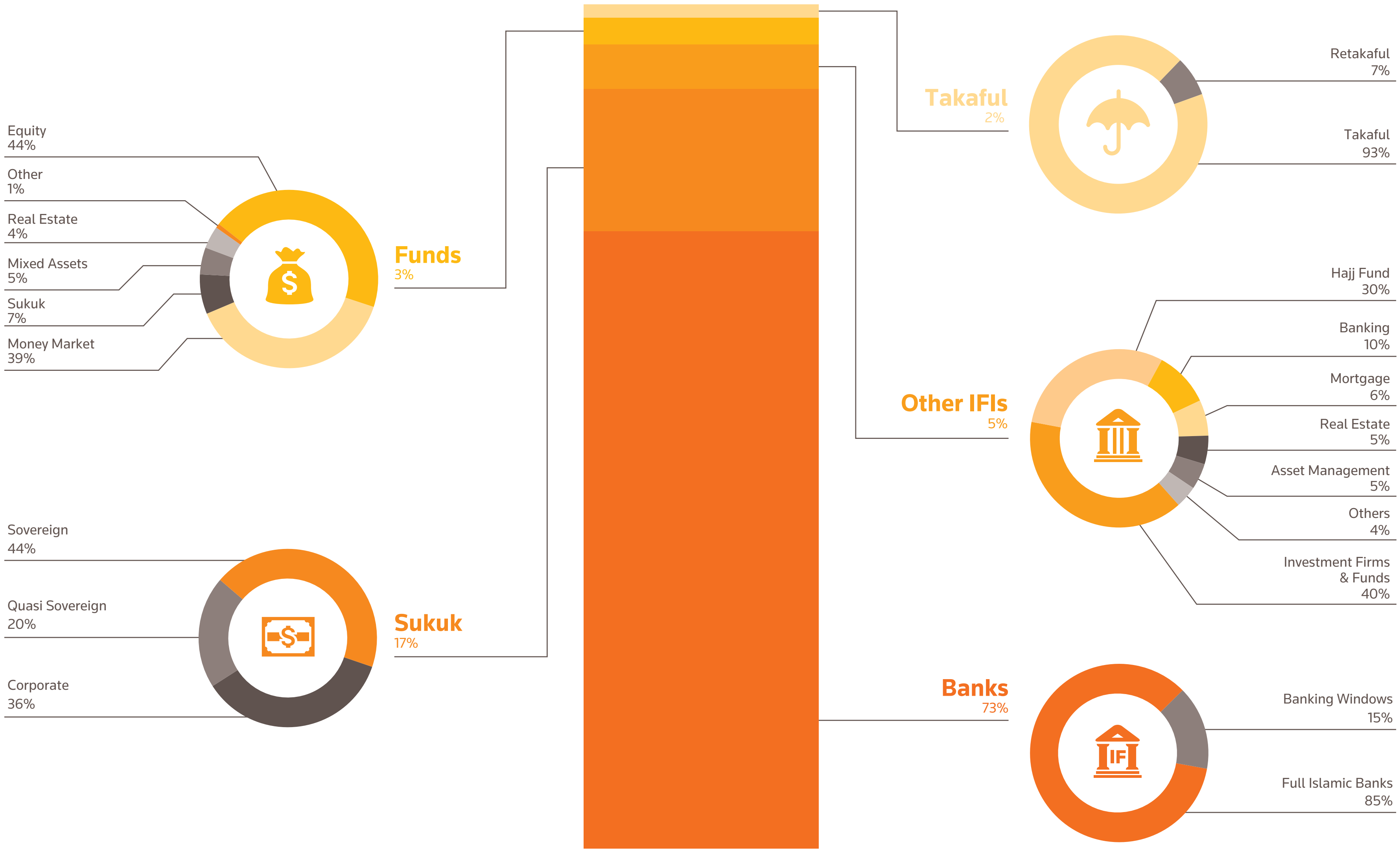
The aggregate value of global Islamic financial assets reached $1.658 trillion at the end of 2013. Islamic banking assets amounted to $1.2 trillion, and accounted for 73% of total Islamic financial assets. Asset sizes for the other sectors are, in descending order: outstanding sukuk stood at $279.8 billion, other Islamic financial institutions held $85.5 billion, outstanding Islamic funds reached $50.7 billion and takaful holds up the table with $27.8 billion.

There is a significant concentration of assets in three countries — Malaysia, Saudi Arabia and Iran held 65%, or $1.08 trillion, of global Islamic assets. Malaysia held the lion's share with $423.29 billion, or 25% of total global Islamic assets. Most of these are locked up in outstanding sukuk and Islamic banks. Saudi Arabia's total assets reached $338 billion (accounting for 80% of Malaysia's haul); most Saudi assets are in the banking sector and funds. Third-placed Iran is not far off from Saudi Arabia with $323 billion in disclosed assets, almost all of which ($319 billion) are found in the Republic's banks.

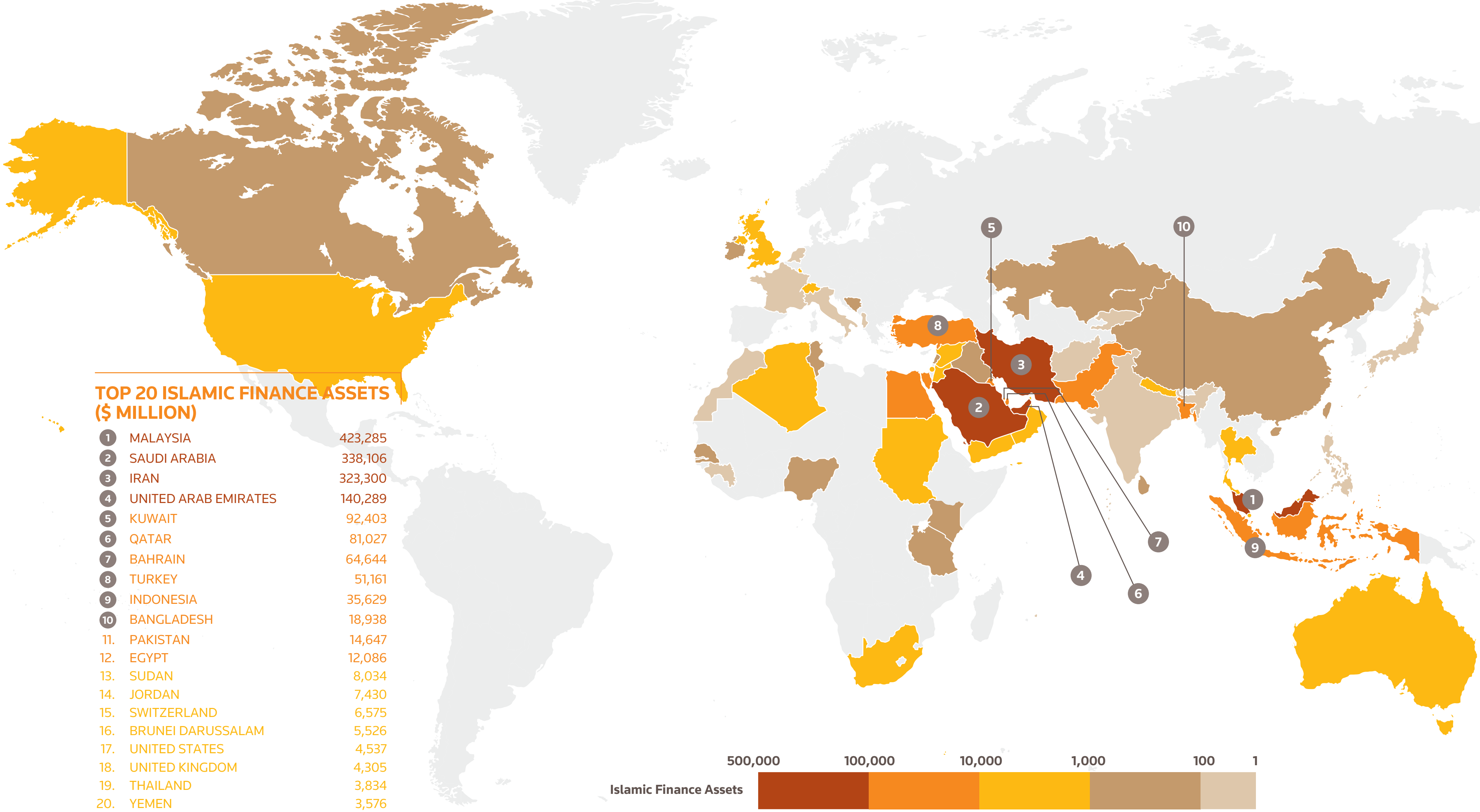
DUBAI, UAE - NOVEMBER 14: Shoppers at Dubai Mall on November 14, 2012 in Dubai. At over 12 million sq ft, it is the world's largest shopping mall. S-F / Shutterstock.com

Global Islamic Finance Assets 2013 — Top 10 countries




Equity
44%
Other
1%
Real Estate
4%
Mixed Assets
5%
Sukuk
7%
Money Market
39%
Funds
3%
Sovereign
44%
Quasi Sovereign
20%
Corporate
36%
Sukuk
17%
Takaful
2%
Retakaful
7%
Takaful
93%
Other IFIs
5%
Hajj Fund
30%
Banking
10%
Mortgage
6%
Real Estate
5%
Asset Management
5%
Others
4%
Investment Firms
& Funds
40%
Banks
73%
Banking Windows
15%
Full Islamic Banks
85%

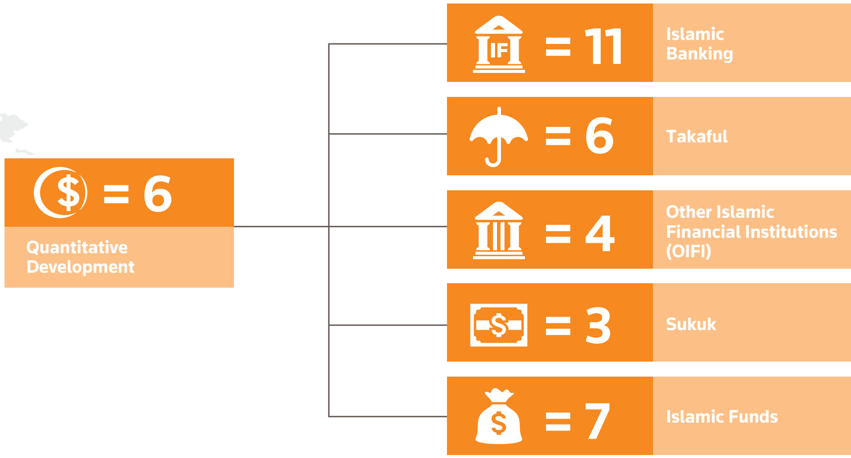
QUANTITATIVE DEVELOPMENT INDICATOR LANDSCAPE



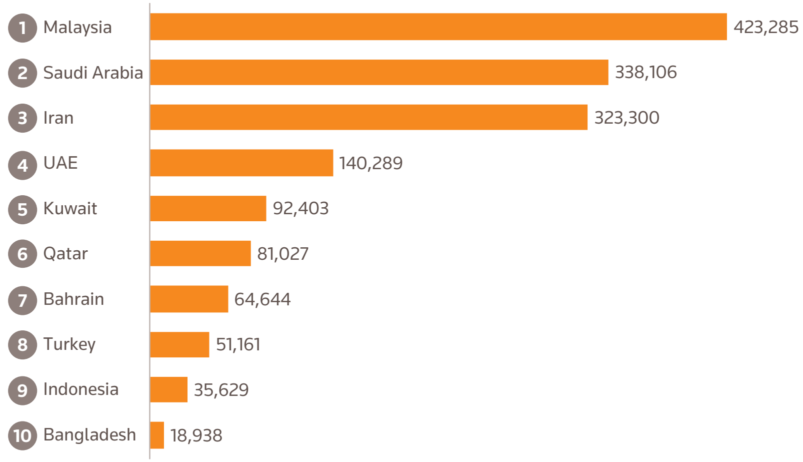
TOP 20 ISLAMIC FINANCE ASSETS ($ MILLION)

1	MALAYSIA	423,285
2	SAUDI ARABIA	338,106
3	IRAN	323,300
4	UNITED ARAB EMIRATES	140,289
5	KUWAIT	92,403
6	QATAR	81,027
7	BAHRAIN	64,644
8	TURKEY	51,161
9	INDONESIA	35,629
10	BANGLADESH	18,938
11.	PAKISTAN	14,647
12.	EGYPT	12,086
13.	SUDAN	8,034
14.	JORDAN	7,430
15.	SWITZERLAND	6,575
16.	BRUNEI DARUSSALAM	5,526
17.	UNITED STATES	4,537
18.	UNITED KINGDOM	4,305
19.	THAILAND	3,834
20.	YEMEN	3,576

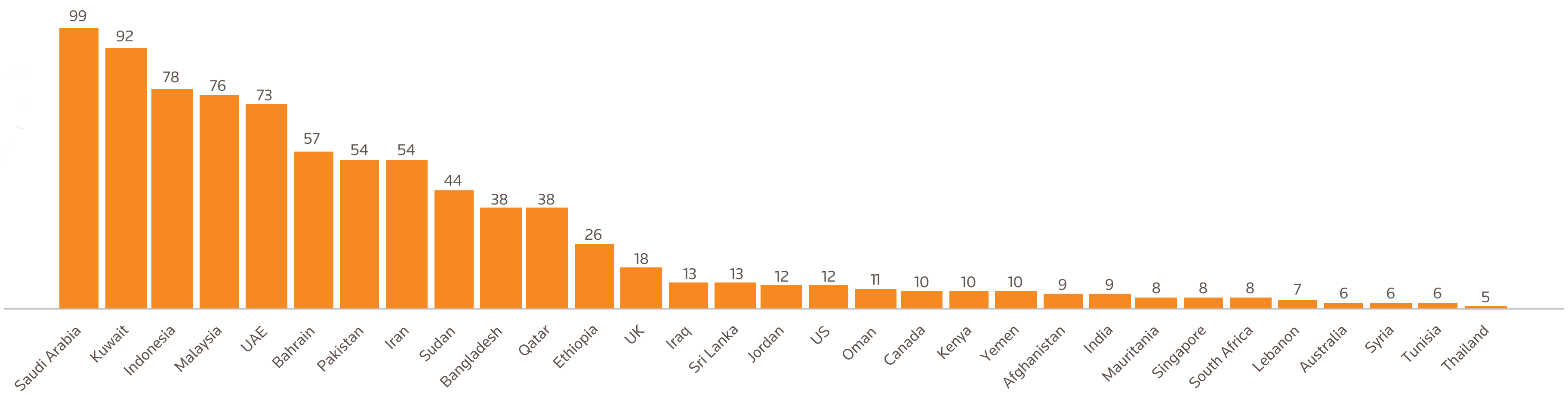
GLOBAL AVERAGE



TOP 10 ISLAMIC FINANCE ASSETS ($ MILLION)



NUMBERS OF ISLAMIC FINANCE INSTITUTIONS



Quantitative Development Key Milestones 2013

TOTAL GLOBAL ISLAMIC FINANCE ASSETS IN 2013
$1.658 TRILLION

TOTAL GLOBAL ISLAMIC FINANCE INSTITUTIONS NUMBER IN 2013
993

JAN

IFI
OMAN: First Islamic bank — Bank Nizwa — starts operations

IFI
OMAN: National Bank of Oman gets central bank nod to open Islamic division

IFI
UAE: High profile Islamic finance firm Dar Al Istithmar closes

Sukuk
MALAYSIA: Sime Darby gets lowest corp coupon ever in USD sukuk

Sukuk
UK: Gatehouse Bank, first real estate asset backed sukuk

FEB

IFI
BAHRAIN: Troubled Bahraini bank Arcapita files reorganisation plan

MAR

IFI
BAHRAIN: Ithmaar and First Leasing Bank complete merger

Sukuk
UAE: Emirates airline launches $1 billion amortising sukuk

APR

Funds
MALAYSIA: Malaysia launches $500 mln fund for halal industry

Sukuk
KSA: Al Bayan sells first Saudi Ringgit sukuk

MAY

JUN

JUL

AUG

IFI
INDIA: Kerala govt gets RBI nod for Islamic banking

SEPT

IFI
BAHRAIN: Bahrain's Arcapita exits chapter 11, plans asset sales

Sukuk
NIGERIA: Osun state sells Nigeria's first sukuk

Sukuk
OMAN: Al Madina Insurance successfully converts to become Oman's first Takaful operator

OCT

Sukuk
MALAYSIA: Cagamas sells largest sukuk of the year

Sukuk
UK: Britain announces plan to be first Western country to issue sovereign

NOV

Sukuk
OMAN: Oman property developer sells country's first sukuk

DEC

Sukuk
UAE: Dana Gas finalises sukuk restructuring

TOTAL GLOBAL ISLAMIC BANKING ASSETS IN 2013
$1.214 TRILLION

TOTAL GLOBAL FULL-FLEDGED ISLAMIC BANKS/ WINDOWS NUMBER IN 2013
411

TOTAL GLOBAL TAKAFUL ASSETS IN 2013
$27.84 BILLION

TOTAL GLOBAL TAKAFUL INSTITUTIONS NUMBER IN 2013
281

TOTAL GLOBAL OIFI ASSETS IN 2013
$85.54 BILLION

TOTAL GLOBAL OIFI NUMBER IN 2013
301

TOTAL GLOBAL SUKUK ISSUED VOLUME IN 2013
$116.9 BILLION

TOTAL GLOBAL SUKUK ISSUES IN 2013
812

TOTAL GLOBAL OUTSTANDING SUKUK VOLUME IN 2013
$279.6 BILLION

TOTAL GLOBAL OUTSTANDING SUKUK ISSUES IN 2013
1,812

TOTAL GLOBAL OUTSTANDING SUKUK VOLUME IN 2013
$50.7 BILLION

TOTAL GLOBAL ISLAMIC FUNDS OUTSTANDING IN 2013
791

TOTAL GLOBAL ISLAMIC FUNDS LAUNCHED IN 2013
121

QD KEY HIGHLIGHTS:

Total Global Islamic finance assets reached $1.658 trillion in 2013. Of this aggregate value: 73.2% Islamic banking, 1.68% takaful, 5.16% OIFI, 16.87% outstanding sukuk value and 3.06% outstanding Islamic funds.

Islamic Banks

- Islamic banking was the main contributor to Islamic assets with total value of $1.214 trillion (73% of total assets). Leaders are Iran, Saudi Arabia and Malaysia.
- Islamic banks witnessed a steady positive ROE range between 10 and 15% which reflects a healthy, profitable market.

Takaful

- Takaful sector grew by 5% in 2013 registering total assets of $27.8 billion.
- Assets held by Indonesian takaful companies have grown the most — 50.5% in 2013 from 2012 levels.
- Oman opened its first takaful company — Al Madina Takaful. The operator converted from a conventional insurance company.

OIFIs

- Haj Funds made up 30% of the OIFIs; Malaysia's Tabung Haji reported a whopping $25.641 billion in assets.
- Geographically, 72.3% of OIFIs assets are Malaysian followed by Kuwait at 8.3%.
- Switzerland is the third largest market holding 7.7% of OIFI assets.

Sukuk

- Malaysia continues to dominate the market holding $79.6 billion in outstanding sukuk. This represents 68% of the total sukuk market.
- Oman, the last GCC country to allow Islamic finance, made its sukuk debut with an issue from real estate developer Tilal Development Co.
- Nigeria penetrated the sukuk market with a small corporate issuance of $62.6 million from Osun State, after Nigeria's Securities and Exchange Commission approved new rules.
- Despite the slowdown in the sukuk market in 2013, 2014 market outlook is positive.

Funds

- 2013 witnessed the highest number of mutual funds launched.
- The Islamic mutual funds sector developed considerably in the past decade although it still remains a fraction of the global Islamic finance industry.
- Equity funds continue to lead all asset types in 2013; 54 equity funds were launched followed by 30 new sukuk funds.

DUBAI, UAE - NOVEMBER 2: Dubai Marina at Dusk from the top, on November 2, 2013, Dubai, UAE. In the city of artificial channel length of 3 kilometers along the Persian Gulf. Laborant / Shutterstock.com

EXCLUSIVE

HOW CAN GOVERNMENTS USE ISLAMIC FINANCE TO BUILD THEIR INFRASTRUCTURE?

Jarmo Kotilaine

By Jarmo Kotilaine

Islamic finance remains primarily anchored in demographically dynamic emerging markets, especially Southeast Asia and parts of the Middle East, and much of the further expansion of the sector is likely to come from economies with similar profiles. Such countries typically face substantial and growing demands for social and physical infrastructure for their growing populations and developing economies.

Given the magnitude of economic development needs, the increasing sophistication of Islamic finance, and the mounting urgency of managing government finances with more of a long-term perspective, active consideration is being given to sharia-compliant funding solutions to cater to the development needs of emerging economies with significant Muslim populations.

We can evaluate the future potential of such solutions at two levels. First, there are ongoing efforts to diversify funding solutions for infrastructure development in general as governments and financial sector professionals seek alternatives to government provision. These efforts are naturally not confined to Islamic finance but sharia-compliant structures and products can constitute an important part of the solution.

Secondly, the growing sophistication of Islamic finance means that it can generate new ways of catering to these development needs, whether in competition or collaboration with conventional finance or altogether independently. The current trends suggest that the role of Islamic finance in funding infrastructure development will likely continue to grow significantly in the years ahead.

Long-term horizons for development and investment

The infrastructure development needs of primarily Islamic economies are massive and in many cases likely nearing their historic peak. The GCC countries alone have an active infrastructure project pipeline estimated at close to $3 trillion. Globally, an estimated $57 trillion of additional infrastructure investment is expected to be needed over the next 15 years.

Infrastructure financing needs tend to be very long-term in nature, with tenors often running into decades. Meeting them requires funding solutions that are similarly long-term in nature. Such funding solutions in turn require mechanisms for pooling capital that can immobilize significant amounts of money for the long term or financial products that perform the same function.

By global standards, the best examples include institutional investors with long-term liabilities such as pension and life insurance funds, and long-term bonds. Investors either buy them with a long-term horizon or benefit from liquid secondary markets that allow them to dispose of them at will. In either case, investor behavior tends to be motivated above all by the desire to ensure predictable returns over a long term that are stable rather than necessarily high. Infrastructure investment in many cases constitutes an ideal match.

The nexus of long-term institutional investors and long-term funding solutions is well established in many Western economies. In Islamic economies, by contrast, it tends to remain very much work in progress. Herein lies the primary challenge to bring about a fundamental paradigm of infrastructure provision through non-government funding.

This is a problem with multiple dimensions but chief among them is the relative absence of Western-style institutional investors as well as limited regulations to encourage or require investment in local capital markets. The typical institutions, for instance in the GCC, are either sovereign wealth funds or family businesses. The regional pension industry tends to remain primarily pay-as-you-go with little formal provision for private, occupational, or voluntary funds. The regional insurance sector is growing but remains small, especially as far as life insurance/family takaful is concerned.

Malaysia, by contrast, has made more headway in this regard and its institutional investor universe includes a number of provident funds and a dynamic insurance and takaful sector. Foreign institutions can play a role in the market but will in some cases be deterred by market fragmentation, low liquidity, and currency risk, not to mention regulatory limitations in some economies.

Also, the state of affairs with respect to long-term funding solutions remains at its relatively early stages. In many instances, designing the projects in a way that makes them appealing to investors constitutes a challenge. The relative lack of progress in many areas has tended to favor real estate investment at the expense — and arguably to the detriment — of other types of infrastructure.

Even though the Islamic infrastructure financing market is still emerging, substantial progress has nonetheless materialized. A degree of variation among countries notwithstanding, a variety of solutions has taken shape and in most cases advanced far beyond the pioneering moves. The most important solutions include:

Sharia-compliant bank funding / syndications

A growing number of Islamic financial institutions offer a range of structures for corporate loans. In practice, however, the scale and tenors of infrastructure projects require banks to fund them though syndications involving a number of institutions. It has become increasingly common for loan syndications in the GCC to include an Islamic component. To date, however, the participation of local institutions in such activity has been relatively modest with the primary exception of Saudi Arabia. The size and funding base of sharia-compliant banks has usually meant that they have played a supporting role in larger syndications led by international banks which in some instances have provided sharia-compliant tranches through their Islamic windows.

The ability of Islamic banks to fund infrastructure projects tends to be complicated by their scale, funding base, and structural challenges. Their primary reliance on short-term deposits for funds entails a maturity mismatch, but the growing popularity of sukuk issuance by banks may offer some help. Islamic banks are, moreover, typically exposed to potentially significant risks as the legal owners of the project assets under most funding structures. Adequately capturing these risks in competitive pricing often remains a challenge.

Nonetheless, project standardization has allowed progress to be made. The Islamic principle of risk sharing can be captured through use of procurement (istisna) through a special purpose vehicle during construction and a forward lease (ijara) during the operational phase. Wakala-ijara is a common alternative. Under wakala, the borrower is responsible for arranging for the technical aspects as an agent for the lender.

Sukuk

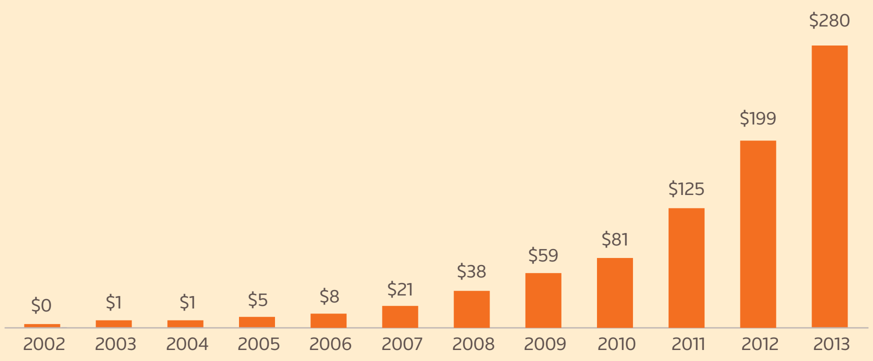
The sukuk sector has in recent years emerged as an increasingly important element of the Islamic financial landscape. Sovereign issuance remains an important part of the story — with over 40% of global issuance in 2013 comprised of short-term Ringgit sukuk issued by Bank Negara Malaysia — and is needed for creating benchmarks. However, a growing range of companies is also taking the opportunity to seek liquidity at low cost and diversify their funding solutions.

The sukuk universe has been growing in terms of standardization but also the introduction of longer tenors and new structures beyond the ijara model, which has permitted larger issues. Nonetheless, even in Malaysia, issuance activity remains heavily dominated by government-related entities and state-owned companies. Similarly, the investor base tends to be narrow and heavily dominated by buy-to-hold behavior.

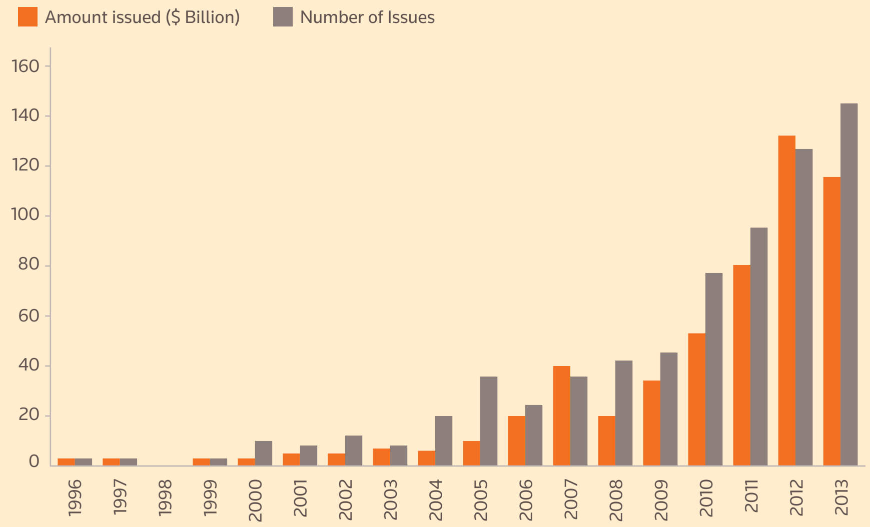
Equities

Given the longer history of the GCC equity markets as compared to the sukuk space, a number of infrastructure undertakings have benefited from equity financing, primarily through the listing of project companies. This has been especially important in Saudi Arabia where listed equities include names such as Emaar Economic City, the developer for the King Abdullah Economic City and the Knowledge Economic City. Even more generally, real estate developers have become an important sector on some of the regional exchanges.

Total Outstanding Global Sukuk ($ Billion)



Global Aggregate Sukuk Historical Trend (1996 - 2013)



Similarly, industrial development is in some instances driven by publicly listed companies. A salient case in point is the Saudi mining company Ma'aden, which remains majority owned by government funds. Also some other government infrastructure providers are publicly listed companies, albeit typically with limited free float. Examples include Saudi Electricity Company and SABIC.

Funds

A growing number of Islamic funds has emerged in the infrastructure space, a pioneering example being the Islamic Development Bank Infrastructure Fund which was launched in 1998 and designed for asset securitization. IDB plans to triple its size to $2 billion. Further, Airbus Group and IDB are working on a $5 billion Islamic aircraft leasing fund to meet the demand for commercial financing from the region's major airlines.

Islamic structures have also been developed for Islamic Real Estate Investment Trusts (REITs) which seem to have significant growth potential.

In some cases, sovereign wealth funds have boosted their resources for investment through capital market instruments and some of them have used sharia-compliant sukuk. Malaysia's Khazanah Nasional is an established issuer. The Bahrain Mumtalakat Holding Co placed a MYR98.1 million sukuk in 2012 while the Dubai Investment Corporation raised $700 million this year.

Financial centers

Special jurisdictions of financial service clusters are an established model of pooling capital and know-how. Bahrain became an early pioneer in this regard thanks to a legacy of offshore banking that gave rise to a regional

Reflection of modern high-rise buildings in water, UAE

financial center in the 1970s and more recent initiatives to support the development of Islamic finance through specific regulations and institutions. Malaysia has driven the development of the sector through bespoke strategies as well as a separate offshore jurisdiction, the Labuan International Business and Financial Center established in 1990. More recent similar initiatives in the GCC have included the Dubai International Financial Center which was chartered as a federal free zone in 2004 and the Qatar Financial Center which began operations as a separate jurisdiction under the Qatar Financal Center Authority in 2005.

Problems

Islamic finance offers a great deal of potential for infrastructure development, not least due to its inherent focus on sustainable growth. In principle, Islamic financial products are well positioned for long-term development because of the principles-based nature of the sector and, in particular, the avoidance of excessive leverage that proved so destabilizing to the entire global economic system once a significant market correction got underway in 2007.

Nonetheless, Islamic financial institutions have to date often struggled to cater to the long-term financing needs of infrastructure projects. This is partly because of the heavy reliance of most Islamic banks on short-term retail deposits as their primary source of funding. But it is also due to the fact that the structures and mechanisms used by conventional project finance are not easily transferable to Islamic finance at a time when more genuinely Islamic alternatives are yet to emerge. Indeed, conventional project finance typically involves high levels of leverage and long durations. Risks are typically managed through the use of derivatives and insurance — mechanisms that are not easy to replicate in a sharia-compliant manner. In some instances, governments have helped mitigate costs by offering insurance for projects involving Islamic funding.

Long-term funding solutions present a number of developmental challenges in the area of sharia-compliant finance. These include the following:

Tenors. Historically, five years has been the de facto ceiling for sukuk tenors but longer-term sukuk have been introduced with tenors of up to 30 years seen in the UAE and Saudi Arabia and as much as 50 years in Malaysia. In the sovereign space, the Government of Dubai this year placed a 15-year issue. In the syndications space, very long tenors of at least 20 years have been achieved with the Rabigh IPP and Shuweihat 2 in Abu Dhabi. The main challenge remains scaling up such solutions and expanding their use beyond the largest issuers.

Limited issuance base. Having a transparent and cost-effective basis for sukuk issuance is limited by the use of ratings by companies in most Islamic countries. Even though the sukuk premium has largely vanished for now, sukuk issuance has effectively been limited to the largest corporate names and government-related entities. The ability of smaller companies to tap this asset class remains limited, partly due to a lack of ratings but also due to limited awareness and issuer education.

Secondary market. In the GCC especially, sukuk market development is still held back by the absence of liquid secondary markets. Even though most of the regional stock exchanges have introduced formal platforms for bond and sukuk trading, liquidity is minimal in an environment where most investors are buy to hold. There also remains a complication in broadening access to the sukuk asset class, potentially all the way to retail investors. Some steps have been taken in this direction in Malaysia and Indonesia, but projects remain low. Significant improvements to the liquidity situation are likely to require much more primary issuance but likely also a broadening of the investor base.

DUBAI -MAY 11:The Gate - main building of Dubai International Financial center, the fastest growing international financial center in Middle East. 11 May 2014 , Dubai, UAE. Rus S / Shutterstock.com

Market fragmentation. Differences in regulations, technology, and sharia interpretation mean that markets are primarily national in nature. Most issuance is done in local currency for national buyers with relatively few exceptions. Malaysia has attracted a growing volume of foreign sukuk issuance and Nasdaq Dubai has articulated its ambition to expand as a regional sukuk hub. In practice, the market fragmentation continues to impose transaction costs, delays, and risks. Dispute resolution remains a particular challenge for international issues and deals, especially when a non-Islamic jurisdiction is specified. The economies of scale offered by standardization and market integration across jurisdictions have been realized only very partially.

Conclusion

Islamic finance has become an increasingly important element of the infrastructure development seen in the Middle East, Southeast Asia, and other parts of the world. Islamic funding solutions are estimated to account for around a third of all project finance in the GCC, which represents a doubling from 12.5% in 2006. In Malaysia, more than a quarter of financial intermediation now takes place through Islamic channels and there are ambitious plans to grow this further.

Significant positive progress has been made in terms of developing new products and structures while standardizing processes and documentation. These ventures are supported by a growing pool of qualified human capital. In many areas, the precedents that have been set can be replicated at relative ease and minimal cost. The positive market dynamic should with time create the critical mass for new products and enable the scope of sharia-compliant loans and sukuk to expand to new groups of projects and companies.

In spite of the significant positive progress, challenges persist. Some of them are likely cyclical, such as the low cost of bank loans which in some cases seems to disincentivize the search for alternatives. Bigger issues pertain to the efficiency with which capital can be pooled and channeled into infrastructure projects.

The current project pipeline in Islamic economies is both economically transformative in nature and an attractive investment opportunity. Yet the ability of investors at large to participate either directly or indirectly in this investment theme remains limited.

The absence of non-government institutional investors is a key challenge and one that can only be addressed with time. However, the steps that are currently being taken toward more voluntary and non-government pension provision, as well as the growing maturity of insurance companies, offers potential for significant change with time.

Progress will inevitably be gradual but, in combination with the advances being made in other areas, such as product development, it promises to lay the foundation for further empowering Islamic finance as a key development driver around the world.

Jarmo Kotilaine *joined the Bahrain Economic Development Board as Chief Economist in September 2012. He previously served as Chief Economist of the National Commercial Bank (NCB) of Saudi Arabia since 2010, preceded by two years as Chief Economist of NCB Capital. Dr Kotilaine previously worked for a number of years as an economic and financial consultant with a primary focus on emerging markets. He advised the Spanish stock exchange, Bolsas y Mercados Españoles (BME), headed the financial services consultancy of Oxford Analytica, a global strategic consultancy firm, and subsequently of Control Risks Group (CRG), a London-based international business risk consultancy. Dr Kotilaine studied economics and economic history at Oxford, Cambridge, and Harvard. He subsequently joined the faculty at Harvard where his primary research focus was the long-term economic and institutional development of Eurasia as well as on international trade and finance.*

QUANTITATIVE DEVELOPMENT SUB-INDICATOR: ISLAMIC BANKING

ISLAMIC BANKING SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	11
1	Sudan	99
2	Bahrain	81
3	United Arab Emirates	65
4	Iraq	60
5	Iran	60
6	Saudi Arabia	48
7	Syria	46
8	Qatar	46
9	Malaysia	44
10	Palestinian territories	37

Islamic Banking Rationale

Islamic banking consists of all institutions licensed as banks operating in a sharia-compliant manner including investment / retail / wholesale / specialised banks. The separate metrics considered for this sub-indicator are: Banking Assets, Number of standalone Islamic banks and Islamic windows, Number of listed banks, Stock performance, ROA and ROE. Islamic banking is the leading sector of the Islamic finance industry and the main driver and contributor of its growth.

Islamic Banking Headlines

- 67% (61 countries) of the IFDI universe of 92 countries contributed to the Islamic banking sub-indicator
- Global Average Indicator Value for Islamic banking is 11, which is much higher than the other sub-indicators making up the QD
- 25 of the 61 contributing countries (41%) scored higher than the global average
- Of the 25 countries that scored higher than the global average 40% (10) are from Other MENA, 24% (6) GCC, 12% (3) Southeast Asia, 12% (3) South Asia, 8% (2) from Sub Saharan Africa, and 4% (1) from Europe
- Top 10 geographical representation – 50% Other MENA, 40% GCC, 10% Southeast Asia

Bigger ≠ Better

The results of the Islamic banking sub-indicator reveal that bigger does not necessarily stem from or imply better performance. After rationalising for indicators related to GDP, population size and banking sector assets, Malaysia, Saudi Arabia and Iran may hold the highest amount of Islamic banking assets in the world but their Islamic banks are outperformed by competitors Sudan, Bahrain, UAE and Iraq.

Sudan #1; Other MENA region rising

Sudan tops the Islamic banking sub-indicator with a high score of 99. It has a large number of full-fledged Islamic banks (28) and a strong ROE performance which averaged 16%. In fact, countries in the Other MENA region account for the largest group that scored above the global average as well as those in the top 10.

Bahrain recovers

Bahrain is in second place. The country's banking sector went through a rough patch post-global financial crisis but its public Islamic banks have made a strong recovery, as reflected in their stock prices. Unlike Sudan Bahrain is an international banking centre with open borders and remains an offshore banking haven. For a country with population of approximately 1.3 million, the Kingdom has 26 full-fledged Islamic banks and 6 Islamic windows.

UAE stock market in spotlight

UAE enjoys a healthy stock market which reflects strongly on its position within the Islamic banking sub-indicator. It is in third place with $113 billion in Islamic banking assets held by 8 full-fledged Islamic banks and 14 Islamic windows.

ANALYSIS OF DATA IN ABSOLUTE VALUES

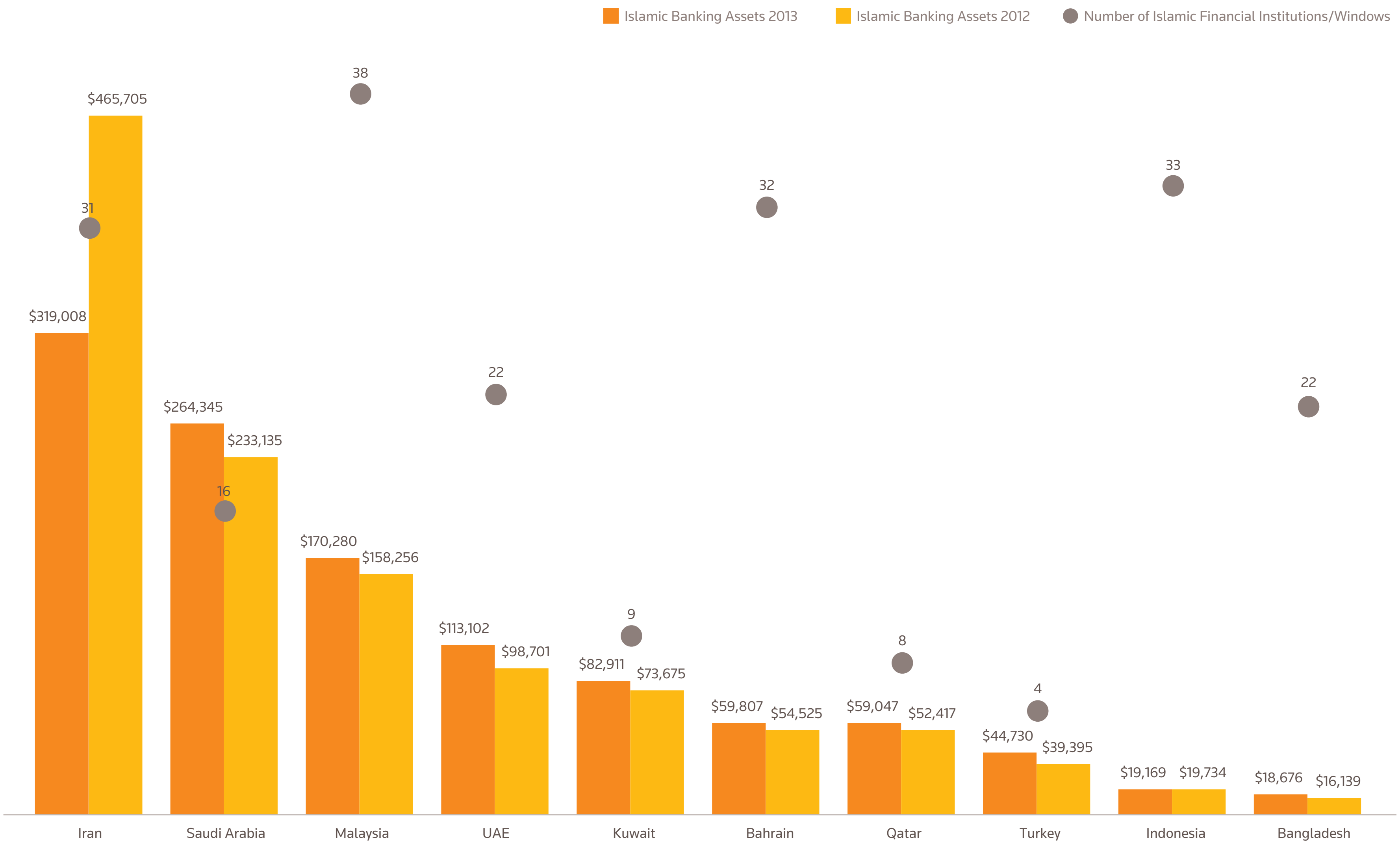
Islamic banking sector holds 73% of global Islamic financial assets; Malaysia growth lags

$1.214 trillion, or 73%, of aggregate global Islamic financial assets are held within the Islamic banking sector. Iran, Saudi Arabia and Malaysia lead. Iran and Indonesia were the only countries in the top 10 that suffered a drop in Islamic banking assets from 2012 to 2013. Iran's plunge was substantial — 31.5% to $319 billion in assets from 31 full-fledged Islamic banks. The value of Indonesia's assets dropped 2.9%. Iran's drop is largely attributed to the downward trend of the Iranian riyal which suffered due to political sanctions imposed against the country. Iranian banks met the FX fall by bolstering their balance sheets thus minimising the impact within their borders.

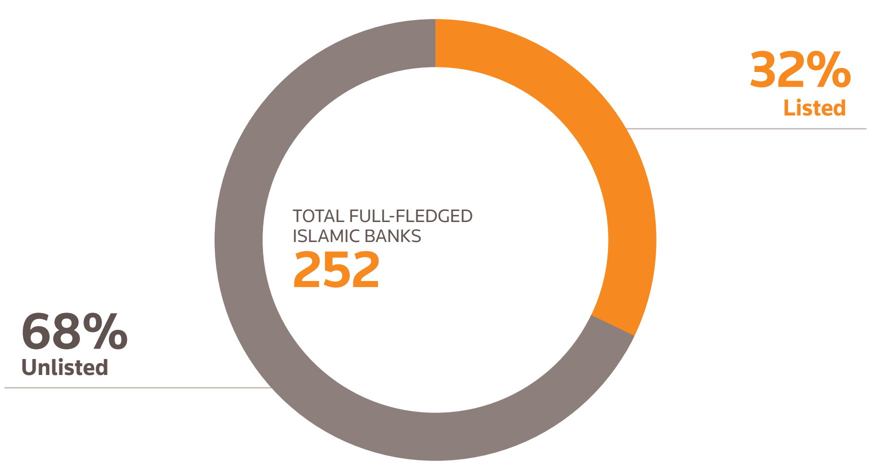
Saudi Arabia's Islamic banking assets grew by 13.4% to reach $264 billion. This increase was mostly driven by Islamic windows of conventional banks, which increased their investments in the sharia-compliant space. Warning bells are ringing for Malaysia, which registered the lowest growth — 7.6% — among the top 10, notwithstanding Iran and Indonesia. The rest of the top 10 growth numbers are as follows: UAE 14.6%, Kuwait 11.1%, Bahrain 9.7%, Qatar 12.6%, Turkey 13.5%, Indonesia (-2.9%) and Bangladesh 15.7%.

Most Islamic banks witnessed a steady positive ROE growth of between 10 and 15%, which reflects a healthy profitable market. Bahrain's sector bounced back from negative ROE in 2012 largely due to market recovery and Islamic bank mergers.

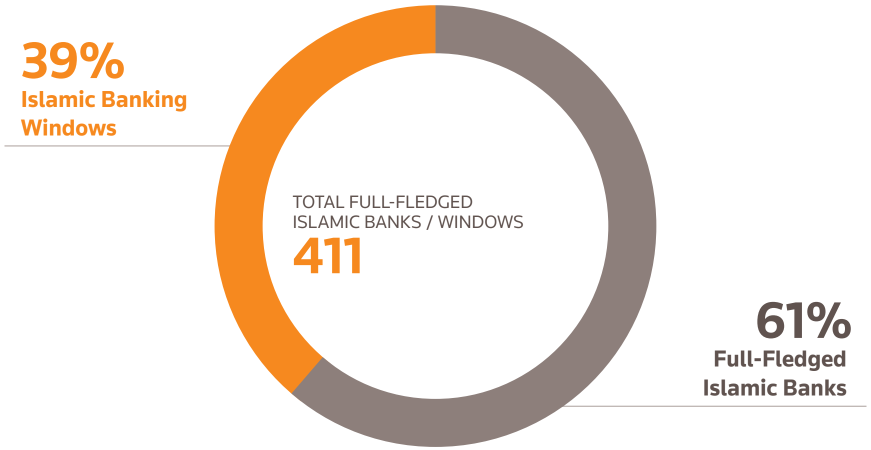
Islamic Banking Assets 2013 vs 2012 — Top 10 countries in $ Million



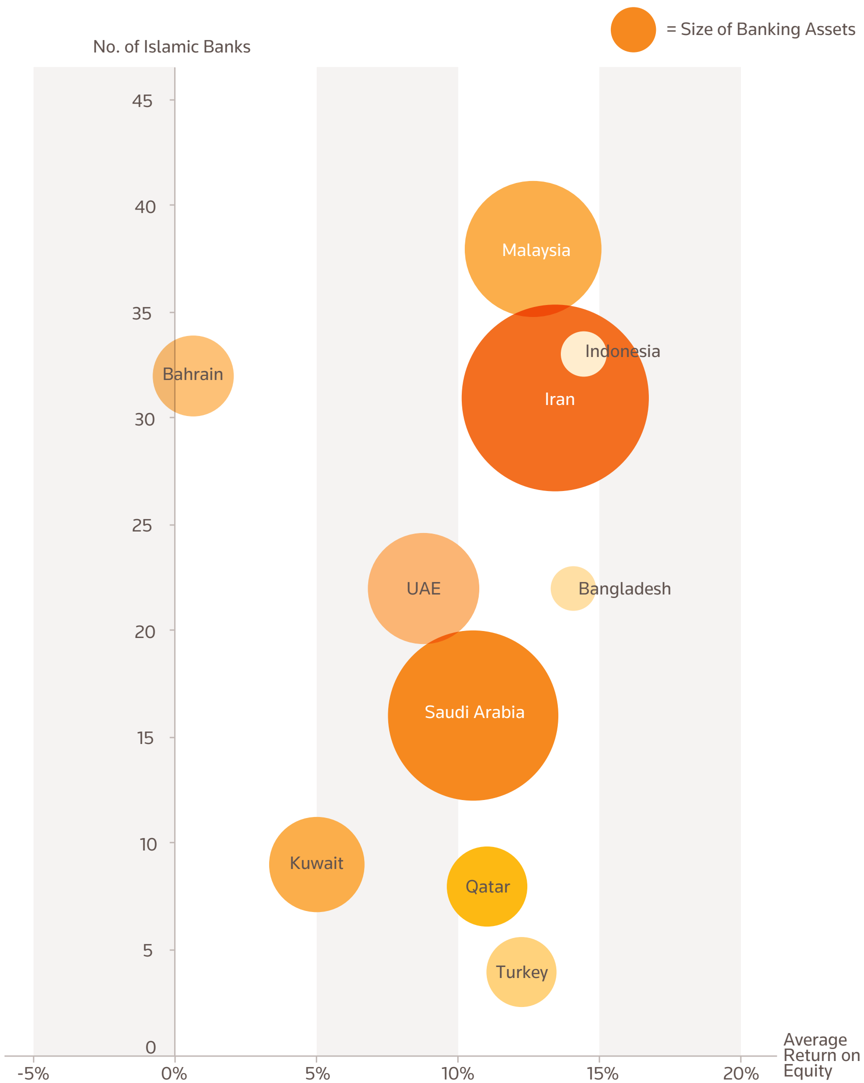
Number of Total Listed Full-Fledged Islamic Banks 2013



Number of Islamic Banking Institutions 2013



Islamic Banking Landscape 2013



QUANTITATIVE DEVELOPMENT SUB-INDICATOR: TAKAFUL

TAKAFUL – SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	6
1	Qatar	51
2	Malaysia	47
3	Iran	42
4	Bangladesh	42
5	Indonesia	36
6	Saudi Arabia	33
7	United Arab Emirates	33
8	Maldives	28
9	Syria	24
10	Kuwait	24

Takaful Rationale

The takaful sub-indicator analyses the sector's market development focusing on market size and micro-side performance assessment. Six metrics are considered: Takaful asset size, Number of takaful and retakaful companies, Number of listed takaful companies, Stock price performance, ROA and ROE.

Takaful Headlines

- 41% (38 countries) of the IFDI universe of 92 countries contributed to the Takaful sub-indicator
- Global Average Indicator Value for Takaful is 6
- 16 of the 38 countries scored higher than the global average
- Of the 16 countries that scored higher than the global average, 31% (5) are from GCC, 31% (5) from Other MENA, 25% (4) from South Asia, and 13% (2) from Southeast Asia
- Top 10 geographical representation — 40% GCC, 20% Other MENA, 20% Southeast Asia, 20% South Asia

Bigger ≠ Better

Similar to the Islamic banking sector, bigger takaful markets didn't necessarily perform as well. Saudi Arabia is the largest takaful market in terms of market share (39.7%) but ranks sixth due to weak financial performance. Saudi Arabia has 40 operators, 88% (35) of which are listed.

Qatar #1

Qatar only holds 4.7% of Saudi Arabia's takaful assets but moves up a notch from 2012's ranking to top takaful market development in 2013. Qatar has half (19) the number of Saudi Arabia's takaful and retakaful operators.

UAE joins top 10 but Bahrain goes missing

2013 was a good year for the UAE; a remarkable performance by its takaful sector lifts the country into the top 10 after a poor performance in 2012. A notable absentee from the top 10 is one of the world's most influential Islamic finance hubs - Bahrain, which is far stronger in banking, sukuk and other IFIs.

Maldives punching above its weight

Here's one for the little guy — Maldives sits at number 8. The country has only one takaful company — Amana Takaful, which is a subsidiary of Amana Takaful Sri Lanka. The company is the only publicly quoted insurance company on the Maldives Stock Exchange and has been operating since 2003. Its ROA was 10% in 2013, higher than Qatar's 7.8%.

ANALYSIS OF DATA IN ABSOLUTE VALUES

Modest overall growth

Takaful sector assets make up less than 2% of global aggregate Islamic financial assets but the sector plays a key role in the overall industry. The sector grew by 5% in 2013 registering total assets of $27.8 billion. The Indonesian market is expanding rapidly; the country's takaful assets saw highest growth — 50.5% in 2013 from 2012 levels. However, Saudi Arabia leads growth in terms of actual volume with $2.1 billion representing a 23.9% increase. On the negative side, Iran's takaful sector plunged alongside its banking assets. Iranian takaful assets suffered an artificial drop — a significant 23.9% — due to the Republic's exchange rate problems.

Positive Movements

Africa and South Asia: During the year in April Nigeria released guidelines for takaful companies. The new framework favours a centralised approach, with a takaful advisory council to oversee industry products and practices. In a bid to increase overall insurance penetration, takaful windows at conventional insurers are also allowed. The aim of increasing overall insurance/takaful penetration and competition also spurred authorities in Pakistan to issue new rules in 2012 allowing takaful windows. This was legally challenged by a handful of takaful firms. The dispute dragged through 2013 and was finally resolved in favour of takaful windows in May 2014.

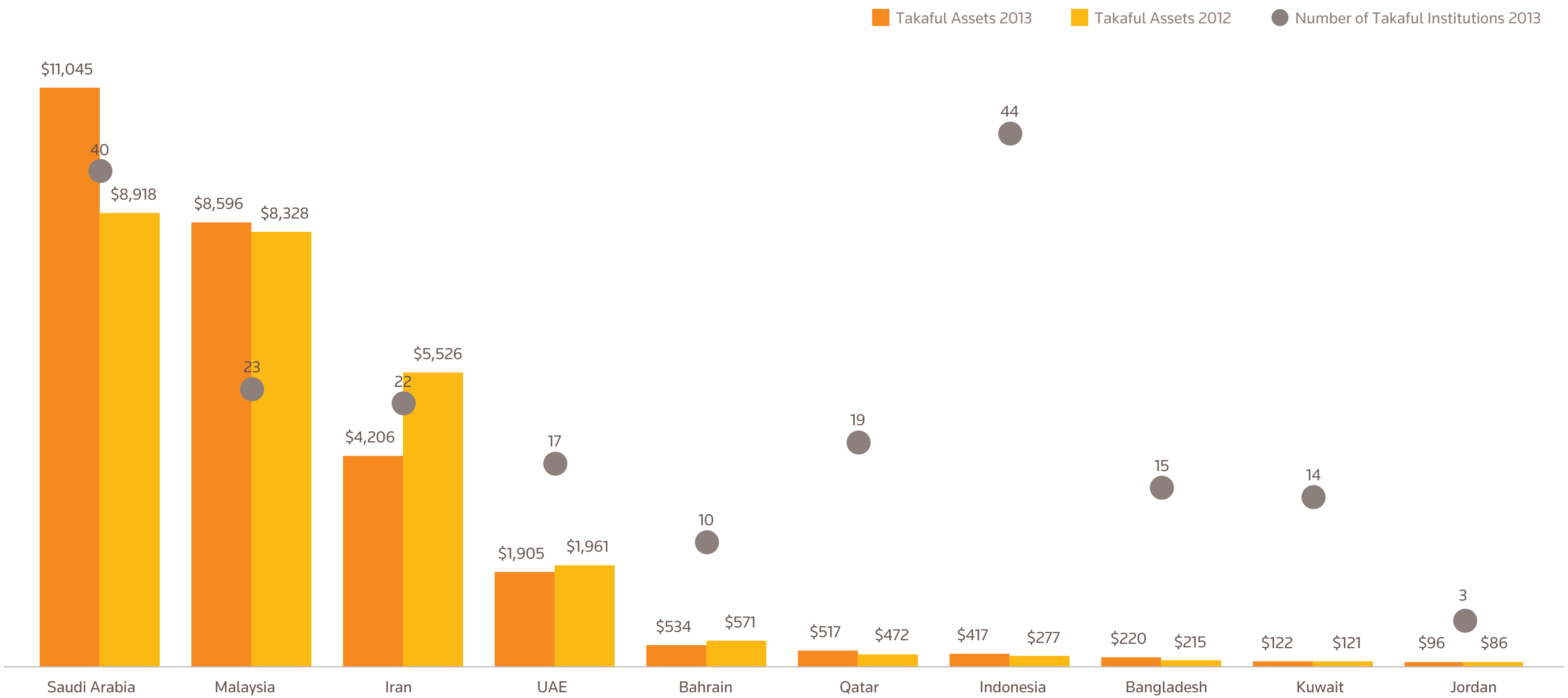
GCC: The lack of final official guidelines did not stop market players from laying the ground in 2013 to debut takaful in Oman. Two operators started operations in the first half of 2014, working on draft takaful guidelines. The first operator, Al Madina Takaful, converted from a conventional insurance company. A final takaful law has not been released as of this writing. With increasing Islamic finance activity in Oman, we expect more takaful companies to start operations once guidelines are clarified. In the UAE, the Dubai ruler's vision to transform the emirate into a global capital of the Islamic economy demands convergence between the halal sectors and Islamic finance. This will lift the entire Islamic finance industry, including opportunities for takaful.

SEA: The new Islamic Financial Services Act (IFSA) 2013 in Malaysia requires separation of family and general takaful businesses. Each arm will need to have its own capital base; Malaysia's authorities see the new rules as strengthening the takaful sector. Smaller operators that have been struggling to achieve scale are likely to seek consolidation.

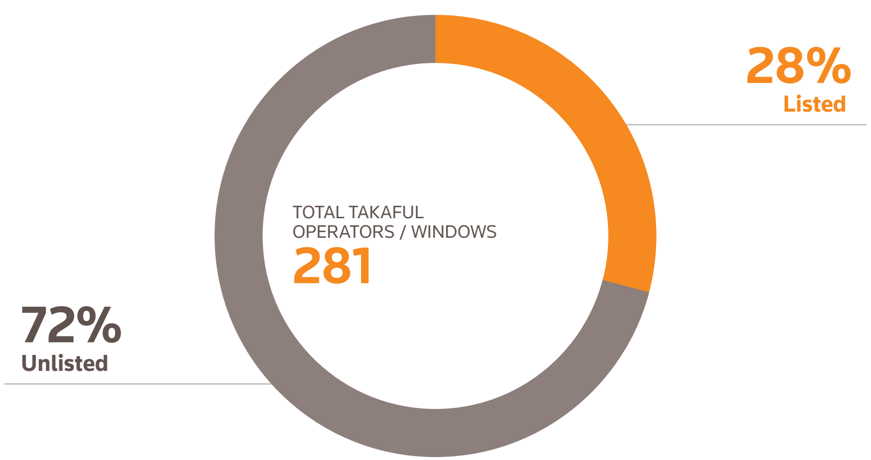
MENA and GCC Challenges

The Arab Spring and other geo-political tensions have affected takaful development in the MENA region. Prospective investors and companies have either turned away or adopted a wait and see approach with respect to certain North African and Middle Eastern markets (primarily Egypt, Libya, Tunisia and Syria), which were previously considered attractive. The GCC markets will continue to drive most of the growth for takaful in MENA. Apart from the Saudi market, takaful operators in the GCC countries are still working to achieve scale and there does not appear to be any suitable candidate who could start to integrate the sector across borders. One of the biggest calls from industry leaders at the Global Islamic Economy Summit in November, 2013 in Dubai was a passporting regime for takaful within the GCC countries to break down barriers to cross-border consolidation of takaful operators in the region. A greater level of harmonisation with regard to sharia governance, regulatory and financial reporting best practices in the region is also highly desired to encourage the development of firms that operate in multiple markets.

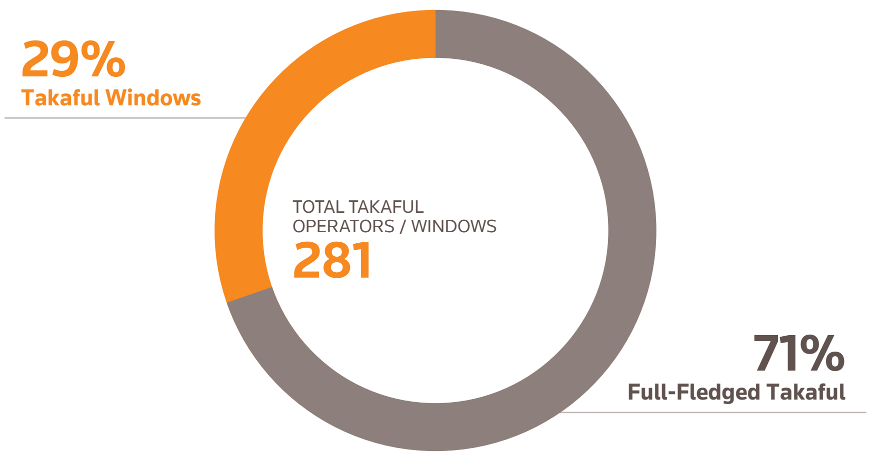
Takaful Assets 2013 vs 2012 — Top 10 countries in $ Millions



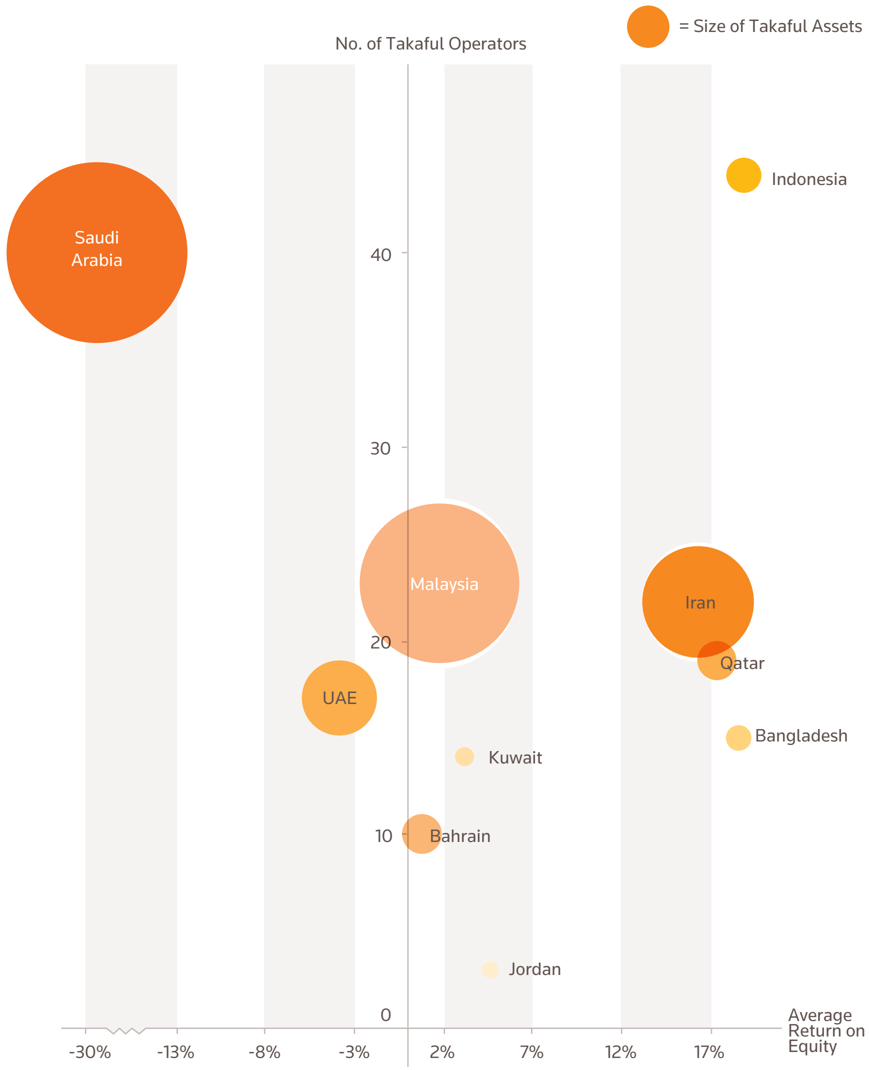
Number of Total Listed Takaful Institutions 2013



Number of Total Takaful Institutions 2013



Takaful Landscape 2013



QUANTITATIVE DEVELOPMENT SUB-INDICATOR: OTHER ISLAMIC FINANCIAL INSTITUTIONS (OIFI)

OIFIS SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	4
1	Kuwait	78
2	Malaysia	55
3	United Arab Emirates	46
4	Saudi Arabia	37
5	Pakistan	29
6	Bahrain	27
7	India	26
8	Qatar	19
9	Singapore	14
10	Jordan	13

OIFI Rationale

In this category, 'Other Islamic financial institutions' refer to institutions licensed to provide financial services other than banking activities. OIFIs are crucial links within the Islamic finance ecosystem. OIFI includes investment, leasing, asset management and advisory companies and other financing institutions. Six metrics are considered: Number of other IFIs, Size of assets, Number of listed other IFIs, Stock performance, ROA and ROE.

OIFIs Headlines

- 40% (37 countries) of the IFDI universe of 92 countries contributed to the OIFI sub-indicator
- Global Average Indicator Value for OIFI is 4
- 15 of the 37 countries (40%) scored higher than the global average
- Out of the 15 that scored higher than the global average 33% (5) are from GCC, 27% (4) South Asia, 13% (2) Southeast Asia, 13% (2) Other MENA, 7% (1) Africa, and 7% (1) Australia
- Top 10 geographical representation — 50% GCC, 20% Southeast Asia, 20% South Asia, 10% MENA

Kuwait #1

Kuwait remains top of the OIFI ranking with 69 companies compared to 61 in 2012. The number of listed companies in the country (22) and solid stock price performance make up for Kuwait's poor financial performance as reflected in negative ROA and ROE.

India finds its own way

India is an interesting study. Regulations don't as yet allow Islamic banks but OIFIs work within the non-banking framework to serve sharia-compliant financial demands. The country has 8 companies in operation, all of which achieved positive returns. During 2013 as well, India started talking about plans to establish a Haj fund similar to Malaysia's Tabung Haji, and planning for this was confirmed in early 2014.

Muslims Down Under do it for themselves

Outside the top 10, Australia also scored above the global average (9). Similar to India, the country doesn't have any Islamic banks but does have OIFIs dating back to 1989 when the cooperative MCCA Limited started offering sharia-compliant housing finance. The country has 6 OIFIs.

ANALYSIS OF DATA IN ABSOLUTE VALUE

OIFIs on the Right Track with Recovery and Growth

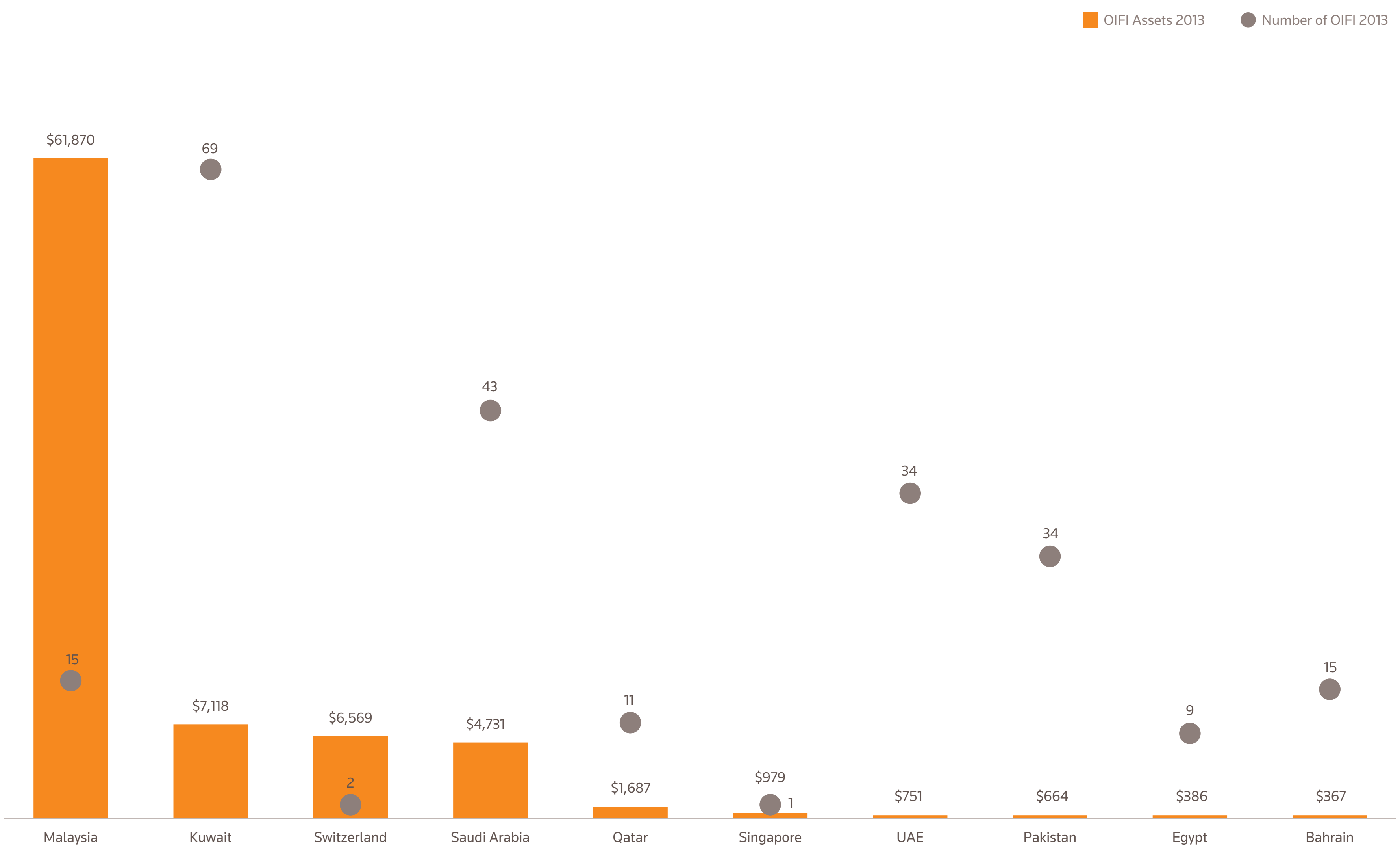
The third biggest sector in the Islamic finance industry is the one populated by other Islamic financial institutions; OIFIs make up 5% of the industry (Islamic banks dominate 73% of assets and sukuk 17%). Of the seven types of OIFIs, investment firms and funds constitute 40%. Haj Funds make up 30% of OIFIs, propped up by Malaysia's Tabung Haji which reported a substantial $25.64 billion in assets.

Geographically, 72.3% of OIFI assets are Malaysian followed by Kuwait at 8.3%. Interestingly, the third largest OIFI market is Switzerland at 7.7%, primarily through two investment companies Dar Al Mal Al Islami Trust and SafaInvest. In terms of number of institutions, Kuwait tops the list with 69 companies followed by Saudi Arabia with 43 companies.

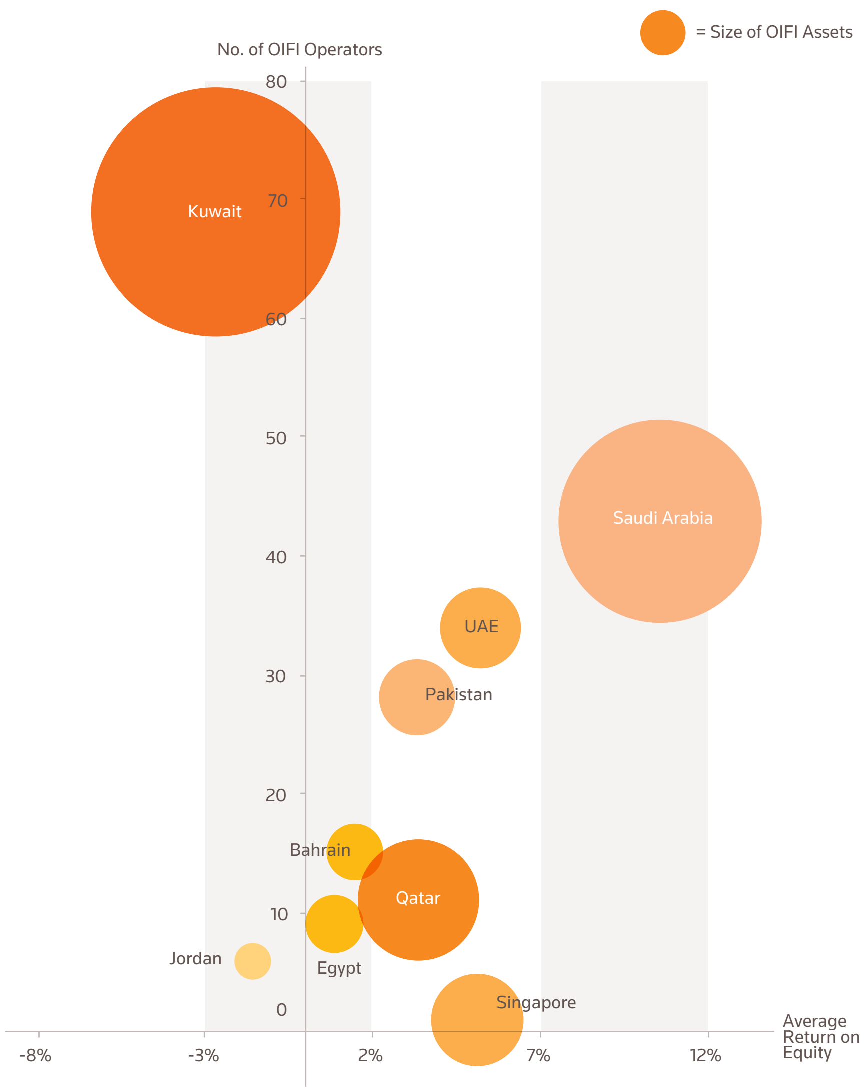
Performance wise, Saudi Arabia registered the highest Return on Equity (ROE) at 10.6% for the year 2013. Malaysia was the biggest market in terms of assets and registered a positive ROE of 3.4%. However, OIFI indicator leader Kuwait actually turned in a negative return of -2.7%, largely due to real estate fair value depreciation that affected most Kuwaiti companies. Bahrain recovered well from 2012's doldrums, registering a positive return of 1.5% and signaling recovery from its troubled real estate sector.

Kuwait city at night

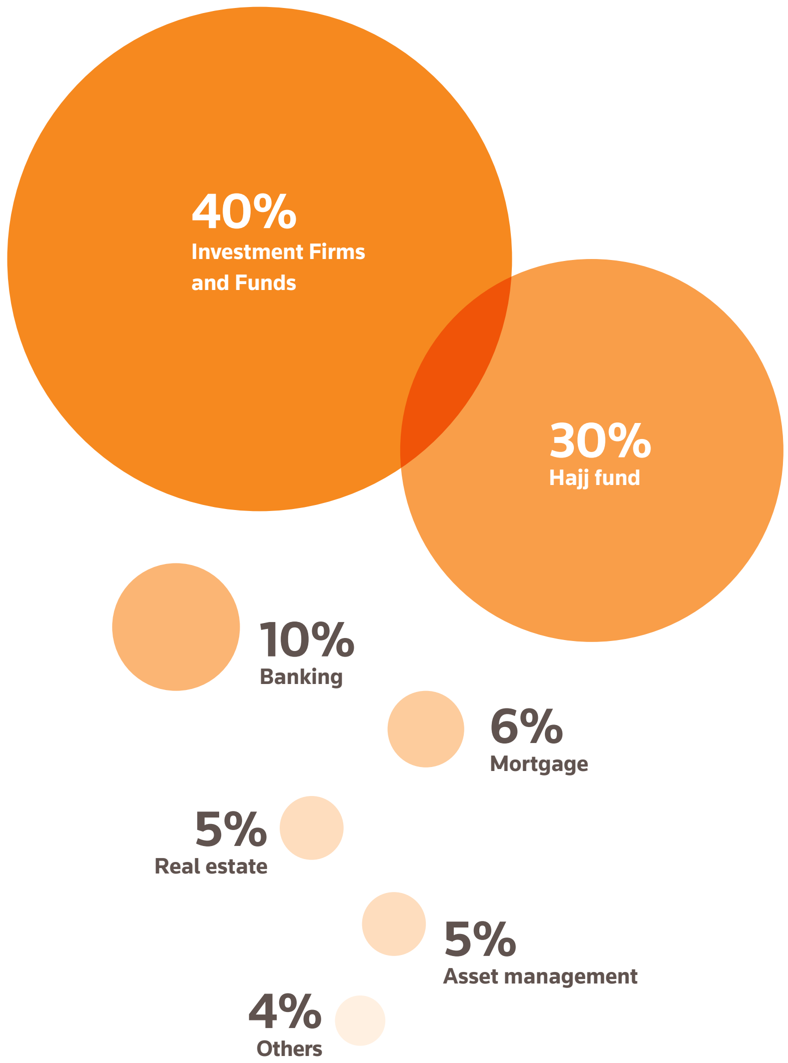
Other Islamic Financial Institutions Assets 2013 vs 2012 — Top 10 countries in $ Millions



OIFI Landscape 2013



Other Islamic Financial Institutions (Breakdown by Type)



QUANTITATIVE DEVELOPMENT SUB-INDICATOR: SUKUK

SUKUK SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	3
1	Malaysia	125
2	Saudi Arabia	20
3	Qatar	19
4	United Arab Emirates	18
5	Gambia	14
6	Indonesia	13
7	Turkey	12
8	Bahrain	9
9	Singapore	9
10	United States	8

Sukuk Rationale

The sukuk sub-indicator assesses sukuk growth and performance. The seven metrics considered are: Number of sukuk issuance, Number of outstanding sukuk, Sukuk issuance volume, Sukuk outstanding volume, Number of listed sukuk, Number of rated sukuk, and Bid/ask spread.

Sukuk Headlines

- 26% (24 countries) of the IFDI universe of 92 countries contributed to the Sukuk sub-indicator
- Global Average Indicator Value for Sukuk is 3
- 11 of the 24 countries (46%) scored higher than the global average
- Out of the 11 that scored higher than the global average 36% (4) are from GCC, 36% (4) Southeast Asia, 9% (1) from Africa, 9% (1) from Europe, and 9% (1) from North America
- Top 10 geographical representation — 40% GCC, 30% Southeast Asia, 10% Africa, 10% North America, 10% Europe

Malaysia still #1

Malaysia is the runaway sukuk leader. Its outstanding sukuk value stood at $166 billion.

Sukuk gaining ground in Saudi Arabia and Qatar

Saudi Arabia and Qatar are a distant second and third but both were strong performers. These two markets are expected to continue to issue more sukuk, especially Qatar given the number of infrastructure projects in the pipeline for World Cup 2022.

Turkey's sukuk pot filled up fast

Turkey is the newest sukuk market to reach the top 10. Its debut sovereign sukuk was issued in September 2012 and at end-2013 the Republic had 10 outstanding sukuk with an outstanding value of $6.43 billion.

Sukuk reach widens

Muslim-minority countries Singapore and the United States made it to the top 10, indicating an increasing preference for sukuk as an alternative source of funding. The latter had 3 outstanding sukuk as at end-2013 to the value of $766 million.

ANALYSIS OF DATA IN ABSOLUTE VALUES

Despite slowdown in 2013, sukuk market registered a number of key milestones

Sukuk volume dropped by approximately 18% in 2013. The slowdown was attributed to a number of reasons chief of which was the U.S. Federal Reserve announcement to taper its bond-buying programme which sparked uncertainty about interest rate movement. 2012 was always going to be a tough act to follow; there were big-ticket deals which weren't likely to be repeated the following year, including the Malaysian government $10 billion 'mega issue', Saudi Arabia's GACA's SR15 billion ($4 billion) issue, and Qatar's $4 billion sukuk.

However, 2013's sukuk market characteristics have more or less remained the same as 2012. Malaysia dominated the market with $79.6 billion issued, representing 68% of the total sukuk market. Malaysia will continue to dominate the market; liquidity and tradability factors put the country at the top of the list for both local issuances as well as cross-border sukuk.

Saudi Arabia also performed well and was the GCC's top issuer with $15.2 billion.

Out of $116.9 billion sukuk issued globally in 2013, 85%, or $99.3 billion, were issued domestically compared with $17.6 billion issued internationally. In terms of sectors, approximately two-thirds of issuances were by sovereigns. However, corporates are coming out of their shells a lot more; 27.3%, equivalent to $31.9 billion was raised by corporates for different reasons, including debt refinancing and business expansion.

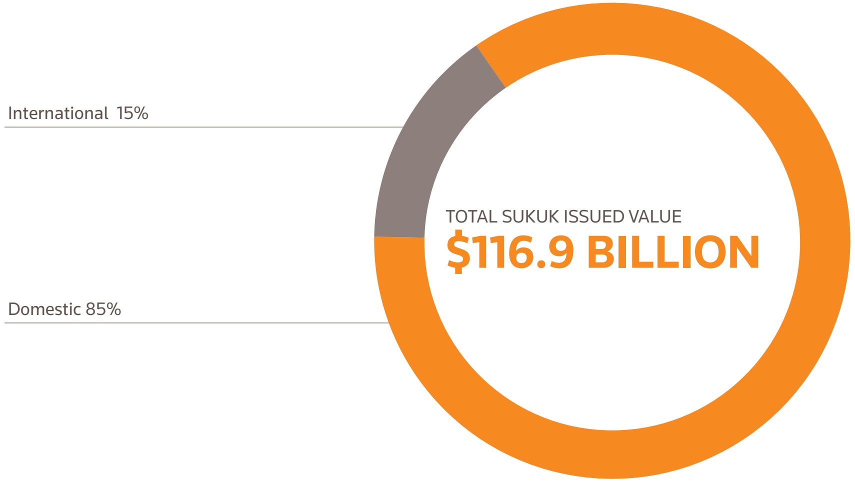
The next level for the sukuk market is its widening and deepening in various different ways: new structures, registering lowest coupon as well as negative yield, more cross-border sukuk, and new sovereign entrants.

Q1:

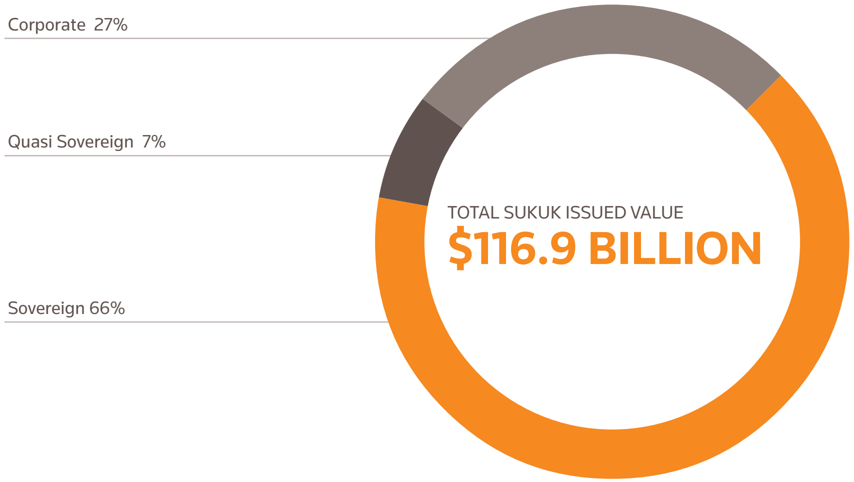
2013 started off with a Sime Darby sukuk registering the lowest corporate coupon ever in the USD sukuk market. Sime Darby set a new benchmark yield for Malaysian credits and in the global sukuk space that will surely entice more Malaysian corporates to the international markets. The $400 million 5-year Reg S paper was issued at 130bps over US Treasuries and the 10-year tranche at 145bps. What drove the company to achieve such a low yield was the scarcity of investment grade paper as well as scarcity of Malaysian bonds. Additionally, Sime Darby is an infrequent visitor to the international market and was hence given a very warm welcome.

In March, Dubai's Emirates Airline went to market with a $1 billion amortizing sukuk, which priced at the tighter end of guidance. Sukuk, without a doubt, are optimal for the airline and aviation sector given the excellent match of the long-term nature of the assets with a regular income stream from passenger traffic.

Global Sukuk Issued in 2013 breakdown by Market Type



Global Sukuk Issued In 2013 Breakdown by Sector



Q2:

In April, Saudi corporate Al Bayan tapped the Malaysian sukuk market, making it the first Saudi corporate to raise funds in the ringgit market with an issue at par of $65.7 million. The company wanted to test investors' appetite for Middle Eastern credits that are not sovereign or quasi sovereign. The success of the deal could suggest that another may not be too far away.

Q3:

In August, Singapore-based offshore marine services company Swiber sold a SGD$150 million ($118 million) debut sukuk. The price clinched by Swiber was more competitive than conventional debt, and Brunei investors bought more than half of the sukuk. While this is not the first time Brunei buyers have participated in Singapore's fledgling sukuk market, their dominance of Swiber's order book is a good sign for other Singaporean companies that are looking to sell Islamic debt in the local market, such as Mustafa Group and Sabana REIT.

On the money market side, IILM launched its long-awaited sukuk debut, a $490 million sale. As expected, the paper was fully subscribed. Because of the sukuk's multinational structure, multiple boards of Islamic scholars needed to rule on its religious permissibility.

Perhaps one of the most interesting sukuk of the year was the exchange-able sukuk from Khazanah Nasional offering a negative yield for the $484 million issue. The exchangeable sukuk is the first equity-linked offering with a negative yield from Asia ex-Japan since March 2012, when Khazanah issued a $357.8 million sukuk exchangeable into shares of Parkson Retail. The paper was priced with a yield of negative 0.25%, skewed at the tighter end with initial price guidance 0% to negative 0.25%, and with an exchange premium of 17%, from guidance of 10% - 17%.

Meezan Bank announced in August plans to arrange a $68.5 million airtime sukuk that was approved by its sharia board, making it the first airtime sukuk out of Pakistan. However, the sukuk is yet to be issued. The planned sukuk uses intangible assets, in this case mobile telephone minutes.

In September, Nigeria finally made it to the sukuk market with a small corporate issuance of $62.6 million after Nigeria's Securities and Exchange Commission approved new rules facilitating sukuk in March 2013. The sukuk pays 14.25%, which is not surprising given Nigeria's credit quality.

Q4:

In October, the last GCC country to allow Islamic finance finally made its debut. Omani real estate developer Tilal Development Co sold the country's first sukuk, a 50 million rial ($130 million) sale that could pave the way for similar issues by other companies in the Sultanate.

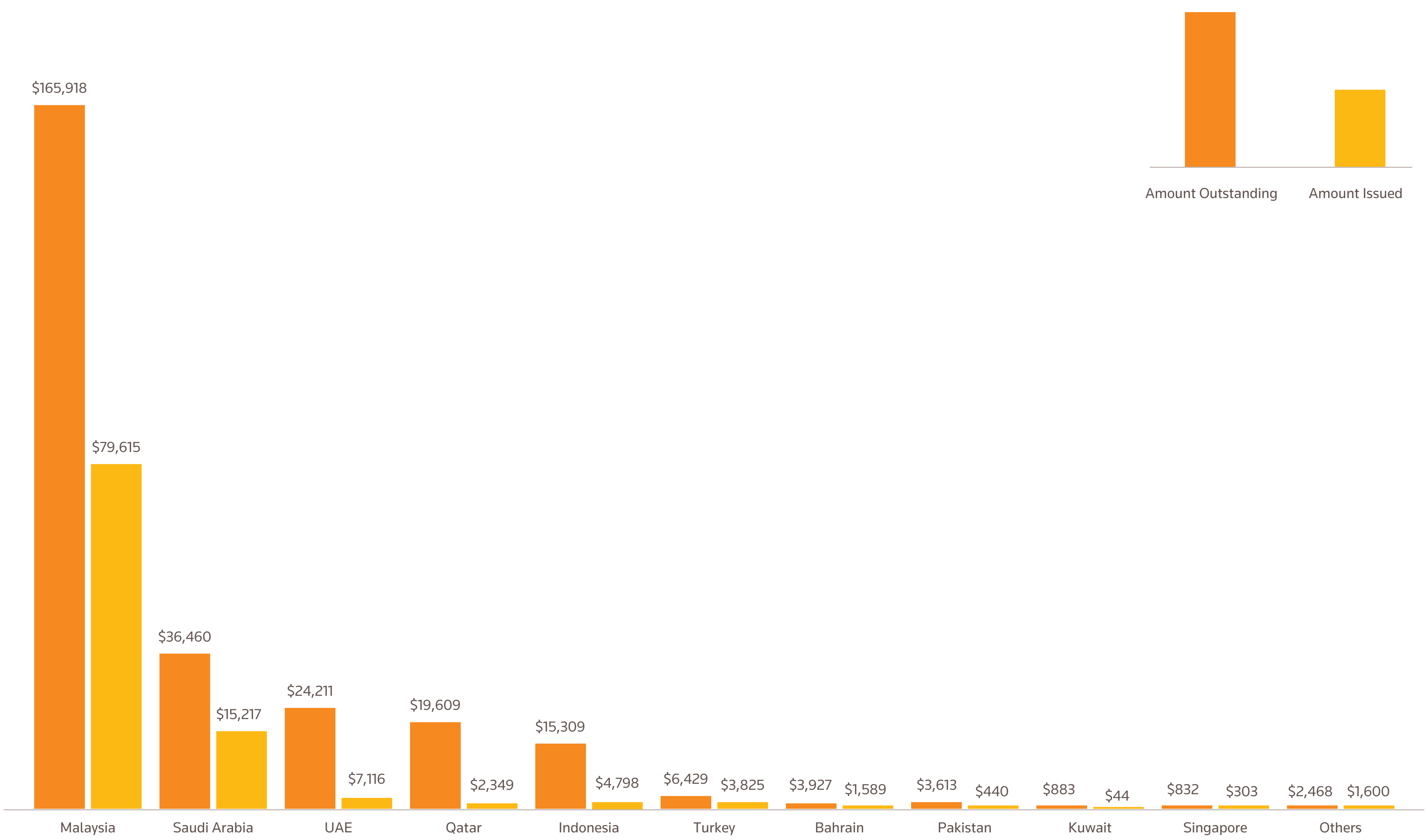
On the exit side, in December, Dana Gas agreed with its creditors to restructure its $ 1 billion convertible sukuk. The restructuring came into play after the company had missed its sukuk repayment, after the investors threatened the largest private sector energy group to call a default and enforce on the group's assets.

Outlook:

Despite the slowdown in sukuk issuance, 2013 registered many key milestones. The outlook for the years ahead are promising with Investors becoming more confident tapping the sukuk market to raise funds or diversify their investments. Investor sentiment is positive especially for cross-border sukuk; we have seen many GCC countries, as well as Kazakhstan, tapping the Malaysian market. Most recently in July 2014 Turkiye Finans issued a ringgit sukuk in Malaysia. The market will also welcome new entrants such as Hong Kong, Luxembourg, Tunisia, Morocco and possibly Egypt once the political environment settles. In terms of structure, a few have seen to be attracting the attention of market players, such as airtime sukuk that allows companies to raise funds using intangible assets.

ISTANBUL, TURKEY - JULY 25 : Busy restaurant and bar scene at night in Taksim, Istanbul, Turkey on July 25, 2007. Taksim is a popular destination for tourists and locals of Istanbul. paul prescott / Shutterstock.com

Global Sukuk as at December 31, 2013 — Outstanding vs Issued Amount in $ Million



QUANTITATIVE DEVELOPMENT SUB-INDICATOR: ISLAMIC FUNDS

ISLAMIC FUNDS SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	7
1	Malaysia	103
2	Saudi Arabia	85
3	Luxembourg	63
4	Qatar	43
5	Kuwait	41
6	Pakistan	32
7	United States	31
8	Ireland	29
9	United Arab Emirates	24
10	Japan	23

Islamic Funds Rationale

This is a weighted index of all Islamic mutual funds per country. This sub-indicator assesses the position of the Islamic mutual funds market within the Islamic finance Industry.

The five metrics considered are: Number and value of funds, New funds launched, Number of Islamic asset managers, and Cumulative performance.

Islamic Funds Headlines

- 32% (29 countries) of the IFDI universe of 92 countries contributed to the Funds sub-indicator
- Global Average Indicator Value for Funds is 7
- 17 of the 29 countries (59%) scored higher than the global average
- Of the 17 that scored higher than the global average 29% (5) are from GCC, 18% (3) Other MENA, 18% (3) Europe, 12% (2) Southeast Asia, 6% (1) South Asia, 6% (1) Africa, 6% (1) North America, and 6% (1) East Asia
- Top 10 geographical representation — 40% GCC, 30% Southeast Asia, 10% Africa, 10% North America, 10% Europe

Malaysia #1, Saudi #2

Malaysia tops the category with the largest number of Islamic funds (209) and assets under management (AUM) of $16.6 billion, representing 32.8% of the total assets of Islamic mutual funds. Saudi Arabia comes in second with 154 Islamic mutual funds representing 42.5% market share.

From Indonesia to Ireland, wide global reach

48% (14) of the 29 countries assessed were Muslim-minority countries, indicating considerable geographic reach for the Islamic mutual funds industry. Luxembourg, United States, Ireland and Japan, all Muslim-minority countries performed well to reach the top 10. Outside the top 10, other Muslim-minority countries were Australia, Canada, Hong Kong, India, Italy, Russian Federation, South Africa, Switzerland, Thailand and the United Kingdom.

Bahrain missing from Top 10

A notable absentee from the top 10 is Bahrain, a major Islamic finance hub, indicating the lack of development and poor financial performance of its funds sector.

ANALYSIS OF DATA IN ABSOLUTE VALUES

Number of Islamic funds on the rise as investor appetite for risk increases

The sharia-compliant funds sector has developed considerably in the past decade although it still remains a fraction of the global Islamic finance industry. The Islamic mutual funds market in 2013 proved to be more resilient than the year before. The year witnessed the highest number of funds launched, resulting in a doubling of the number of Islamic mutual funds since 2007. In terms of numbers, there were 791 active Islamic funds compared to 335 in 2007. However, assets under management (AUM) have not grown in tandem with the number of funds. AUM increased 24% from 2007-2012 but dipped 1.7% in 2013.

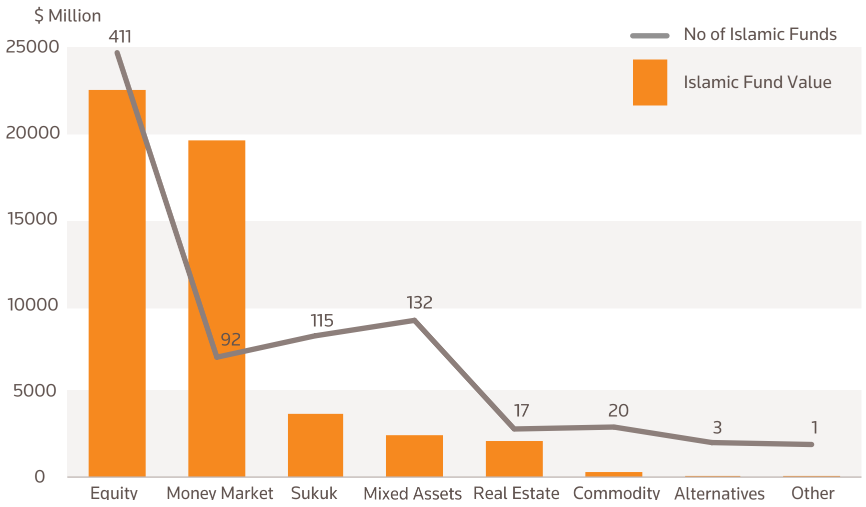
Post-global financial crisis, a number of key markets are playing an active role in writing and strengthening regulations to safeguard investors. There is no doubt the financial crisis took a toll on performance. The sector shows limited exposure to leveraged names, but volatility remained as managers retained their legacy geographical focus. Despite recovering markets, managers' strategies remained unchanged as they maintained a passive approach to asset allocation and remained very conservative.

Geographically, out of the 121 Islamic funds launched in 2013, 32 were launched in Luxembourg, followed by Indonesia and Malaysia with 21 and 20 funds, respectively. However, the highest fund flows happened in the GCC, due to excess liquidity in the region. YTD 2013, the three leading hubs for Islamic funds are Malaysia, Saudi Arabia and Luxembourg representing more than two-thirds of the size of the industry.

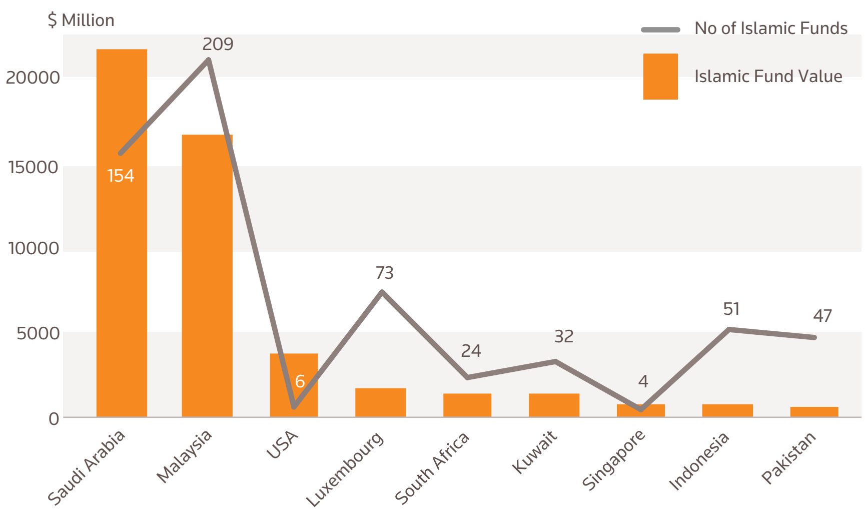
In terms of geographic focus, since 2010 Malaysia and Saudi Arabia have lost significant market share, from 29% and 13% to 12% and 5%, respectively. Asset managers seem to be regaining confidence in markets that were previously seen as problematic or volatile. The focus of funds however remains with global mandates. Indonesia witnessed the most significant growth from 5% in 2010 to 18% in 2013 driven by new infrastructure, sukuk, and pilgrim funds. We forecast more Indonesian funds going forward given the planned increase in government expenditures.

Equity funds continued to lead all asset types in 2013; there were 54 equity funds launched followed by 30 sukuk funds. More sukuk-specific funds are being launched with the increased demand for sukuk. The likelihood of more sukuk funds is linked to demand for the underlying assets as well as to supply in the secondary market. However, as investor risk appetite increased, there was a shift in fund flows from sukuk funds to equities.

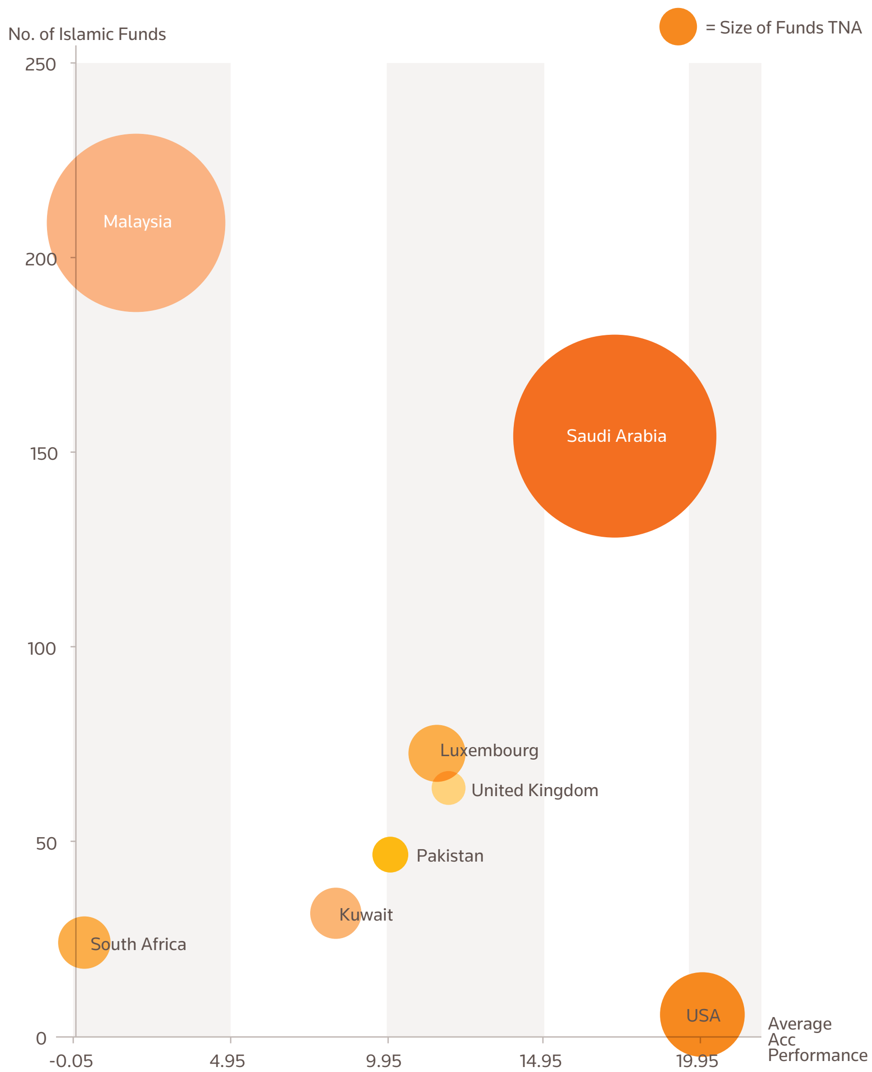
Aggregate Global Islamic Funds (Breakdown by Asset Type)



Aggregate Global Islamic Fund (Outstanding as Decmeber 31, 2013)

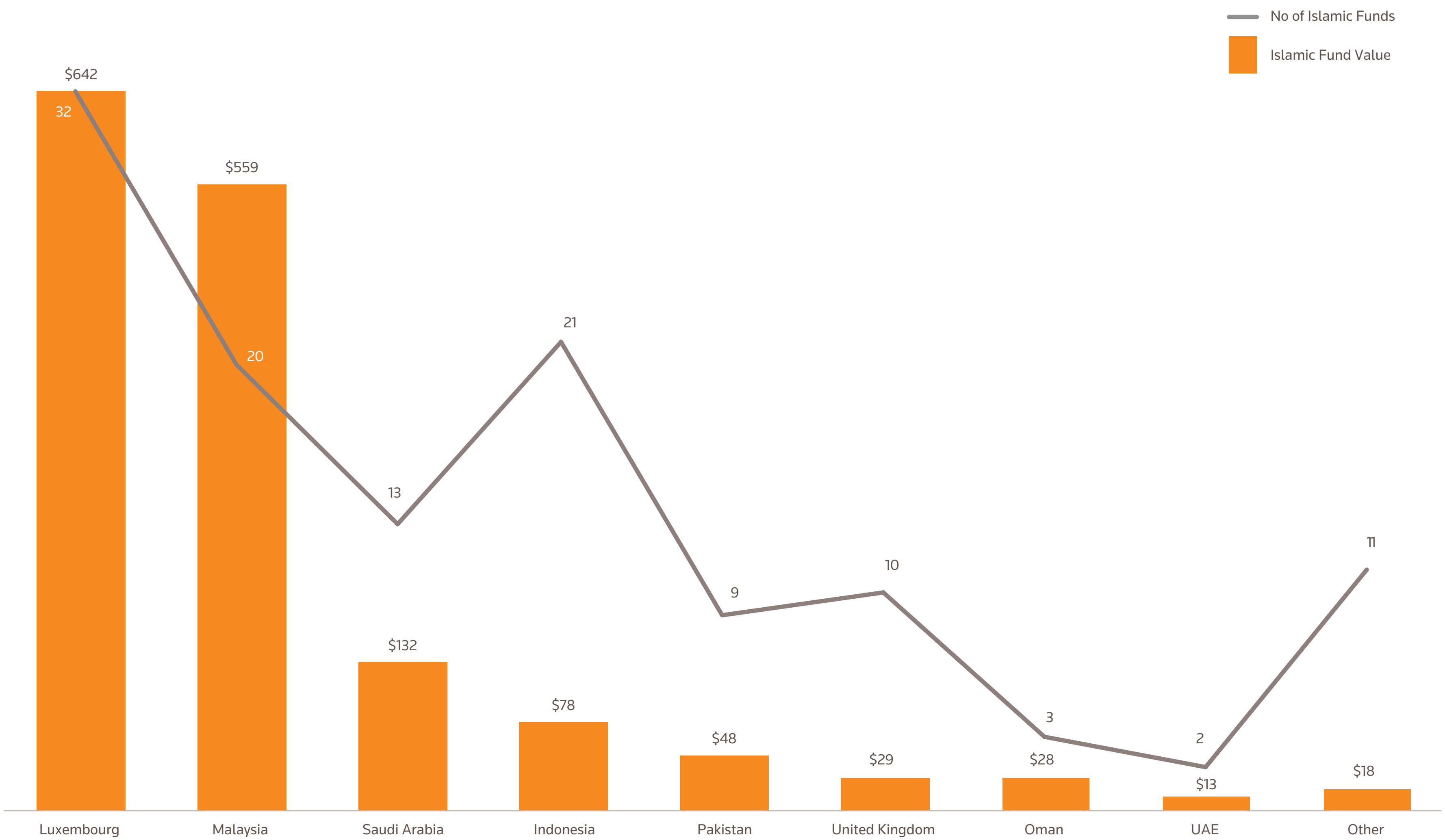


Global Islamic Funds



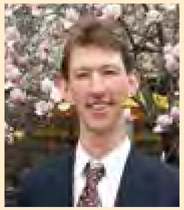
Jakarta Cityscape

Global Islamic Funds Launched 2013 Amount in $ Million



Doha skyline through the arches of the Museum of Islamic art, Doha, Qatar

CASE STUDY



Blake Goud

MERGERS AND ACQUISITIONS

By Blake Goud

The Islamic finance industry is driven by Islamic banking which makes up the vast majority of its total assets. Unsurprisingly it also makes up the biggest source of M&A, although in this regard, there is not much dealmaking to speak of. Mergers and acquisitions in Islamic banking have been done primarily with an eye for expansion into new markets or in some cases, it is driven by regulators. By and large, Islamic banking grows organically, particularly after the financial crisis reduced the appetite for starting new Islamic banks in established markets.

The rise in assets is currently driven by growth in six markets, referred to in the EY World Islamic Banking Competitiveness Report 2013 - 14 as QISMUT — Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey — where 78% of the international Islamic banking assets are located and the 5-year CAGR of total

ISTANBUL, TURKEY - JUNE 04: Galata Bridge across the Golden Horn. View from Galata district at the road to Yeni Cami on June 04, 2012 in Istanbul, Turkey. Galata Bridge is a link between two districts.
Nadiia Gerbish / Shutterstock.com

assets during 2008-12 reached 16.4%. These markets are overwhelmingly the source of Islamic bank M&A where the destination bank is in a non-QISMUT county. For example, Dubai Isalmic Bank bought the Bank of Khartoum in Sudan and the Industrial Development Bank, now Jordan Dubai Islamic Bank, in Jordan while Maybank expanded its Asian footprint in the securities business with the acquisition of Singapore-based Kim Eng in 2011.

There is some intra-QISMUT activity primarily with Indonesia as a target market. Until recently, this has mainly involved Malaysian banks expanding into Indonesia but Dubai Islamic Bank's recent acquisition of 25% of PT Bank Panin Syariah may be the start of more Indonesian M&A acquisitions from the GCC region. This expansion followed some consolidation in the Malaysian market as institutions looked to expand their market share. Notable examples include Hong Leong Islamic Bank's acquisition of EONCAP in 2010 in the commercial banking sector and RHB Investment Bank's acquisition of OSK Investment Bank in 2012.

Despite the strong growth within Qatar, the UAE and Saudi Arabia, there has not been M&A activity although ADIB's acquisition of the retail banking business of Barclay's in the UAE may signal a change since the increasingly competitive banking market is limiting options for organic expansion. However, there is little motivation for banks to merge unless they become undercapitalized or markets become too competitive, which may be starting to happen in the UAE.

One market where M&A activity has been more frequently occurring (for negative rather than positive reasons) is Bahrain where several mergers have occurred at the behest of the Central Bank of Bahrain. In the Article IV consultation which concluded in June 2014, the IMF described the Islamic retail banks as "challenged" and "encouraged the CBB to ensure that Islamic retail banks build deeper capital cushions and that their business model is sufficiently robust". This follows a busy 2013 which included an all-share merger between Al Salam Bank-Bahrain and BMI Bank, the acquisition of a majority stake in Bahrain Islamic Bank by the National Bank of Bahrain and the Social Insurance Organization from The Investment Dar and the three-way merger between Elaf Bank, Capivest and Capital Management House to create Ibdar Bank.

The Islamic finance industry has not seen significant activity in M&A despite repeated calls for smaller banks to merge to become larger and often the reason is a failure to agree on a valuation or because the owners are reluctant to cede control over their banks. However, there has been some M&A from more developed markets into less mature markets which is likely to continue as Islamic banks get bigger and want to expand beyond their home markets. Domestic competitive pressures intensifying with the rise in Islamic banking assets is likely to speed the pressure to expand internationally. However, at this point, absent a significant weakening in the QISMUT countries which would get regulators involved, it is unlikely that we will see many acquisitions within or between active markets to create regional Islamic banks.

***Blake Goud** is Community Leader for Thomson Reuters Islamic Finance Gateway and the Chief Compliance Officer for Marquam Capital, a registered investment advisor, and HP Securities, Inc, a FINRA-member broker/dealer. Blake graduated from Reed College with a B.A. in Economics.*


The MENA region's first Dealing Room training facility
Training Across 62 different countries
Over 20,000 students a year

KNOWLEDGE INDICATOR

Al-Azhar University, founded in 975AD, is the centre of Arabic literature and Islamic learning in the world, the world's 2nd oldest degree granting university. It has Al-Azhar mosque in Islamic Cairo

KNOWLEDGE INDICATOR

This chapter is sponsored by:

BIBF
LEADING EXCELLENCE

The Knowledge Indicator is a weighted index of two sub-Indicators — education and research — which are the main building blocks for any knowledge-based industry. Education and research are the input factors needed to reach depth and efficiency in the Islamic finance industry.

KNOWLEDGE INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	8
1	Malaysia	140
2	Bahrain	62
3	Jordan	53
4	Pakistan	49
5	United Arab Emirates	38
6	Lebanon	30
7	Brunei Darussalam	25
8	Tunisia	25
9	United Kingdom	22
10	Sudan	21

Knowledge Rationale

The development of the Islamic financial services industry in any country is a function of the human capital resources that can supply the knowledge and skills required to sustain and enhance the functioning of the industry. It is not enough to have professionals with training and experience in conventional banking and financial markets as they lack the depth of expertise in the Islamic law of commercial transactions and Islamic finance to innovate or provide incremental advances to the practices of Islamic finance. As such, much of the industry's development in a country relies on a cadre of trained professionals who have a combined exposure to finance/banking and a structured study of Islamic finance inclusive of its core principles.

We assess the knowledge development of the Islamic financial services industry by reviewing the number of courses and degree programs available in each country and the number of research papers related to Islamic economics and finance produced by each country from 2011 to 2013.

Knowledge Headlines

- 72% (66 countries) of the IFDI universe of 92 countries contributed to the Knowledge Indicator

London Central Mosque (Regents Park Mosque) England, UK, at sunset

- Global Average Indicator Value for Knowledge is 8
- 21 of the 66 countries (32%) scored higher than the global average
- Of the 21 that scored higher than the global average 33% (7) are from Other MENA, 29% (6) GCC, 14% (3) South Asia, 10% (2) Europe, 10% (2) Southeast Asia, and 5% (1) Africa
- Top 10 geographical representation — 40% Other MENA, 20% GCC, 20% Southeast Asia, 10% South Asia and 10% Europe

Malaysia #1

Malaysia dominates the knowledge space as the runaway leader for research output.

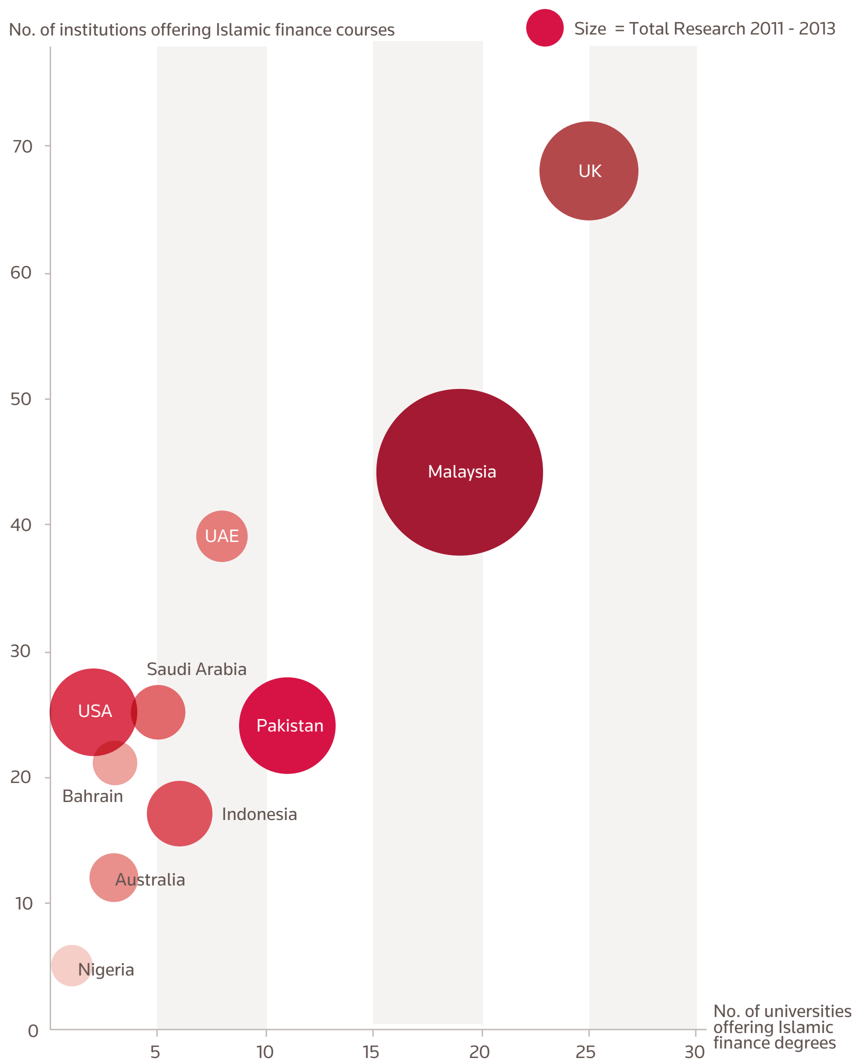
ANALYSIS OF DATA IN ABSOLUTE VALUES

UK education stands out

In absolute numbers the UK is the largest provider of Islamic finance courses and degrees in the world.

EDUCATION	RESEARCH	COUNTRIES
✔	✔	42: Australia, Azerbaijan, Bahrain, Bangladesh, Belgium, Bosnia, Brunei, Canada, Egypt, France, Germany, India, Indonesia, Iran, Iraq, Ireland, Italy, Japan, Jordan, Kazakhstan, Kuwait, Lebanon, Malaysia, Morocco, Netherlands, Nigeria, Oman, Pakistan, Palestinian territories, Qatar, Russian Federation, Saudi Arabia, Singapore, South Africa, Sri Lanka, Sudan, Switzerland, Syria, Turkey, UAE, UK, USA
✔		17: Afghanistan, Algeria, Austria, Denmark, Gambia, Ghana, Hong Kong, Kenya, Libya, Luxembourg, Maldives, Mauritius, Niger, Senegal, Somalia, Tanzania, Uganda,
	✔	7: Botswana, Cameroon, China, New Zealand, South Korea, Tunisia, Yemen

Islamic Finance Knowledge 2013 — Top 10 Countries



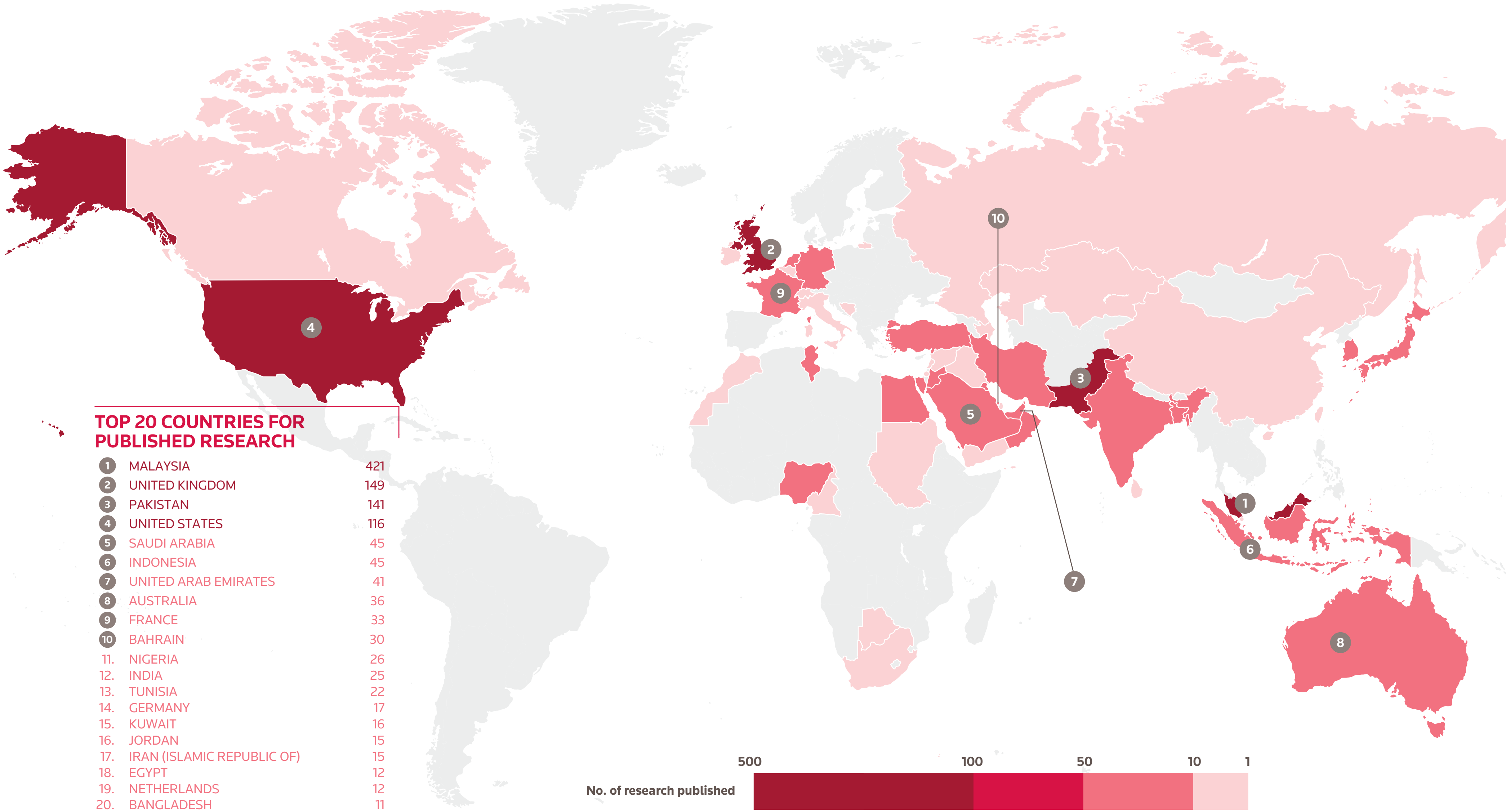
Significant gap between leaders Malaysia and UK, and trailing pack

Malaysia and UK lead the Islamic finance knowledge space with both the highest number of universities and institutes that offer Islamic finance degrees and courses and the total number of published research papers in the last three years (2011-2013). The two are the clear leaders with a wide gap between them and other countries. Muslim-majority countries such as Indonesia and Pakistan also performed well.

Three established Islamic finance markets in the GCC region — Bahrain, UAE and Saudi Arabia — positioned themselves not only as Islamic finance hubs but also as Islamic finance knowledge providers.

Untapped Islamic finance market Nigeria has made tremendous strides in the Islamic finance knowledge space and secured a position in the top 10.

KNOWLEDGE INDICATOR LANDSCAPE

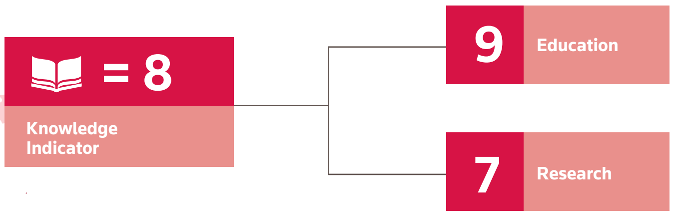


TOP 20 COUNTRIES FOR PUBLISHED RESEARCH

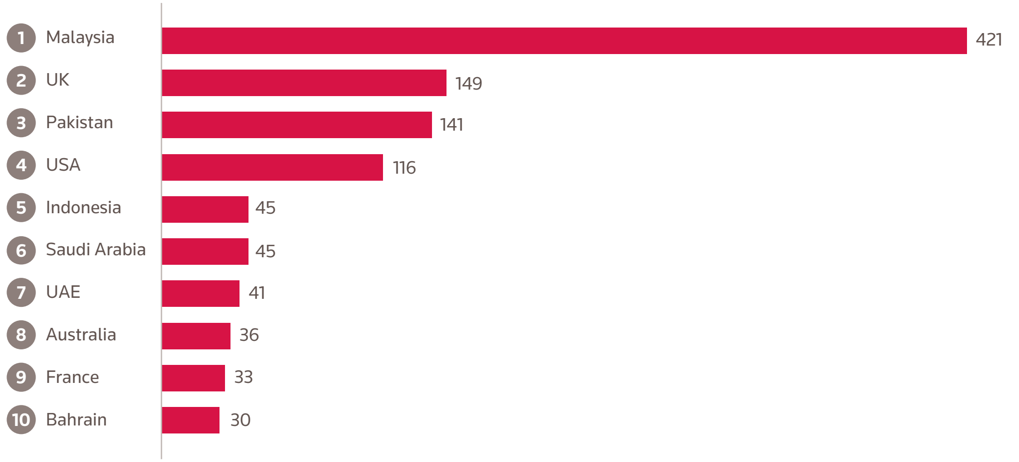
1	MALAYSIA	421
2	UNITED KINGDOM	149
3	PAKISTAN	141
4	UNITED STATES	116
5	SAUDI ARABIA	45
6	INDONESIA	45
7	UNITED ARAB EMIRATES	41
8	AUSTRALIA	36
9	FRANCE	33
10	BAHRAIN	30
11.	NIGERIA	26
12.	INDIA	25
13.	TUNISIA	22
14.	GERMANY	17
15.	KUWAIT	16
16.	JORDAN	15
17.	IRAN (ISLAMIC REPUBLIC OF)	15
18.	EGYPT	12
19.	NETHERLANDS	12
20.	BANGLADESH	11

No. of research published: 500 – 100 – 50 – 10 – 1

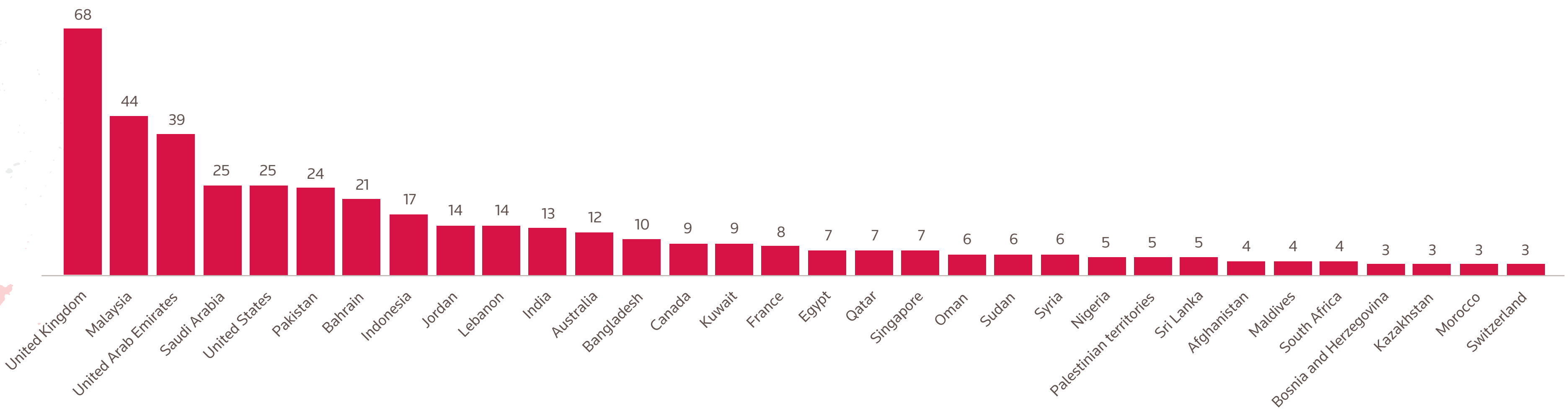
GLOBAL AVERAGE



TOP 10 COUNTRIES FOR PUBLISHED RESEARCH



NUMBERS OF EDUCATIONAL INSTITUTIONS



TOTAL EDUCATION PROVIDERS GLOBALLY
477

TOTAL PUBLISHED RESEARCH (2011-2013)
1,363

APR

Research
UK & MALAYSIA: New research partnership formed between Deloitte, INCEIF and the University of Reading

JUN

Knowledge
KUWAIT & MALAYSIA: Kuwait Finance House Research signs MoU with INCEIF in knowledge development tie-up

Education
KOREA & QATAR: Korea Federation of Banks collaborates with the Qatar Central Bank for Islamic finance training

JUL

Research
EUROPE: European Central Bank published research about Islamic finance

DEC

Education
MIDDLE EAST: Deloitte collaborates with the Finance Accreditation Agency (FAA) for world-class Islamic Finance training standards in the Middle East

KEY HIGHLIGHTS:

- In absolute numbers of institutions and research, Malaysia and UK significantly lead the Islamic finance knowledge space.
- Three GCC countries (Bahrain, UAE & Saudi Arabia) are in the top 10

Education

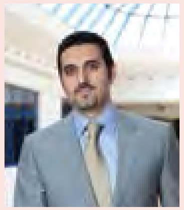
- Countries offering Islamic finance courses (59 countries) exceed the number of countries (28 countries) offering Islamic finance degrees
- Lebanon and Jordan joined the top 10 countries offering Islamic finance education
- New non-Muslim countries Austria, Ireland and Denmark joined the Islamic finance education horizon
- 57% of universities offering Islamic finance degrees are concentrated in other MENA region, GCC and Europe
- 59% of institutes offering Islamic finance courses are concentrated in other MENA region, Europe and Sub-Saharan Africa
- Islamic finance degrees lack in-depth specialization

Research

- Significant gap between Malaysia and all other countries in the Islamic finance research space
- Malaysia accounts for 31% of all Islamic finance published research papers in the last three years
- Top five countries account for 65% of total published research papers from 2011 to 2013
- Nigeria secured a position in the top 10 research contributors
- The growth of Islamic finance research papers maintained a similar trend throughout 2011 – 2013

Roof of the University of al-Karaouine in Fez, Morocco, which is the oldest continually operating religious university in the world.

EXCLUSIVE



Hani Redha

ISLAMIC FINANCE TRAINING AND EDUCATION: CHALLENGES FACING THE INDUSTRY AND STRATEGIES TO MITIGATE THEM

By Hani Redha

Recent reports indicate that the global Islamic finance industry is expected to require over 50,000 professionals over the next decade[1]. At the same time, there is a clear need for formal Islamic finance qualifications to ensure that professionals are able to conduct their jobs competently.

The picture that emerges is of an industry 'suffering' from its own rapid growth, leading to a shortage of skilled professionals

1 SKILLS SHORTAGE IMPEDES ISLAMIC FINANCE EXPANSION, ZAWYA NOVEMBER 2013

with appropriate levels of knowledge and experience to ensure that the industry adheres to global best practice in the provision of financial services, and establishes its own unique best practices. The significance of this predicament is grasped when we recall the critical importance of skilled labour in any financial discipline, and the particularly sensitive nature of a financial discipline that must carefully incorporate religious principles and edicts.

Challenges

In practical terms, employers generally face a significant challenge in training their workforce due to limited scale of their operations, which hampers their ability to function effectively if large numbers of staff are away at training events. There could also be more acute cost considerations.

The Islamic finance industry is flourishing at a global level. Rising awareness and rapid growth is taking hold across disparate regions, with pockets of activity across North/West Africa and Central Asia, in addition to the established markets of the Middle East and Southeast Asia. This geographically dispersed growth creates challenges for the development of human capital. The development of Islamic finance knowledge and training capabilities remain concentrated in a few instances, mainly in markets such as Malaysia and Bahrain. This in turn creates limitations in implementing training solutions due to higher costs associated with delivery. As will be discussed further below, the use of technology will become paramount in enabling the development of the global industry's human capital.

Employers also face the challenge of a lack of clear options with regards to high quality Islamic finance training, as a result of an absence of standardized content and limited accreditation of programmes. In parallel, professionals complain about employers from different regions not recognizing their qualifications.

This leads us to the need for standardization of Islamic finance curricula and the importance of professional qualifications.

The role of professional qualifications

Well-established qualifications from internationally acclaimed professional bodies represent the most highly standardized forms of qualifications. As opposed to academic degrees, which are heterogeneous by nature, these qualifications act as a passport for professionals due to their global recognition for rigour and quality.

Professional qualifications are also important due to their focus on industry practice and the perspective of practitioners. This contrasts with academic degrees that are, by their very nature, more focused on the theory and principles of a discipline. Given the shortage of skilled professionals in Islamic finance in the short/medium term, professional qualifications represent a more efficient solution for the current workforce, and in particular for those coming to Islamic finance from a conventional background. In the long run, academic degrees will grow in importance, as university curricula become more standardized, the quality of programmes is improved, and university offerings enhance their credibility.

Islamic finance does not currently have a singular unanimously recognised global professional body representing the industry and establishing its professional qualifications. In the absence of this, the two global professional bodies that have developed Islamic finance professional qualifications are the Chartered Institute of Securities and Investments (CISI) and the Chartered Institute of Management Accountants (CIMA). CISI's Islamic Finance Qualification (IFQ) has been offered since 2006, whilst CIMA introduced its Advanced Diploma in Islamic Finance in 2011.

While these are important contributions to the Islamic finance industry, further work is required to enrich the content with industry case studies and examples of real contracts used in Islamic financial institutions. In some cases, the content must explicitly address the variations in implementation of Islamic finance globally, and, for example, provide clear distinction between current market practices in Southeast Asia versus the Middle East.

Overall, the Islamic finance industry will benefit tremendously from a wider acceptance of the important role of global professional qualifications. Training providers can embrace this trend by designing their training programmes to match the syllabus of these professional qualifications in order to provide trainees with a dual track of knowledge and skill transfer, as well as professional accreditation.

IMPLEMENTATION STRATEGIES FOR ISLAMIC FINANCE TRAINING

Dual Track Training

The Islamic finance market recognizes the value of international accreditation of learning programmes. This is clear from recent surveys that show 84% of participants believe an international professional recognition through accreditation would help meet their organisation's requirements, and 81% expressing that accreditation would influence their decision in sending delegates to a particular training course[2]. The potential to acquire globally recognized professional qualifications acts as a clear motivator for delegates to attend and to also learn more diligently.

At BIBF, we follow a *Dual Track Training* philosophy which dictates that our training programmes are aligned with the syllabuses of global professional qualifications. This ensures that while transferring knowledge and skills, our trainees are also prepared, in parallel, to sit the exams of global professional bodies and thereby acquire highly valuable qualifications at the end of the training programme. The benefits of this approach are clear. Trainees enhance their CVs and employers benefit from a tangibly more qualified workforce.

Online training solutions

The Islamic finance market has not widely adopted online training as a core component in its training plans thus far. This has been due to two primary factors.

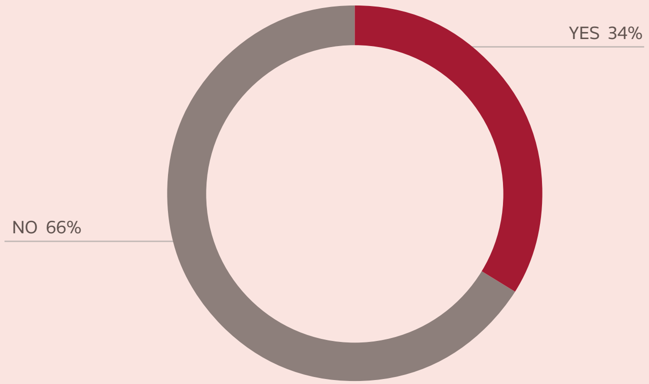
Firstly, there is a lack of awareness of existing online programmes (around one third of respondents to a recent survey had no experience of online training[3]). We expect this to change, driven by technological developments that enable a blend of engaging self-paced learning, combined with live interaction with instructors, that will change the prevailing perception of online learning as being passive and/or ineffective. The lower cost benefits will also be an important factor that will drive employers to incorporate online solutions into their training plans. In many instances, this will actually be the only viable means by which specialized training is delivered effectively, due to the current concentration of advanced Islamic finance knowledge in a small number of countries.

Secondly, a general dissatisfaction with the quality of current online training programmes has impeded uptake of this mode of training (61% of respondents to a recent survey believe that current online programmes are of a poor standard[4]). The industry is therefore in need of the development of

2 *Financial Accreditation Agency (FAA) Talent Development Survey 2014*

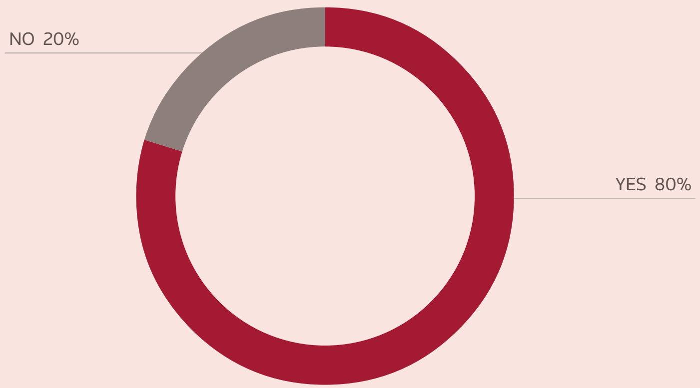
3 *Financial Accreditation Agency (FAA) Talent Development Survey 2014*
4 *Financial Accreditation Agency (FAA) Talent Development Survey 2014*

Figure 1: In your opinion are there currently industry-wide standards for Islamic finance training programmes?



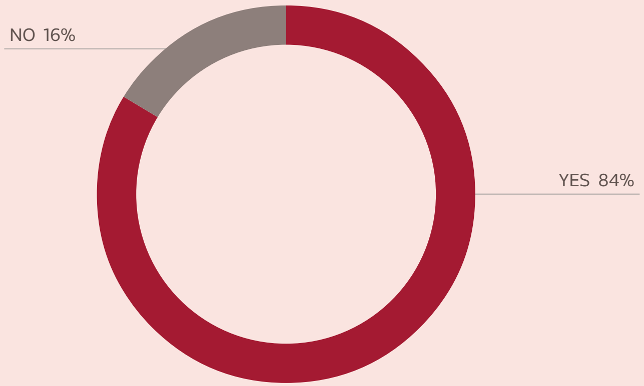
Source: Financial Accreditation Agency (FAA) Talent Development Survey 2014

Figure 2: Will accreditation ensure a high quality learning programme?



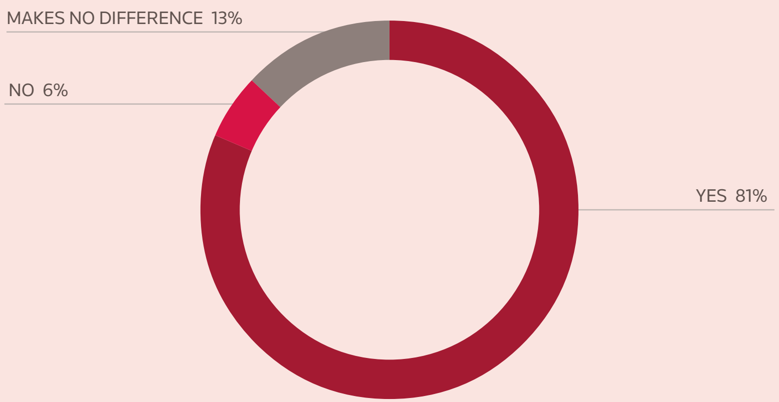
Source: Financial Accreditation Agency (FAA) Talent Development Survey 2014

Figure 3: Would an international professional recognition through accreditation help meet your organisation's expectations?



Source: Financial Accreditation Agency (FAA) Talent Development Survey 2014

Figure 4: Would the accreditation of a training course influence your decision in sending delegates?



Source: Financial Accreditation Agency (FAA) Talent Development Survey 2014 high quality and engaging online solutions that leverage technological advances and provide a rich learning environment.

Executive trainee and graduate development programmes

In conventional finance, financial institutions regularly take in graduates and executive trainees and put them through a rigorous training programme that exposes the recruits to the entire institution and develops a wide range of skills across multiple disciplines. This has not been adopted by Islamic financial institutions in a systematic manner thus far.

We believe that such executive and graduate development programmes would be an efficient means to induct recruits into the Islamic finance industry. However, we also believe that given the evolving nature of the industry and the general lack of experienced Islamic finance professionals, there is a need for systematic, continuous professional development. Employers must view this ongoing training as a strategic imperative, and work with training providers to design personal development plans for their employees to ensure that the organization evolves alongside the industry, and enhance their staff retention rates.

GAPS IN ISLAMIC FINANCE TRAINING

Introductory level programmes

A casual glance at training offerings in Islamic finance reveals an abundance of introductory level programmes. However, feedback from the industry consistently indicates that these introductory level offerings lack sufficient focus on real world applications and scenarios. In order to result in tangible benefits to employers, more input is needed from industry practitioners to incorporate case studies into the syllabus and bring practical experiences into the classroom. The industry must play its part in supporting this and making their resources available for this purpose.

Advanced and specialized programmes

It is natural that up to this point in its evolution, Islamic finance training has focused on disseminating the principles and fundamental philosophy of Islamic finance. However, the time has come for more advanced level training programmes to be developed and made widely available. Moreover, specializations in key areas of Islamic finance, including sharia audit and risk management, need to be offered. However, none of these efforts will be successful without the support of industry players who must take a holistic view of the marketplace and recognize the need for such depth of expertise.

Since 1997, BIBF has developed the widest and most robust range of Islamic finance training programmes in the market, and we are collaborating with industry participants globally to bring these unique programmes to a wider audience.

We also believe that a closer working relationship is required with the conventional finance market. While fully accepting the fact that the values and principles of conventional and Islamic finance differ, there are clear areas of overlap between the two. It is therefore inefficient for Islamic finance to develop in isolation, and not leverage the expertise and sophistication of its conventional counterpart. For example, after allowing for the differences in the structure of sukuk, the core skill of constructing and managing sukuk portfolios has significant overlap with traditional fixed income portfolio management.

Islamic finance training must blend the established techniques of conventional finance with the unique aspects of Islamic finance to produce professionals that are as competent and rigorous as their conventional counterparts, whilst also capable of espousing the fundamental principles of Islamic finance.

Conclusion

Islamic finance has reached an interesting stage of development, with critical mass achieved and awareness now reaching global proportions. The significant shortage in skilled professionals will remain the key impediment to this growth, and will determine the success of the industry in the intermediate and long term. The standardization of Islamic finance curricula and wider adoption of global professional qualifications will be key enablers of industry best practice adoption, and workforce mobility. The use of technology to deliver effective and efficient training can also be an important component of training plans that Islamic financial institutions adopt.

Ultimately, the Islamic finance industry will not achieve its full potential unless leaders of Islamic financial institutions recognize training and development of their workforce as a strategic imperative, rather than simply as a low priority expense.

Hani Redha *joined BIBF in 2014 as Head of Centre for Islamic Finance. He has over fifteen years of industry experience in financial services, having worked in various top-tier financial institutions in London and the Middle East. Mr. Redha has extensive experience in the management of Treasury, Capital Markets and Investment functions and the development of Shari'ah-compliant products.*

He has managed multi-billion dollar investment portfolios for institutions such as National Commercial Bank (Saudi Arabia), NCB Capital, Gulf International Bank and Mumtalakat (the Sovereign Wealth Fund of the Kingdom of Bahrain). Prior to joining BIBF, Mr. Redha was an Investment Manager in the Global Asset Allocation Team of PineBridge Investments, where he developed their Islamic Asset Management Platform and was part of a team managing $12 billion of client assets. Mr. Redha has also been a part-time lecturer for several years, and teaches a wide-range of finance-related subjects for the CFA programme.

BIBF
LEADING EXCELLENCE

EDUCATION SUB-INDICATOR

EDUCATION SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	9
1	Bahrain	74
2	Jordan	71
3	Malaysia	68
4	United Arab Emirates	53
5	Lebanon	48
6	Pakistan	35
7	Sudan	34
8	Brunei Darussalam	30
9	United Kingdom	26
10	Palestinian territories	25

Education Rationale

Education as a sub-indicator measures the number of institutions providing formal teaching and training programs for Islamic finance. This index is vital to the industry as it measures the extent and depth of the education and training required to develop a qualified pool of human capital for the industry. The two metrics considered are: Number of institutions offering degree courses in Islamic finance, and Number of institutions offering Islamic finance courses.

Education Headlines

- 64% (59 countries) of the IFDI universe of 92 countries contributed to the Education sub-indicator
- Of these 59 countries all offer Islamic finance courses but only 47% (28 countries) also offer Islamic finance degrees
- Global Average Indicator Value for Education is 9
- 27 of the 59 countries (46%) scored higher than the global average
- Of the 27 that scored higher than the global average 30% (8) are from Other MENA, 22% (6) GCC, 15% (4) South Asia, 15% (4) Africa, 11% (3) Southeast Asia, and 7% (2) Europe
- Top 10 geographical representation — 40% Other MENA, 20% GCC, 20% Southeast Asia, 10% South Asia, and 10% Europe

Country size lifts Bahrain and Brunei rankings

In absolute numbers the UK leads on number of institutions offering Islamic finance degrees and courses but once data was adjusted for overall size of a country/economy (GDP and population size) to ensure comparability, Bahrain ranks top of the Education sub-indicator. Brunei also stands out in the top 10. The small Southeast Asian country with a population of approximately 420,000 has two institutions offering Islamic finance courses.

UK top Western centre for Islamic finance education

The United Kingdom offers a very wide range of courses and degrees. In absolute numbers the UK is home to the most number of institutions offering courses and degrees — 68 offering courses and 25 offering degrees. With data adjusted for GDP and population size, the UK is ranked ninth on the Education sub-indicator.

The Levant region performed well

Jordan, Lebanon and the Palestinian territories are all ranked in the top 10. Jordan and Lebanon have an equal number of institutions offering courses (14) but the former has one more degree institution (3) than Lebanon. There are five course providers in the Palestinian territories.

ANALYSIS OF DATA IN ABSOLUTE VALUES

UK and Malaysia lead on number of institutions offering Islamic finance degrees and courses, several newcomers to British Islamic finance education space in 2013

The education sub-indicator considers the number of institutions that offer courses in Islamic finance and higher education institutions (mainly universities and colleges) that offer degrees in Islamic

21 COUNTRIES OFFER COURSES ONLY: (NUMBER OF INSTITUTIONS)

Afghanistan (4)
Austria (3)
Azerbaijan (1)
Bangladesh (10)
Belgium (1)
Bosnia (3)
Canada (9)
Denmark (1)
Hong Kong (2)
Iran (1)
Iraq (3)
Ireland (3)
Italy (1)
Japan (2)
Kazakhstan (3)
Kenya (1)
Libya (1)
Maldives (4)
Mauritius (2)
Netherlands (1)
Niger (1)
Oman (6)
Palestinian Territories (5)
Russian Federation (1)
Singapore (7)
Somalia (2)
South Africa (4)
Syria (6)
Tanzania (2)
Turkey (2)
Uganda (2)

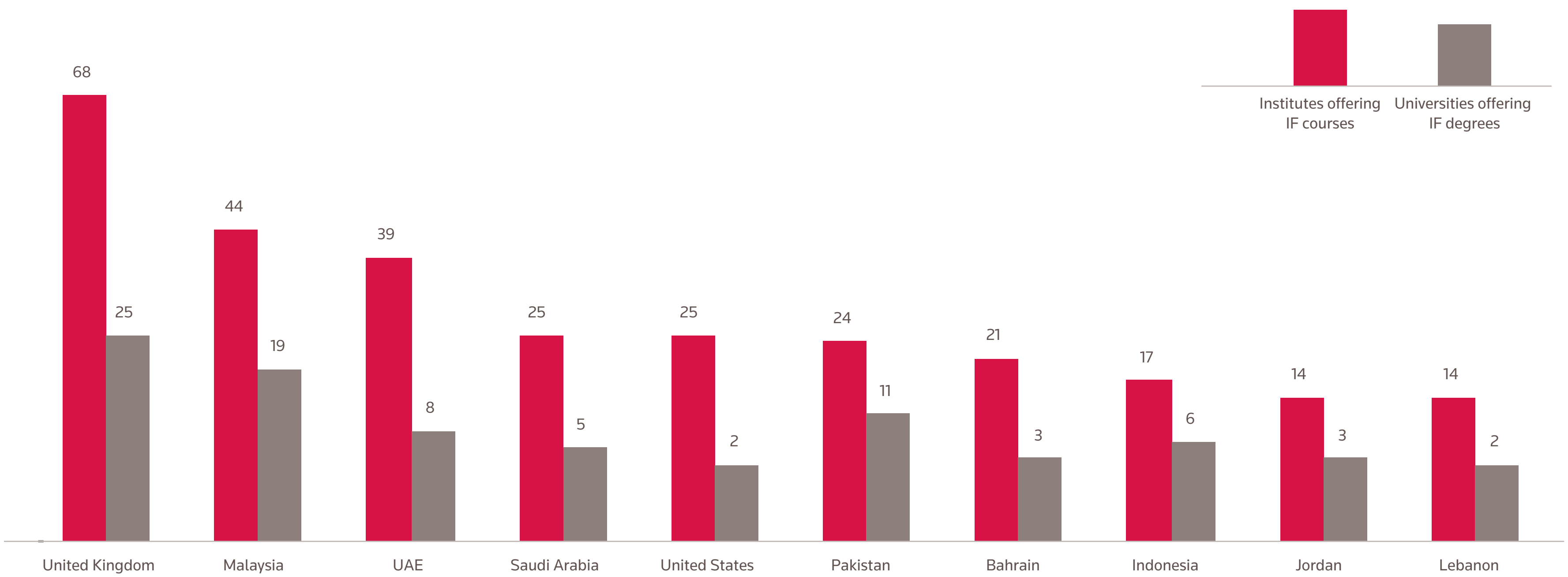
Aerial of Dhaka, the Capital of Bangladesh

28 COUNTRIES OFFER COURSES AND DEGREES: (NUMBER OF INSTITUTIONS)

Algeria (3,1)
Australia (12,3)
Bahrain (21,3)
Brunei (2,2)
Egypt (7,1)
France (8,3)
Gambia (1,1)
Germany (2,1)
Ghana (1,1)
India (13,6)
Indonesia (17,6)
Jordan (14,3)
Kuwait (9,1)
Lebanon (14,2)
Luxembourg (3,1)
Malaysia (44,19)
Morocco (3,1)
Nigeria (5,1)
Pakistan (24,11)
Qatar (7,2)
Saudi Arabia (25,5)
Senegal (1,1)
Sri Lanka (5,2)
Sudan
(6,1) Switzerland (3,2)
UAE (39,8)
UK (68,25)
USA (25,2)

Tower bridge - London

Islamic Finance Education 2013 — Top 10 countries



finance. UK outpaced the centres of Islamic finance among Muslim-majority countries in terms of Islamic finance courses and degrees. It has 68 institutions (including universities, schools and educational institutions) that offer Islamic finance courses and 25 (mainly universities and colleges) that offer Islamic finance degrees, an increase of 13% over 2012 for both Islamic finance degrees and courses. More universities and institutions have opened their doors to Islamic finance degrees and courses as the country works towards becoming the leading provider of Islamic finance education not only in the Western world but also globally.

For the second consecutive year, Malaysia and UAE trail the UK with 44 and 39 institutions offering Islamic finance courses, respectively. However, Malaysia recorded a drop of 12% compared to 2012 data; this was mainly due to one-off courses that were offered during 2012, while UAE recorded an increase of 26%. In terms of Islamic finance degrees, Malaysia and UAE currently have 19 and 8 universities, respectively.

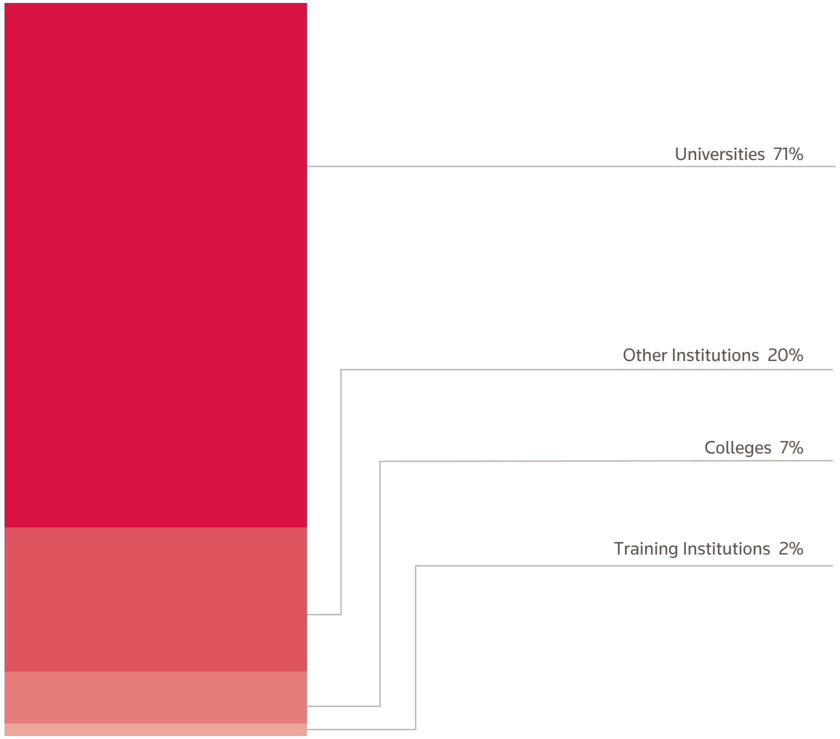
India and France fell out of the top 10 in 2013 in terms of Islamic finance degrees and courses, while Jordan and Lebanon have moved into the top 10. Although India is not in 2013's top 10, it is worth noting that the country is ranked directly after Pakistan in the South Asian region, noteworthy considering its more Islamic finance-entrenched neighbours Bangladesh and Sri Lanka. There is now a greater interest in Islamic finance in India as the country takes steps to promote non-interest banking before issuing licenses to full-fledged banks.

Kuwait, which has a strong Islamic banking sector, has only one university that offers a higher diploma program in Islamic finance.

Several newcomers joined the list of countries that offer Islamic finance education (both Islamic finance degrees and courses), among them Muslim-majority countries such as Gambia and Senegal. European countries Austria, Ireland and Denmark have also newly tapped the Islamic finance education space, while African nations Nigeria and Ghana, which have significant Muslim populations, have also shown greater interest and hence movement up the index in 2013.

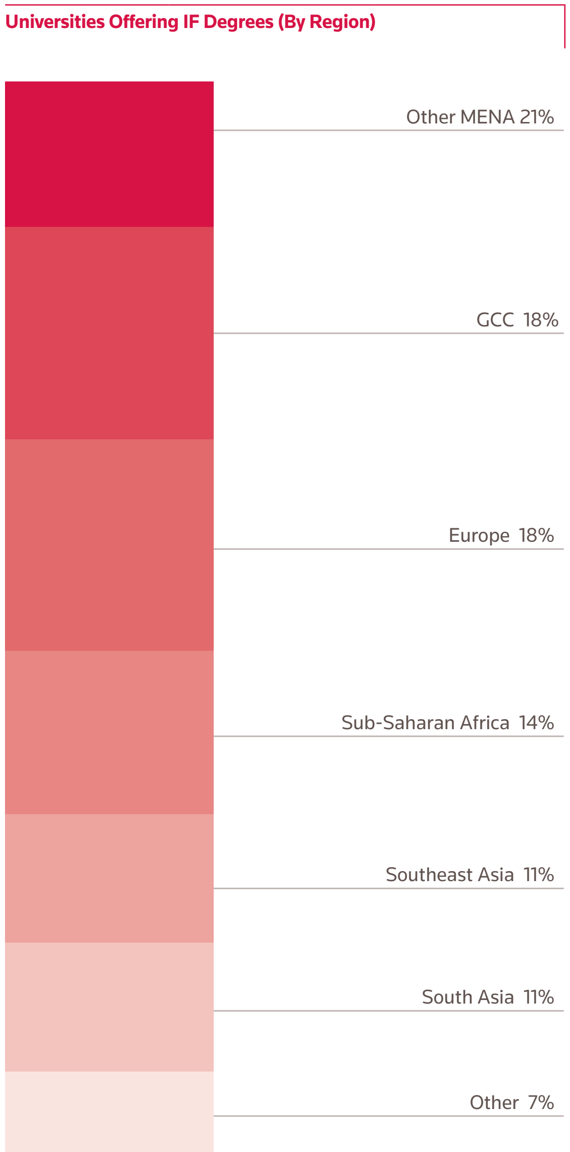
KUALA LUMPUR, MALAYSIA - APR 4: View of the city from Kelana Jaya Line on April 4, 2013 in Kuala Lumpur. Today KJL carries over 190,000 passengers a day and over 350,000 a day during national events. De Visu / Shutterstock.com

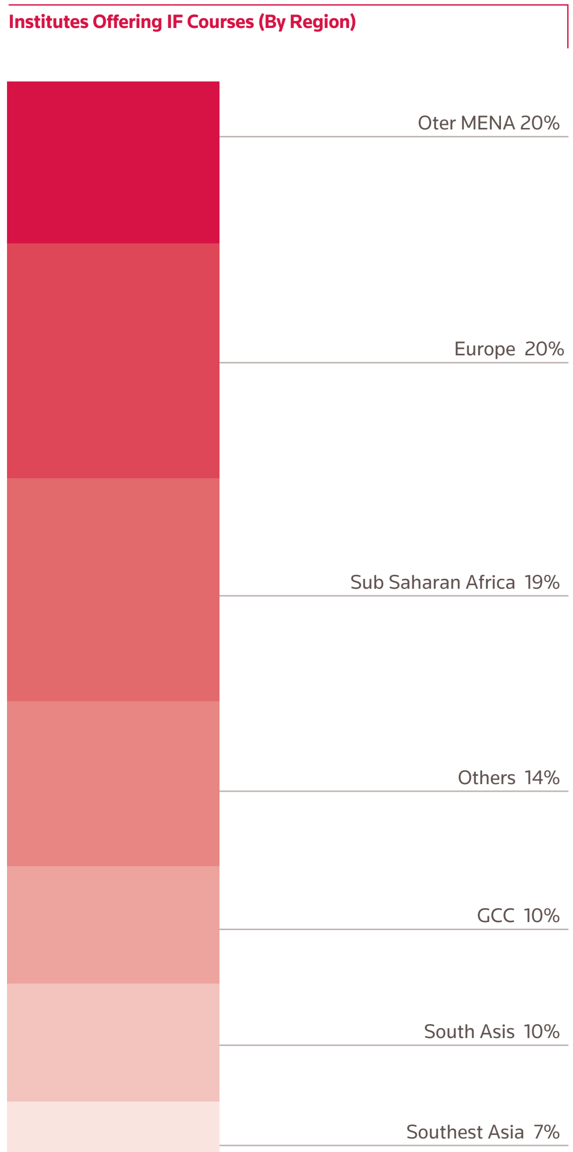
Islamic Finance Degrees Providers (By Type)



The majority of Islamic finance degrees are offered by universities and the offered undergraduate and postgraduate degrees provide a full range of Islamic finance subjects including: Islamic Capital Markets, Islamic Financial Systems, Islamic Banking Operations, Islamic Corporate Governance, Fiqh Al-Muamalat, Zakah and Public Finance, Accounting & Auditing, Takaful, Islamic Economics, and Sharia.

By region, the highest number of institutions offering Islamic finance degrees and courses are in the other MENA cluster, followed by Europe. There is greater interest to learn about Islamic finance in Sub-Saharan Africa, which closely trails leaders in the courses category and is home to more institutions offering degrees than Southeast Asia. Gambia and Ghana were new Islamic finance course providers from Sub-Saharan Africa in 2013. In Islamic finance strongholds Southeast Asia and the GCC, more institutions offer degree programs than courses, which reflects a focus on longer-term human capital development.





RESEARCH SUB-INDICATOR

RESEARCH SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	7
1	Malaysia	211
2	Pakistan	63
3	Tunisia	50
4	Bahrain	49
5	Jordan	35
6	United Arab Emirates	23
7	Brunei Darussalam	21
8	Oman	21
9	Kuwait	20
10	Bosnia and Herzegovina	19

Research Rationale

Research is defined as the study and the systematic investigation into resources and materials in order to reach new conclusions. Like any other industry, Islamic finance needs research and peer-reviewed journals in order to discover and develop solutions to problems, create new products and services, and bring knowledge and depth to the business. This sub-indicator takes stock of three previous years of research (2011-2013) to capture a more representative picture of the cumulative development of ongoing research. Two metrics are considered: Number of peer-reviewed journal articles, and Number of other research papers.

Research Headlines

- 53% (49 countries) of the IFDI universe of 92 countries contributed to the Research sub-indicator
- Of these 49 countries 94% (46 countries) contributed peer-reviewed journal articles
- Global Average Indicator Value for Research is 7
- 11 of the 49 countries (22%) scored higher than the global average
- Of the 11 that scored higher than the global average 45% (5) are from GCC, 18% (2) Southeast Asia, 18% (2) from Other MENA, 9% (1) South Asia, and 9% (1) Europe
- Top 10 geographical representation — 40% GCC, 20% Southeast Asia, 20% Other MENA, 10% South Asia, 10% Southeastern Europe

Malaysia runaway research leader

Even after adjusting for economy and population sizes, there is a huge gap in the indicator value between leader Malaysia and the rest of the top 10, just as there is a huge gap in absolute numbers between research papers coming out of Malaysia and the rest of the world. Malaysia's total 421 research papers (for both metrics) accounted for 31% of total research papers on Islamic finance.

New Islamic finance markets making strides in Islamic finance research

Third placed Tunisia and eighth placed Oman are contributing more to the Islamic finance industry with their research from 2011 to 2013. Notably, the Southeast European nation of Bosnia and Herzegovina, which only has one Islamic bank, ranks tenth.

Jordan's research output strengthens its position in overall Knowledge Indicator

Jordan has been a steady performer in the Islamic finance knowledge space. It is ranked second on the Education sub-indicator behind Bahrain and fifth on the Research sub-indicator, taking its overall Knowledge ranking to third behind leaders Malaysia and Bahrain.

46 countries contributed both peer-reviewed journal articles and other research papers:

Australia, Bahrain, Bangladesh, Belgium, Bosnia, Botswana, Brunei, Cameroon, Canada, China, Egypt, France, Germany, India, Indonesia, Iran, Iraq, Ireland, Italy, Japan, Jordan, Kazakhstan, Kuwait, Lebanon, Malaysia, Morocco, Netherlands, New Zealand, Nigeria, Oman, Pakistan, Palestinian Territories, Qatar, Russian Federation, Saudi Arabia, Singapore, South Africa, South Korea, Sudan, Tunisia, Turkey, UAE, UK, USA and Yemen

3 countries contributed only to other research papers:
Azerbaijan, Sri Lanka and Switzerland

ANALYSIS OF DATA IN ABSOLUTE VALUES

Malaysia leads the Islamic finance research space by a wide margin, top 5 countries produced 65% of all published research

Malaysia retained its pole position in the Islamic finance research space. In absolute numbers, the country contributed a total of 421 published research papers from 2011 to 2013, accounting for 31% of total published research on Islamic finance for the three-year period. Four of the top 10 research providers are Malaysian institutions, contributing 18% of all Islamic finance research from 2011 to 2013. The top contributor is a dedicated Islamic finance research institution — Malaysia's International Shari'ah Research Academy for Islamic Finance (ISRA). The other three contributors from Malaysia in the top 10 are either dedicated Islamic finance institutions or specialist Islamic studies centres. The remaining six in the top 10 are universities with dedicated Islamic finance and Islamic finance-related centres or departments, indicating that Islamic finance research remains a niche and specialist enterprise that has not significantly interested generalist conventional economics, finance and business departments of universities and research centres.

There is a significant gap between Malaysia and other countries in terms of the total number of published research. The United Kingdom follows with 148 published research papers, Pakistan with 141, the United States with 116 and Indonesia with 65. Islamic finance research is concentrated in these top five countries, which together produced 65% of the total published research papers from 2011 to 2013. The top 10 countries provided 1,067 published research papers, accounting for 78% of the total universe.

India fell out of the top 10 and Nigeria moved up to 10th place with a total of 26 published research papers. Nigeria's move up both the education and research sub-indicators is a strong reflection of the country's increased interest in Islamic finance.

Islamic finance published research papers provided by the top 10 countries maintained a similar trend throughout the period 2011-2013. However, research output from the United States dropped significantly in 2013 (30) compared to 2011 (54). There was minimal increase in countries such as Indonesia (22 in 2013, 20 in 2012) and Saudi Arabia (20 in 2013, 14 in 2012).

Peer-Reviewed Research

Most of the peer-reviewed journal articles focus on Islamic banking in general. This category accounts for 34% of the total stock of peer-reviewed papers produced from 2011 to 2013. However, we observe that across the three years there is a gradual shift away from general Islamic finance subjects towards research addressing specific and specialist areas such as sukuk and takaful.

Given the sustained growth in the sukuk market which has contributed to the development and strengthening of the Islamic finance industry as a whole, we are not surprised to see a growing number of peer-reviewed papers addressing the fixed income sector (Islamic Securities — Sukuk). Papers about Islamic securities account for 6% of all peer-reviewed papers.

The Islamic finance industry is facing a shortage of research on Sharia (2%) and Islamic funds (2%). Malaysia's ISRA, which tops all institutions for number of Islamic finance research produced, may be a dedicated sharia research academy for Islamic finance but its focus has extended well beyond only sharia matters.

The increasing profile of the Islamic economy demands more research on the economics that govern its sectors separately and collectively; this would primarily comprise of workable macro- and micro-economic policies that adhere to sharia and Islamic values which would improve growth trajectories of the identified Islamic economy sectors within a holistic Islamic framework that would benefit society. Islamic economics accounts for only 4% of all papers.

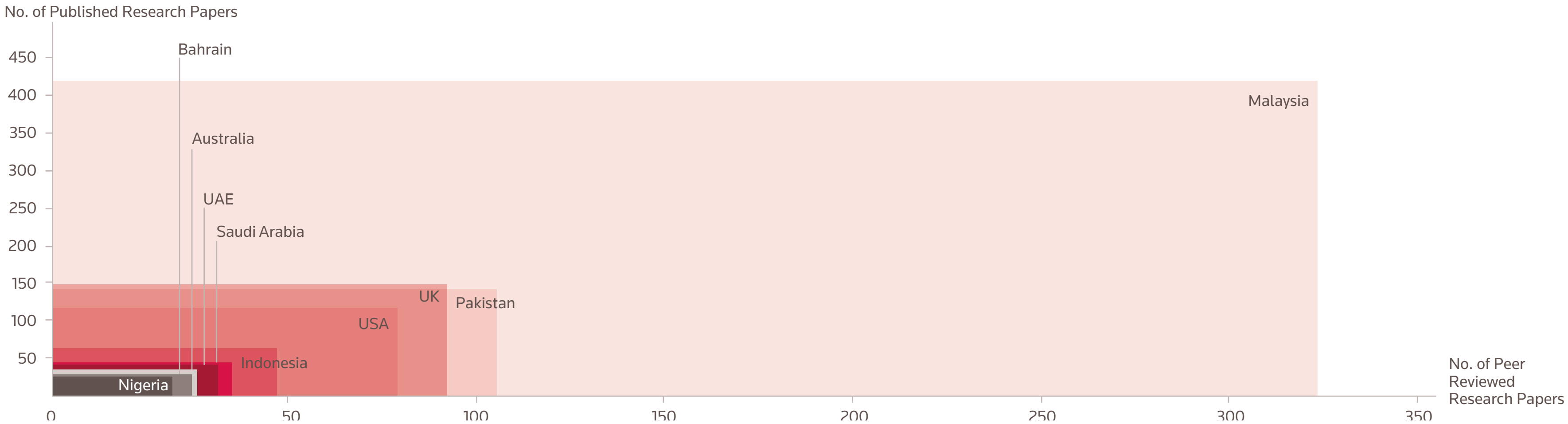
Other peer-reviewed papers account for 24% of total research papers; these focus on areas such as Islamic indices, financial products, equities, Islamic derivatives, and Islamic finance markets.

Top 10 institutions

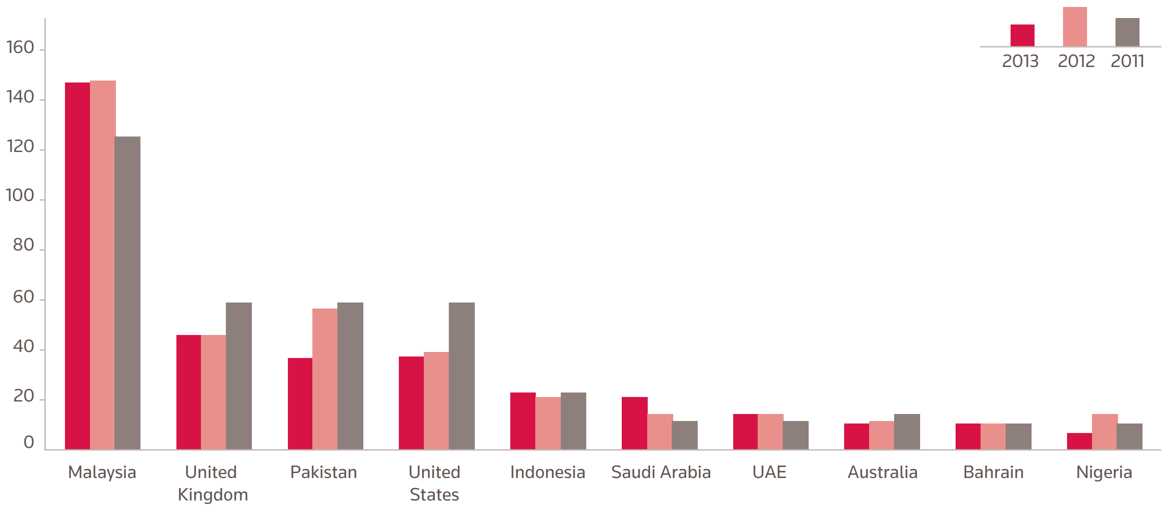
The number of research papers produced by the top 10 institutions account for 31% of the total number of papers produced from 2011 to 2013.

The list is dominated by institutions based in Malaysia, United Kingdom, Pakistan, Saudi Arabia and United States. Most research originates from institutions which provide Islamic finance degrees and courses.

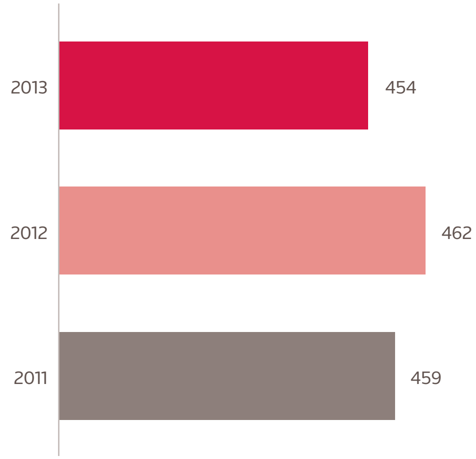
Islamic Finance Research 2011-2013 — Top 10 countries



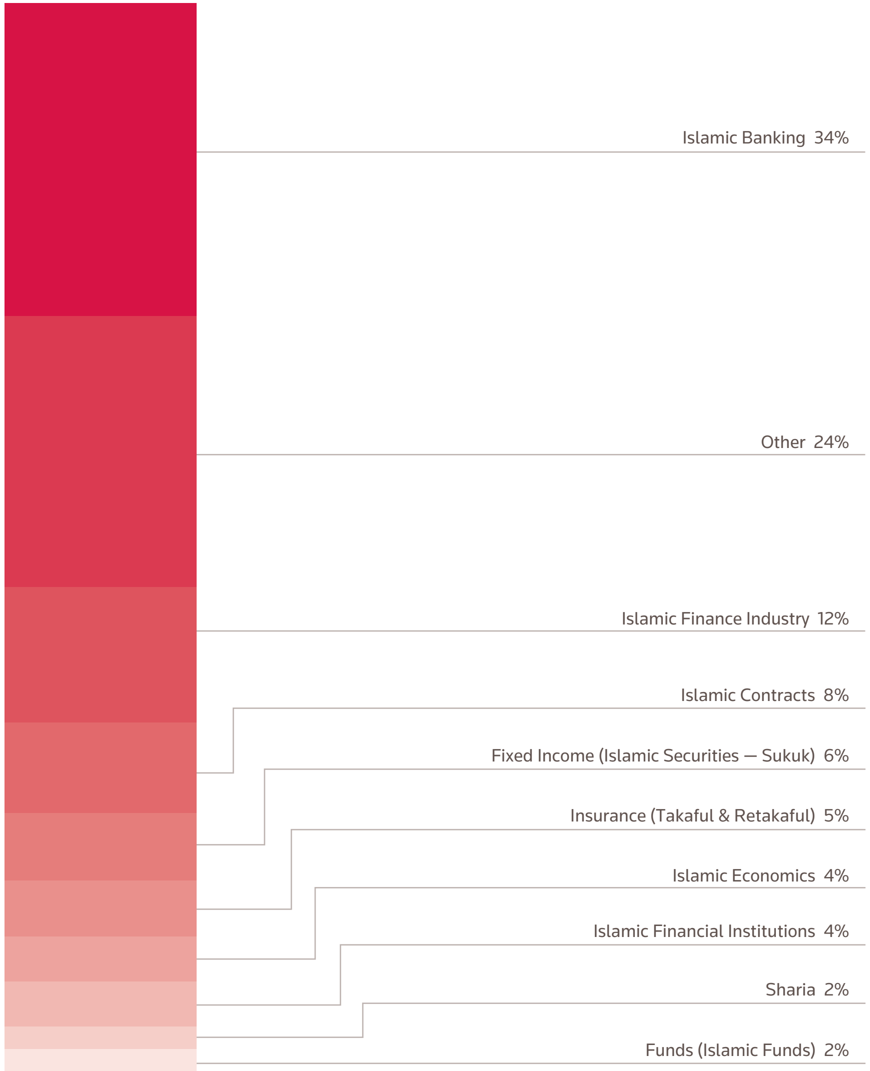
Isalmic Finance Research 2011 - 2013 — Top 10 countries



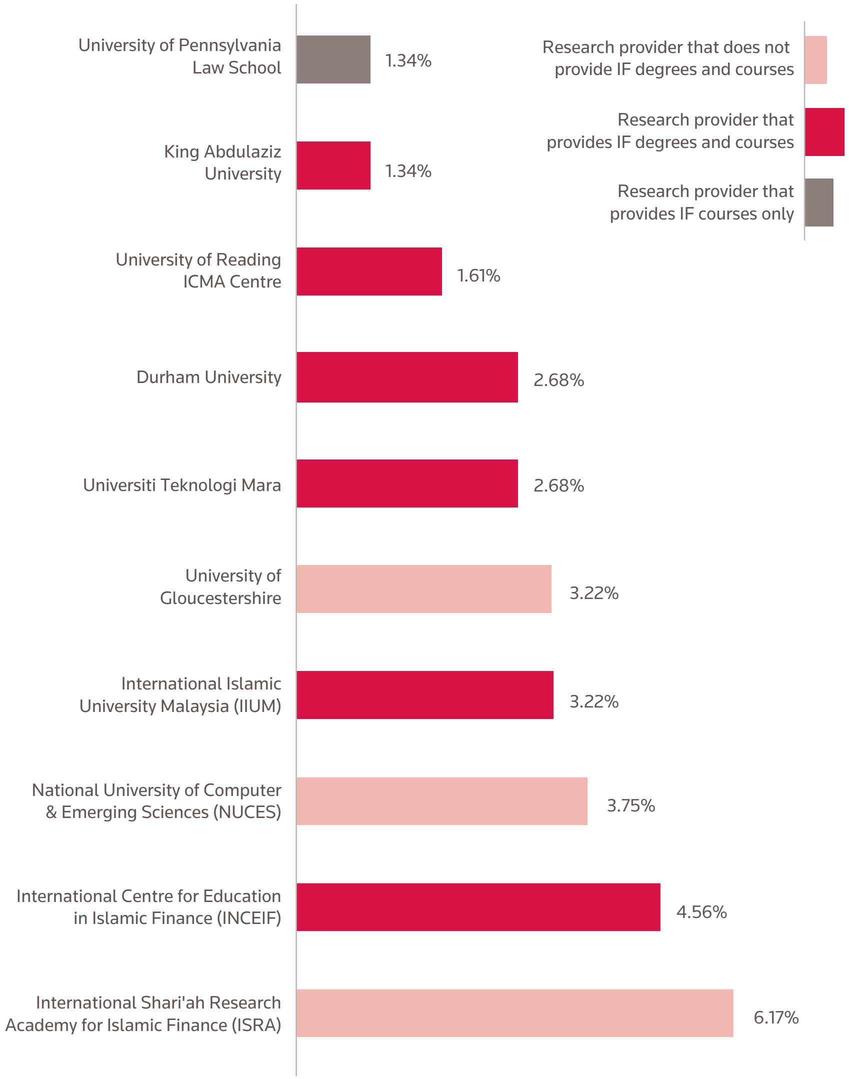
Total Islamic Finance Research

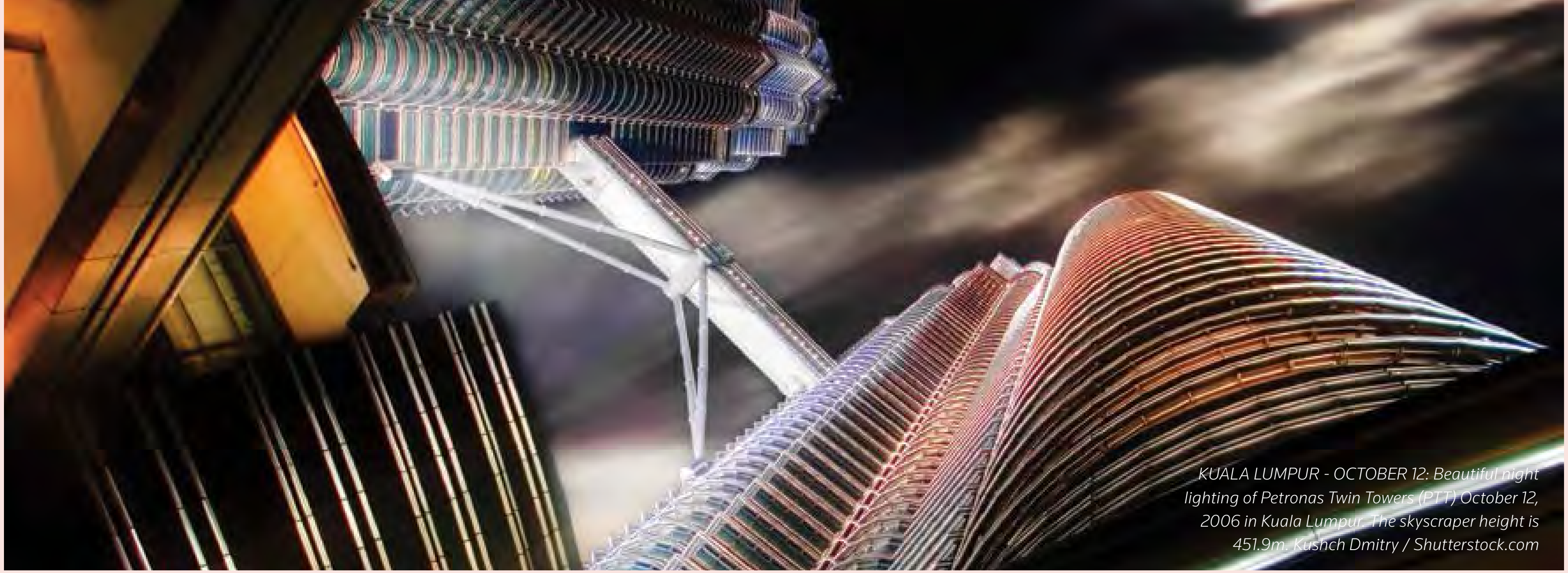


Peer-Reviewed Papers by Asset Class



Top 10 Research Papers Providers Contribution (%)





KUALA LUMPUR - OCTOBER 12: Beautiful night lighting of Petronas Twin Towers (PTT) October 12, 2006 in Kuala Lumpur. The skyscraper height is 451.9m. Kushch Dmitry / Shutterstock.com

CASE STUDY

MALAYSIA'S 'INTERNATIONAL STANDARD CURRICULUM' FOR ISLAMIC FINANCE

Emmy Abdul Alim

By Emmy Abdul Alim

Malaysia has been leveraging its position as a leading centre for Islamic finance to attract students to its universities and specialist institutes but must now put more weight on improving the quality of its courses and academic qualifications to remain competitive.

The shortage of an expert and skilled Islamic finance talent pool has been an issue for the industry worldwide. The primary challenge has been to develop students within a robust critical framework that can produce graduates who are equally competent in theory and market practice. As part of national efforts to internationalise its education sector and become the global hub for Islamic finance, Malaysia has committed public resources and mobilised industry representatives to design an 'international standard curriculum' for Islamic finance and help local institutions develop globally recognised Islamic finance and business programmes.

A draft curriculum has already been drawn and as of this writing is seeking review from local and foreign academics and industry representatives. At the same time, the quality of professional training courses is also being addressed, as is developing globally recognised industry accreditation.

Malaysia may be regarded as a leader in Islamic finance but the quality of its education system is far from world class and its universities are poorly considered in world rankings. University Malaya is Malaysia's top institution, and sits in the 401-500 ranking range according to the Academic Ranking of World Universities 2013. No Malaysian varsity ranks in the Times Higher Education World University Rankings Top 400 for 2013-2014.

Specialist Islamic finance institutes (which are excluded from the two most cited global ranking of universities) — most notably INCEIF and IIUM's iBF — have successfully leveraged on Malaysia's competitive advantage and expertise in Islamic finance to stand out but the two alone cannot support Malaysia's aim of attracting 54,000 Islamic finance (local and international) students by 2020 from the current enrolment of 6,000. Malaysia's education sector needs to develop strength in depth in order to outdo the UK and become world leader in Islamic finance education.

The 'international standard curriculum' plan is an efficient one for three reasons. Firstly, it is meant to address existing gaps and weaknesses found in Islamic finance degrees worldwide and will be positioned as the only curriculum that will be relevant to the global Islamic finance industry coming from arguably the world's most complete Islamic finance ecosystem.

Secondly, it is a solution to resource-strapped local universities which can ill-afford the time and money to separately develop more globally-competitive curricula.

Thirdly, if the curriculum meets its qualitative objectives it would also alleviate the issue of a limited talent pool for the teaching of Islamic finance in universities.

The latter two benefits are similar to those Malaysia has enjoyed under the sharia oversight system for Islamic finance, in which two apex Shariah Advisory Councils provide the rulebooks for Islamic banking and takaful, and capital market. This centralised system has addressed the lack of experienced and expert sharia advisors and instilled a level of public confidence and trust in Islamic financial institutions.

However, as under Malaysia's sharia oversight system, a standard curriculum will tie the hands of individual universities and teaching faculty, limit diversity and make innovation a bigger challenge within the Islamic finance education sector. To avoid this, the standard curriculum must be drawn following clear consensus between whose lines enough space is left to allow for individual colours and textures to thrive.

Emmy Abdul Alim *is Editor for Thomson Reuters Islamic Finance Gateway. She is also Writer/Analyst (Southeast Asia) for Florida, USA-based AIM Group. Emmy has an MBA (Finance) from the University of Aberdeen, BA (Hons) in Arabic and Islamic Studies from the School of Oriental and African Studies, University of London and a BA in English and European Studies from the National University of Singapore.*

GOVERNANCE INDICATOR

MANAMA, BAHRAIN - DEC 21: National Theatre of Bahrain in Manama. December 21st 2013 in Manama, Kingdom of Bahrain, Muddle East. Philip Lange / Shutterstock.com

GOVERNANCE INDICATOR

The Governance Indicator is a weighted index of standards of good practice in a country's Islamic finance industry with regard to three sub-indicators: Regulations, Corporate Governance, and Sharia Governance.

GOVERNANCE INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	12
1	Bahrain	90
2	Malaysia	82
3	Pakistan	67
4	Kuwait	65
5	Sudan	59
6	Indonesia	56
7	Oman	52
8	United Arab Emirates	52
9	Bangladesh	47
10	Qatar	46

Governance Rationale

The health of the Islamic finance industry rests on a foundation of checks and balances that can support its growth, and best practices to boost development. The industry will thrive on enabling regulations, effective corporate and sharia governance, and appropriate risk management oversight that privilege accountability, transparency and probity. Without proper governance mechanisms and their enforcement, Islamic finance in any country risks suffering loss in investor and consumer confidence, misappropriation of funds or even institutional collapse. Further, stronger governance (especially regulations) would better facilitate cross-border sharia-compliant flows and the industry's aspirations for globalisation.

Governance Headlines

- 57% (52 countries) of the IFDI universe of 92 countries contributed to the Governance Indicator
- Global Average Indicator Value for Governance is 12
- 31 of the 52 countries (60%) scored higher than the global average
- Of the 31 that scored higher than the global average 26% (8) are from Other MENA, 19% (6) GCC, 16% (5) Southeast Asia, 13% (4) South Asia, 10% (3) Africa, 6% (2) Europe, 6% (2) Central Asia and 3% (1) Australia

- Top 10 geographical representation — 50% GCC, 20% Southeast Asia, 20% South Asia, 10% Other MENA
- 28 countries have Islamic finance regulations, 17 of which also meet at least one measure of corporate governance and at least one measure of sharia governance best practice. Of the remaining 11 with regulations, 5 meet sharia governance measures only, 3 meet corporate governance best practices only, while 3 neither adhere to corporate nor sharia governance measures.
- 24 of the 52 countries (46%) have no regulations but half (12) meet sharia governance measures, 10 meet both sharia and corporate governance best practices, while 2 countries adhere to corporate governance best practices only.

	REGULATIONS	SHARIA GOVERNANCE	CORPORATE GOVERNANCE	NUMBER OF COUNTRIES
Countries with Regulations (28)	✔	✔	✔	17
	✔	✔		5
	✔		✔	3
	✔			3
Countries without regulations (24)		✔	✔	10
		✔		12
			✔	2
Countries with no governance measures				40

Sharia regulations and governance highest priority

Of the 52 countries that registered the presence of measures for any of the three sub-indicators, more of them meet sharia governance best practices (85%, 44 countries) than corporate governance (62%, 32 countries), indicating a higher priority placed on sharia governance in the first instance. This is true for those with and without regulations — 79% (22 countries) of those with regulations also adhere to sharia best practices compared to a higher 92% (22 countries) of those without regulations. However, countries with regulations almost equally meet corporate governance measures — 71% (20 countries) — reflecting a higher commitment on all fronts.

GCC dominates top 10 strongest jurisdictions

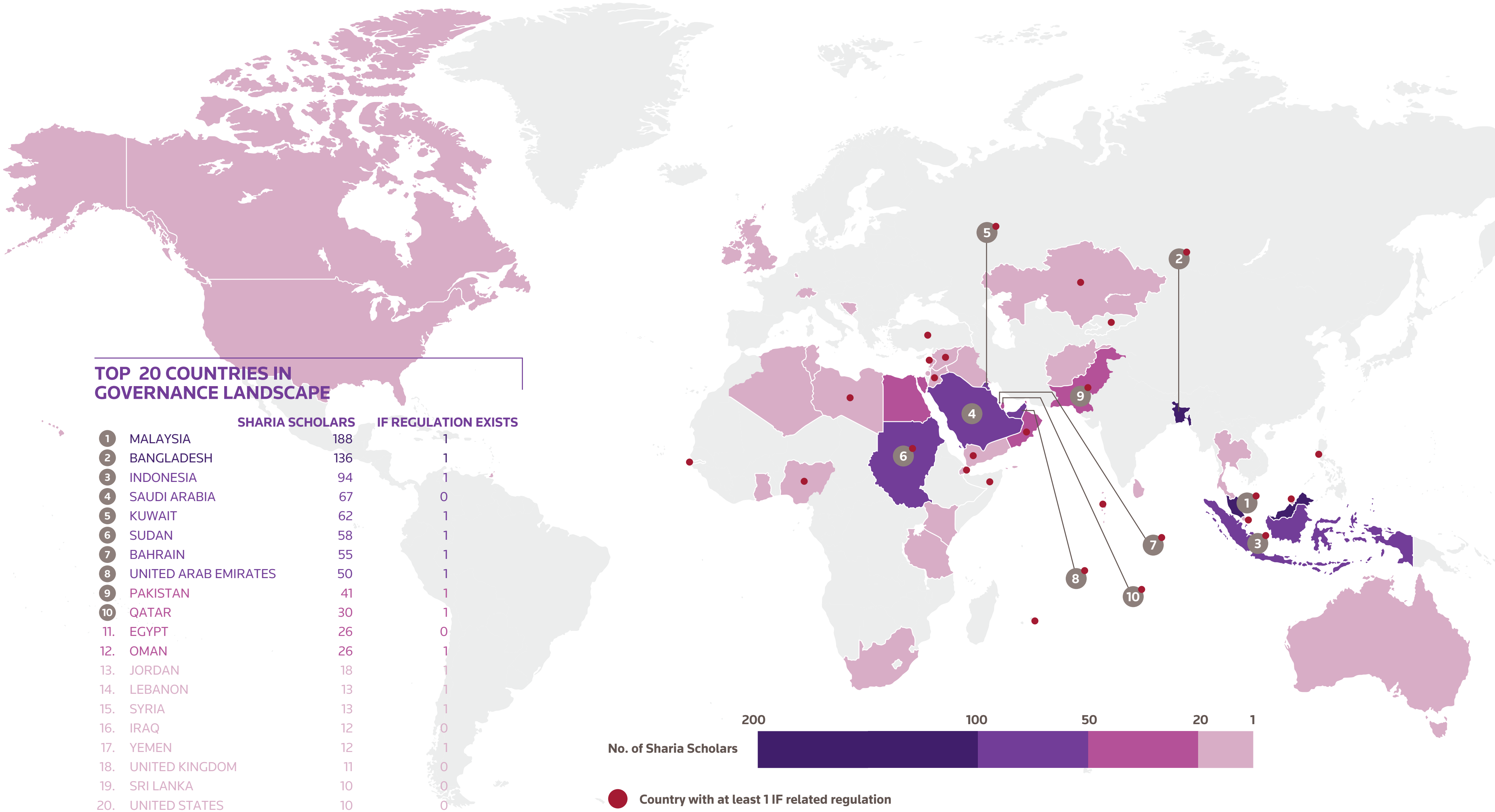
All GCC member countries except Saudi Arabia are top 10 governance leaders. Saudi Arabia is the Middle East's biggest economy and an Islamic finance heavyweight but lacks dedicated regulations for Islamic finance and scores poorly in terms of financial disclosures. Oman's standing as a top 10 governance leader is notable for a jurisdiction that has only recently allowed Islamic finance. Its high standing, especially for regulations and corporate governance, is the result of an infrastructure built on best practices shaped by the growing pains and experiences of other Islamic finance jurisdictions over the decades. UAE, Kuwait and Bahrain, the three countries with the oldest Islamic commercial banks in the world, all have advanced Islamic finance markets but there is a stronger overall governance environment and culture in Bahrain than in the UAE which failed to make the top 10 for regulations and corporate governance.

Southeast Asian and South Asian countries round off top 10

Malaysia, Pakistan, and Indonesia rank highly on all three sub-indicators while Bangladesh's greatest strength lies in sharia governance. Southeast Asian leader Malaysia tussles with Bahrain on all sub-indicators; Malaysia loses out to Bahrain in the final overall counting due to its much weaker sharia governance score, and only marginally edged past Bahrain for corporate governance.

MANAMA, BAHRAIN-SEPTEMBER 27: Beautiful lighting of restored Bab Al Bahrain archway & souq on launch of the event "Manama Capital of Arab Tourism 2013", on September 27, 2012 in Manama, Bahrain. Dr Ajay Kumar Singh / Shutterstock.com

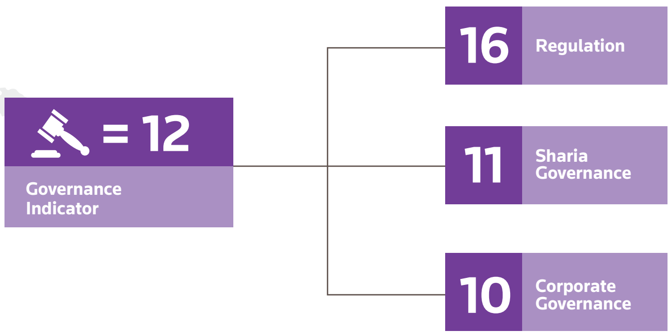
GOVERNANCE INDICATOR LANDSCAPE



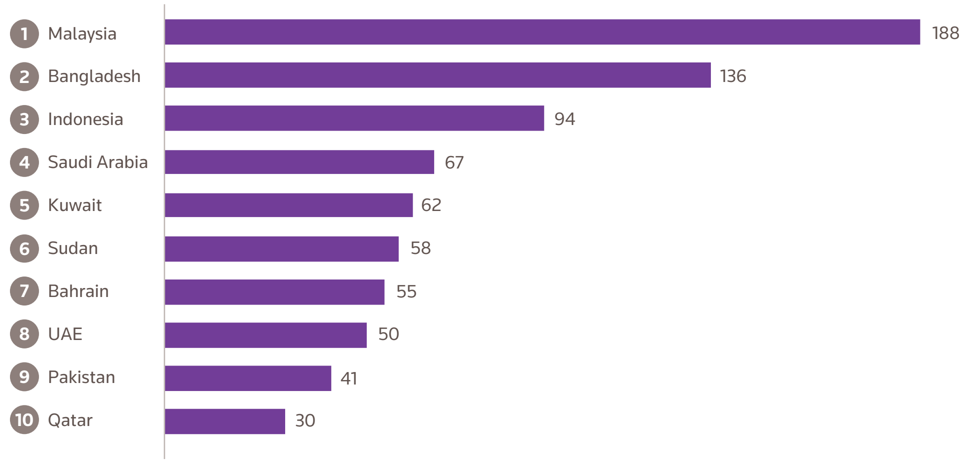
TOP 20 COUNTRIES IN GOVERNANCE LANDSCAPE

		SHARIA SCHOLARS	IF REGULATION EXISTS
1	MALAYSIA	188	1
2	BANGLADESH	136	1
3	INDONESIA	94	1
4	SAUDI ARABIA	67	0
5	KUWAIT	62	1
6	SUDAN	58	1
7	BAHRAIN	55	1
8	UNITED ARAB EMIRATES	50	1
9	PAKISTAN	41	1
10	QATAR	30	1
11.	EGYPT	26	0
12.	OMAN	26	1
13.	JORDAN	18	1
14.	LEBANON	13	1
15.	SYRIA	13	1
16.	IRAQ	12	0
17.	YEMEN	12	1
18.	UNITED KINGDOM	11	0
19.	SRI LANKA	10	0
20.	UNITED STATES	10	0

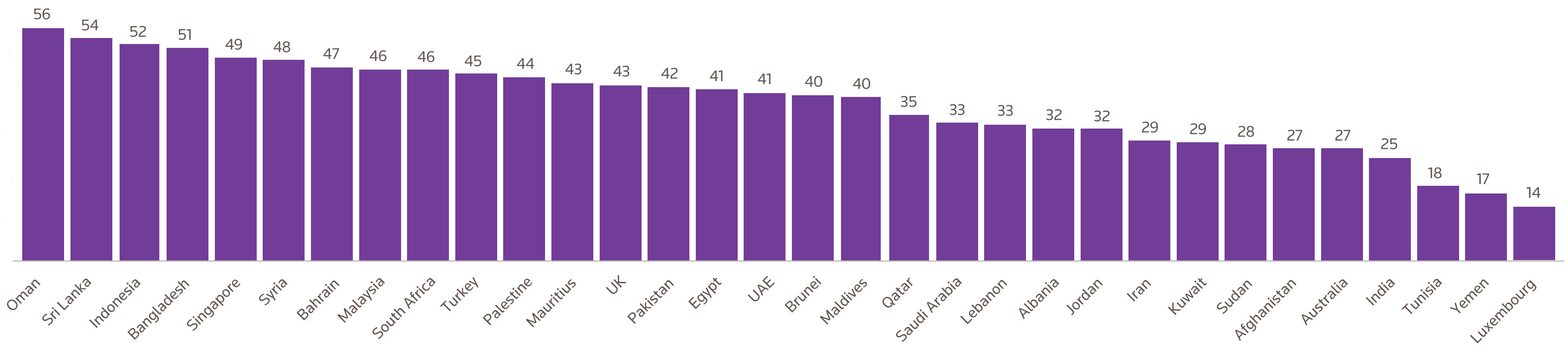
GLOBAL AVERAGE



TOP 10 COUNTRIES WITH THE MOST SHARIA SCHOLARS



AVERAGE DISCLOSURE INDEX



Governance Key Milestones 2013

TOTAL SHARIA SCHOLARS IN 2013

837

AVERAGE GLOBAL DISCLOSURE INDEX IN 2013

38

7 COUNTRIES

HAVE STRONG REGULATORY ENVIRONMENT

JAN

Regulation
OMAN: Government's approval toward opening Islamic finance divisions

Regulation
LIBYA: Planned 2015 ban on interest charges for retail loans, will be taken further to also include corporate loans

Disclosure
PAKISTAN: State Bank of Pakistan (SBP) issued regulations to standardize the disclosure of Islamic banks within the country

Sharia Governance
NIGERIA: Central Bank of Nigeria to govern the institutions that offer sharia-compliant services through an advisory council

FEB

Regulation
QATAR: Enforcing new regulations to stop the operation of all Islamic Finance windows regulated by QFC, but not takaful windows.

Sharia Governance
DUBAI: Dubai Government to standardise Islamic banking with new National Sharia Authority

MAY

Regulation
EGYPT: President Morsi signs sukuk bill into law

Regulation
NIGERIA: New guidelines issued to oversee funds and sukuk

JUN

Regulation
EGYPT: Sukuk law held back after ousting of President Morsi

Regulation
OMAN: First sukuk receives regulatory approval

Regulation
BAHRAIN: Bahrain-based IIFM launches new standard wakala contract for Islamic inter-bank transactions

JUL

Regulation
HONG KONG: New law and tax amendments to enable sukuk

CG
QATAR: New governance and risk management rules issued

Sharia Governance
MALAYSIA: IFSA comes into force; IFSA makes sharia scholars legally accountable for Islamic financial products

AUG

Regulation
INDIA: Kerala non-banking IFI gets nod from RBI to start operations

DEC

Sharia Governance
MALDIVES: Creation of independent Capital Market Sharia Advisory Council (CMSAC)

KEY HIGHLIGHTS:

- Robust governance regulations with no Islamic windows in Qatar, Bangladesh planning the same, and Oman insisting on physically separated Islamic windows.
- More countries moving toward central sharia board at national level, including Morocco, Oman and Pakistan.
- By end 2013, Azerbaijan and Morocco were working towards Islamic banking legislation, and Indonesia towards new takaful legislation.
- UAE announced plans to launch an Islamic Corporate Governance Centre in 2014.
- Islamic hubs Malaysia and Bahrain have strong regulations with robust corporate governance mechanisms represented by high level of disclosure requirements and representation of sufficient number of independent directors on boards of IFIs.
- 42% of the countries in the IFDI universe disclosed their financial reports, 48% of these reporting countries have high average disclosure index (>35).
- Sharia scholars are concentrated in Middle East and Asia, with GCC accounting for 28%, Southeast Asia 29% and South Asia 19% of total representation.
- Late publication of full annual reports led to lower average disclosure index scores for 2013. Timely release of full annual reports will improve transparency scores.

Muscat, Oman by night

EU Commission building Europe Flags in Brussels

EXCLUSIVE

Dr. Sutan Emir Hidayat

IMPACT OF BASEL III ON ISLAMIC BANKING REGULATORY REQUIREMENTS

By Dr. Sutan Emir Hidayat

The Basel III Accord was released in 2010-2011 by the Basel Committee on Banking Supervision (BCBS) following the devastating impact on banks of the 2008 global financial crisis. Basel III is a global regulatory standard on bank capital adequacy, stress testing and liquidity risk that aims to enhance banks' capability to absorb financial and economic shocks, strengthen risk management and corporate governance practices and improve transparency and disclosures. It complements forerunners the Basel I and Basel II accords by demanding higher capital requirements on banks especially for Tier 1 capital (Total Common Equity), increasing the capital charge for derivatives and securities transactions (trading book exposures), increasing liquidity coverage ratio and changing the definitions of capital.

As part of the global banking system Islamic banks are also required to comply with the accord especially if their local jurisdiction adopts Basel III rules as part of their regulatory framework. However, Basel III does not differentiate Islamic banks from conventional banks despite their different financial structures. There is hence a need to further interpret and modify the new regulations to fit the specificities of Islamic banks. As they stand, Basel III impacts differently on Islamic banks than conventional banks.

Basel III reforms

Basel III's reforms can be categorized into micro-prudential and macro-prudential measures. Micro-prudential measures address risks at the individual bank level, while macro-prudential measures address risks at the systemic level. On the micro-prudential level, Basel III focuses on amending the requirements for capital and leverage and quantitative liquidity standard.

For capital and leverage, Basel III requires more restrictive definitions of capital, higher capital ratios, bigger capital buffers, higher capital charges for counterparty risk and a formal leverage ratio. For the quantitative liquidity standard, liquidity coverage and net stable funding ratios are introduced. The former is used to measure a bank's short-term liquidity profile (30-day period) which is an indicator of the liquidity buffer held by a bank to cover short-term funding gaps during severe liquidity stress. The latter is used to measure a bank's medium and long-term liquidity (31-days to 1-year time horizon).

On the macro-prudential level, Basel III focuses on how to protect the banking sector from periods of excessive credit growth. In addition, it also promotes the accumulation of capital buffers in good times that can be used in bad times (stress period). The new accord also promotes clear capital conservation requirements to avoid the improper distribution of capital.

Costs to banks

The adoption of Basel III will require banks to increase their equity capital by at least 25%. The extra equity capital obviously comes with higher cost of funds as compared to debt capital. In addition, it also lowers tax advantages and results in the fall of the Return on Equity (ROE). Basel III also requires an additional 40% liquidity buffer and extra 10-15% stable funding over current requirements. The more stringent liquidity requirements may also have a direct impact on banks' incomes since more investment in liquid assets means lower incomes (low risk low return). The implementation of Basel III will also add compliance costs by 30-50%.

Impact on Islamic banks

CAR and Leverage Ratio: The literature reveals that Islamic banks are in general better capitalized than their conventional counterparts. As a result, higher capital requirements (Capital Adequacy Ratio) as proposed by Basel III will affect conventional banks more than Islamic banks. In addition, Islamic banks are also less exposed to derivative and securitized products (trading book exposures) than conventional banks. As a result, Islamic banks in general need a relatively lower level of risk-weighted assets (RWA) than conventional banks. Due to their higher levels of capitalization, Islamic banks also do not face problems with leverage ratio requirement (set at minimum 3% under Basel III).

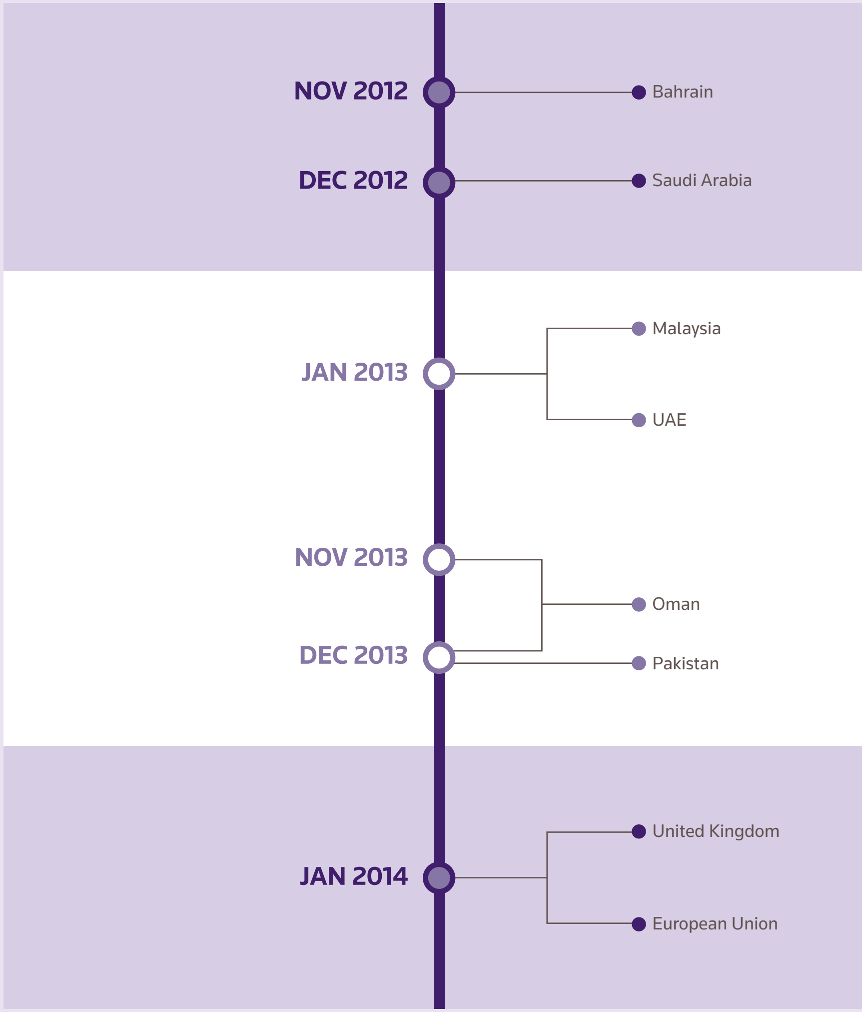
Treatment of PSIAs: Due to the nature of sharia-compliant deposits in the form of profit-sharing investment accounts (PSIAs), there is an additional loss buffer for Islamic banks as the underlying mudaraba contract places loss on the investment account holders (rab ul mal) unless the loss is due to the negligence of the bank (mudarib). So, PSIA does not qualify as additional Tier 1 capital according to Basel III. As a result, PSIA and its related assets are excluded from the calculation of CAR.

Liquidity: Basel III requires more stringent liquidity requirements, and this has emerged as a critical challenge for Islamic banks. Liquidity is still a major challenge for Islamic banks worldwide due to a limited number of available sharia-compliant liquidity instruments. In this regard the short-term sukuk issues from the International Islamic Liquidity Management Corporation (IILM) has helped address the shortage. Overall, however, the current Islamic money market instruments are still relatively less liquid as compared to conventional money market instruments and most Islamic money market securities are either not highly rated or not rated at all. As a result, in certain jurisdictions Islamic banks might be forced to place their funds in conventional money market instruments.

Dr. Sutan Emir Hidayat *is Assistant Professor and Director of the MBA Program at University College of Bahrain (UCB). He joined UCB in September 2007 after spending two years at International Islamic College Malaysia (IIC) as lecturer and subject coordinator for Islamic finance courses. Dr. Hidayat obtained his PhD and MBA in Islamic Banking and Finance from the International Islamic University of Malaysia (IIUM).*

**Note that regulators are moving quickly to implement Basel standards. These tables do not reflect any progress since the reports were published in 2013. For detailed information on the adoption status of G/D-SIB standards, Liquidity standards and Leverage ratio, please see http://www.bis.org/publ/bcbs/b3prog_dom_impl.htm*

Basel III adoption in selected countries



information on the adoption status of G/D-SIB standards, Liquidity standards and Leverage ratio, please see http://www.bis.org/publ/bcbs/b3prog_dom_impl.htm

SANABIS, BAHRAIN - MAY 04: Exhibition of bicycles to recall the traditional means of ancient transportation in Bahrain, exhibited during 20th Heritage festival 2012 in Sanabis, Bahrain on May 04, 2012. Dr Ajay Kumar Singh / Shutterstock.com

GOVERNANCE SUB-INDICATOR: REGULATION

REGULATIONS SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	16
1	Bahrain	100
2	Malaysia	100
3	Nigeria	100
4	Pakistan	100
5	Iran	83
6	Kazakhstan	83
7	Brunei Darussalam	67
8	Indonesia	67
9	Oman	50
10	Sudan	50

Regulation Rationale

Scrutiny of the Islamic finance industry has shifted away from viability of the system to stability, which can be better delivered by regulations and clear guidelines. This component of the indicator focuses on whether or not a country has regulations and guidelines governing the application and treatment of six sectors: Islamic banking, takaful, sukuk, funds, accounting and auditing, and sharia (separate from, and not to be confused with, the sharia governance sub-indicator). To avoid subjectivity, we do not consider the quality of regulations. Rather, the focus is on the presence or absence of dedicated regulations, or specific guidelines instituted for any of the six sectors. The Regulations Sub-indicator does not adjust for economy and population size as it only considers the presence (YES) or absence (NO) of dedicated regulations, or specific guidelines for the six identified sectors.

Regulations Headlines

- 30% (28 countries) of the IFDI universe of 92 countries contributed to the Regulations sub-indicator
- Global Average Indicator Value for Regulations is 16
- 100% scored higher than the global average
- The 28 that scored higher than the global average are: 25% (7) are from Other MENA, 18% (5) GCC, 18% (5) Southeast Asia, 18% (5) Africa, 11% (3) South Asia, 7% (2) Central Asia and 4% (1) Europe
- Top 10 geographical representation — 30% Southeast Asia, 20% GCC, 20% Other MENA, 10% Africa, 10% Central Asia, 10% South Asia
- Of the 28, all have Islamic banking regulations or guidelines, 8% (7 countries) have takaful regulations or guidelines, 10% (9 countries) have sukuk regulations or guidelines, 10% (9 countries) have funds regulations

ISLAMIC BANKING	TAKAFUL	SUKUK	FUNDS	SPECIFIC ACCOUNTING & AUDITING RULES	SPECIFIC SHARIA RULES	COUNTRIES
✔	✔	✔	✔	✔	✔	4: Bahrain, Malaysia, Nigeria, Pakistan
✔		✔	✔	✔	✔	1: Kazakhstan
✔	✔	✔	✔	✔		1: Iran
✔			✔	✔	✔	1: Indonesia
✔	✔			✔	✔	1: Brunei
✔				✔	✔	6: Kyrgyzstan, Mauritius, Oman, Qatar, Sudan, Syria
✔		✔			✔	1: Maldives
✔	✔				✔	1: UAE
✔					✔	4: Gambia, Kuwait, Libya, Philippines,
✔		✔				2: Singapore, Turkey
✔			✔			1: Bangladesh
✔				✔		1: Yemen
✔						4: Djibouti, Jordan, Lebanon, Somalia

or guidelines, 16% (15 countries) have specific accounting and auditing rules, and 21% (19 countries) have specific sharia governance rules.

Muslim nations lead the way

The overwhelming majority of jurisdictions (86%, 24 countries) with regulations are Muslim-majority countries. Of the remaining four, Nigeria has a significant Muslim population, and three Muslim-minority countries round off the list: Mauritius, Singapore, and the Philippines. Only four countries: Bahrain, Malaysia, Nigeria and Pakistan, have full coverage of regulations, and the quartet share the top spot. At the other end of the table, Djibouti, Jordan, Lebanon and Somalia only have Islamic banking regulations or guidelines.

Islamic banking guidelines most important

Islamic banking is the biggest sector of the Islamic finance industry, holding 73% of its assets in 2013. It is no surprise that all the countries with any type of regulations or guidelines have Islamic banking rules. Oman was the most prominent newcomer to Islamic banking in 2013 following its central bank's release of the Islamic Banking Regulatory Framework (IBRF) in December 2012. Oman's IBRF allows both full-fledged Islamic banks as well as Islamic windows (as standalone branches), a marked contrast to Qatar's decision to shut all its Islamic windows in 2012. Regulations in Bangladesh are progressing; the country's central bank is not issuing new licences for Islamic windows while it establishes a centralised sharia committee. Elsewhere, Islamic banking regulations were a priority for Azerbaijan and Morocco in 2013, with both hoping to welcome full regulations in 2014.

Takaful regulations lowest priority

Regulations for takaful occupy the lowest priority. The 'younger sibling' of Islamic banking, takaful is always seemingly a few years behind the growth curve. With the exception of Nigeria, the jurisdictions with takaful regulations are the bigger and more mature Islamic finance markets: Bahrain, Malaysia, Pakistan, Iran, Brunei, and the UAE. There are hence significant untapped opportunities for takaful worldwide. One market with significant takaful (and micro-takaful) potential is Indonesia, which in 2013 announced plans to release takaful regulations in 2014. Oman was working on a draft takaful law in 2013 (and as of this writing takaful regulations have still not been issued) but in the absence of regulation already has two takaful operators which opened for business in the first half of 2014. They are operating based on draft regulations. Market players in Oman expect more takaful activity in the Sultanate once regulations are set in place. Also during the year in December, the Islamic Financial Services Board (IFSB) released IFSB-14, a standard governing risk management for takaful institutions.

New markets show intents through different regulations

Nigeria and Kazakhstan are two standout regulation performers. The former has a full set of regulations covering all sectors while the latter is only missing takaful regulations. The two are undoubtedly positioned for industry growth and development and we'll be keeping a close eye on both in the coming years. Nigeria saw its first sukuk, a 10 billion naira ($62 million) issue, in October 2013 from Osun State, a cocoa-producing region in the southwest of the country. The central bank of Nigeria is a shareholder in the Malaysia-based International Islamic Liquidity Management Corporation (IILM). Malaysia, of course, is host nation not only to IILM but also to the IFSB. Although these organisations are not counted in our Governance indicator criteria for Malaysia, it is worth highlighting them here as the IFSB continues to develop new standards for the global industry and IILM's short-term sukuk have provided much-needed high quality papers for IFIs worldwide.

A draft sukuk bill was approved in Egypt in May 2013 but the legislation was shelved after the ousting of President Morsi in July. Singapore and Turkey both have Islamic banking and sukuk regulations or guidelines. Turkey is the bigger Islamic finance market, and is increasingly using sukuk following the Republic's first sovereign issue in September 2012, a $1.5 billion five-year paper. Singapore has a handful of sukuk (no sovereign issue as yet), which started trickling in following an issue from the central bank in 2009.

ANALYSIS OF DATA IN ABSOLUTE VALUES

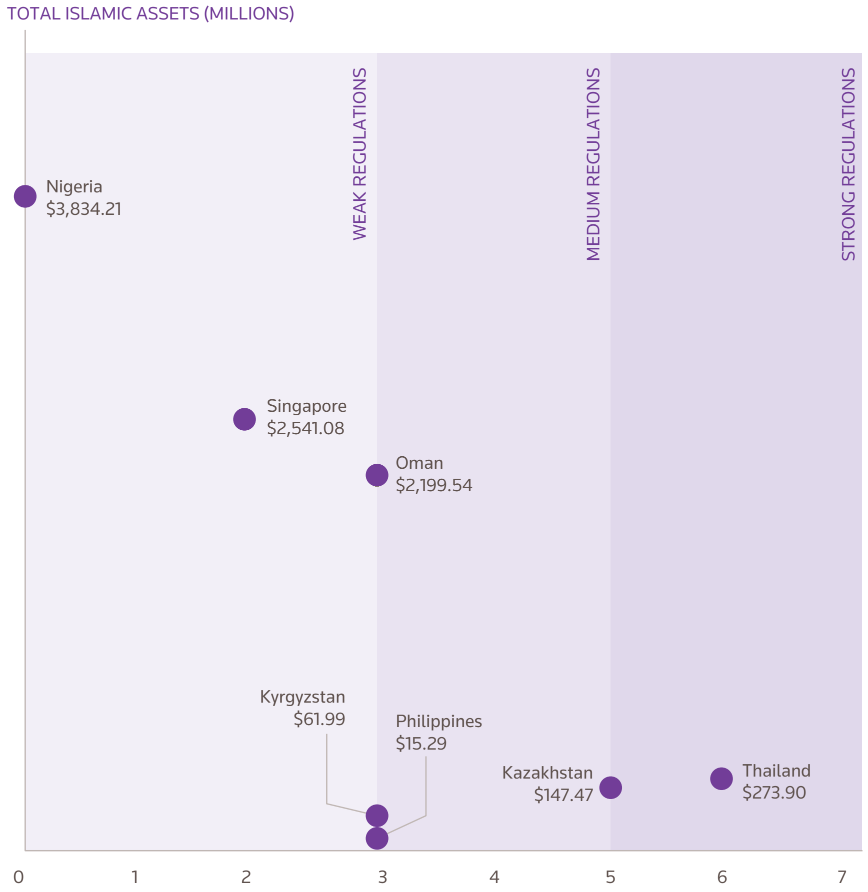
Stronger regulatory environment no guarantee of bigger market

In our assessment of countries with regulations, the adoption/implementation of up to two types of regulations reflects an overall 'weak' Islamic finance regulatory environment, three to four regulations are considered 'medium' and five to six make for a 'strong' regulatory environment. Hence, Bahrain (6) and Kazakhstan (5) have 'strong' regulatory environments, while the UAE with its three regulations is 'medium' and Jordan with its sole Islamic banking regulation is 'weak'.

There is no correlation between the strength of a country's regulatory environment and the level of its Islamic financial assets. This is most clearly demonstrated in the case of Saudi Arabia which has no dedicated Islamic finance regulations but hold sharia-compliant assets of just over $338 billion. On the flipside, Nigeria has a full set of regulations covering Islamic finance but a low level of sharia-compliant assets compared to its peers in the region.

In Southeast Asia, Singapore and Philippines have stronger regulatory environments than Thailand, which has a higher level of Islamic finance assets than the two combined. In Central Asia, Kazakhstan, like Nigeria, has a strong regulatory environment but small base of banking and sukuk assets. Kyrgyzstan has a slightly weaker regulatory environment but a comparable level of assets.

Islamic Finance Regulatory Environment 2013 (Selected Countries)



Islamic Finance Regulatory Environment 2013 (TOP 10 Countries)

GOVERNANCE SUB-INDICATOR: SHARIA GOVERNANCE

SHARIA GOVERNANCE SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	11
1	Sudan	120
2	Bahrain	116
3	Malaysia	86
4	Kuwait	81
5	Bangladesh	77
6	United Arab Emirates	61
7	Indonesia	54
8	Pakistan	51
9	Egypt	50
10	Lebanon	46

Sharia Governance Rationale

Sharia-compliance is a key determinant of choice (and for some consumers, the only determinant) of whether or not to engage the services of an Islamic financial institution. This sub-indicator provides an overview of the effectiveness and accountability of sharia board members. The sharia governance sub-indicator considers four components: Presence/absence of centralised sharia committee at the national level, Total number of sharia scholars in a given country (via their representation in IFIs), Number of scholars with more than five board memberships (negative score), and Number of institutions with more than three members on their sharia supervisory boards.

Sharia Governance Headlines

- 48% (44 countries) of the IFDI universe of 92 countries contributed to the Sharia Governance sub-indicator
- Global Average Indicator Value for Sharia Governance is 11
- 17 of the 44 countries (39%) scored higher than the global average
- Of the 17 that scored higher than the global average 35% (6) are from Other MENA, 35% (6) GCC, 18% (3) Southeast Asia and 12% (2) South Asia
- Top 10 geographical representation — 30% GCC, 30% Other MENA, 20% Southeast Asia, 20% South Asia

Sharia scholars on multiple boards

Sudan tops sharia governance. The country has a centralised sharia board at the national level and sharia scholars are not members of multiple boards. Bahrain would have topped Sudan but for its sharia scholars on multiple boards. The issue of sharia scholars sitting on multiple boards is still a pressing one for the Islamic finance industry. The concerns are twofold: potential conflicts of interest, and multiple commitments resulting in scholars unable to carry out their supervisory roles effectively. Several jurisdictions have sidestepped these by establishing central sharia boards at the national level and implementing regulations which limit board memberships and even length of service on each board. Malaysia and Sudan are the only countries in the top 10 that have stopped sharia scholars from sitting on multiple boards within a sector. Sharia scholars are free to sit on more than one board in different sectors, for example in banking and takaful.

Moving towards the centralised model

Following leaders in sharia governance — Malaysia and Sudan — in early 2013 Nigeria inaugurated the Financial Regulation Advisory Council of Experts (FRACE) to supervise the operations of the country's sharia-compliant financial institutions. Maldives also followed the same path and established the Capital Market Sharia Advisory Council (CMSAC) in late 2013 to advise the Capital Market Development Authority (CMDA).

Strengthening sharia governance

Malaysia further strengthened its sharia governance measures in 2013. Under the new Islamic Financial Services Act (IFSA) which came into effect in July 2013, sharia scholars were made legally accountable for financial products, and could face steep fines and even prison time for wrongdoing. GCC countries also pushed forward. Bahrain and UAE each established a national sharia board (similar to the thinking behind centralised sharia boards but which are not endowed with the same high level of authority). Oman is the third country within the GCC to consider a centralised sharia advisory board at the national level.

ANALYSIS OF DATA IN ABSOLUTE VALUES

837 sharia scholars worldwide representing IFIs from 43 countries; 75% of scholars concentrated in the top 10 countries

Sharia scholars practise in three main regions: Southeast Asia, the GCC, and South Asia. Scholars working in Malaysia and Sudan are the only ones in the top 10 with no multiple board memberships. In ascending order, the countries with sharia scholars on multiple boards are: Indonesia and Pakistan, Bangladesh and Qatar, Saudi Arabia, UAE, Bahrain, and Kuwait.

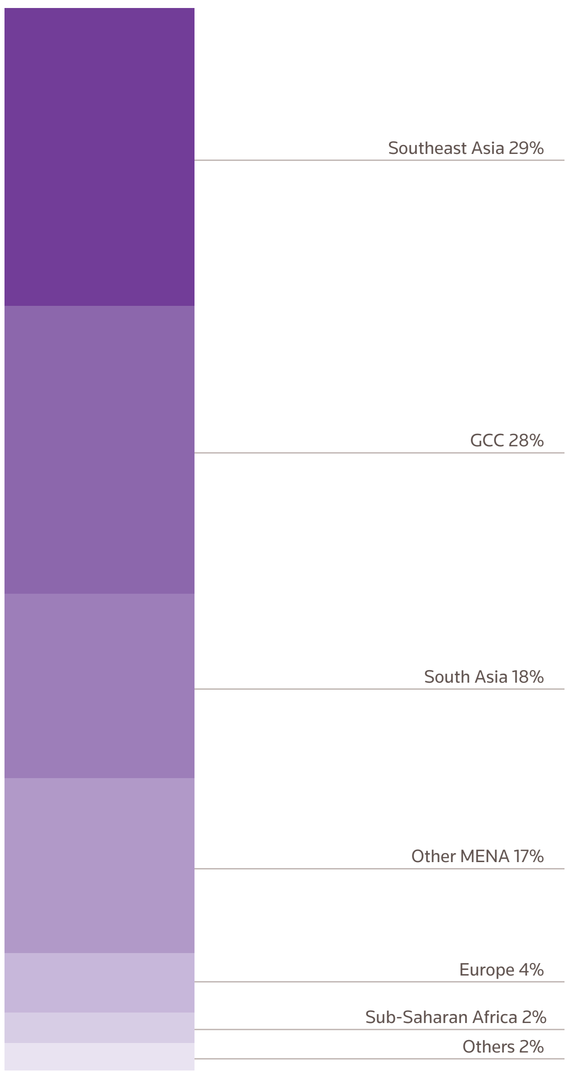
STRICTER SHARIA GOVERNANCE REGULATIONS WILL DRIVE OUT MULTIPLE BOARD MEMBERSHIP

Muslim men sitting and praying, facing the holy city of Mecca, at a courtyard of a mosque in Sudan

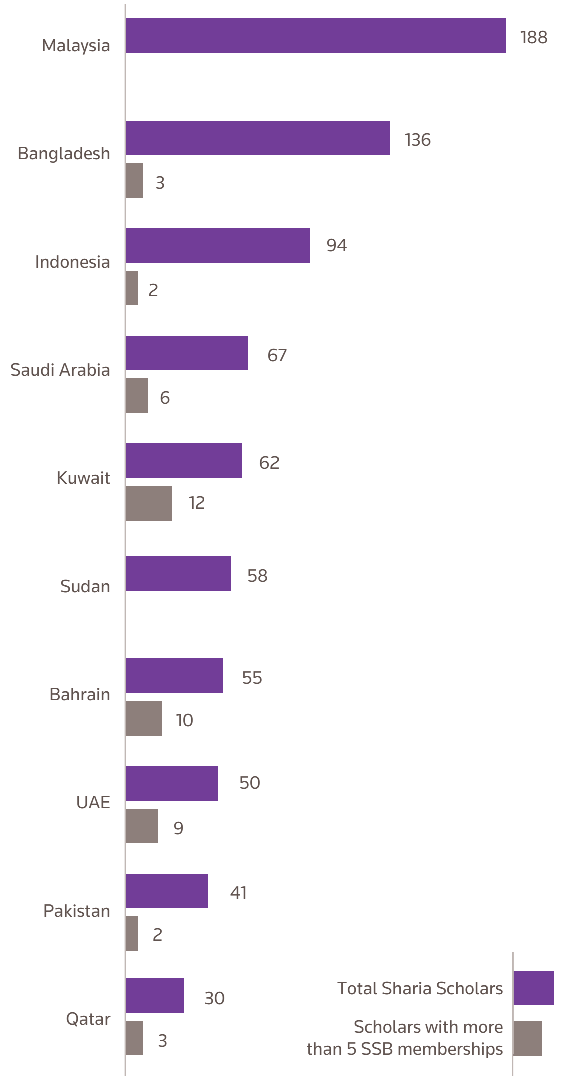
Sharia governance in Pakistan was tightened in early 2014, limiting scholars to a maximum of three board memberships at any one time. Scholars in Kuwait, Bahrain, UAE and Saudi Arabia have the highest level of multiple board membership.

Although Oman did not make it to the top 10 for 2013, its regulatory framework demands that no sharia scholar can be on more than 4 competing institutions in the Sultanate.

Scholars' Concentration



No. of Sharia Scholars in 2013



GOVERNANCE SUB-INDICATOR: CORPORATE GOVERNANCE

CORPORATE GOVERNANCE SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	10
1	Kuwait	80
2	Oman	74
3	Malaysia	60
4	Sri Lanka	58
5	Bahrain	54
6	Qatar	52
7	Pakistan	50
8	United Kingdom	49
9	Singapore	48.5
10	Indonesia	47.6

Corporate Governance Rationale

AAOIFI and IFSB guidelines inform the components that make up the Corporate Governance sub-indicator. The five metrics considered are: Installment of an independent chairperson of the Board; Number of independent directors on the Board, where more is better; Establishment of independently-chaired audit and governance committees to maintain financial reporting and governance oversight (audit and governance committees considered separately in our calculation); and Requirement of an independent chairperson of the risk management committee to avoid conflicts of interest.

In addition, we have also evaluated the financial statements of IFIs, using a scoring-based system, to evaluate if disclosures are in line with corporate governance-leading practices as detailed in the methodology section towards the end of this report.

Corporate Governance Headlines

- 35% (32 countries) of the IFDI universe of 92 countries contributed to the Corporate Governance sub-indicator
- Global Average Indicator Value for Corporate Governance is 10
- 22 of the 32 countries (69%) scored higher than the global average
- Of the 22 that scored higher than the global average 27% (6) are from GCC, 18% (4) from Southeast Asia, 16% (4) from South Asia, 18% (4) from Other MENA, and both Europe and Sub-Saharan Africa have 2 countries each scoring higher than the Global Average
- Top 10 geographical representation — 40% GCC, 30% Southeast Asia, 20% South Asia and 10% Europe

DUBAI, UAE - MARCH 01 :Dubai Silicon Oasis (DSO) on March of 2014 is a 7.2km² free trade zone is a government-owned incentivization zone in Dubai. Rus S / Shutterstock.com

Four GCC countries in the top 10

Kuwait has made concerted efforts to improve its corporate governance framework. The Central Bank of Kuwait updated bank governance rules in 2012 following difficulties faced by some Kuwaiti financial institutions as a result of the global financial crisis. These included Investment Dar's default on a sukuk and Global Investment House defaulting on its debt. In an attempt to regain trust and investor confidence in Kuwait's banking sector, the central bank brought governance rules in line with international best practices. These came into effect in July 2013.

In its first year in the business, Oman beat developed Islamic finance markets on the strength of its regulations on financial reporting and disclosure requirements.

As part of its initiatives to establish Dubai as the Capital of the Islamic Economy, in November 2013 the Dubai government announced it would establish a centre to develop standards for corporate governance based on Islamic values, guiding both financial and non-financial activities. Part of the centre's work would focus on standards related to transparency and disclosure requirements.

Pakistan strengthening governance framework

In Pakistan, disclosure requirements for Islamic banks were revised in January 2013. The new requirements are aimed at standardising and streamlining disclosure of annual and quarterly financial statements.

Leveraging on conventional wisdom

The United Kingdom, Singapore, and South Africa have successfully leveraged on their strengths and experience in the conventional finance space to positively impact their Islamic finance sectors in terms of corporate governance.

Uneven disclosure practices

Disclosure by Islamic windows of conventional banks was uneven across all countries. They ranged from a simple one-line disclosure of Islamic items on the cover or within notes of the conventional bank's balance sheet or income statement to a full disclosure of Islamic operations and financials either in footnotes or in a separate financial report. These practices reflect on a country's governance standards for Islamic banking. In this regard, Oman has done well; Oman's Islamic windows are required to operate in completely separate branches, and report as separate entities from their parent conventional banks.

ANALYSIS OF DATA IN ABSOLUTE VALUES

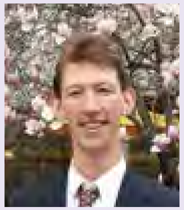
46% of Islamic financial institutions in the IFDI universe disclose main financials, out of which 40% are private institutions reporting in a transparent and timely manner. 52% of Islamic windows of global conventional banks disclose their Islamic financials.

Once again, Oman's Islamic Banking Regulatory Framework (IBRF) shines through. The Sultanate scored highest on the disclosure index, beating mature and established markets Malaysia and Bahrain. The IBRF closely follows AAOIFI standards for financial institutions, particularly for Islamic banking. Muslim-minority countries South Africa and Sri Lanka lack Islamic finance regulations and guidelines but performed well in terms of corporate governance. Like Singapore and the UK, Australia also leveraged on its strong corporate governance structure; it had a high number of independent directors on the Boards of its IFIs.

Islamic Finance Corporate Governance vs. Regulation 2013

MOSCOW - SEPTEMBER 4: Band of Police of the Kingdom of Bahrain act at the international military-musical festival "Spassky Tower" on September 4, 2010, on Red Square in Moscow. Pukhov Konstantin / Shutterstock.com

CASE STUDY



Blake Goud

ARCAPITA'S BANKRUPTCY

By Blake Goud

In March 2012, Arcapita Bank BSC filed for Chapter 11 bankruptcy in the Southern District of New York on the imminent maturity of a $1.1 billion syndicated murabaha. The bankruptcy case was a novelty being the first in the United States filed by an Islamic financial institution and one of a few involving sharia-compliant financial instruments (another notable example was East Cameron Partners LP which filed for Chapter 11 after issuing a $166 million musharaka sukuk in 2006).

When Arcapita filed for bankruptcy, it cited the European debt crisis and a "small group of non-bank creditors"—distressed debt funds—who refused to agree to a renegotiation of the murabaha which they purchased at a discount.[5] After filing, Arcapita said they expected the process to last between six and 12 months and

5 According to IFR, Yorvik Partners which is now owned by Stern Agee, bought $30 million of the syndicated murabaha in January 2011 from bookrunner WestLB at 76 cents on the dollar.

'emphatically' stated that it was 'not a liquidation' but would "emerge from the process as a stronger and restructured entity".

During the summer of 2012, Arcapita requested and was granted extensions allowing it to have the exclusive right to offer a reorganization plan. This exclusivity period included a 'toggle' option to allow Arcapita to continue to seek new equity investors to support a reorganization plan and if that failed, Arcapita would instead offer a plan focused on liquidating the firm's assets.

In November 2012, Arcapita received a $150 million, murabaha-based debtor-in-possession (DIP) financing from Fortress Credit Corp with a profit rate of LIBOR plus 10%. After receiving the DIP financing, Arcapita reported that they had failed to raise the equity required for the 'toggle' plan and as a result, a reorganization plan would see the firm's assets liquidated over a number of years.

The DIP financing, the first sharia-compliant DIP facility, was intended to last Arcapita through the confirmation of the bankruptcy plan. However, in June 2013 when the facility was scheduled to mature, Arcapita had received court approval but had not exited Chapter 11 and had to refinance its existing DIP financing from Fortress. At the eleventh hour, after a challenge from one of the firm's investors, the court approved a replacement sharia-compliant DIP financing for $175 million provided by Goldman Sachs with profit margin of LIBOR plus 8.25%.

Following the court approval and replacement DIP financing (which included a provision for it to roll over into a $350 million Exit Financing with similar terms), Arcapita emerged from bankruptcy on September 18, 2013. The 18-month process ended with Arcapita implementing an exit of its portfolio to liquidate the firm's assets over four to five years.

The exit financing and secured creditors (Standard Chartered provided $100 million in secured financing leading up to the bankruptcy filing) will be paid in full while the unsecured creditors will take a haircut. The unsecured creditors, including holders of the syndicated murabaha, are expected to receive 64 cents on the dollar while other unsecured creditors including the Central Bank of Bahrain which is owed $250 million, are expecting 7.7 cents on the dollar.

The company managing the wind-down which includes the bank's former CEO believe the Arcapita name "still carries credibility and integrity" and the firm is approaching investors who are "interested to roll the dice again" under the Arcapita name, although future investments are held separately from the assets being liquidated which are owed by 'old' Arcapita's former creditors.

CORPORATE SOCIAL RESPONSIBILITY INDICATOR

Panorama or the Corniche and Mutrah fort in Muscat, Oman

CORPORATE SOCIAL RESPONSIBILITY INDICATOR

The Corporate Social Responsibility Indicator is a weighted index that considers two sub-indicators: Corporate Social Responsibility (CSR) activities and amount of disbursed funds through zakat, qard hasan and charity.

CORPORATE SOCIAL RESPONSIBILITY INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	10
1	Oman	85
2	Bahrain	76
3	Jordan	73
4	United Arab Emirates	57
5	Indonesia	48
6	Bangladesh	47
7	Brunei Darussalam	43
8	Malaysia	40
9	Saudi Arabia	36
10	Syria	34

Corporate Social Responsibility Rationale

Sharia-compliance requires both form and substance to be fulfilled. As an industry that aims to fulfill sharia mandates of ethics and fairness, the Islamic finance industry holds itself responsible for ensuring the well-being of its stakeholders and the broader society which it serves. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has a comprehensive set of guidelines — the Governance Standard for Islamic Financial Institutions No.7 — outlining mandatory and recommended activities for CSR, which also includes the need for disclosure.

CSR Headlines

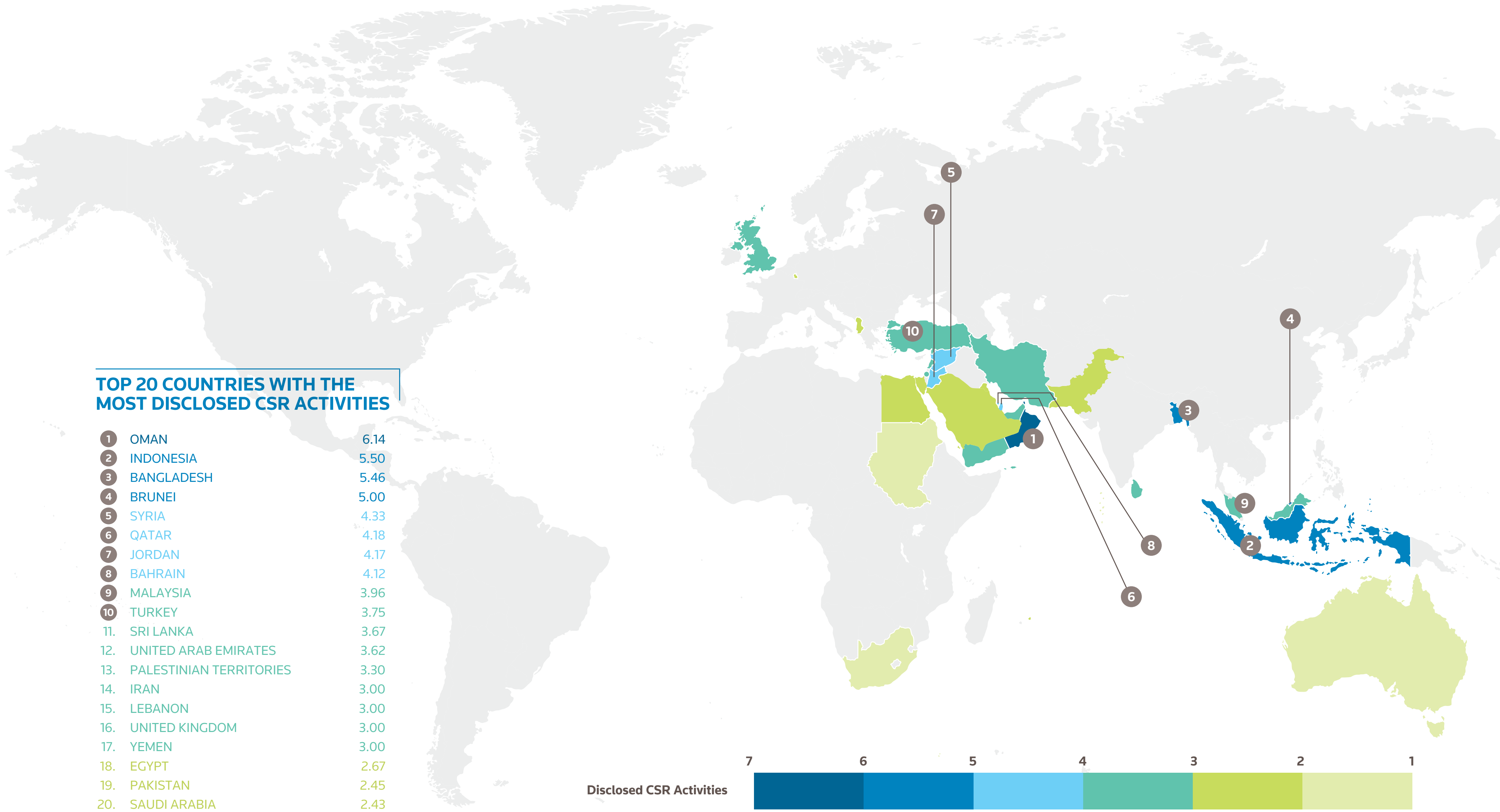
- 30% (28 countries) of the IFDI universe of 92 countries contributed to the CSR Indicator
- 100% disclosed CSR activities but only 73% (19 countries) disclosed amount of CSR funds disbursed
- Global Average Indicator Value for CSR is 10
- 26 of the 28 countries (93%) scored higher than the global average
- Of the 26 that scored higher than the global average 27% (7) are from Other MENA, 23% (6) GCC, 15% (4) South Asia, 15% (4) Europe, 12% (3) Southeast Asia and 7% (2) Africa
- Top 10 geographical representation — 40% GCC, 30% Southeast Asia, 20% Other MENA, 10% South Asia

Uneven performance

The top 10 countries for the overall CSR indicator vary in terms of their strengths on each of the two sub-indicators. Oman was stronger on its average CSR activities disclosed while Bahrain was superior in terms of funds disbursed. Indonesia and Brunei did well in the two sub-indicators (according to our defined rationalising coefficients presented toward the end of this report). Neighbours Jordan and Syria made it to the top 10 but when broken down to their sub-indicators, Syria did not figure at all in the CSR funds sub-indicator but did disclose its CSR activities. Jordan had a far more balanced performance for both components.

Picture of Sultan Qaboos Palace in Muscat, Oman

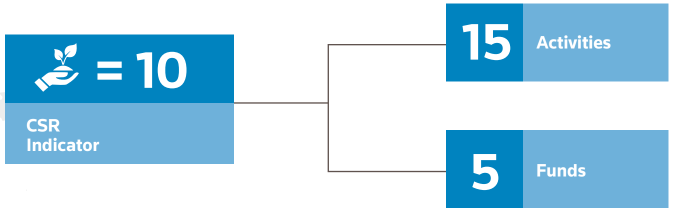
CORPORATE SOCIAL RESPONSIBILITY INDICATOR LANDSCAPE



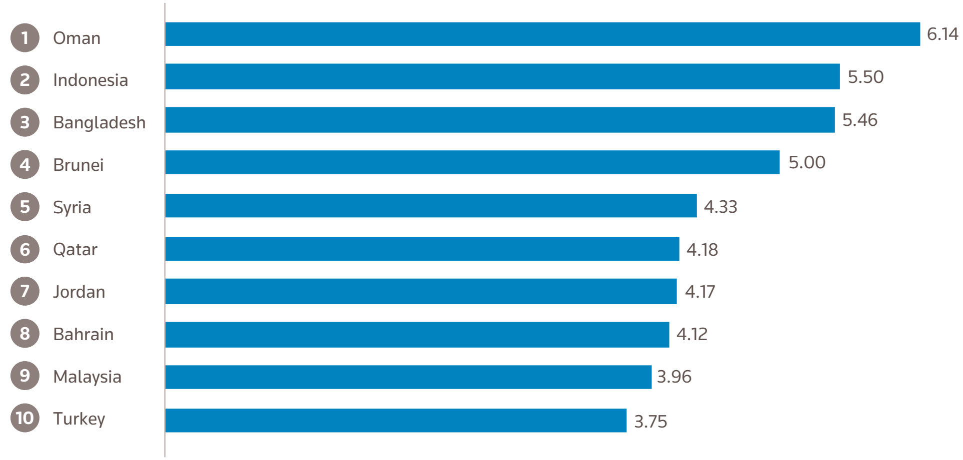
TOP 20 COUNTRIES WITH THE MOST DISCLOSED CSR ACTIVITIES

1	OMAN	6.14
2	INDONESIA	5.50
3	BANGLADESH	5.46
4	BRUNEI	5.00
5	SYRIA	4.33
6	QATAR	4.18
7	JORDAN	4.17
8	BAHRAIN	4.12
9	MALAYSIA	3.96
10	TURKEY	3.75
11.	SRI LANKA	3.67
12.	UNITED ARAB EMIRATES	3.62
13.	PALESTINIAN TERRITORIES	3.30
14.	IRAN	3.00
15.	LEBANON	3.00
16.	UNITED KINGDOM	3.00
17.	YEMEN	3.00
18.	EGYPT	2.67
19.	PAKISTAN	2.45
20.	SAUDI ARABIA	2.43

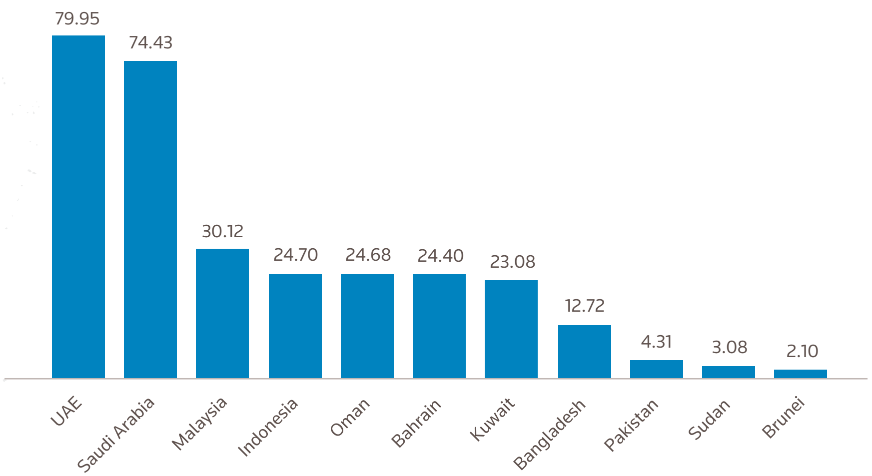
GLOBAL AVERAGE



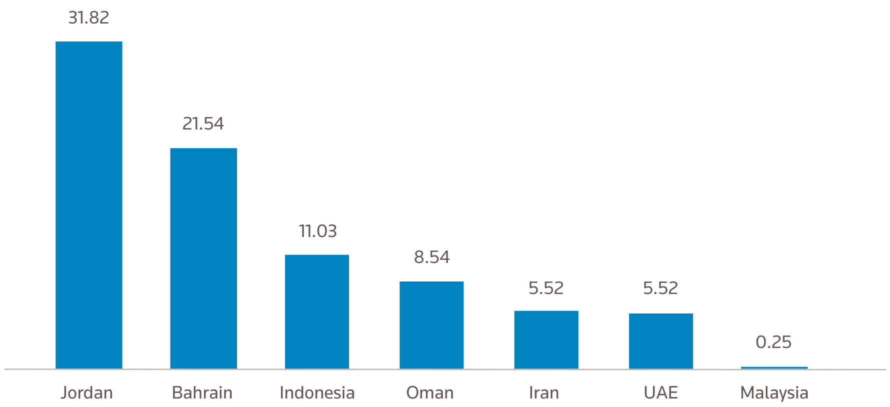
TOP 10 COUNTRIES WITH THE MOST DISCLOSED CSR ACTIVITIES



ZAKAT & CHARITY FUNDS ($ MILLIONS)



QARD AL HASAN FUNDS ($ MILLIONS)



TOTAL CSR FUNDS DISBURSED IN 2013
$388 MILLION

AVERAGE GLOBAL CSR DISCLOSURE INDEX
3

FEB

CSR Funds
INDONESIA: Governemnt encourages Islamic banks to manage Haj funds

MARCH

CSR Funds
TUNISIA: Government starts discussions on Zakat and Waqf bills

CSR
KENYA: Regulator allows first sharia-compliant pension scheme

APRIL

CSR
BANGLADESH: Central Bank of Bangladesh Green Banking Initative

CSR Funds
OMAN: Waqf Ministry promotes national Zakat campaign

JULY

CSR
BAHRAIN: Waqf Fund launches new initiative for sharia scholars

OCTOBER

CSR
MALAYSIA: Ethical sukuk plans announced

KEY HIGHLIGHTS:

- Constant promotion of zakat, Islamic Micro-finance, social and environmental investments by authorities
- Disbursed CSR funds are concentrated in GCC and Southeast Asia
- 81% of global funds disbursed were for zakat and charity
- 95% of countries that disburse CSR funds disclose zakat and charity amount, only 37% disclose qard al hasan amount
- Jordan leads for amount of qard al hasan disbursed, UAE leads in terms of zakat and charity amounts
- 60% of institutions that disclose financials do so also for CSR activities
- Oman tops both CSR disclosure index and financial reporting disclosure index
- Indonesia and Bangladesh are ranked second and third for CSR disclosure
- There is a need for diversified disclosure and better transparency when it comes to CSR activities and all stakeholders should be taken into consideration when such activities are initiated and disclosed.

There were a few notable initiatives in 2013 with regard to Corporate Social Responsibility

South and Southeast Asia: In its journey towards inclusive banking, the central bank of Bangladesh issued guidelines for a Green Banking initiative in 2011 that banks in Bangladesh were required to adopt from 2013 onwards. At the heart of this initiative is the promotion of environmentally responsible financing and environmental risk assessment of borrowing proposals. The initiative also calls for the greening of internal processes and practices within banks.

In Malaysia, plans for a Socially Responsible Investment (SRI) Sukuk framework was announced in October during the 2014 Budget reading. In March 2014 the country's Securities Commission announced it planned to introduce guidelines for SRI Sukuk, which would open the door for socially responsible capital markets and more values-based investing.

Africa: Kenya's Retirement Benefits Authority approved the country's first sharia-compliant pension scheme to be operated by Takaful Insurance of Africa. This represents an important step forward for the Islamic way of saving for old age in the African nation. Eliminating non-sharia-compliant elements will encourage community savings for Kenya's Muslim population, which numbers approximately 4.5 million, or 12% of the population.

GCC: Bahrain's Waqf Fund confirmed its continued support for a key concern of the Islamic finance sector — the development of the next generation of sharia scholars. The fund held monthly sessions that gathered experienced and younger scholars in dialogue and knowledge exchange. Investment in knowledge and professional training by Islamic finance institutions is vital to the industry's sustainability.

Corporate Social Responsibility Landscape

ANALYSIS OF DATA IN ABSOLUTE VALUES

Overall lack of disclosure of training and employee welfare activities
The CSR Landscape graph takes into consideration the absolute values for both CSR disclosure index and the disbursed amount of zakat, charity and qard al hasan. There is no clear correlation between the amounts disclosed and the average CSR disclosure index. For example, UAE and Saudi Arabia both rank low on the disclosure index but disbursed relatively higher amounts of funds. Oman leads on the disclosure index but disbursed a far lower amount of CSR funds. Bahrain lies between the two groups with disclosure of 4.1 and CSR amount disbursed of $47 million. Kuwait scored lowest for all GCC countries on disclosure and CSR contribution.

More does not always mean better — larger amounts of CSR funds disbursed does not necessarily reflect an institution's full commitment to all aspects of CSR or a full disclosure of its CSR activities as there are voluntary and mandatory items that need to be disclosed other than charity, zakat and qard al hasan. There is a lack of disclosure overall about training and employee welfare activities and human resource policies. IFIs should make efforts to disclose activities and policies targeted at their internal customers as well as external ones. Methods for disclosure are outlined towards the end of this report.

A country boat making a journey on Padma river, Bangladesh

Tree of life, a 400 year-old mesquite tree on sunset in Bahrain

EXCLUSIVE

Dr. Ali Adnan Ibrahim

SOCIAL RESPONSIBILITY AT ISLAMIC BANKS: REDEFINING THE BUSINESS MODEL

By Dr. Ali Adnan Ibrahim

There is an expectation of Islamic banks to participate in the economic development of the communities where they operate. Whether or not this is pragmatic or realistic, meeting this expectation becomes particularly challenging in today's regulated financial markets. Expectations such as this put Islamic banks under pressure, and often subject to criticisms, for not doing enough to propel wide-scale economic development. Such expectations usually ignore the need for Islamic banks to achieve and maintain financial viability and consistency with the terms of their license.

However, the expectations about Islamic banks are not entirely misplaced. With very real limits on public resources, the role of the private sector is critical in channeling financial resources where governments may not be able to do enough. Public-private partnerships and the emerging field of impact investing have opened up a new universe of possibilities to achieve economic development and community service. Therefore, Islamic banks should engage in economic development and empowerment innovatively, without risking their financial sustainability.

Social responsibility and Islamic banks

Social responsibility and service are the very essence of Islamic economic and financial systems. There is no reason why Islamic banks should not be able to take initiatives to serve their respective communities in a meaningful manner and, by doing so, contribute to enhancing the quality of life in their communities.

It is equally important to recognize the social responsibility and service that many Islamic banks continue to offer in various ways as authorized by their shareholders and management. Like their conventional counterparts, Islamic banks also spend a portion of their income on various activities that contribute to society in different ways. Such activities may generally be categorized as philanthropic or charitable. In addition, Islamic banks also offer limited qard hasan programs not only to their employees but also to eligible entities and persons.

Beyond philanthropic activities and qard hasan programs, very little is known about the majority of Islamic banks with regard to their participation in activities that reflect socio-economic engagement with their respective communities. Generally, Islamic banks neither follow a consistent policy for their social responsibility programs, nor uniform disclosure practices.

AAOIFI standard on social responsibility

On April 2, 2009, the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) included a new standard on social responsibility — the "Governance Standard for Islamic Financial Institutions No.1" (AAOIFI's Social Responsibility Standard). Para 5 of the Standard sets out some key strategies that an Islamic bank can adopt to deliver its social responsibility and service towards economic development. Unfortunately, AAOIFI's Social Responsibility Standard is generally overlooked by many Islamic banks. Islamic banks, however, usually follow contemporary best practices of doing and reporting their social responsibility activities.

Need for a different business model for social responsibility

Social responsibility for Islamic banks generally remains an expense-based activity, representing a set of activities to reflect spending, and not how it is earned.

In order for Islamic banks to reflect the true spirit of the Islamic financial and economic system, social responsibility should encompass the entire business model, and not just part of incurred expenses. Much of this is already provided for in AAOIFI's Social Responsibility Standard.

Combining social responsibility with the business model means going beyond philanthropic and donation-based activities. It requires a wholesome approach to doing business in accordance with the objectives of the Islamic economic and financial system that requires Islamic banks to engage with their communities in a broader way. For instance, Islamic banks should be able to create economic opportunities at various levels of their customer base. Creation of economic opportunities could mean pursuing business policies that prioritize financing of businesses and projects which enhance job creation and trigger a cycle of economic opportunities, or implementing special policies to finance public-private partnerships in key economic sectors. Further, social businesses and impact investing would not only open new business opportunities for Islamic banks but would also allow greater participation of Islamic banks in economic development of their respective communities in a mutually beneficial manner. This form of active and direct participation by Islamic banks would ensure participation in economic development without jeopardizing their financial viability.

Re-framing the paradigm: Al Baraka model of social responsibility

Al Baraka Banking Group's Social Responsibility Report highlights major contributions and activities performed across the Group's banking subsidiaries in various countries.

The Al Baraka Report reveals how an Islamic bank could make significant contributions to society while maintaining the sustainability of its business model. Al Baraka's social responsibility program is guided by its vision: "We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community."

While developing its social responsibility program, Al Baraka aimed not only to highlight its increasingly growing commitment to meeting its promises to society but also to propose a new strategic direction for the Islamic banking industry. Al Baraka's vision is that bottom-up economic growth is not the sole responsibility of governments, and Islamic banks should play a meaningful role in economic development.

The Al Baraka Report

For the year 2012, Al Baraka's social responsibility contribution was in excess of US$ 940 million. The Al Baraka Report illustrates the real value added to local economies in various ways, including job creation, education, skills and enterprise development.

Al Baraka's social responsibility contributions feature different yet largely consistent programs by the global banking subsidiaries of the Group.

Al Baraka Philanthropic Program

The activities in this program include supporting and promoting: education, community development, arts, culture and literature, development of Islamic banking and finance, sports, environment, sustainable energy, human resource development, special needs services, and services to under-privileged economic segments.

In 2012, Al Baraka's total funding and contribution for the Philanthropic Program stood at US$ 5.96 million.

Al Baraka Qard Hassan Program

Within this program, each Al Baraka subsidiary develops and maintains its own eligibility criteria, sectors and procedures for offering qard hasan.

Al Baraka Economic Opportunities and Social Investments Program

This program includes financing and social investments in qualified SME businesses in various economic sectors such as: local trade and industry, agriculture and other related sectors that promote economic activity and job creation within the community of the customer. Al Baraka considers financial support to the institutions that promote and provide financing for micro entrepreneurs and SMEs a social investment.

Al Baraka was able to report US$ 925.4 million in direct contribution towards the Economic Opportunities and Social Investments Program across Al Baraka Group.

Al Baraka Time Commitment Program

This program focuses on a more hands-on approach towards adding value to society. Al Baraka subsidiaries ensure that all employees commit at least 15 hours every year towards personal community service.

Model for the Islamic finance industry

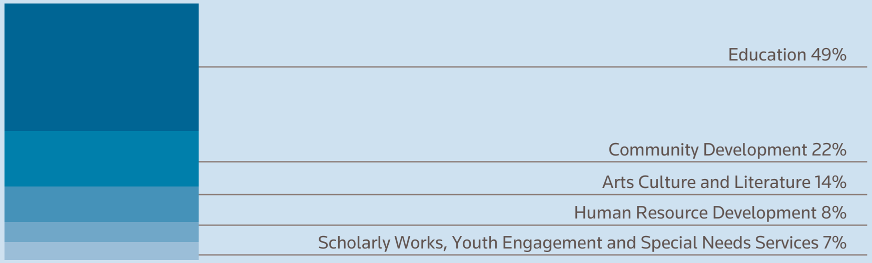
Al Baraka continues to tailor its business model around adding economic value to the communities where it operates. As a result of Al Baraka's alignment of its business model with the economic value-add to society, Al Baraka's contributions are only likely to increase with its growth.

The Al Baraka Report therefore sets this trend for the Islamic finance industry for a more standardized and rigorous reporting on social responsibility, capturing the essence of real value-add to the local economies in terms of job creation, education, enterprise development, and social and impact investing.

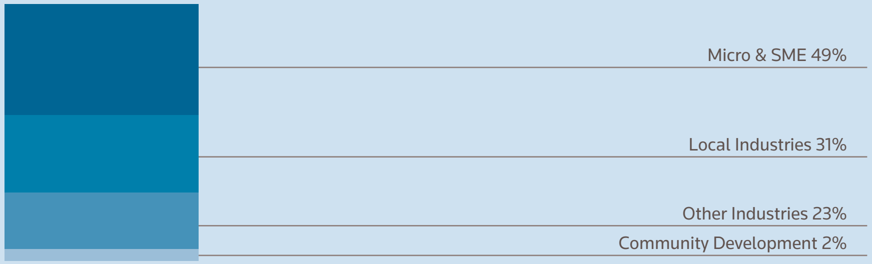
Al Baraka Social Responsibility Report 2012: In partnership to build a prosperous world, is available for download here.

__Dr. Ali Adnan Ibrahim__ is a First Vice President of the Al Baraka Banking Group in Bahrain, and is a Coordinator-Member of Group Executive Committee on Social Responsibility. He specializes in market-based strategies for economic development, Islamic micro-and-SME finance, corporate sustainability, M&A and Shariah structuring. He is also an Adjunct Professor of Law at Georgetown University, Washington DC. In 2013, Dr. Ibrahim was honored as Young Global Leader by the World Economic Forum. As a Fulbright scholar, Dr. Ibrahim received his doctorate in law with distinction in international financial regulation from the Georgetown University Law Center.

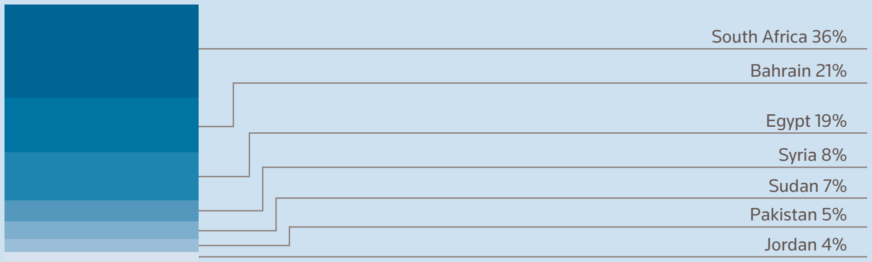
Philanthropic Program Overview



Economic Opportunities Overview



Economic Opportunities Geographic Overview



Dead Sea seashore with palm trees and mountains on background , Jordan

CSR SUB-INDICATOR: CSR FUNDS DISTRIBUTED

CSR FUNDS DISBURSED SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	5
1	Bahrain	89
2	Jordan	81
3	Oman	75
4	United Arab Emirates	58
5	Saudi Arabia	35
6	Kuwait	32
7	Malaysia	18
8	Indonesia	10
9	Bangladesh	8
10	Brunei Darussalam	7

CSR Funds Distributed Rationale

Zakat is the third pillar of Islam and its payment is compulsory on all Muslims who have accumulated a minimum amount of wealth. Apart from zakat this sub-indicator also measures voluntary funds disbursed in the form of charity and qard al hasan, or benevolent loans.

CSR Funds Distributed Headlines

- 21% (19 countries) of the IFDI universe of 92 countries contributed to the CSR Funds Distributed Indicator
- Global Average Indicator Value for CSR Funds Distributed is 5
- 10 of the 19 countries (53%) scored higher than the global average
- Of the 10 that scored higher than the global average 50% (5) come from GCC, 30% (3) Southeast Asia, 20% (1) Other MENA and 10% (1) South Asia
- Outside the top 10, the remaining 9 countries all score under the global average. Australia holds up the table of 19 with a trace indicator value of 0.01

Small pool

The average global value was dragged down because of the small pool of countries that require their Islamic financial institutions to disburse CSR funds, or that require IFIs to disclose the amount of CSR funds disbursed. IFI disclosure of disbursement of CSR funds (or rather the lack of disclosure) was the biggest challenge in building this sub-indicator.

5 GCC countries in top 10

Five GCC countries are in the top 10. Zakat is mandatory for Kuwait and Saudi Arabia, and Kuwait has also made charity contributions compulsory. Islamic finance newcomer Oman wasted no time in its contribution and disclosure of CSR funds.

Southeast Asia

As expected, Malaysia and Indonesia are torchbearers for Southeast Asia in this indicator with a mixture of CSR and qard al hasan funds while Brunei is also in the top 10 despite its relative small contribution in absolute amounts; its country size lifted its indicator status. Indonesia's zakat payments will be boosted once the transfer of the country's Haj funds, which reached almost Rp 50 trillion ($5 billion) in 2012, into Islamic banks is complete. This is expected to happen in 2014.

New markets

2013 saw the start of the development of zakat and waqf (endowments) regulations in Tunisia. The country's IFIs could seize the opportunity to manage the funds, if or when new regulations are put in place.

ANALYSIS OF DATA IN ABSOLUTE VALUES

The top 10 countries accounted for 98% of disclosed global CSR funds disbursed

Regionally, GCC countries accounted for 68% of global disbursed CSR funds. Jordan, Iran, the Palestinian Territories, Sudan, Egypt and Syria accounted for other Middle Eastern region.

Southeast Asia accounted for 17% of global funds. The lion's share came from Indonesia which disbursed 52% of total disclosed CSR funds.

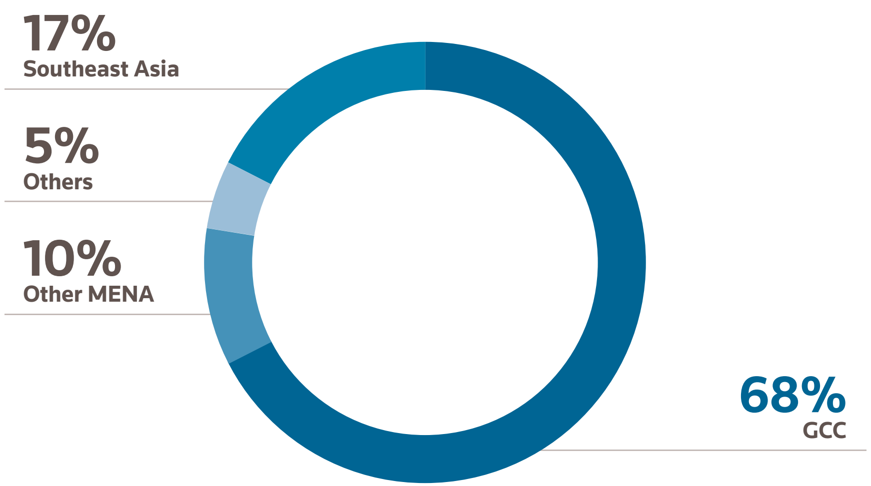
The composition of Jordan's contributions is unique — while the global funds disbursed are mostly from zakat and charity funds, 97% of Jordan's CSR funds came from qard al hasan activities. Iran as well contributed mostly qard

Village near cliff at Bromo Volcano in Tengger Semeru national park, Java, Indonesia al hasan as part of their CSR funds. Qard al hasan are non-interest bearing or benevolent loans that are primarily extended to those in need.

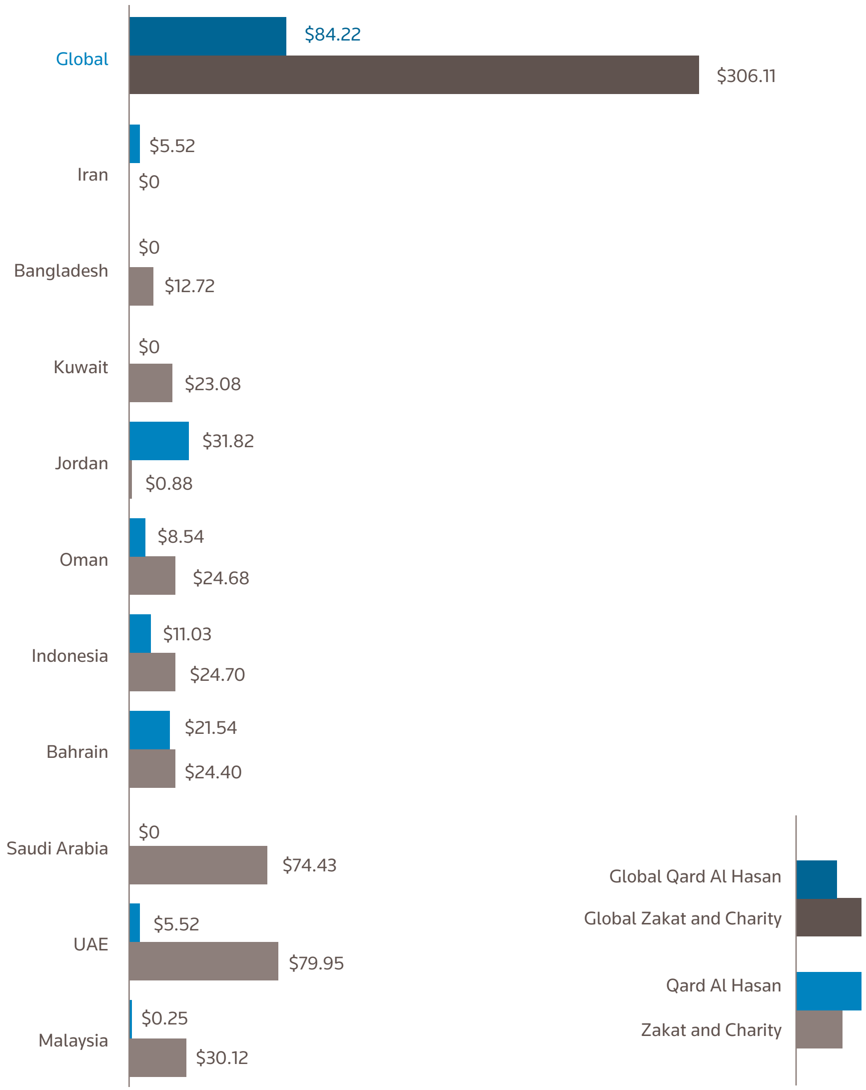
Kuwait CSR funds were comprised purely of zakat and charity (zakat is compulsory in Kuwait and charity payments must also be paid to Kuwait Foundation for Advancement of Sciences (KFAS), as part of taxes). Zakat and charity payments for Kuwait in 2013 were hit by net losses suffered by most of Kuwait's non-banking Islamic institutions. Zakat and charity funds from Kuwaiti Islamic banks made up about 87% of the country's IFIs' disbursed funds.

In second place, Saudi Arabia made $74 million in zakat payments; zakat is compulsory for the Kingdom's institutions. Although the number of Saudi Arabia's contributing takaful institutions outweighs the number of contributing Islamic banks, the latter disbursed 74% of total Saudi zakat funds.

CSR Funds by Region



Islamic Finance Corporate Governance vs. Regulation 2013 (in millions)



CSR SUB-INDICATOR: CSR DISCLOSURE INDEX

CSR DISCLOSURE INDEX SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	15
1	Oman	96
2	Indonesia	86
3	Bangladesh	85
4	Brunei Darussalam	78
5	Syria	67
6	Qatar	65
7	Jordan	65
8	Bahrain	64
9	Malaysia	62
10	Turkey	58

CSR Disclosure Index Rationale

In the absence of standardised CSR reporting, the CSR Disclosure Index measures CSR conduct of IFIs based on the AAOIFI Governance Standard for Islamic Financial Institutions No. 7. This sub-indicator is concerned with IFIs' level of disclosure of CSR activities in their annual reports. For the year ending 2013 the optimal level for CSR should be disclosure of 11 items (Appendix A).

In building this sub-indicator challenges were faced due to late publication and delayed release of annual reports. Late releases by IFIs lowered the ranking of some countries. The timely publication and release of annual reports including Corporate Governance reports and Corporate Social Responsibility reports is highly recommended to reduce information asymmetry and enhance transparency.

CSR Disclosure Index Headlines

- 30% (28 countries) of the IFDI universe of 92 countries contributed to the CSR Disclosure Index
- Global Average Indicator Value for CSR Disclosure is 15
- 100% scored higher than the global average
- Of the 28 that scored higher than the global average 29% (8) are from Other MENA, 21% (6) GCC, 14% (4) South Asia, 14% (4) Europe, 11% (3) Southeast Asia, 7% (2) Africa and 4% (1) Australia
- Top 10 geographical representation — 30% GCC, 30% Southeast Asia, 20% Other MENA, 10% South Asia and 10% Europe

Oman impresses

Oman's new IFIs continue to impress. The country ranks highest for CSR Disclosure.

Close race for bottom 5 of top 10

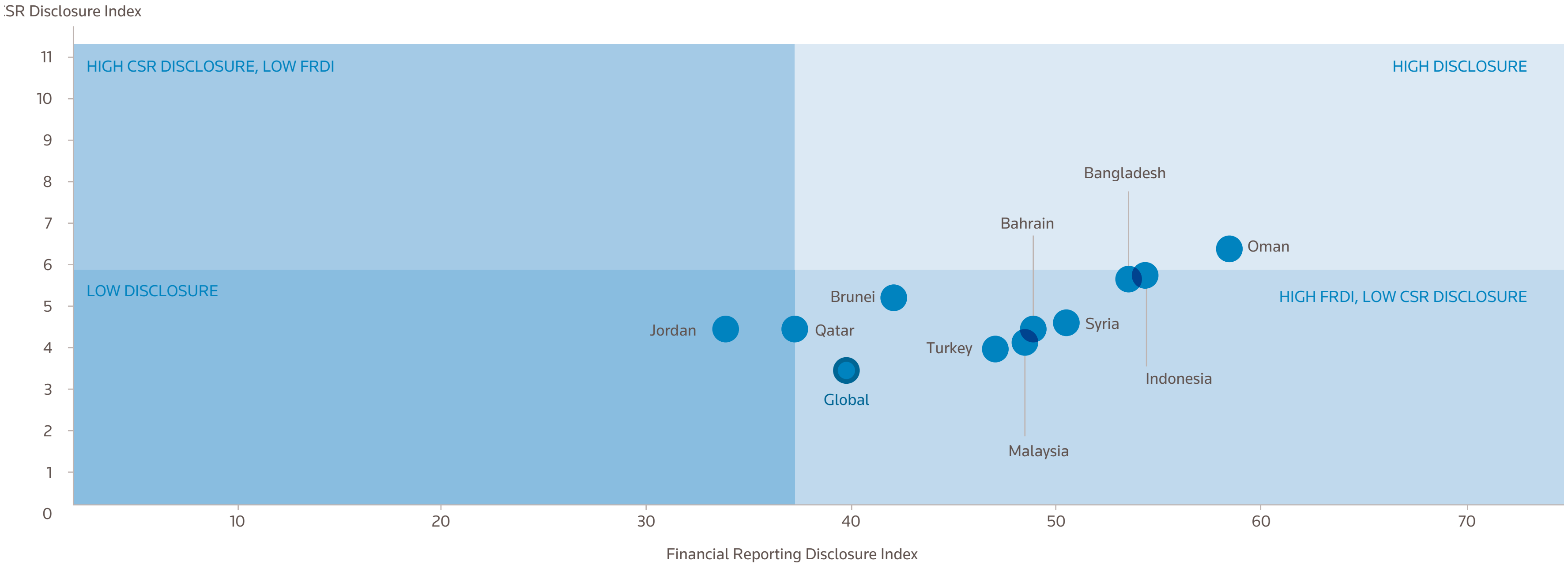
Indicator values for the bottom half of the top 10 are tight, with only 9 points separating Syria at number 5 and Turkey at number 10.

ANALYSIS OF DATA IN ABSOLUTE VALUES

Average disclosure for financial reporting is high but overall low level of CSR disclosure; on average only 30% of items are disclosed.

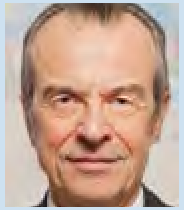
If the optimal level for CSR disclosure is 11 items (Appendix A), then the optimal Financial Reporting Disclosure Index (FRDI) level is for 70 items (Appendix B). CSR disclosure levels for most countries are very low, which is disappointing considering the significance of transparency and social responsibility in sharia. Oman, Indonesia and Bangladesh are the exceptions. Oman was able to achieve high levels of disclosure for both financial reporting and CSR reporting. The Sultanate has displayed an impressive start to Islamic banking in terms of a well-defined governance infrastructure that privileges transparency in financial reporting. The disclosure index for Oman is represented by measuring publically available annual reports of seven financial institutions. Malaysia's CSR activities disclosure was not consistent among its full-fledged Islamic institutions and Islamic subsidiaries of conventional banks.

Financial Reporting DI vs. CSR DI



HELMAND - SEPTEMBER 9:Kajakai Dam, Helmand province, is utilized for hydro power, September 9, 2009 in Helmand, southern Afghanistan. Provides electricity to Helmand and Kandahar.

CASE STUDY



Alberto Brugnoni

ISLAMIC FINANCE AS A TOOL OF SOCIAL COHESION IN AFGHANISTAN

By Alberto Brugnoni

Afghanistan is a country like no other. Its staggering and unspoiled beauty, the dignified attitude of her people, Alexander the Great's mysterious journey, all conjure up tales of adventures that have fed our imagination. Yet, a more sinister drama is unfolding in the present. Afghanistan today is in the throes of epochal changes that are straining the base of her society and wreaking havoc on social relations. The development of key sectors of the Afghan economy reverberates through a society largely composed of rural and traditionally-minded communities while, for the first time, exposing large sectors of the population to modernism and its perceived 'evils'. The social divide is widening, the gap between the haves and have-nots is not abating, and the swelling professional class is not evolving into a middle-class with reasonable purchasing power.

Economic opportunities

Afghanistan has one of the biggest intact unexploited mining resources in the world. There are extensive deposits of barite, beryllium, chromite, coal, copper, gold, iron ore, lead, natural gas, petroleum, precious and semiprecious stones, salt, sulphur, talc, zinc, lithium, uranium, cobalt, natural gas and oil, lapis, turquoise, as well as oil and gas fields. In aggregate, their value is estimated to be anywhere between USD$1 trillion and USD$3 trillion. Smart international investors are already taking notice of these and the full exploitation of its resources could make Afghanistan the richest mining region on earth. This little-known fact - coupled with a pivotal position in the key strategic region of Central Asia - explains why the 19th century Great Game, played out between the British and Russian empires, is being staged once again.

Largely unbanked, business practices governed by web of traditional customs

On-the-ground experience working with urban and rural communities shows that a friction exists at a fundamental level between conventional business practices and Afghan traditions. Islamic practices (either Hanafi or Twelver branch with small numbers of Ismailis) pervade all aspects of life and religious tradition and codes, together with customary practices, provide the principal means of controlling personal conduct and settling legal disputes. Further, most Afghans living outside the four principal cities of Kabul, Kandahar, Herat, and Mazar are organized into tribal and other kinship-based groups, which follow their own traditional customs.

Objections to financing through interest payments are widespread and often absolute, and go hand-in-hand with deeply rooted religious commitments that view borrowing on interest as sinful. The denunciation of paying riba (backed by religious figures) routinely leads to strong opposition and open protest by community members, and there are indications of intensified condemnations by mullahs in mosques and in the media. Only a weak minority differentiates between income generating (value adding economic activities where interest may be tolerated) and non-income generating (resale with a mark-up, etc.) use of financing, and have dealings with those who work for conventional microfinance institutions which are branded immoral and deemed a destabilizing foreign influence that brings ruinous effects.

Further, borrowing from non-kin is taboo in the Afghan culture. The concept of conventional insurance as well is deemed unacceptable by large swaths of the population above all when it comes to personal lines, and in particular, to life policies.

The attempts to offer conventional financial products result in an increase of social and cultural strains and are perceived as yet another foreign attempt (or even perceived as plot) to challenge basic tenets of the Afghan society. This perception - shared not only in the countryside but also by sectors of urban society - is fuelling resentment and distrust among people. As a consequence, the already meager financing in the rural areas, where 75% of the population lives, is drying up and almost non-existent. This is undermining any meaningful economic and social take-off, which in turn leaves local communities feeling marginalized and which fuels their thirst for compensation.

As an additional note, large segments of Afghans' assets are not kept in banks but instead remain stored in homes ('mattress finance') or deposited with a range of money traders known as hawala dealers. It is worth noting that only 3% to 10% of Afghans currently hold accounts in the country's commercial banking sector and that the black economy is estimated at 3 to 4 times the official GDP.

Within this landscape, Islamic finance and takaful represent a necessary tool to address the population's discomfort with the conventional approach, ease cultural tensions and creatively mend social relations.

HERAT, AFGHANISTAN - OCT 27: Unidentified people on October 27, 2012 in Herat, Afghanistan. Herat is the third largest city of Afghanistan, with a population of about 450,000. al Teravagimov / Shutterstock.com

Development of Islamic finance

The Afghanistan Rural Enterprise Development Program (AREDP), a national government-led multi-donor funded program, aims to empower the Afghan people living in rural communities through technical, socio-economic and financial assistance. Initially targeting the provinces of Nangarhar, Parwan, Bamyan, Balkh, Herat, Kandahar, and Helmand, the program is due to expand its activities to ten additional provinces in 2015 and it is hoped that it will cover the entire country in due time.

Education on Islamic modes of financing is provided and ready-to-be used bespoke contracts to address trading, agriculture, and capital goods acquisition needs are developed to the benefit of ‘Saving Groups’ (SGs) and ‘Village Savings and Loans Associations’ (VSLAs). In particular, murabaha to finance the acquisition of goods, salam with parallel salam for agricultural production and small trade, and istisna’ for the production of artisanry. In addition, mudaraba, and musharaka mutanaqisa partnerships, ijara muntahiya bi-tamlik as a leasing tool, wadia for savings, and qard al-hasan for emergency financing.

This hands-on initiative required extensive traveling to the provinces and meeting communities to better understand local economic realities. Relations were also developed with knowledgeable Afghan scholars to obtain the ijaza (authorization), and tests were implemented before the distribution of the contracts to the communities. Finally, bespoke metrics to measure the results were set up.

On average, 5,523 Saving Groups (2,562 female SGs) totaling 62,479 members (29,243 of which are women) have access to Islamic modes of financing. They are situated in 678 villages across seven provinces and their cumulative aggregate savings has reached AFN 107 million (45% by the Female SGs) whereas the cumulative amount of financing disbursed to 9,192 entrepreneurs is 67 million AFN. Most importantly, a weblog on Islamic finance has been launched. This permanent and ever-expanding capacity-building resource is a prime initiative for Afghanistan and allows for the emergence of a virtual community of stakeholders from different sectors of activities and geographic areas.

Development of takaful

The takaful initiative aimed to educate the regulator, Afghanistan Insurance Authority (AIA), and the four insurance companies operating in the country: Afghanistan National Insurance Company, the Insurance Corporation of Afghanistan, the Afghan Global Insurance, and the Insurance Group of Afghanistan. As a stepping stone, capacity was built through public seminars and topical information on the building blocks of the takaful industry was provided at workshops or at one-to-one meetings.

At the subsequent stage, training courses were tailored to specific needs. The AIA was provided with 'General Guidelines for the Establishment of a Regulatory Framework for Takaful' which has helped the regulator process the completion of the first version of the takaful regulation draft that could possibly become a section of the new law on insurance, at present under discussion at the Parliament. The four conventional companies were taught how to create takaful products and actual development has taken place. General-personal lines and Family Takaful (a way to accumulate future wealth) policies based on mudaraba were developed. A conventional product for property was converted to become sharia-compliant using a wakala to allow the use of real estate as collateral by banks issuing Islamic financing. Finally, a motor vehicle plan was also converted to takaful as car insurance is compulsory.

In due time, commercial takaful will play a role in tackling major risks as insurance for Islamically-raised financing needed to build infrastructure ought to be sharia-compliant. Takaful contributions must be invested in Islamic instruments and the much talked-about issuance of a sovereign sukuk will definitively help matters. Recently, an Afghan investor based in Europe sought approval from the AIA to establish an Islamic insurance company.

Conclusion

These initiatives are challenging the abysmally low penetration of financial products in rural Afghanistan. By empowering local communities, they are exerting positive influence on the locals' self-perception, gender emancipation, access to schooling, societal sustainability, and personal blossoming. As an outcome, a more balanced society that recognizes the value of diversity and that is less prone to radical influences is, albeit slowly, shaping up. There is indeed a clear perception that the only way to effectively address the many issues that plague the countryside shall be through the satisfaction of the pent-up demand for sharia-compliant finance and insurance products.

Alberto Brugnoni *is the managing partner of ASSAIF, the oldest Islamic finance consultancy in Europe. In 2012 he laid the foundations for the takaful industry in Afghanistan. He then led the Islamic finance team of the Afghanistan Rural Enterprise Development Program (AREDP), the flagship initiative of the Ministry of Rural Rehabilitation and Development.*

KUALA LUMPUR, MALAYSIA - OCTOBER 3: Former Prime Minister of Malaysia Tun Dr Mahathir Mohamad gave a talk in conjunction with KL Islamic Finance Forum 2011 on 3 OCTOBER, 2011 in Kuala Lumpur, Malaysia. udeyismail / Shutterstock.com

The Awareness Indicator is a weighted index of Islamic finance market awareness per country. It is measured by assessing three components: conferences, seminars and news.

AWARENESS INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	15
1	Oman	156
2	Malaysia	130
3	Bahrain	127
4	United Arab Emirates	103
5	Qatar	71
6	Tunisia	40
7	Djibouti	37
8	Egypt	36
9	Kuwait	36
10	Brunei Darussalam	32

Awareness Rationale

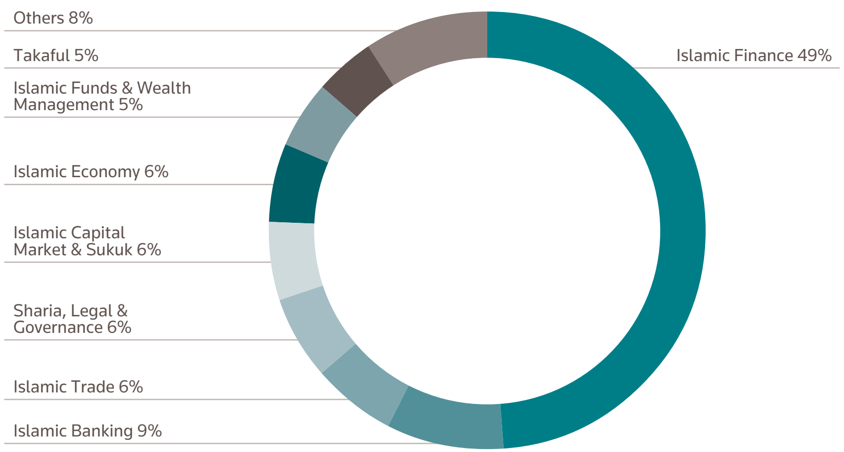
A consistent concern raised by professionals in the Islamic financial services industry is that there is little awareness and understanding of Islamic financial services by the masses. Awareness by consumers can lead to better quality of services as consumers vote with their feet if the services offered are not up to par. If consumers lack knowledge about Islamic financial services, they cannot determine the quality of the services being offered, while the potential market base of customers interested in Islamic financial services will also be limited.

Awareness Headlines

- 100% of the IFDI universe of 92 countries contributed to the Awareness Indicator
- Global Average Indicator Value for Awareness is 15
- 21 of the 92 countries (23%) scored higher than the global average
- Of the 21 that scored higher than the global average 33% (7) are from Other MENA, 29% (6) GCC, 10% (2) Southeast Asia, 10% (2) South Asia, 10% (2) Central Asia and 10% (2) Africa
- Top 10 geographical representation – 50% GCC, 20% Southeast Asia, 20% Other MENA, 10% Africa

SEMINARS (<100 PARTICIPANTS)	CONFERENCES (> 100 PARTICIPANTS)	COUNTRIES
✓	✓	24: Azerbaijan, Bahrain, Bangladesh, Canada, Egypt, Germany, Hong Kong, Indonesia, Italy, Malaysia, Nigeria, Oman, Pakistan, Qatar, Russian Federation, Saudi Arabia, Senegal, Singapore, Sri Lanka, Tunisia, Turkey, UAE, UK, USA
✓		11: Ethiopia, France, Ghana, India, Jordan, Kuwait, Kyrgyzstan, Luxembourg, Netherlands, South Africa, Sudan
	✓	12: Australia, Belgium, Brunei, Djibouti, Iran, Ireland, Japan, Morocco, Mozambique, Philippines, Tajikistan, Thailand

Global Islamic Finance Events 2013 Breakdown by Event Theme



Most populated thanks to news coverage

100% of the IFDI universe contributed towards the Awareness Sub-Indicator, thanks to news that covered all 92 countries. 38% (35 countries) held seminars and 39% (36 countries) held conferences. Out of these, 24 countries played host to both seminars and conferences.

GCC, led by Oman, dominates Islamic finance awareness coverage

All GCC countries, except for Saudi Arabia, booked spots in the top 10 with Oman dominating conferences, seminars and news. Regional news for GCC also helped lift each member country's ranking.

African nations also dominate awareness indicator

After adjusting for economy and population sizes, Djibouti ranks seventh in the overall Awareness Indicator. Tunisia and Egypt's rankings are supported by local and global coverage of news about their sukuk law and plans in 2013.

ANALYSIS OF DATA IN ABSOLUTE VALUES

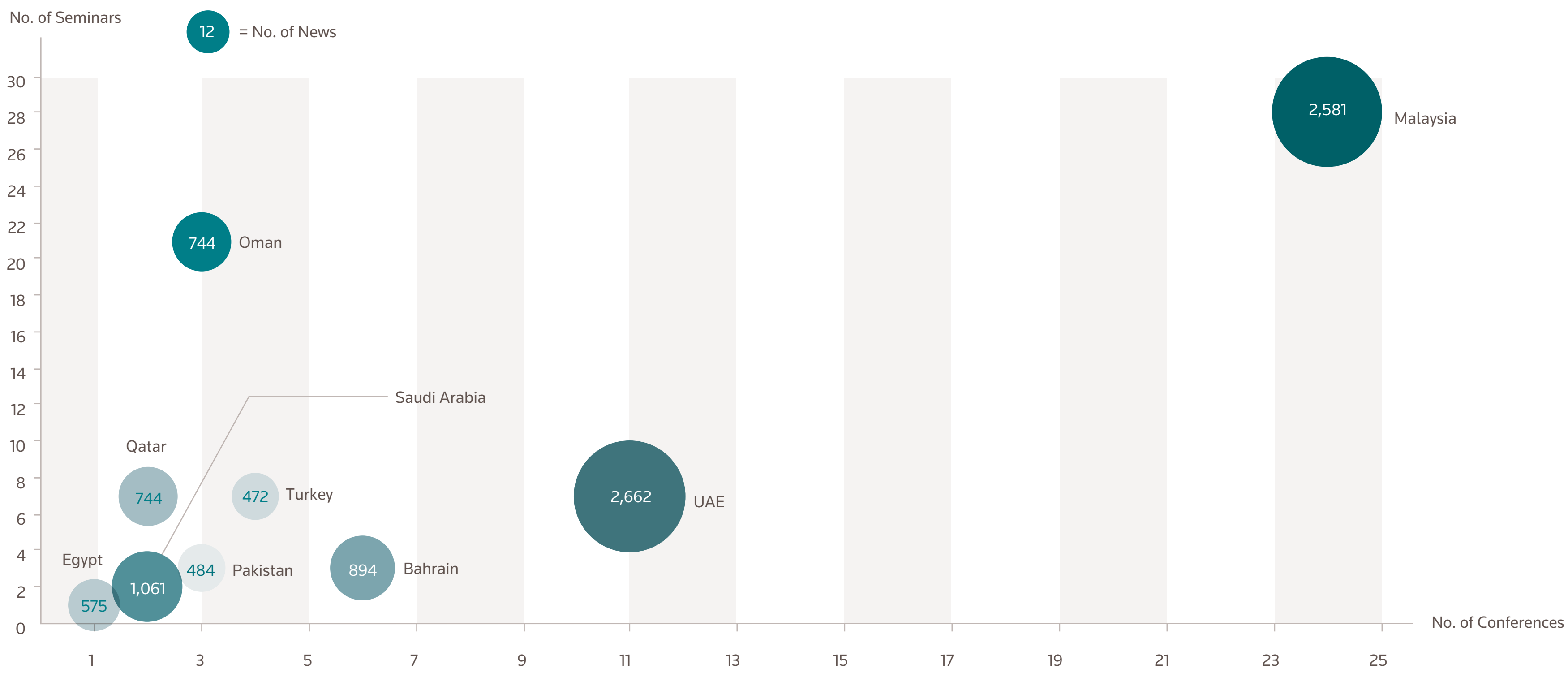
Moving from awareness to action

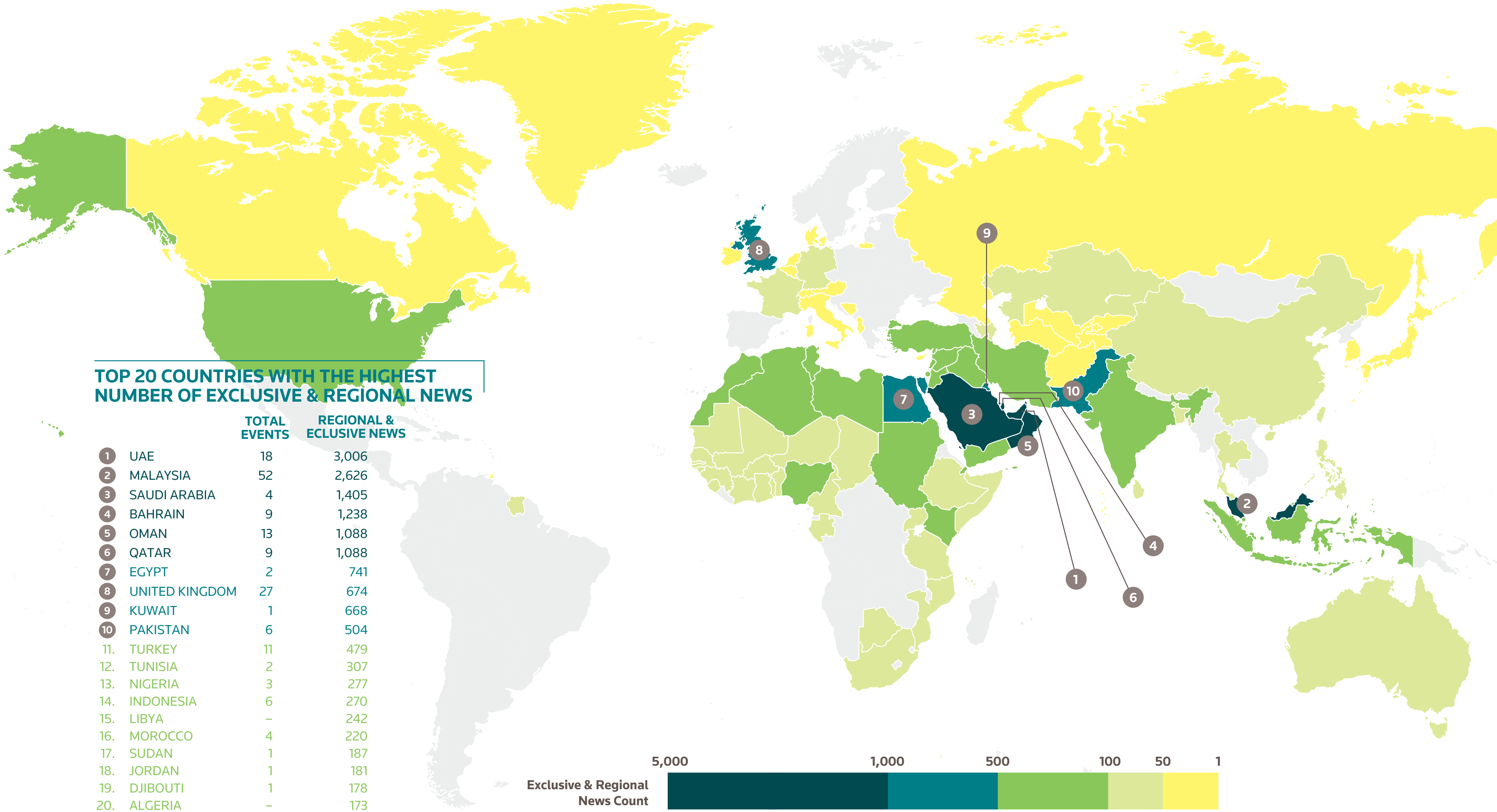
Oman had a stellar 2013. The new kid on the block played host to 10 seminars and 3 conferences and was the focus of 744 dedicated Islamic finance news articles. The Sultanate has built a firm infrastructure and now needs to accelerate its exposure to practical solutions and business development in order to catch up with its neighbours in the GCC. Most of Oman's awareness activities covered the theoretical aspects of business development.

Satay's good but solutions would be better

Almost 40 countries hosted 231 Islamic finance seminars and conferences designed not only to provide business networking opportunities for industry professionals but also to engage them in dialogue with the wider industry community and address key challenges and issues affecting the markets. However, most topics and discussions during these events were general and lacked depth. Around 49% of seminar and conference themes covered Islamic finance in general with fewer discussing in depth asset classes such as sukuk, sharia, funds and takaful. Very few events cover solutions for liquidity and risk management and even fewer discuss instruments structures and derivatives, much less propose solutions. In order to push Islamic finance into the next stage of its development, the industry's seminars and conferences need to be re-tuned to insist on discussions that can contribute or even create, actionable outcomes.

Islamic Finance Awareness 2012

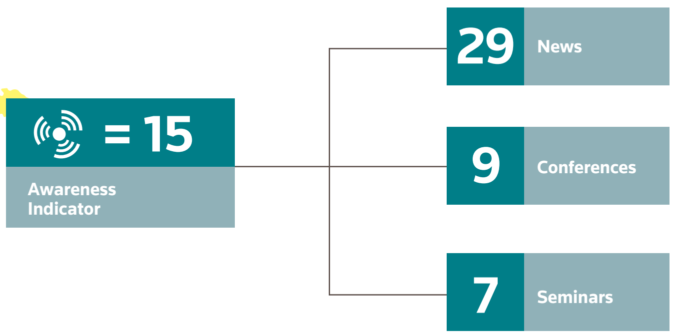




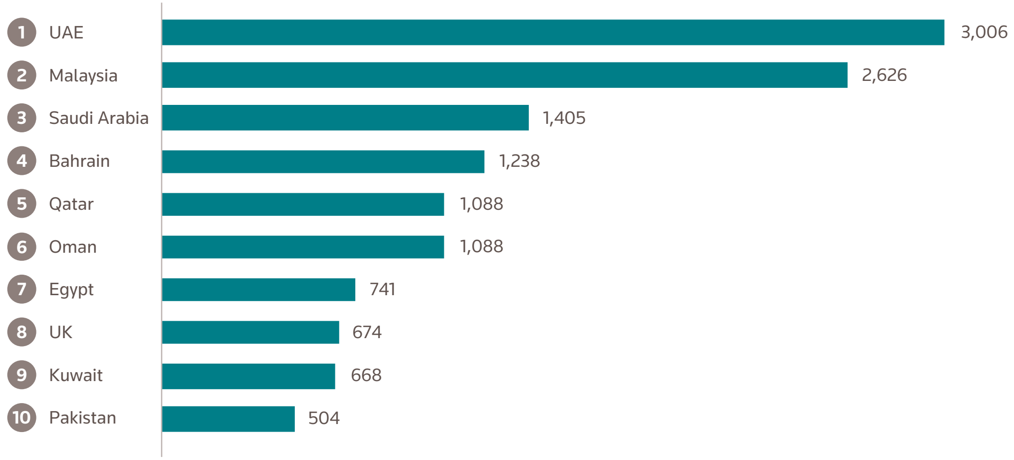
TOP 20 COUNTRIES WITH THE HIGHEST NUMBER OF EXCLUSIVE & REGIONAL NEWS

		TOTAL EVENTS	REGIONAL & ECLUSIVE NEWS
1	UAE	18	3,006
2	MALAYSIA	52	2,626
3	SAUDI ARABIA	4	1,405
4	BAHRAIN	9	1,238
5	OMAN	13	1,088
6	QATAR	9	1,088
7	EGYPT	2	741
8	UNITED KINGDOM	27	674
9	KUWAIT	1	668
10	PAKISTAN	6	504
11.	TURKEY	11	479
12.	TUNISIA	2	307
13.	NIGERIA	3	277
14.	INDONESIA	6	270
15.	LIBYA	–	242
16.	MOROCCO	4	220
17.	SUDAN	1	187
18.	JORDAN	1	181
19.	DJIBOUTI	1	178
20.	ALGERIA	–	173

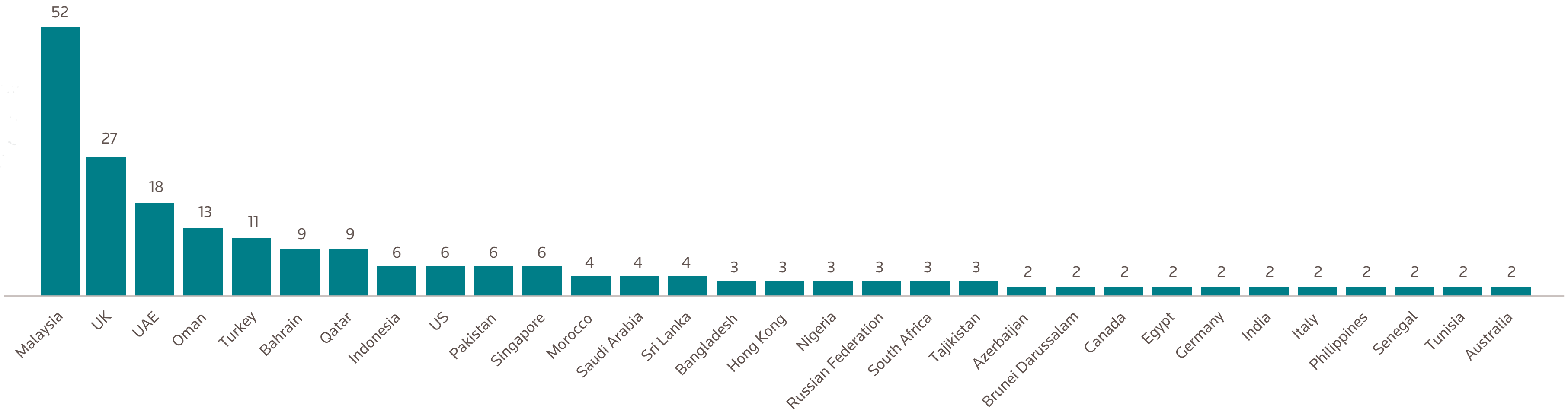
GLOBAL AVERAGE



TOP 10 COUNTRIES WITH THE HIGHEST NUMBER OF EXCLUSIVE & REGIONAL NEWS



TOTAL EVENTS



Awereness Key Milestones 2013

JAN

News
UAE: Dubai announces drive to develop Islamic business

News
EGYPT: News vibes and controversy surrounding issuance of sukuk law

News
OMAN: High volume of news covering start of Islamic finance operations in Oman

MAR

News
UK: UK government launches the country's Islamic Finance Task Force

APR

News
TURKEY: Turkey to allow deeper use of Islamic bonds

MAY

Conferences
TURKEY: 4th Gobal Islamic Marketing Conference by International Islamic Marketing Association of UK

Conferences
MALAYSIA: 10th Islamic Financial Services Board Summit 2013

JUN

Conferences
UK: 2013 London Sukuk Summit

News
TUNISIA: Discussions in media about potential growth of Islamic finance in the country following Thomson Reuters Tunisia report

News
NIGERIA: Heightened news coverage about Nigerian government Islamic finance initiatives

JUL

Seminars
RUSSIA: Seminar discussing opportunities for Tatarstan companies to attract Islamic finance

Conferences
MOZAMBIQUE: First Annual International Islamic Banking and Development Conference

AUG

Conferences
CANADA: The First Annual Conference of Islamic Economics & Islamic Finance

News
INDIA: News about RBI approval for Islamic finance firm in Kerala circulates

SEP

Seminars
UK: The inaugural Islamic Finance Leadership Programme

OCT

Seminars
OMAN: young Omani entrepreneurs — Islamic Finance SME

Conferences
PHILLIPPINES: First international conference on Islamic Finance

News
UK: Heavy news coverage following UK PM announcement for plans to issue sukuk

NOV

Conferences
UAE: The Global Islamic Economy Summit 2013 by Dubai Chamber of Commerce & Industry and Thomson Reuters

News
UAE: News coverage increases with GIES and Dubai winning Expo 2020 bid

DEC

Conferences
BAHRAIN: 20th anniversary of The World Islamic Banking Conference (WIBC)

News
UAE: News about Dubai's winning Expo 2020 bid and efforts to become the world's capital of the Islamic Economy continues

TOTAL ISLAMIC FINANCE EXCLUSIVE + REGIONAL NEWS IN 2013

83, 262

TOTAL ISLAMIC FINANCE EXCLUSIVE NEWS IN 2013

14,490

TOTAL ISLAMIC FINANCE EVENTS IN 2013

231 Events:
124 Seminars
107 Conferences

KEY HIGHLIGHTS:

Seminars & Conferences

- 21% of total IF seminars and conferences were held in Malaysia
- Most events concentrated in GCC/SEA
- Interest in Africa and Europe picking up
- Most events were held in Q3, especially in November
- More than 50% of events focused on general Islamic finance topics, few discussed specific asset classes or issues
- Incidence of Events & News slowed in summer and Ramadan

News Volume

- UAE made the most headlines
- Region-wise, GCC grabbed most headlines (36%) followed by Southeast Asia (18%)
- Announcements during conferences contributed greatly to news covering Islamic finance

DUBAI, UAE - FEB 22: Burj khalifa, the highest building in the world, Downtown is covered by early morning fog on February 22, 2014 in Dubai, UAE. Naufal MQ / Shutterstock.com

Abu Dhabi, UAE - NOVEMBER 26: Abu Dhabi International Airport on November 26, 2012. Elena Ermakova / Shutterstock.com.

EXCLUSIVE

CUSTOMER EDUCATION KEY TO ISLAMIC BANKING GROWTH

By Abu Dhabi Islamic Bank

A "Banking as it should be" survey commissioned by Abu Dhabi Islamic Bank reveals what customers in five markets most want of their banks — ethics and good service. Correctly positioning Islamic values, says ADIB, is key to the growth of the Islamic banking industry.

Islamic banking has steadily gained ground since taking root in the 1970s, with assets reaching just over $200 billion in the mid-1990s. Since the global financial crisis in 2008 Islamic banking entered into its second cycle of growth, with assets at the top 20 institutions increasing at 16% annually over the last three years, far outpacing growth at conventional banks. Total Islamic financial assets now surpass $1.6 trillion. While the Islamic banking industry can be pleased with its growth, the question now is: Will growth peak as our traditional customers fulfil their financing needs, and can we extend the appeal of Islamic banking to new customers?

In other words, can we bring about a third cycle of growth?

Some interesting answers can be found in a recent "Banking as it should be" survey commissioned by Abu Dhabi Islamic Bank (ADIB) of nearly 1,000 people in the UAE, Indonesia, Turkey, Egypt and the United Kingdom.

The survey found that retail banking customers are largely disappointed by the services provided by their current banks and seek a more customer focused and ethical banking service.

When asked to compare their current bank and their 'ideal' bank, customers said their existing banks performed poorly in the areas related to basic ethics — such as a lack of transparency, hidden fees, and not suggesting the right products. Across the board, customers found their banks were not easy to do business with and lacked simple products and services.

The top five desirable attributes in all surveyed markets were related to ethics and service — customer-friendly language and simple banking; having the customers' interests in mind; keeping promises; acting in an ethical manner and being transparent in all dealings.

Attributes related to products, such as offering high returns on investments and deposits, high financing limits were considered to be of lower priority. Whilst 'being strongly established in a country' was seen as very important, 'having a global presence' received a relatively low ranking, representing a strong shift in customer preferences in comparison with a similar study conducted by ADIB before the global crisis.

Correctly positioning Islamic values

The survey reveals an obvious hunger for more ethical and straightforward banking in diverse markets and ADIB believes Islamic banks can benefit,

Lower Ranking Attributes

RANKING	ATTRIBUTES
13th	Has the latest technology
13th	Offers high returns on investments
20th	Offers high rates on deposits
21st	Willing to give high amounts of financing
25th	Has well designed attractive branches
28th	Global, with branches in many countries
29th	Has great advertising

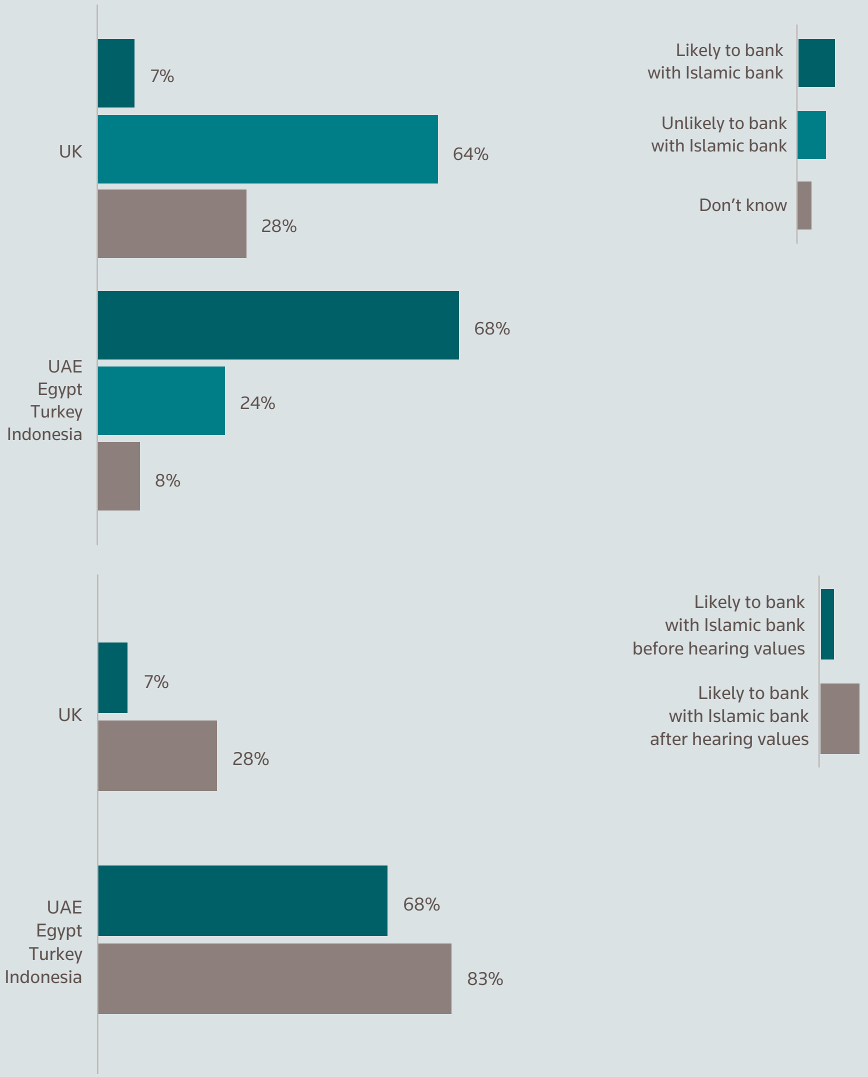
Technology Product Profile

Top 10 Attributes of "ideal bank"

Keeps best customer interest in
Keeps its promises
Is transparent in its dealings with
Acts ethically
Treats customers as partners
Makes you feel welcome and
Caters to needs of all
Uses customer friendly language
Makes banking simple &
Follows best industry standards

Ethical Simple & Accessible

Likely or unlikely to bank with an Islamic bank



if they are correctly positioned. This means remaining true to the industry's roots in Islam by concentrating on core values of respect, hospitality, and openness — and most definitely not to use religion to sell products and services. In short we must work hard to deliver excellence in the customer experience.

It is clear we can build on a strong foundation of trust in the Muslim world. An aggregate 76% of survey respondents in the UAE, Egypt, Indonesia and Turkey said they trusted banks, compared to only 21% in the United Kingdom.

But educating customers will be very important. Less than a third of people surveyed said they "know a great deal" about Islamic banks, although half had a favourable view of them.

When survey respondents were told that Islamic banks offer a partnership model, simplicity, transparency on charges and fees, and employs ethical filters for the provision of financing, customer interest levels rise, even more dramatically in markets where Islamic banking is less prevalent. In the four predominantly Muslim countries surveyed, the proportion of people open to Islamic banking increased to 83% from 68% before the information was provided. In the United Kingdom, interest levels quadrupled.

This gives us confidence, not only that Islamic banks can grow further, but that we can lead the whole industry into a much more ethical and sustainable model demanded by our friends and families.

KEY FINDINGS OF THE "BANKING AS IT SHOULD BE SURVEY"

Customers believe ethical and customer service issues are most important

When asked about attributes of an ideal bank, respondents gave most importance to issues that relate to quality of customer service, while ethical issues, such as transparency and fairness, also featured prominently. Product-related issues, such as fees and deposit rates, and technology were ranked relatively lowly. It was clear that few customers gave importance to a bank's global reach.

Results for UAE, Turkey, Egypt, Indonesia

- Customers most disappointed by levels of customer service and ethics
    - The biggest gaps in performance — between what is seen as important for a bank, and ratings given for the customer's current bank doing well were in the area of customer service and ethics. This was even more pronounced in the United Kingdom than in the predominantly Muslim countries (UAE, Turkey, Egypt and Indonesia).
- Only 57% believe their bank has customers' best interests in mind
- 38% believe their bank does not keep its promises
- 41% believe their bank is not transparent in all its dealings
- Only 50% say their bank suggests and provides products that are best for them
- 58% think their bank has hidden interest, fees or charges

Results for the UK

- Only 35% believe their bank has the customers' best interests in mind
- 53% believe their bank does not keep its promises
- 45% believe their bank is not transparent in all its dealings
- Only 30% say their bank suggests and provides products that are best for them
- 52% think their bank has hidden interest, fees or charges

Majority of people in predominantly Muslim countries are open to banking with Islamic financial institutions

68% of respondents in the four predominantly Muslim countries said they were likely to bank with an Islamic bank, compared with 7% in the United Kingdom.

Customers in all countries surveyed more open to banking with Islamic banks if they are seen to uphold high ethical values

After hearing of the key values of Islamic banking, the number of people who said they were "likely" or "somewhat likely" to bank with an Islamic bank increased. In the UK, the number of people open to Islamic banking jumped four-fold.

Key values

- Has the customers' best interests in mind
- Keeps its promises
- Is transparent in all its dealings with you
- Acts in an ethical manner towards you
- Offers simple solutions
- Treats every customer like a partner
- Suggests and provides products that are best for you, whether or not they are profitable for the bank
- Has no hidden interest, fees or charges
- Shares overall profit or loss between the bank and its customers

AWARENESS SUB-INDICATOR: SEMINARS

SEMINARS SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	7
1	Oman	151
2	Malaysia	111
3	Qatar	56
4	Bahrain	39
5	United Arab Emirates	32
6	Sri Lanka	26
7	Kyrgyzstan	24
8	United Kingdom	20
9	Sudan	20
10	Senegal	19

Seminar Rationale

For the IFDI, a seminar is defined as a small group meeting (less than 100 in attendance) that gathers to debate and raise new issues related to Islamic finance. The Islamic finance industry needs seminars to discuss in depth major issues that prevent industry development in order to reach recommendations and practical solutions. The number of seminars in a country reflects interest by market players to explore Islamic finance and interact

Seminars Headlines

- 38% (35 countries) of the IFDI universe of 92 countries contributed to the Seminars sub-indicator
- The 35 countries held 124 seminars in 2013. Of the 35, 24 also organised conferences
- Global Average Indicator Value for Seminars is 7
- 22 of the 35 countries (63%) scored higher than the global average
- Of the 22 that scored higher than the global average 23% (5) were from GCC, 18% (4) Other MENA, 14% (3) Europe, 14% (3) Africa, 14% (3) South Asia, 9% (2) Central Asia and 9% (2) Southeast Asia
- Top 10 geographical representation — 40% GCC, 20% Africa, 10% Southeast Asia, 10% South Asia, 10% Europe and 10% Central Asia

ANALYSIS OF DATA IN ABSOLUTE VALUES

Oman and UK trail leader Malaysia on number of seminars organised, reflecting serious steps taken by the two IF emerging markets

In absolute numbers Malaysia held the most number of seminars (28) followed by the UK (19) and Oman (10).

The number of Islamic finance seminars increased by 17% to 124 for the year 2013 from 106 in 2012. This can be attributed to the increased number of countries — from 30 in 2012 to 35 in 2013 — that have held seminars on Islamic finance. More than 10 new countries held IF seminars in 2013, including South Africa, Sri Lanka, Germany, Netherlands and Italy. At the other end of the spectrum, Australia, Libya and Yemen dropped out of the list altogether.

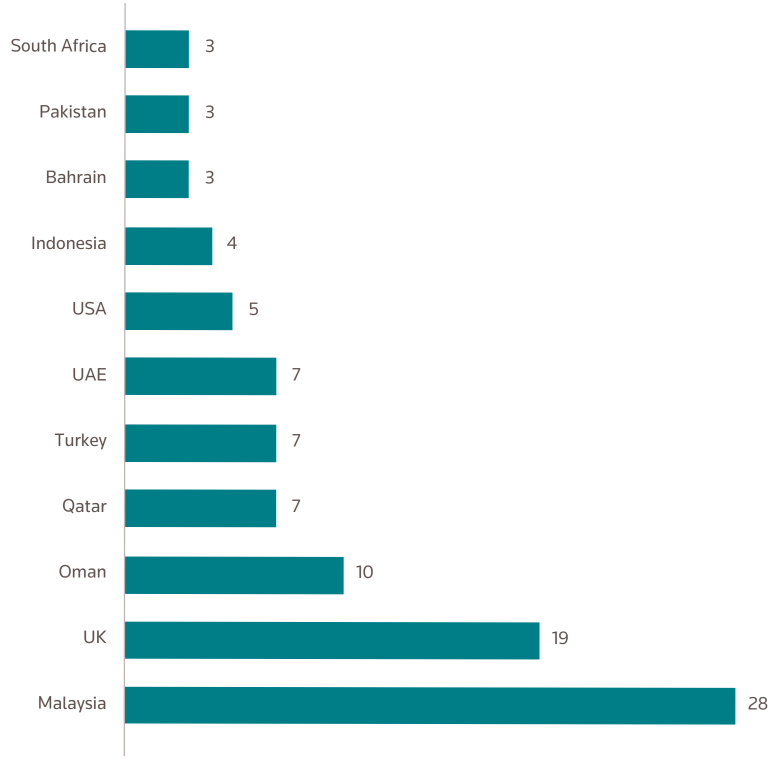
The UAE dropped four places to sixth in 2013, but its position on the overall Awareness Index was boosted by its increase in number of conferences (see following section). Saudi Arabia, Egypt, Australia and Bangladesh all dropped out of the top 10, replaced by Qatar, Turkey, USA and Indonesia. Saudi Arabia had two seminars in 2013 compared to seven in 2012, and Egypt had only one seminar in 2013 compared to four in 2012, with the drop mostly due to the persistent political tension in the country that ousted the Morsi government. While there were no seminars held in Australia in 2013 compared to four in 2012, Australia is a new entrant to the conferences sub-indicator.

Oman is the biggest mover up the top 10, reflecting serious steps the Sultanate is taking to develop its Islamic finance industry by spreading awareness across the country. The UK is the other mover up the top 10, mostly driven by the British government's ambition to become an Islamic finance hub.

Most of the seminars in 2013 focused on the general development of the Islamic finance industry while fewer focused on specific areas such as risk management, and asset classes such as sukuk, asset management, and micro finance. A lot of seminars were held as workshops prior to a conference and discussed specific topics in depth, while others were regularly held in-house as customized training for staff. IFSB, Amanie Events, London School of Economics and Political Science, Qatar Faculty of Islamic Studies, and Al Huda CIBE were some of the key organizers of seminars across the globe.

THERE HAS BEEN A HIGHER INTEREST IN ISLAMIC FINANCE BY NON-MUSLIM COUNTRIES SUCH AS NEW ENTRANTS TO THE AWARENESS INDICATOR ITALY, GERMANY AND RUSSIA

Number of Islamic Finance Seminars By Country — Top 10 Countries in 2013



AWARENESS SUB-INDICATOR: CONFERENCES

CONFERENCES SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	9
1	Malaysia	110
2	Bahrain	89
3	Tajikistan	77
4	United Arab Emirates	58
5	Brunei Darussalam	55
6	Oman	52
7	Morocco	40
8	Djibouti	32
9	Sri Lanka	30
10	Singapore	23

Conference Rationale

For the IFDI, a conference is defined as a gathering of more than 100 individuals discussing issues related to Islamic finance. Conferences have proven to be essential to the development of the Islamic finance industry and are fertile grounds for business networking.

Conferences Headlines

- 39% (36 countries) of the IFDI universe of 92 countries contributed to the Conferences sub-indicator
- Global Average Indicator Value for Conferences is 9
- 20 of the 36 countries (56%) scored higher than the global average
- Of the 20 that scored higher than the global average 20% (4) are from GCC, 20% (4) Southeast Asia, 15% (3) Europe, 15% (3) Africa, 10% (2) South Asia, 10% (2) Central Asia and 10% (2) Other MENA
- Top 10 geographical representation — 30% GCC, 30% Southeast Asia, 10% Other MENA, 10% South Asia, 10% Africa and 10% Central Asia

10 new countries

10 more countries joined the race to host Islamic finance conferences, taking 2013's number to 36. Morocco and Tajikistan were noteworthy newcomers with four and three conferences, respectively. Other new conference hosts were Australia, Hong Kong, Philippines and Sri Lanka.

ANALYSIS OF DATA IN ABSOLUTE VALUES

Malaysia and the UAE lead on number of conferences; overall 41% surge means a wider reach to a much higher number of conference

delegates and participants

In absolute numbers Malaysia held the most number of conferences (22%, 24), followed by the UAE (10%, 11) and the UK (7%, 8).

The number of Islamic finance conferences worldwide surged 41% to 107 in 2013 from 76 in 2012. This rise is attributed mostly to Malaysia's higher number of conferences, from 13 in 2012 to 24 in 2013. In all, Malaysia played host to 22% of all conferences in 2013. The UAE is second with 11 conferences followed by the UK (8) and Bahrain (6). The much higher growth in the number of conferences versus seminars (41% v 27%), especially for Malaysia and the UAE, also points to an overall higher number of participants and attendees.

On the content of these conferences, half of them tackled Islamic finance in general with the rest divided between Islamic Economy, Islamic banking and takaful. There was a noticeable absence of conferences focusing on specific asset classes such as funds and sukuk; these were addressed as part of general conferences (sukuk, for example, were tackled at Bonds, Loans & Sukuk conferences) and other country-level summits.

One of the biggest and most prominent conferences was the annual World Islamic Economic Forum (WIEF), which in 2013 took place for the first time in a non-Muslim country. Held in London in October, it was attended by more than 2,300 delegates from 120 countries in the presence of 17 world leaders.

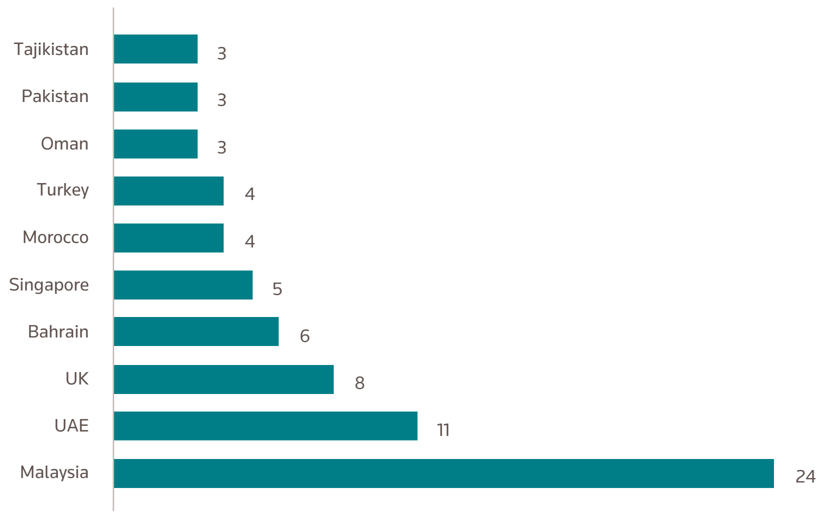
The other major conference of 2013 was the inaugural Global Islamic Economy Summit (GIES) held in Dubai in November. Approximately 3,500 delegates attended the event, which for the first time gathered practitioners from the Islamic finance and halal industries.

More than 1,300 delegates from more than 50 countries attended the World Islamic Banking Conference in Bahrain in December. The conference marked Bahrain's 20th year hosting the event. In May, the Islamic Financial Services Board celebrated its 10th anniversary with its annual Summit that drew over 300 regulators, leading market players and practitioners to Malaysia.

Red Money, IFSB, Mega Events, IDB, AAOIFI, Amanie, and Al Falah Consulting were some of the bigger conference organizers in 2013.

> THE SURGE IN THE NUMBER OF ISLAMIC FINANCE CONFERENCES IN 2013 REFLECTS A MUCH BROADER MARKET DEMAND WORLDWIDE FOR INDUSTRY CONTACT AND INTERACTION

Number of Islamic Finance Conferences By Country — Top 10 Countries in 2013



AWARENESS SUB-INDICATOR: NEWS

NEWS SUB-INDICATOR
Top Ten Countries

	COUNTRY	INDICATOR VALUE
	Global Average	29
1	Oman	264
2	Bahrain	255
3	United Arab Emirates	219
4	Malaysia	168
5	Qatar	139
6	Kuwait	98
7	Egypt	92
8	Tunisia	84
9	Djibouti	79
10	Saudi Arabia	70

News Rationale

For the IFDI, the news component covers the number of English-language news stories in the printed press published per country covering all recent events on all topics related to Islamic finance including sharia-compliant equity, sukuk and capital market, Islamic funds, sharia and legal issues, Islamic banking products and services, regulation, standards, innovation and education.

News is the fundamental force behind market movement. Journalists and correspondents cover stories that reflect the public interest and that will have a major impact on markets and society. Therefore, more news coverage of Islamic finance reflects higher market interest in the industry. Deeper media coverage will also increase market awareness and knowledge of Islamic finance and will encourage research and innovation.

News Headlines

- 100% of the IFDI universe of 92 countries contributed to the News sub-indicator
- Global Average Indicator Value for News is 29
- 21 of the 92 countries (23%) scored higher than the global average
- Of the 21 that scored higher than the global average 43% (9) are from Other MENA, 29% (6) GCC, 14% (3) Africa), 10% (2) Southeast Asia and 5% (1) Pakistan
- Top 10 geographical representation — 60% GCC, 20% Other MENA, 10% Africa, 10% Southeast Asia

Oman steals the limelight, GCC sweeps top 3 spots

The last GCC country to allow Islamic finance was always going to attract plenty of media attention in 2013. It's close at the top, though. Bahrain and

UAE haven't stopped making Islamic finance news and make it a clean GCC 1-2-3 sweep.

Djibouti stands out in top 10

After adjusting for economic indicators and population size, Djibouti, which is ranked eighth on the Conferences Sub-Indicator, finds its way to ninth for news. Djibouti was actively promoting Islamic finance in 2013 to increase banking penetration and attract FDI. Islamic banking assets in the country reached approximately 15% of total banking assets in 2013.

ANALYSIS OF DATA IN ABSOLUTE VALUES

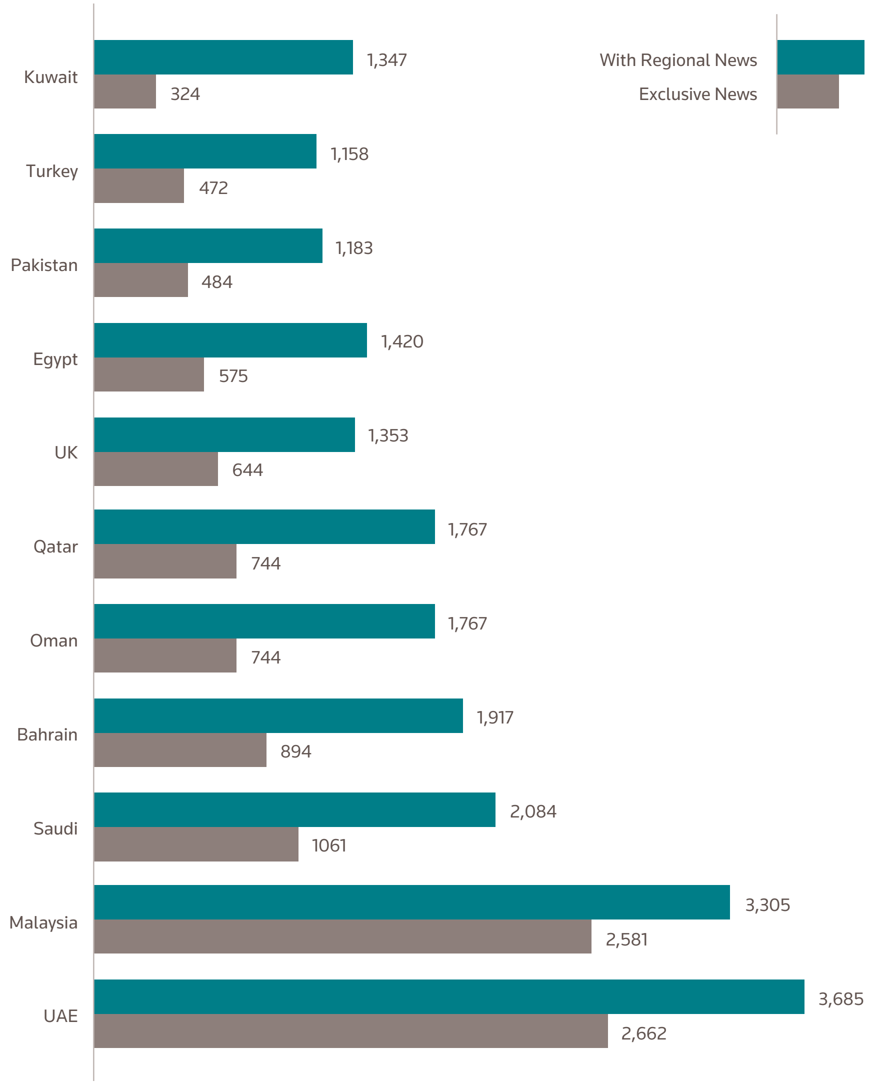
UAE most newsworthy, Malaysia and other GCC countries also make headlines

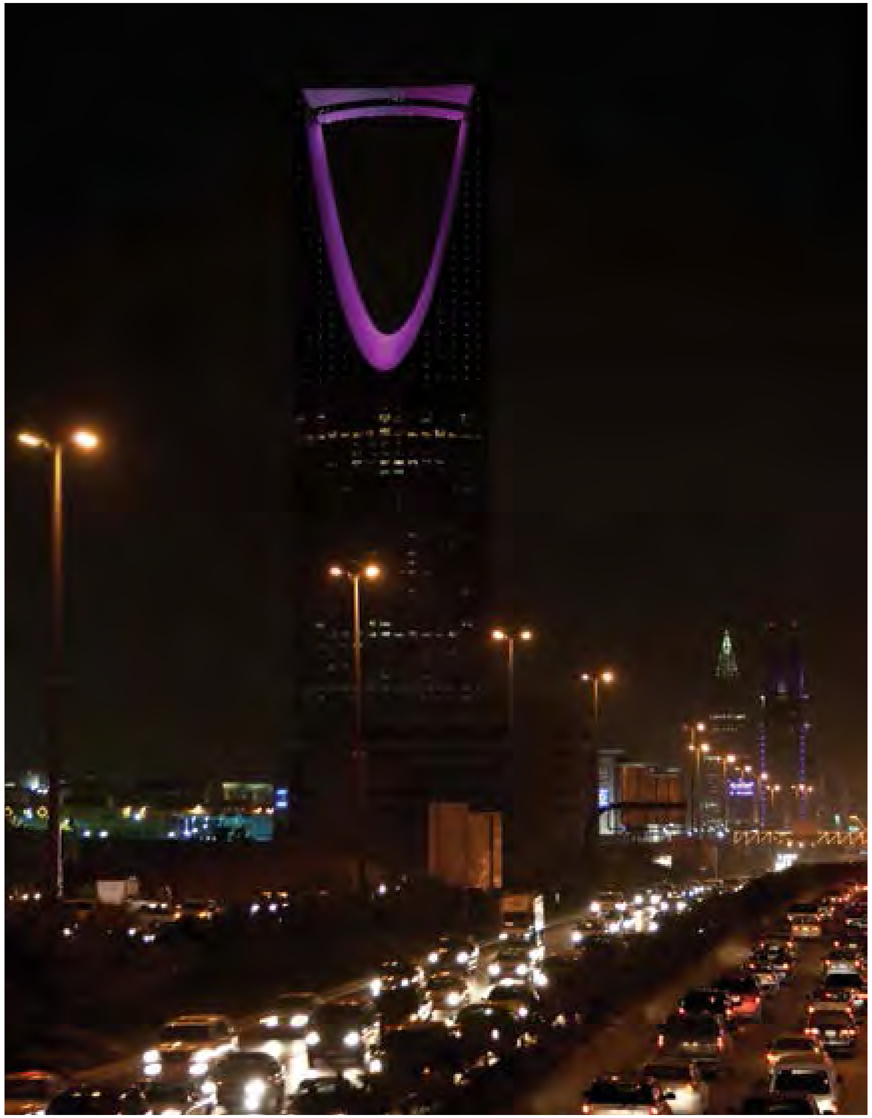
In absolute numbers of regional and exclusive news, UAE was the headline grabber with 3,006 news pieces, followed by Malaysia with 2,626 and Saudi Arabia with 1,405. These numbers include exclusive and regional news only and do not figure in general news articles that do not explicitly address any specific country or region.

UAE was most newsworthy thanks to a year-long sustained media attention on Dubai's announcement, in January 2013, of becoming the world's capital of the Islamic economy. News from the UAE reached a climax during the GIES in November, which was also the highest point for Islamic finance news for all countries for the year.

Malaysia kicked off 2013 on a high, propped up by news reports covering the start of a new capital adequacy framework for Islamic banks as well as milestone sukuk issuances which included Asia's first internationally rated

Global Islamic Finance News in 2013 — Top Performing Countries





Night in the Riyadh, Saudi Arabia

corporate multi-currency sukuk programme from Sime Darby and the country's first retail sukuk from state-owned infrastructure financing entity Danainfra. Local press played an important role in reporting the country's developments, including big national news such as the introduction of the Islamic Financial Services Act 2013.

There is a wide gap between the top two leaders and third-placed Saudi Arabia which only attracted a little over 2,000 news pieces related to Islamic finance. For the other GCC countries exclusive country-level news as well as regional news lifted their rankings. Oman especially had an active year as several Islamic windows and banks started operations. This was followed by the conversion of a conventional insurance company to a takaful company, and the Sultanate's first-ever sukuk issuance in November.

UK European leader

The UK was the biggest mover in the top 10, and leads European coverage. The country attracted a deluge of media focus when, as host for the World Islamic Economic Forum (WIEF) in London in October, the British Prime Minister announced the government's plans to issue the West's first sovereign sukuk and a new Islamic index for the London Stock Exchange.

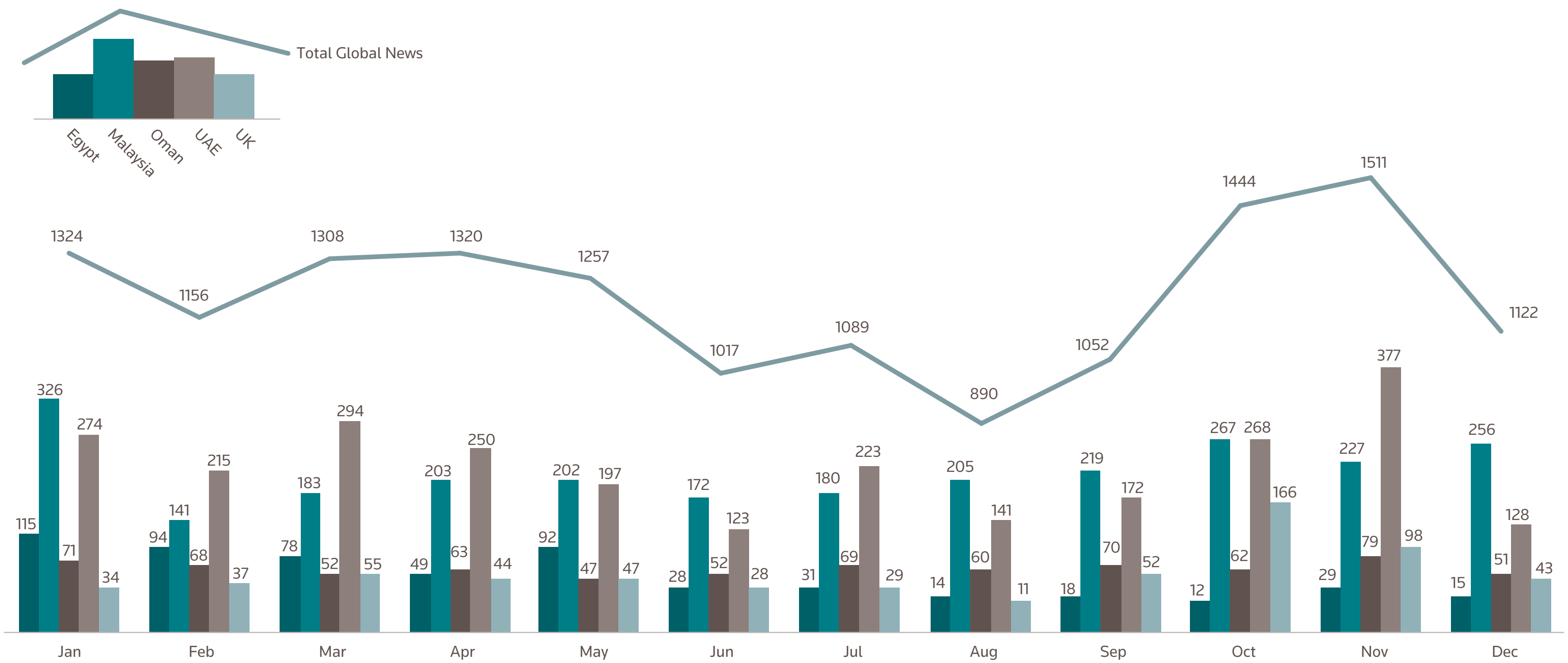
Other markets

Egypt was the only North African nation to make the top 10. The first half of the year was a busy one for Egypt as the pro-Islamic finance new government started making plans for the sector, but media attention waned in the second half after the ousting of President Morsi. A development that attracted media attention was the revision of the country's sukuk laws. A new sukuk bill was signed into law in the year but did not become effective following the ousting of the elected president in July. Prospects of issuing a sovereign sukuk in 2013 then diminished.

Although Nigeria and India did not make it into the top 10, they made noticeable jumps in the news rankings compared to 2012. Nigeria's year in Islamic finance saw the country's first sukuk (from Osun State in October) and new guidelines overseeing the takaful industry.

In India, interest was sparked in the first half of the year when the central bank's decision on an interest-free banking scheme was sought. Eventually, the Reserve Bank of India gave the nod for a non-bank Islamic financial institution to operate in Kerala.

Islamic Finance News in 2013 (Breakdown by Month & Selected Countries)



CASE STUDY

DRIVING SOCIAL MEDIA ENGAGEMENT IN ISLAMIC FINANCE

Dr Jonathan A.J. Wilson

By Dr Jonathan A.J. Wilson

21st century marketing is the dawn of an age that embraces and celebrates more human traits — beyond simple industrialisation, commerce and structuralism. Financial and economic transactions are the culmination of human transactions in the widest sense; and these begin with transactional exchanges of thoughts, emotions, experiences and social activities. Increasingly, these activities involve interactions via social media platforms. This article focuses on the theatre of communication, offering some building blocks and principles behind what makes for compelling social media engagement.

The setting: Community and society build our world view

Gemeinschaft and Gesellschaft are German words, used in sociology to categorise social ties. In practice, Gemeinschaft [community] and Gesellschaft [society] work together, forming a blended reality, which changes according to time and context.

Both are open to abuse and over-engineering, or the creation of artificial and fictitious qualities run the risk of eroding either category, or swinging the pendulum the other way.

Gemeinschaft is an ascribed status comprising of a fundamental shared set of values, beliefs, norms, customs, rituals, kinship, behaviours and artefacts that individuals possess, and which binds them to one another — from the sacred to the profane, and through to the mundane. The bonds of Gemeinschaft represent a community of fate, where both good and bad fortune are shared.

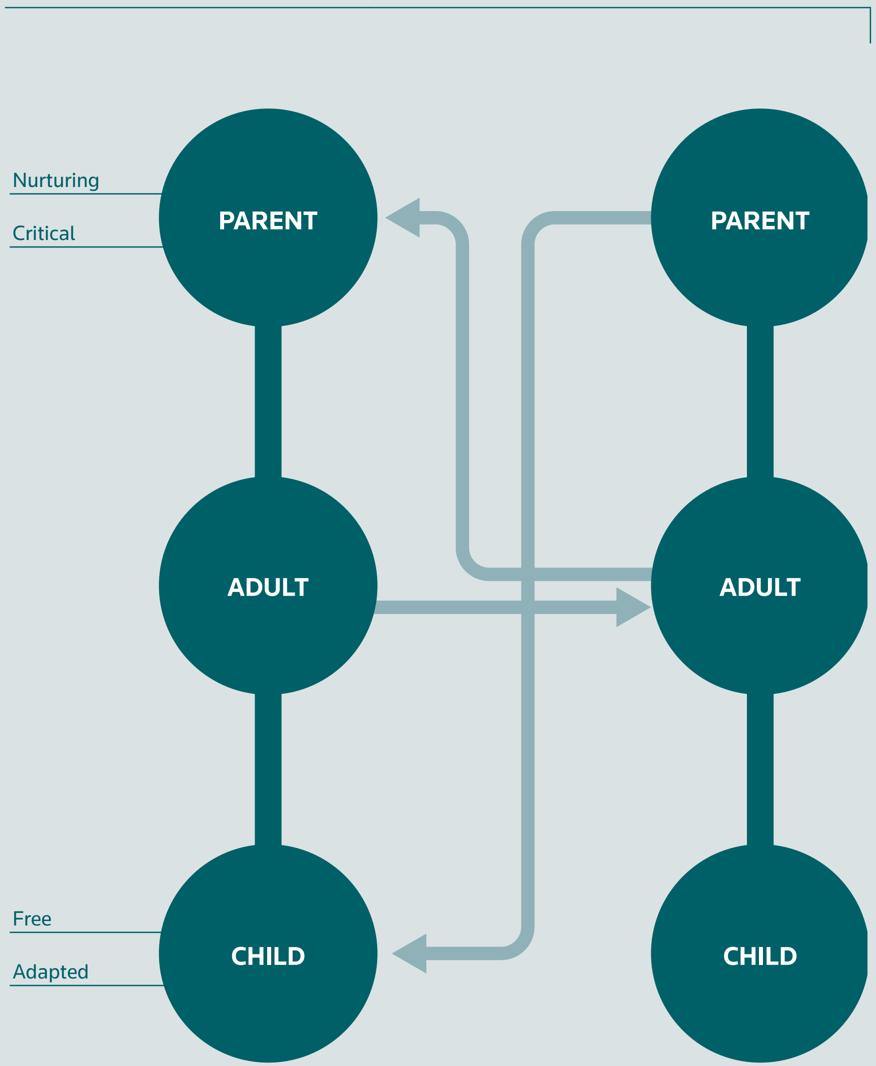
Gesellschaft is an achieved status built on secondary weaker relationships, where larger associations never take precedence over an individual's rational self-interest. Globalization, business, organisations, employment, and citizenship are examples of these societal relations.

The players: Knowledge of self linked to others

If we accept that we behave differently from time to time: how does our communication change?

Looking in the field of psychotherapy at structural analysis, people are seen to change and shift between patterns of behaviour, states of mind, and psychic attitudes — known as ego states. These can be reduced to three main categories, which any of us have the ability to enact:

- Parent — those traits that resemble controlling parental figures, which are either nurturing or critical
- Adult — a neutral and objective appraisal of reality
- Child — still-active archaic relics, which were fixated in early childhood — ranging from natural free, rebellious creativity; to adapted, conforming and submissive.



These three states are dynamic and become apparent when two or more people communicate. There are two levels of communication: the social level, and the psychological level and this explains how it is possible that someone can switch between states. Communicating is seen as being engaged in a form of reciprocal transaction and for communication to continue, it needs to be complementary, and there needs to be a stimulus.

Now think about how you would classify the following pieces of communication and advertising slogans:

- "Sprite — Obey your thirst" [Parent]
- "Apple — Think different" [Parent]
- "HSBC — The world's local bank" [Adult]
- "Nokia — Connecting People" [Adult]
- "Nike — Just Do it" [Free Child or Parent]
- "L'Oréal — because you're worth it" [Free Child or Parent]
- "L'Oréal — because I'm worth it" [Free Child]
- "Virgin Airlines — Hello gorgeous" [Free Child]

Each slogan conveys a certain personality with its message, but it's also important to remember that depending on who conveys the message, the context, and the style, then the path of the transaction can change. Some of the most iconic brands have used paradoxes, and humour to create a unique and compelling message — especially when eliciting parental or child states. Eric Berne's 1964 book 'Games People Play' goes into this in more detail, and it's clear that more games can be played when people adopt parental or child states. One example he cites is of the salesman who says, "This one is better, but you can't afford it".

Online communication is dominated by parental and child states. In Online conversations Adult (as in the ego state above) communication tends to be forgotten or ignored. Everyone seems to be telling people what to do using language which exhibits parental or child states. So the key challenge for a company is not to respond in a Critical Parent state, even in the face of provocation — it never goes down well.

Online communication is dominated by parental and child states. In Online conversations Adult (as in the ego state above) communication tends to be forgotten or ignored. Everyone seems to be telling people what to do using language which exhibits parental or child states. So the key challenge for a company is not to respond in a Critical Parent state, even in the face of provocation — it never goes down well.

The Internet is full of people empowered to be free and rebellious with their communication. Similarly, there are plenty of consumers who are ready to step in and adopt a more parental and critical position than the organisation — where the organisation traditionally was thought to be the parent; possessing all the power and legitimacy.

How to deliver the lines: The art of leading communication — with purpose

Rhetoric is the art of informing, persuading and motivating audiences through arguments. Aristotle held it to be the tool of logic and politics — categorising it according to three appeals to an audience:

Ethos — How well an individual is able to convince an audience of their authority, honesty and appeal on a particular subject. These are the relevant aspects of an individual's character that have the ability to enhance the appeal of an argument. Ethos can be broken down further, into three categories:

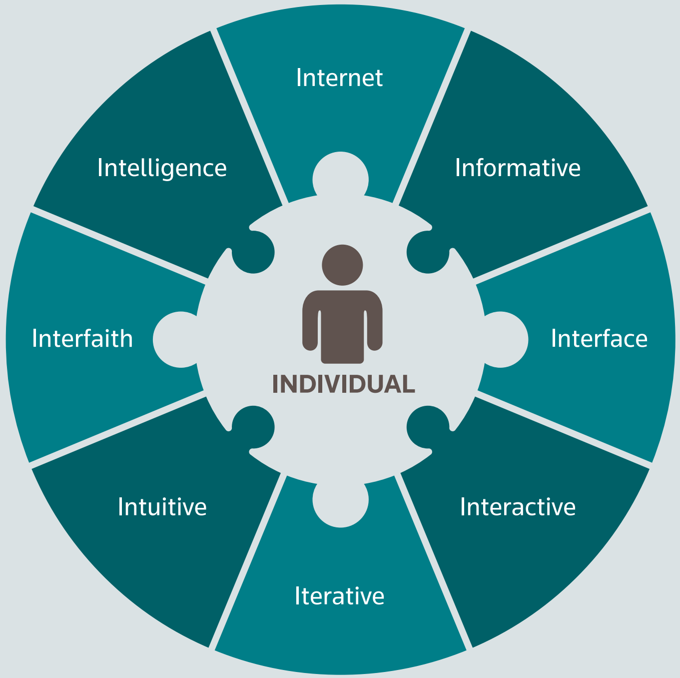
- Phronesis — wisdom and practical skills
- Arete — goodness, virtue and excellence
- Eunoia — goodwill towards an audience

Pathos — A communication technique used to appeal to an audience using emotion, passion, stories, hooks, and figures of speech — such as analogies, allegories, hyperboles, and similes.

Logos — The logical reasoned argument, which makes things clear. Logos also enhances ethos. In addition, a simulated argument, where data is manipulated and re-contextualised, could in fact be used to enact a pathos effect.

Putting it all together: The importance of speaking to the individual as an individual

Following all of the above guiding principles — worldview, communication between self and others, and how we communicate — and the idea of championing cultural imperatives, I would like to drill down further on the role of the individual within marketing geographies — as collaborative creators, architects, agents and facilitators. This model presents the attributes, skills and activities of individuals within this marketing landscape.



Also, my thinking is that the term 'individual' can be used interchangeably; by being applied figuratively to brands, a corporate identity, or a product — that is if the human bonds and characteristics are strong enough to facilitate this.

My argument is that Islamic finance will benefit from creating a new culture of empowered individuals, equipped for the 21st century. This work should attempt to engage with the wider community — rather than just marketing to 'them' (Muslim or non-Muslim).

Islamic finance shouldn't be isolationist; exclusive; weighed down by technical terms that only a few educated scholars can understand; or settle for being a subset of Finance. It has to feed into the bigger debate and narrative in a way that can be understood by many types of people regardless of their faith. This is da'wah in the truest sense — An Arabic word meaning an invitation to an Islamic way of life.

Furthermore, with Islamic finance, the focus should be on the person, not the product. My observations find that much is made about the compliance of products and services, through halal and sharia certification, whilst less can be said about impressing the importance of management and societal issues, and the character of individuals. So for example, truly Islamic finance and halal offerings should first and foremost be about the professional; and only then will their products and services remain pure, true and authentic. If the reverse is attempted, then matters are open to abuse. This is perhaps potentially a key contribution that Islamic finance can make — in supporting the rising agendas of ethics, best practice, sustainability, and social responsibility. Of course, these ideals are not unique to Islam — but Islam has been successful in raising a flag for the importance, role and necessity of faith in business.

How to appeal to several target audiences at the same time?

Innovation and creativity in products, services, management, and individuals are hot topics. But innovation and creativity simply for the sake of it, or to signal market differentiation aren't enough. With so much competition, noise, reduced production costs, and speed to market; things can easily be forgotten or swamped. Innovation and creativity have to be built organically and consensually, so that at every stage there is a broad base of supporters and evangelizers who can take things to the next level. This means that innovation and creativity have to demonstrate and communicate a real value proposition, which can be understood and consumed by a diverse group of stakeholders.

The role of the consumer, shared power and decision-making, strategic alliances, and diversity of networks, are critical and becoming much more fluid. You don't know which way the market is going to shift in the future — so too much protectionism, or a desire to control may well backfire.

This is very much an open-source mindset of giving, and giving being defined in the widest sense; in the hope that you will receive. In doing so the horizon is extended towards a more long-tail economics approach.

A challenge that exists is how to appeal to several target audiences and segments at the same time. The key question is whether this is achieved through one clear consistent and compelling message across all platforms, which end-users interpret differently, according to their own viewpoints and frames of reference; or instead through integrated marketing communications that uses different creatives for each platform. For example in some conservative societies what may work on a smartphone shopping App. for private viewing may not be well-received on a billboard campaign. However conversely, with social media connecting us all, if there is a perceived disconnect through too much localisation, then this may undermine the universal values and brand promises in the minds of consumers.

Dr. Jonathan A.J. Wilson
Marketing Faculty, Business School, University of Greenwich, London
Editor-in-chief, Journal of Islamic Marketing

Dr. Jonathan A.J. Wilson is an academic, consultant, speaker, and journalist with industry experience spanning 20 years. His varied experiences, which include being a chemistry and life sciences graduate, holding a doctorate in Global Brand Management and Culture, alongside a career as an advertising practitioner, have taken him throughout Europe, the Muslim world, and Asia.

Jon is Editor-in-Chief of the Journal of Islamic Marketing; he blogs for the Huffington Post; writes for Zawya Thomson Reuters, and Aquila Style magazine (Singapore); and is an Associate Member of the UK All Party Parliamentary Group (APPG) on Islamic Finance and Diversity in Financial Markets.

METHODOLOGY

Landmark of modern silver steel bridge at dusk in Putrajaya, Malaysia

THE CONCEPT

The Islamic finance industry operates within a Darwinian business and financial environment that demands it adapt to constant change. Within this framework survival itself demands innovation and advancement that will both strengthen the very core of the industry as well as always keep it steps ahead of the curve. In the aftermath of the global financial crisis Islamic financial institutions, market players, regulators and other authorities have more purposefully sought out one another in order to improve the process of industry-wide cooperation and alignment. Reliable information and data are key to this exercise.

The Islamic Finance Development Indicator is the true barometer of the state of the industry across its fundamentals. The Indicator aims to introduce a new way of measuring development by combining data of the different elements of the industry into a singular composite Indicator. This quantified information will help facilitate further comprehension of how the different parts of the market are developing over time.

THE ISLAMIC FINANCE DEVELOPMENT INDICATOR

The Islamic Finance Development Indicator is a composite weighted index that measures the overall development of the Islamic finance industry by assessing the performance of all its parts in line with its inherent faith-based objectives. It is a global level composite indicator with selected national and industry component level indicators.

OBJECTIVES

Global Indicator Level

- Present one single indicator to provide a pulse of the global Islamic finance industry's health
- Provide an indicator that is reliable and unbiased
- Inform current and potential Islamic finance stakeholders/investors about the industry's performance
- Gauge future forecasts for the industry's growth

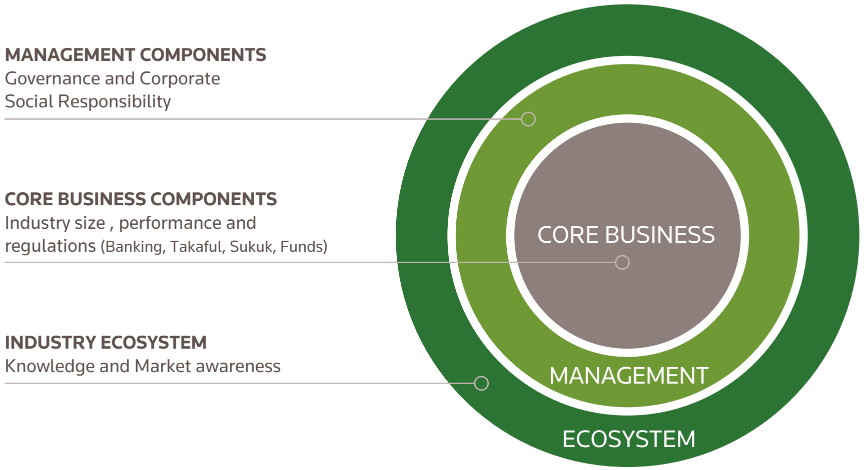
Country Indicator Level

- Assess the current state and growth potential of Islamic finance in each country
- Highlight the performance of Islamic finance institutions in particular markets and its possible determinants
- Track changes over time and make comparisons across regions and countries

Specific Indicator Level

- Measure the industry's growth from various perspectives
- Enhance Islamic Finance market transparency and efficiency
- Identify factors, problems and issues that prevent the growth of the industry
- Help market players formulate practical solutions to face current obstacles
- Assist in setting new targets, goals, standards for Islamic finance institutions and regulators

The Islamic Finance Development Indicator is a single measure that captures a holistic assessment of the Islamic finance industry across all sectors. It is a product of a number of key sub-indicators underlining the industry. Disaggregation of data helps expose the disparities, differences and movements that may not be exclusively covered in wide-ranging aggregate terms.



The different components that make up the Indicator were selected based on an outline of the key constituents of the industry as a whole and are based on key contemporary issues such as Corporate Governance, Corporate Social Responsibility, Knowledge and Awareness. All are fundamentally important for the development of the industry as a global business.

SELECTION CRITERIA

The word 'development' in Islam signifies well-rounded development. When an individual's life is assessed from an Islamic point of view, their monetary or financial wealth is the least important consideration. Instead, an individual's measurement is based on fulfilling their responsibilities towards God, family and the wider society.

Similarly, measuring the performance or development of the Islamic financial services industry entails assessing it in relation to how well it has carried out its religious, economic, legal, ethical and discretionary responsibilities.

Therefore, in the context of measuring the development of the Islamic finance industry, an indicator must take stock of what the industry holds itself accountable for and in line with its Islamic economic underpinnings.

While there is no doubt that financial health by way of asset size or performance is an assumed indicator of the well-being of the industry, traditionally it has taken a disproportionate share of attention as compared to other dimensions. This is a function of the value ascribed to quantitative financial numbers in the overall financial markets and the rarity of other indicators in relation to the Islamic finance industry.

In contrast, measurements for the Islamic finance industry need to align with a holistic accountability concept that the industry and its stakeholders can take as their responsibility to develop in a coherent manner.
This accountability concept should take into view a presumption that the industry is foremost accountable to God, and this drives all other accountability for all individual actions.

1. What is the purpose of the Islamic finance industry?
2. What is considered development in the context of Islamic finance?
3. How is this translated to a pragmatic and sound theoretical framework?

These questions were deliberated in the context of the document 'Islamic Financial Services Industry Development: Ten Year Framework and Strategies' prepared by the Islamic Research and Training Institute and the Islamic Financial Services Board in 2008.

That document provides recommendations covering the broad strategies and initiatives to be undertaken for the development of the various components of the Islamic financial services industry — banks, non-banking and microfinance institutions, capital markets, and insurance and reinsurance (takaful and re-takaful) services and the required support financial infrastructure.

The key priority areas identified along with traditional measures for quantitative development were used to provide a theoretical framework of the key aspects of development that need to be addressed in the Indicator.

These include:

1. Quantitative development of IFIs and markets (‘**Quantitative**’)

2. The industry’s social contribution in line with Islamic principles (‘**Social Responsibility**’)

3. The quality of sharia governance to ensure that Islamic financial institutions and instruments comply with sharia standards (‘**Sharia Governance**’)

4. The quality of Governance and Risk Management measures to protect its stakeholders (‘**Corporate Governance**’)

5. The availability and quality of education to ensure that its professionals are well versed in Islamic commercial jurisprudence and Islamic finance principles to serve the industry (‘**Education**’)

6. The output of research to ensure that the industry’s foundations and development are based on substantive knowledge (‘**Research**’)

7. Awareness to facilitate better consumer protection and understanding of the principles on which Islamic finance is founded (‘**Awareness**’)

8. Development of an enabling and supportive regulatory infrastructure for Islamic banking, sukuk, takaful and funds to flourish within a particular jurisdiction / country (‘**Regulation**’)

Data Collection

The data employed in the Islamic Finance Development Indicator when aggregating data and computing indicator values included information that are publicly disclosed only. The employment of disclosed information ensures reliability and consistency of the results

Universe

All OIC countries are included

All non-OIC countries with presence of Islamic financial institutions are included

COUNTRY LIST (92 COUNTRIES DISTRIBUTED AMONG MAIN REGIONS IN OUR UNIVERSE)

GCC (GULF COOPERATION COUNCIL)	SOUTHEAST ASIA	SOUTH ASIA	EUROPE	OTHER MENA (MIDDLE EAST & NORTH AFRICA EXCLUDING GCC)	SUB-SAHARAN AFRICA	OTHERS
Bahrain	Brunei Darussalam	Afghanistan	Albania	Algeria	Benin	Australia
Kuwait	Indonesia	Bangladesh	Austria	Egypt	Botswana	Azerbaijan
Oman	Malaysia	India	Belgium	Iran	Burkina Faso	Canada
Qatar	Philippines	Maldives	Bosnia and Herzegovina	Iraq	Cameroon	China
Saudi Arabia	Singapore	Pakistan	Cyprus	Jordan	Chad	Guyana
United Arab Emirates	Thailand	Sri Lanka	Denmark	Lebanon	Comoros	Hong Kong
			France	Libya	Djibouti	Japan
			Germany	Mauritania	Ethiopia	Kazakhstan
			Ireland	Morocco	Gabon	Kurdistan
			Italy	Palestine	Gambia	Kyrgyzstan
			Luxembourg	Sudan	Ghana	New Zealand
			Netherlands	Syria	Guinea	Russia
			Switzerland	Tunisia	Guinea-Bissau	South Korea
			Turkey	Yemen	Ivory Coast	Suriname
			United Kingdom		Kenya	Tajikistan
					Mali	Trinidad & Tobago
					Mauritius	United States
					Mozambique	Uzbekistan
					Niger	
					Nigeria	
					Senegal	
					Sierra Leone	
					Somalia	
					South Africa	
					Tanzania	
					Togo	
					Uganda	

QUANTITATIVE DEVELOPMENT INDICATOR INTRODUCTION

The Quantitative Development Indicator is a weighted index of Islamic Finance Institutions, per country, that generate Islamic financial products and services.

Rationale

This indicator is an essential measure of the industry; it provides the size, depth and long-term sustainability of the sector as a whole. Financial institutions are considered the backbone of the industry given their size and track record. The scope of measures making up the quantitative development indicator are structured to reliably evaluate each element of the financial institutions.

To assess the quantitative development of IFIs and markets, it is necessary to look at all the sub-sectors of the industry and review their quantitative dimensions. There are effectively 5 sub-sectors of the Islamic finance industry: Islamic banking, Takaful, Other IFIs (investment companies, micro-finance institutions ...etc), Sukuk & Funds.

The framework assesses the development of each sector in terms of its size and performance. The metrics should provide unit-specific (institution / instrument) and country-specific average measures of size such as total assets, total number of standalone IFIs and windows, and listed institutions. In the context of funds and sukuk, specific metrics unique to each are constructed. The performance metrics provide unit specific (institution / instrument) and country specific average measures on the performance of IFIs and instruments, such as the average stock price performance, return on assets, return on equity or the bid/ask spread (for sukuk).

Sub Indicator: Islamic Banking

Islamic banking consists of all institutions licensed as banks operating in a sharia-compliant manner including investment / retail / wholesale / specialized banks in order to measure their development.

Metrics: Banking Assets, Number of standalone Islamic banks and Islamic windows, Number of listed banks, Stock performance, ROA and ROE

Sub Indicator: Takaful

Takaful is analysed based on the sector's market development which consists of the size of the market, and micro side of performance assessment.

Metrics: Takaful asset size, Number of takaful and retakaful companies, Number of listed takaful, Stock price performance, ROA and ROE

Sub Indicator: Other Islamic Financial Institutions (OIFI)

Other Islamic financial institutions are the support institutions licensed to provide financial services other than banking activities. It includes investment, leasing, asset management and advisory companies and other financing institutions.

Metrics: Number of other IFIs, Size of assets, Number of listed other IFIs, Stock performance, ROA and ROE

Sub Indicator: Sukuk

This is an index of all sukuk, which will assess its growth and performance. Metrics: Sukuk issuance and outstanding sukuk, Number of sukuk listed and rated and bid/ask spread

Sub Indicator: Funds

This is a weighted index of all Islamic mutual funds per country, which will assess the position of the Islamic fund market within the Islamic finance Industry.

Metrics: Number and value of funds, New funds launched, Number of Islamic asset managers, Cumulative performance

- All institutions/sukuk/funds data collection is limited to the IFDI universe, and data from other countries are not considered.
- Institutions' stock prices information is limited to public institutions.
- Information on individual institutions was restricted to publicly available 2013 financial statements
- Islamic Financial institutions total assets were calculated based as at December 31, 2013 or based on the latest available data prior that period which are adjusted to the exchange rate for 2013
- Islamic Finance windows/segments were included in the universe while sukuk bid/ask prices is limited to available prices available on Zawya and Thomson Reuters Eikon as at December 31, 2013
- Allocation of Islamic Funds was based on Asset manager location and not the domicile of the fund

KNOWLEDGE INDICATOR

The Knowledge indicator is a weighted index of two main sub-Indicators — education and research — which are the main dimensions that build the base for any industry. Education and research are the input factors that are needed to reach depth and efficiency in the market.

Rationale

The development of the Islamic financial services industry in any country or jurisdiction is a function of the human capital resources that can supply the knowledge and skills required to sustain and enhance the functioning of the industry. It is not enough to have professionals who have training and experience in conventional banking and financial markets, as they lack the depth of expertise in the Islamic law of commercial transactions and Islamic finance to innovate or provide incremental advances to the practices of Islamic finance. As such, much of the industry's development in a country relies on a cadre of trained professionals who have a combined exposure to finance / banking and a structured study of Islamic finance inclusive of its core principles.

We assess the knowledge development of the Islamic financial services industry by reviewing the number of training courses and degree programs available in each country along with the amount of research produced by each country relating to Islamic economics and finance.

Sub Indicator: Education

Education as a sub-indicator measures the number of institutions providing formal teaching and training programs for Islamic finance. This index is vital to the industry as it reflects the extent and depth of the qualified pool of human capital working in the industry.

Metric: Number of universities, School and educational institutions with course(s) on Islamic finance

- Islamic finance courses that include both educational courses and training/practical courses
- The course has to be fully dedicated to Islamic finance topics and not account for only part of the course objectives
- Courses collection is limited to the IFDI universe, and data from other countries are not considered
- All information is based on information available online

Metric: Number of universities that offer a degree(s) in Islamic finance

- Degrees collection is limited to the IFDI universe, and data from other countries are not considered

Sub Indicator: Research

Research is defined as the study and the systematic investigation into resources and materials in order to reach new conclusions. Like any other industry, Islamic finance needs research and peer-reviewed journals in order to discover and develop solutions to problems, create new products and services, and bring knowledge and depth to the business. Research from the last three years is considered as countries need to produce regular/ongoing research to benefit from development in this criteria.

Metric: Number of peer-reviewed journal articles on Islamic finance between 2011 and 2013

- Any article about Islamic finance within a journal that has an editorial board
- Peer-reviewed collection is limited to articles produced between 2011 and 2013
- All information is based on information available online
- Peer-reviewed collection is limited to the IFDI universe, and data from other countries are not considered

Metric: Number of research published on Islamic finance between 2011 and 2013

- Research published include both peer-reviewed and research papers
- Islamic finance reports are not included in the universe
- Research papers collection is limited to papers produced between 2011 and 2013
- All information is based on information available online
- Research papers collection is limited to the IFDI universe, and data from other countries are not considered

GOVERNANCE INDICATOR

The Governance indicator is a weighted index of the regulatory ecosystem of a country. It is measured by assessing three factors: Regulations, Corporate Governance and Sharia Governance.

Rationale

The health of the Islamic finance industry is directly aligned to the development of the infrastructure that supports its growth. Without enabling regulations, effective corporate and sharia governance, and appropriate risk management oversight, the Islamic finance industry may grow but not at the levels of growth were it to have the appropriate controls in place. Without these necessary governance mechanisms, the industry in any particular country may suffer loss in investor and consumer confidence, appropriation of funds and at worse a collapse of the financial institutions involved. Furthermore, as stated by AAOIFI: "the financial services industry (whether conventional or Islamic) is one in which 'trust' is vital... Sound governance practices serve to enhance public confidence".

Islamic finance principles emphasize the need for strong governance and regulations; these are essential in Islamic finance as they provide legitimacy to the practices of Islamic financial institutions and inform and facilitate their decision-making processes. The Governance indicator provides a degree of assurance with regard to the development of a sound Islamic finance industry. The indicator measures several simple and effective proxies to assess the development of governance of Islamic financial institutions in a particularly country based on a combination of AAOIFI and IFSB standards.

Sub Indicator: Regulation

Regulation of the financial services industry is intended to protect the country from systemic risk associated with monetary flows and also to protect consumers in an environment of high information asymmetry and unequal bargaining power between financial institutions and consumers.

In the context of the development and health of the Islamic financial services industry, regulation takes on more significance. In most jurisdictions, Islamic banks and financial institutions are handicapped by regulations that do not cater to their modus operandi and are primarily built with a conventional bank offering interest-based loans and financial services. The products offered by Islamic financial institutions have specificities that require a customized approach to regulation to ensure that Islamic financial institutions have a level playing field with conventional financial institutions.

This component of the indicator assumes that most countries have regulations covering their financial services sector and will therefore focus on whether or not the country has implemented regulations covering their Islamic financial services sector, including regulations for banks, takaful companies, other Islamic financial institutions, Sukuk and Funds. To avoid subjectivity, the component does not distinguish between the quality of regulations. Rather, it seeks to ascertain whether regulations exist for each particular sector through dedicated regulations or provisions/amendments to the conventional law itself. Countries that make amendments to only allow Islamic Finance practices are not considered.

Metrics: Islamic banking regulations, Specific Accounting/Reporting regulations for Islamic finance, Specific sharia governance regulations for Islamic finance, Takaful regulations, Sukuk regulations, Funds regulations

- Regulation collection is limited to the IFDI universe, and data from other countries' regulations are not considered
- Regulation is applicable for the relevant fiscal year, any other regulations set after that will not be applicable

Sub Indicator: Sharia Governance

Sharia-compliance is a key determinant of choice (and for some consumers, the only determinant) of whether or not to engage the services of an Islamic financial institution.

AAOIFI maintains that each Islamic financial institution should have at least **3 members in their Sharia supervisory board.** It is widely acknowledged that the strain on sharia scholars is likely to impact on the level of governance oversight they can have on each financial institution. Hence, the number of boards a scholar sits on reduces their sharia governance oversight capabilities as they would not be able to provide effective supervision to the activities of the financial institution

As a result, we consider that a greater **number of board appointments** reduces a scholars' governance oversight, by a proportionate amount, and that it has the ability to influence the oversight performance of the sharia supervisory board, particularly if one or more scholars has several board appointments.

We assume that scholar oversight reduces from the level of more than 5 board appointments on the basis that more than 5 board appointments consumes a disproportionate amount of time (less than 2 months on average in a year for each institution assuming 30 days of leave per year). Subsequent to that, we assume that every additional board membership represents a decline in oversight.

From the perspective of measuring the industry's development, it is not only the institutional level development that matters but also regulatory support that the sharia governance system receives. It is widely recognised that establishing a national level sharia committee or council can have a direct impact on the clarity and quality of sharia governance on a national basis and can ensure that similar set of practices and processes are followed across various institutions offering Islamic financial services. More importantly, it becomes easier to develop rules and procedures to review the conduct of IFIs with one set of interpretations and one body to adjudicate sharia compliance.

Metrics: Number of scholars with at least one board membership, Number of scholars with more than 5 board memberships (negative scoring), Number of institutions with more than 3 SSB members, Centralised Sharia Committee

Sub Indicator: Corporate Governance

While some of the requirements relate to items that cannot be properly monitored from publicly available information, the principle requirements enunciated by both AAOIFI and IFSB (with the exception of sharia governance which is covered in a subsequent section) are as follows: the requirement of independent directors and chairman of the Board to avoid conflicts of interest. The establishment of independently chaired Audit and Governance committees to maintain financial reporting and governance oversight, and the requirement of independent chairman of risk management committee to avoid conflicts of interest.

In addition, we have also evaluated the financial statements of IFIs, using a scoring-based system, to evaluate if the disclosures are in line with corporate governance-leading practices. A list of items considered is provided on the following page.

Metrics: Independent chairperson of the Board, Number of independent directors on the board, Non-executive chair risk management committee, Non-executive chair of the audit committee, Disclosure index

- Collection is limited to annual and other reports produced for the relevant fiscal year which are available on institutions' websites
- For both standalone Islamic institutions and Islamic windows

DISCLOSURES

Financial Statements

- Disclosure of profit and loss account statement
- Disclosure of balance sheet statement
- Disclosure of cash flow statement
- Capital and its breakdown
- Deposits and its breakdown
- Other Liabilities and provisions breakdown
- Cash and balance breakdown
- Borrowing and its breakdown
- Investments and their breakdown
- Fixed assets and their breakdown
- Contingent liabilities and their breakdown
- Profit earned and their breakdown
- Other income and their breakdown
- Interest expenses and their breakdown
- Operating expenses and their breakdown
- Directors' fee and allowances
- Total Capital adequacy ratio
- Tier 1 capital
- Tier 2 capital
- Risk-weighted capital assets
- Narrative statement of company's affairs
- Amount of dividend recommended
- Report on corporate governance
- Composition of Board of Directors
- Details of attendance of each director at BOD meeting
- Number of BOD meetings held and dates
- Classification of directors as executive or outsider
- Information on management/executive committee of the board
- Composition of Audit Committee
- Number of meetings held and date of audit committee
- Disclosure of materially significant related party transactions
- Disclosure of accounting treatment and policies
- Disclosure of information on the quarterly result/press release to website
- Disclosure of listing information on stock exchange
- Disclosure of market price data
- Disclosure of performance

Management Discussions and analysis

- Information regarding remuneration committee
- Information on remuneration to all the directors/MD
- Report on Management Discussion and Analysis (MDA)
- Discussion of material development in HR including number of people employed

Sharia Reporting

- Disclosure of the role of sharia advisor or board in supervising the bank's activities
- Disclosure of earnings or expenditures prohibited by sharia
- Disclosure of restricted assets or assets pledged as security
- Other details of Annual report
- Basic organization structure/chart/description of corporate structure
- Date of establishment
- Official address/registered address/address for correspondence
- Web address of the bank/email address
- Information about branches
- List of shareholders owning 5% or more of the company
- Management's objectives and strategies vision/motto
- Details about the BOD (other than name/title)/background of the chairman/academic/professional/business experience
- Number of shares held by directors
- List of senior managers (not on the board of directors)/senior management structure
- Background of senior managers
- Directors' engagement/directorship of other companies
- Financial ratios and statistics
- Comparative financial statement

Segmental Reporting

- If the company operates in more than one business and/or geographic segment, then disclosure in report and detailed footnote for the segments

Risk Management Reporting

- Discussion of overall risk management philosophy and policy
- Information on risk management committee
- Information on assets-liability management committee
- Quantitative and qualitative information on gross loan position
- Disclosure of credit rating system/process
- Ageing schedule of past due loans and advances (NPA)
- Disclosure about risk management process (use of risk-mitigating tools such as collaterals, guarantees, netting agreement, managing concentrations
- General descriptions of market risk
- Significant concentrations of foreign exchange exposure by currency
- Broken down by assets and liabilities
- Maturity information about deposits and other liabilities

CORPORATE SOCIAL RESPONSIBILITY INDICATOR

Corporate Social Responsibility Indicator is a weighted index that measures Islamic banks' duty to fulfill their accountability through two sub indicators: disclosed Corporate Social Responsibility (CSR) information as well as socially responsible activities such as zakat, charity and qard al hasan.

Rationale

Socially responsible activities merge with the prohibition of riba (usury/interest) to distinguish Islamic banks from other financial institutions. Business and financial transactions are considered a part of the holistic Islamic framework, and their sound basis and prosperity is both affected by and impacts their surrounding societal and environmental ecosystem.

As an industry that is founded on a system of ethics and fairness, the Islamic finance industry holds itself responsible for ensuring the well-being of its stakeholders and the broader society which it serves. Indeed, AAOIFI developed a comprehensive set of guidelines which requires IFIs to fulfill obligations to a variety of stakeholders and the elements of society which are affected by it. The Governance Standard for IFIs No. 7 Corporate Social Responsibility Conduct and Disclosure, requires IFIs to develop policies and procedures to embed social responsibility in all of their activities, within their capacity. The standard was based on a wider conceptual framework of accountability of IFIs beyond their legal and economic requirements to cover religious and societal accountability.

Sub indicator: Cumulative distribution of funds through Charity, Zakat and Qard al Hasan

This measure reviews the relative value of funds disbursed by Islamic financial institutions either through charity, zakat (tithes) and/or qard al hasan (benevolent interest-free loans).

Metric: Charity, Zakat and Qard Al Hasan

- The metric is based on disclosed CSR funds disbursed in published financial statements.

Sub indicator: CSR Conduct of IFIs

In the absence of standardized CSR reports from IFIs, the CSR conduct of IFIs are measured through an index based on the AAOIFI Governance Standard for Islamic Financial Institutions No. 7 that reviews the annual report of IFIs and the disclosures relating to the IFI. An obvious limitation of this measure is that the IFIs may not disclose all of its CSR activities and hence there may be a gap between what they disclose and what activities they actually undertake.

While this is a current limitation, it is hoped that as this indicator is released and as general awareness in IFIs grow about the requirement to disclose CSR activities, IFIs will start disclosing more to showcase their contributions.

A measurement of CSR reporting falls within the required benchmark for Islamic finance entities within countries. In other words, this will measure transparency. Disclosure measures obtained by the banks are mostly found in banks' Annual Reports and websites. (see CSR Section)

Metric: CSR disclosures

- CSR assessment covers a mixed universe of Islamic banks, takaful institutions and other Islamic financial institutions
- Assessment was done using Islamic institutions' annual reports or CSR reports
- Assessment included some conventional institutions (mostly conventional banks) that have large Islamic operations or separate Islamic windows.

Metric: CSR Disclosure index

Mandatory Disclosure

Policy for Screening Clients

Disclosure of provisions for screening clients

Policy for Dealing with Clients

Disclosure of provisions relating to dealing with clients in terms of late payments, insolvency, credit extension etc

Policy for Earning & Expenditure Prohibited by Sharia

Disclosure of amount and description of impermissible or haram transactions

Employee Welfare

Disclosure of provisions showing equal opportunities for all employees, as well as expected behaviors from them

Zakah

Disclosure of Zakah in financial statements in accordance with provisions of AAOIFI standard

Voluntary Disclosure

Policy for Qard Hasan

Disclosure of formal scheme operated by the bank for related parties to place their funds in use of Qard Hasan

Social , Development and Environment Based Investments

Disclosure of social impact investments that help in assisting poor, needy, heavily indebted individuals and families. As well as, disclosure of development based investment s that assist in growth of targets such as research, education or an infrastructure of a country. Also, investments that aid in protecting the environment

Par Excellence Customer Service

Disclosure of code of conduct and active measures taken to develop customer service skills

Policy for SMEs and Social savings

Disclosure of policies for micro and small business savings as well as community based programmes

Policy for Charitable Activities

Disclosure of charity fund and activities

Policy for Waqf Management

Disclosure of Waqf that is managed based on Sharia guidelines and rules

AWARENESS INDICATOR

Market Awareness Indicator is a weighted index of Islamic finance market awareness per country. It is measured by assessing three components: conferences, seminars and news volume.

Rationale

A consistent concern raised by professionals in the Islamic financial services industry is that there little awareness and understanding of Islamic financial services by the masses. Awareness by consumers can lead to better quality of services as consumers vote with their feet if the services offered are not up to par. If consumers do not know about Islamic financial services, they cannot determine the quality of the services being offered, while the potential market base of customers interested about Islamic financial services will also be limited.

Sub Indicator: Seminars

Islamic finance needs seminars to discuss major issues that present industry development in depth in order to reach mutual recommendations and practical solutions. More seminars in a country reflects higher interest by market players to explore Islamic finance and interact with field experts.

Metrics: Number of seminars on Islamic finance

- Seminars are defined as gatherings of less than 100 Islamic finance professionals or other industry stakeholders
- Seminars collection is limited to the IFDI universe, and data from other countries' events are not considered.

Sub Indicator: Conferences

Islamic finance has developed rapidly during the last few years due to the discussions and issues raised during conferences. These conferences help

market participants stay ahead of the curve and learn new practices. They are also fertile grounds for business networking.

Metric: Number of conferences on Islamic finance

- Conferences are defined as gatherings of more than 100 Islamic finance professionals or other industry stakeholders
- Conferences collection is limited to the IFDI universe, and data from other countries events are not considered

Sub Indicator: News Volume

This component covers the number of news stories published per country covering all recent events on all topics related to Islamic finance, from sharia-compliant equity, sukuk, Islamic funds, sharia issues, Islamic banking products and services to innovation and education.

Metric: Number of news on Islamic finance

- Major global/regional news providers were considered, plus local providers within each country that are available online
- Regional news are added to the total number of news for each country within the region
- Due to language limitations only English news are considered
- News collection is limited to the IFDI universe, and other countries' news are not considered

INDICATOR CALCULATION METHODOLOGY

The methodology for calculating the Indicator values was developed based on the following key characteristics:

Key Characteristics

- Each indicator and sub-indicator should be equally weighted, ensuring no dimension has greater importance or preference to any other
- The indicator should be capable of measuring the growth in any of the given dimensions
- The indicators should not be restricted to a set range
- The absolute values should be adjusted or rationalized based on the overall size of the country/economy to ensure comparability among countries
- The methodology should have minimal subjectivity, and be based on a consistent formula across metrics

The **Global Indicator** is based on the Arithmetic Mean of the individual Country Indicators

The **Country Indicators** are based on the Arithmetic Means of their individual Indicators

The **Individual Indicators** are based on the Arithmetic Means of their Sub-indicators

The **Sub-indicators** are based on the sum of the Metric Values of their individual Metrics

The Metric Value are designed to be aggregated to provide the Sub-indicator values

For numerical values ($ amounts) and numbers (eg. number of courses on Islamic finance):

$$\text{Metric Value} = \frac{\text{Absolute Value}}{(\text{Scale Value x Rationalizing Coefficient})} \times \frac{\text{Metric Weight}}{2}$$

The Rationalizing Coefficient is calculated as follows:

For percentage values (eg. return on equity):

$$\text{Metric Value} = \frac{\text{Absolute Value}}{\text{Scale Vale}} \times \frac{\text{Metric Weight}}{2}$$

For yes/no values (eg. are there regulations for Islamic banks):
Metric Value = Metric Weight if yes, 0 if no

Scale Value is the average for all absolute values for that metric (not including zeros) for 2012.This value forms the basis of our scale for that metric and will remain unchanged for future years.

This will ensure the development of the metric is not restricted to a particular range, and the first year will form the base year against which relative growth in the metric is measured.

The Metric Weight is designed to ensure that metrics of a particular Sub-indicator are weighted to ensure that all Sub-indicators are comparable, regardless of the number of metrics used to derive each.

The Metric Weight is calculated as follows:

$$\textit{Metric Weight} = \frac{100}{\textit{Total metrics within the Sub-Indicator}}$$

The **Rationalizing Coefficient** is specific to each country and is designed to adjust the scale based on the size of the country. This is design to ensure comparability of the indicator values across countries.

We have designed the Rationalizing Coefficient to compare the relevant size of countries based on the size of their GDP, population and banking sector assets. These are compared to median value for all countries (so as not to be skewed by extreme values at both ends of the scale).

The average variance is reduced by half and applied to the Metric Value formula (when applicable) to adjust the Scale Values

$$\textit{Rationalizing Coefficient} = 1 + \frac{\textit{Average}\left(\frac{\textit{GDP} - \textit{Median GDP}}{\textit{Median GDP}}, \frac{\textit{Population} - \textit{Median Population}}{\textit{Median Population}}, \frac{\textit{Banking Assets} - \textit{Median Banking Assets}}{\textit{Median Banking Assets}}\right)}{2}$$

COUNTRY	IFDI	QUANTITATIVE DEVELOPMENT	ISLAMIC BANKING	TAKAFUL	OTHER ISLAMIC FINANCIAL INSTITUTIONS	SUKUK	FUNDS	KNOWLEDGE	EDUCATION	RESEARCH
Global	10.34	6.06	10.99	5.57	4.34	2.83	6.57	8.24	9.02	7.46
Afghanistan	2.82	2.50	11.62	0.00	0.89	0.00	0.00	6.05	12.10	0.00
Albania	4.77	0.92	4.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Algeria	2.32	0.44	1.66	0.56	0.00	0.00	0.00	3.73	7.50	0.00
Australia	5.54	1.94	0.00	0.00	9.36	0.00	0.30	3.74	3.50	3.93
Austria	0.39	0.05	0.00	0.00	0.25	0.00	0.00	1.25	2.50	0.00
Azerbaijan	4.07	0.94	4.68	0.00	0.00	0.00	0.00	2.13	3.30	0.96
Bahrain	76.41	26.76	81.20	15.92	27.08	9.22	0.40	61.69	73.90	49.44
Bangladesh	24.92	16.62	35.41	41.91	5.79	0.00	0.00	8.30	9.60	7.03
Belgium	0.82	0.14	0.70	0.00	0.00	0.00	0.00	1.83	0.70	2.93
Benin	1.58	0.68	0.00	3.38	0.00	0.00	0.00	0.00	0.00	0.00
Bosnia and Herzegovina	4.81	0.46	2.28	0.00	0.00	0.00	0.00	16.65	14.40	18.86
Botswana	0.75	0.15	0.75	0.00	0.00	0.00	0.00	1.56	0.00	3.12
Brunei Darussalam	29.00	6.88	27.32	0.00	0.00	7.09	0.00	25.48	29.60	21.35
Burkina Faso	1.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cameroon	1.26	0.00	0.00	0.00	0.00	0.00	0.00	1.14	0.00	2.28
Canada	0.60	0.31	0.00	0.00	0.72	0.00	0.80	1.65	2.20	1.10
Chad	1.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
China	0.02	0.00	0.01	0.00	0.00	0.01	0.00	0.04	0.00	0.07
Comoros	1.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cyprus	0.88	0.75	3.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Denmark	0.15	0.05	0.26	0.00	0.00	0.00	0.00	0.28	0.60	0.00
Djibouti	9.02	1.64	8.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Eithiopia	0.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Egypt	20.43	12.80	31.00	4.87	7.70	0.00	20.40	12.24	14.80	9.63
France	0.44	0.04	0.12	0.00	0.07	0.00	0.00	1.77	1.70	1.88

COUNTRY	GOVERNANCE	REGULATION	SHARIAH GOVERNANCE	CORPORATE GOVERNANCE	CSR	CSR FUNDS DISBURSED	CSR DISCLOSURE	AWARENESS	SEMINARS	CONFERENCES	NEWS
Global	12.43	15.76	11.20	10.33	9.89	4.57	15.22	15.07	7.42	8.54	29.26
Afghanistan	**2.89**	0.00	1.52	7.20	**0.00**	0.00	0.00	**2.68**	0.00	0.00	8.05
Albania	**2.83**	0.00	0.00	8.50	**15.55**	0.00	31.10	**4.55**	0.00	0.00	13.66
Algeria	**0.86**	0.00	2.58	0.00	**0.00**	0.00	0.00	**6.55**	0.00	0.00	19.66
Australia	**13.27**	0.00	0.56	39.20	**7.78**	0.01	15.55	**0.98**	0.00	2.14	0.79
Austria	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**0.64**	0.00	0.00	1.91
Azerbaijan	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**17.27**	15.23	17.54	19.03
Bahrain	**89.94**	100.00	115.84	54.00	**76.36**	88.74	63.99	**127.28**	38.52	88.69	254.63
Bangladesh	**47.07**	33.33	76.74	31.10	**46.63**	8.35	84.92	**5.98**	8.83	5.08	4.03
Belgium	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**2.11**	0.00	3.89	2.44
Benin	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**7.22**	0.00	0.00	21.66
Bosnia and Herzegovina	**2.70**	0.00	8.09	0.00	**0.00**	0.00	0.00	**4.27**	0.00	0.00	12.81
Botswana	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**2.04**	0.00	0.00	6.11
Brunei Darussalam	**38.16**	66.67	37.19	10.60	**42.60**	7.46	77.74	**31.87**	0.00	55.03	40.58
Burkina Faso	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**6.57**	0.00	0.00	19.71
Cameroon	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**5.13**	0.00	0.00	15.40
Canada	**0.14**	0.00	0.41	0.00	**0.00**	0.00	0.00	**0.89**	1.13	1.30	0.24
Chad	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**7.72**	0.00	0.00	23.15
China	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**0.04**	0.00	0.00	0.11
Comoros	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**9.38**	0.00	0.00	28.15
Cyprus	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**3.63**	0.00	0.00	10.88
Denmark	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**0.42**	0.00	0.00	1.26
Djibouti	**6.56**	16.67	3.01	0.00	**0.00**	0.00	0.00	**36.87**	0.00	31.82	78.80
Eithiopia	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**3.07**	4.66	0.00	4.55
Egypt	**20.23**	0.00	49.73	11.00	**20.73**	0.00	41.46	**36.14**	7.73	8.90	91.79
France	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**0.37**	0.57	0.00	0.53

COUNTRY	IFDI	QUANTITATIVE DEVELOPMENT	ISLAMIC BANKING	TAKAFUL	OTHER ISLAMIC FINANCIAL INSTITUTIONS	SUKUK	FUNDS	KNOWLEDGE	EDUCATION	RESEARCH
Global	**10.34**	**6.06**	10.99	5.57	4.34	2.83	6.57	**8.24**	9.02	7.46
Gabon	**1.54**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Gambia	**6.67**	**3.81**	2.67	2.12	0.00	14.27	0.00	**8.34**	16.70	0.00
Germany	**0.26**	**0.03**	0.11	0.04	0.00	0.00	0.00	**0.73**	0.40	1.03
Ghana	**3.06**	**0.18**	0.00	0.00	0.90	0.00	0.00	**4.39**	8.80	0.00
Guinea	**1.47**	**0.42**	2.09	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Guinea-Bissau	**1.80**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Guyana	**1.80**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Hong Kong	**0.67**	**0.13**	0.20	0.00	0.00	0.00	0.40	**0.43**	0.90	0.00
India	**2.19**	**5.94**	0.00	0.04	25.63	0.00	4.00	**2.17**	2.70	1.62
Indonesia	**27.57**	**17.79**	27.33	35.55	0.30	13.29	12.50	**10.04**	11.00	9.08
Iran	**16.84**	**20.52**	60.03	42.26	0.23	0.07	0.00	**4.36**	0.80	7.94
Iraq	**4.40**	**12.15**	60.20	0.53	0.00	0.00	0.00	**2.65**	4.30	0.97
Ireland	**2.14**	**5.84**	0.00	0.00	0.28	0.00	28.90	**1.76**	2.90	0.64
Gabon	**1.54**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Gambia	**6.67**	**3.81**	2.67	2.12	0.00	14.27	0.00	**8.34**	16.70	0.00
Germany	**0.26**	**0.03**	0.11	0.04	0.00	0.00	0.00	**0.73**	0.40	1.03
Ghana	**3.06**	**0.18**	0.00	0.00	0.90	0.00	0.00	**4.39**	8.80	0.00
Guinea	**1.47**	**0.42**	2.09	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Guinea-Bissau	**1.80**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Guyana	**1.80**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Hong Kong	**0.67**	**0.13**	0.20	0.00	0.00	0.00	0.40	**0.43**	0.90	0.00
India	**2.19**	**5.94**	0.00	0.04	25.63	0.00	4.00	**2.17**	2.70	1.62
Indonesia	**27.57**	**17.79**	27.33	35.55	0.30	13.29	12.50	**10.04**	11.00	9.08
Iran	**16.84**	**20.52**	60.03	42.26	0.23	0.07	0.00	**4.36**	0.80	7.94
Iraq	**4.40**	**12.15**	60.20	0.53	0.00	0.00	0.00	**2.65**	4.30	0.97
Ireland	**2.14**	**5.84**	0.00	0.00	0.28	0.00	28.90	**1.76**	2.90	0.64
Luxembourg	**7.42**	**12.87**	0.00	0.46	0.81	0.41	62.70	**3.06**	6.10	0.00
Malaysia	**93.18**	**74.87**	43.79	47.38	54.51	125.32	103.40	**139.55**	68.40	210.69

COUNTRY	GOVERNANCE	REGULATION	SHARIAH GOVERNANCE	CORPORATE GOVERNANCE	CSR	CSR FUNDS DISBURSED	CSR DISCLOSURE	AWARENESS	SEMINARS	CONFERENCES	NEWS
Global	**12.43**	15.76	11.20	10.33	**9.89**	4.57	15.22	**15.07**	7.42	8.54	29.26
Gabon	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**7.69**	0.00	0.00	23.06
Gambia	**11.11**	33.33	0.00	0.00	**0.00**	0.00	0.00	**10.07**	0.00	0.00	30.21
Germany	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**0.54**	0.52	0.60	0.50
Ghana	**1.46**	0.00	4.39	0.00	**0.00**	0.00	0.00	**9.27**	14.18	0.00	13.63
Guinea	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**6.92**	0.00	0.00	20.75
Guinea-Bissau	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**8.99**	0.00	0.00	26.98
Guyana	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**9.01**	0.00	0.00	27.02
Hong Kong	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**2.80**	1.97	4.53	1.92
India	**2.21**	0.00	0.00	6.60	**0.00**	0.00	0.00	**0.66**	1.04	0.00	0.93
Indonesia	**56.08**	66.67	54.00	47.60	**47.54**	9.57	85.51	**6.38**	7.21	4.15	7.80
Iran	**30.34**	83.33	0.00	7.70	**24.82**	3.00	46.64	**4.14**	0.00	4.21	8.20
Iraq	**2.27**	0.00	6.81	0.00	**0.00**	0.00	0.00	**4.92**	0.00	0.00	14.77
Ireland	**0.62**	0.00	1.86	0.00	**0.00**	0.00	0.00	**2.48**	0.00	5.11	2.34
Gabon	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**7.69**	0.00	0.00	23.06
Gambia	**11.11**	33.33	0.00	0.00	**0.00**	0.00	0.00	**10.07**	0.00	0.00	30.21
Germany	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**0.54**	0.52	0.60	0.50
Ghana	**1.46**	0.00	4.39	0.00	**0.00**	0.00	0.00	**9.27**	14.18	0.00	13.63
Guinea	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**6.92**	0.00	0.00	20.75
Guinea-Bissau	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**8.99**	0.00	0.00	26.98
Guyana	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**9.01**	0.00	0.00	27.02
Hong Kong	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**2.80**	1.97	4.53	1.92
India	**2.21**	0.00	0.00	6.60	**0.00**	0.00	0.00	**0.66**	1.04	0.00	0.93
Indonesia	**56.08**	66.67	54.00	47.60	**47.54**	9.57	85.51	**6.38**	7.21	4.15	7.80
Iran	**30.34**	83.33	0.00	7.70	**24.82**	3.00	46.64	**4.14**	0.00	4.21	8.20
Iraq	**2.27**	0.00	6.81	0.00	**0.00**	0.00	0.00	**4.92**	0.00	0.00	14.77
Ireland	**0.62**	0.00	1.86	0.00	**0.00**	0.00	0.00	**2.48**	0.00	5.11	2.34
Luxembourg	**1.84**	0.00	1.80	3.70	**15.55**	0.00	31.10	**3.80**	5.81	0.00	5.58
Malaysia	**81.94**	100.00	86.22	59.60	**39.88**	18.16	61.59	**129.67**	111.49	110.03	167.50

COUNTRY	IFDI	QUANTITATIVE DEVELOPMENT	ISLAMIC BANKING	TAKAFUL	OTHER ISLAMIC FINANCIAL INSTITUTIONS	SUKUK	FUNDS	KNOWLEDGE	EDUCATION	RESEARCH
Global	10.34	6.06	10.99	5.57	4.34	2.83	6.57	8.24	9.02	7.46
Maldives	13.19	9.07	15.19	28.41	1.76	0.00	0.00	11.94	23.90	0.00
Mali	1.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mauritania	2.73	3.86	15.34	3.97	0.00	0.00	0.00	0.00	0.00	0.00
Mauritius	10.18	0.90	4.49	0.00	0.00	0.00	0.00	4.79	9.60	0.00
Morocco	6.69	3.93	0.91	0.00	1.67	0.00	17.10	5.86	9.20	2.53
Mozambique	2.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Netherlands	0.53	0.06	0.20	0.00	0.12	0.00	0.00	1.60	0.40	2.80
New Zealand	0.24	0.00	0.00	0.00	0.00	0.00	0.00	1.15	0.00	2.29
Niger	1.74	0.38	1.88	0.00	0.00	0.00	0.00	2.06	4.10	0.00
Nigeria	10.35	0.34	1.18	0.00	0.23	0.28	0.00	8.54	5.40	11.66
Oman	63.79	5.91	17.95	2.38	0.00	1.25	8.00	20.15	19.70	20.65
Pakistan	34.39	18.33	12.30	16.48	29.46	1.11	32.30	48.54	34.50	62.57
Palestinian territories	16.23	11.19	37.27	18.70	0.00	0.00	0.00	17.62	25.20	10.08
Philippines	4.48	0.09	0.44	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Qatar	39.58	35.69	46.22	50.92	18.85	19.19	43.30	12.11	18.60	5.64
Russian Federation	0.33	0.06	0.10	0.00	0.07	0.00	0.10	0.28	0.20	0.34
Saudi Arabia	30.64	44.54	47.79	33.45	36.61	19.76	85.10	20.46	23.20	17.75
Senegal	5.73	0.70	2.00	1.51	0.00	0.00	0.00	5.93	11.90	0.00
Sierra Leone	1.57	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Singapore	9.80	5.49	1.23	1.28	13.86	9.13	2.00	3.96	6.20	1.76
Somalia	3.87	0.88	4.42	0.00	0.00	0.00	0.00	4.83	9.70	0.00
South Africa	8.81	6.90	12.88	1.01	11.79	0.00	8.80	3.17	3.70	2.65
South Korea	0.17	0.02	0.00	0.00	0.08	0.00	0.00	0.64	0.00	1.28
Sri Lanka	18.63	6.55	5.29	20.85	6.59	0.00	0.00	12.62	24.40	0.81
Sudan	27.83	24.81	99.48	21.82	2.52	0.22	0.00	20.76	33.70	7.84
Suriname	1.73	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Switzerland	0.54	0.87	0.17	0.00	1.57	0.00	2.60	1.37	2.40	0.31
Syria	18.34	14.09	46.42	24.01	0.00	0.00	0.00	9.55	17.20	1.91

COUNTRY	GOVERNANCE	REGULATION	SHARIAH GOVERNANCE	CORPORATE GOVERNANCE	CSR	CSR FUNDS DISBURSED	CSR DISCLOSURE	AWARENESS	SEMINARS	CONFERENCES	NEWS
Global	12.43	15.76	11.20	10.33	9.89	4.57	15.22	15.07	7.42	8.54	29.26
Maldives	28.84	50.00	7.03	29.50	11.66	0.00	23.32	4.42	0.00	0.00	13.25
Mali	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.80	0.00	0.00	20.39
Mauritania	0.00	0.00	0.00	0.00	0.00	0.00	0.00	9.81	0.00	0.00	29.43
Mauritius	22.70	50.00	0.00	18.10	15.55	0.00	31.10	6.96	0.00	0.00	20.89
Morocco	0.00	0.00	0.00	0.00	0.00	0.00	0.00	23.64	0.00	40.18	30.75
Mozambique	0.00	0.00	0.00	0.00	0.00	0.00	0.00	12.95	0.00	19.14	19.70
Netherlands	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.97	1.88	0.00	1.02
New Zealand	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.00	0.00	0.09
Niger	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.28	0.00	0.00	18.84
Nigeria	33.47	100.00	0.40	0.00	0.00	0.00	0.00	9.43	3.65	8.41	16.21
Oman	52.14	50.00	32.51	73.90	85.07	74.63	95.51	155.68	151.23	52.23	263.57
Pakistan	67.21	100.00	51.43	50.20	20.50	2.30	38.70	17.35	10.75	12.38	28.93
Palestinian territories	7.30	0.00	10.13	11.80	27.16	2.48	51.83	17.86	0.00	0.00	53.57
Philippines	17.07	50.00	1.21	0.00	0.00	0.00	0.00	5.25	0.00	10.12	5.63
Qatar	46.32	50.00	37.08	51.90	32.51	0.00	65.02	71.28	56.00	18.42	139.42
Russian Federation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.30	1.02	2.35	0.52
Saudi Arabia	24.24	0.00	30.12	42.60	36.09	34.48	37.71	27.86	6.23	7.18	70.16
Senegal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	22.00	19.14	22.03	24.83
Sierra Leone	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.85	0.00	0.00	23.55
Singapore	28.11	33.33	2.52	48.50	0.00	0.00	0.00	11.45	4.06	23.38	6.90
Somalia	5.56	16.67	0.00	0.00	0.00	0.00	0.00	8.09	0.00	0.00	24.28
South Africa	15.82	0.00	1.09	46.40	11.93	0.54	23.32	6.21	12.77	0.00	5.86
South Korea	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.17	0.00	0.00	0.52
Sri Lanka	22.48	0.00	9.42	58.00	28.50	0.00	57.01	22.97	25.87	29.79	13.26
Sudan	59.19	50.00	120.15	7.40	8.04	0.53	15.55	26.35	19.78	0.00	59.27
Suriname	0.00	0.00	0.00	0.00	0.00	0.00	0.00	8.67	0.00	0.00	26.02
Switzerland	0.14	0.00	0.42	0.00	0.00	0.00	0.00	0.33	0.00	0.00	0.98
Syria	25.68	50.00	14.21	12.80	33.70	0.02	67.37	8.68	0.00	0.00	26.05

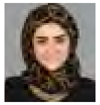
COUNTRY	IFDI	QUANTITATIVE DEVELOPMENT	ISLAMIC BANKING	TAKAFUL	OTHER ISLAMIC FINANCIAL INSTITUTIONS	SUKUK	FUNDS	KNOWLEDGE	EDUCATION	RESEARCH
Global	**10.34**	**6.06**	10.99	5.57	4.34	2.83	6.57	**8.24**	9.02	7.46
Tajikistan	**5.77**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Tanzania	**1.58**	**0.45**	2.24	0.00	0.00	0.00	0.00	**2.41**	4.80	0.00
Thailand	**0.72**	**0.40**	0.56	1.12	0.00	0.00	0.30	**0.00**	0.00	0.00
Togo	**1.49**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Trinidad and Tobago	**0.17**	**0.34**	0.00	1.69	0.00	0.00	0.00	**0.00**	0.00	0.00
Tunisia	**14.95**	**5.50**	17.09	4.05	0.00	0.00	6.40	**25.19**	0.00	50.38
Turkey	**13.50**	**6.76**	21.66	0.00	0.15	11.88	0.10	**1.78**	1.00	2.56
Turkmenistan	**0.46**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Uganda	**1.64**	**0.00**	0.00	0.00	0.00	0.00	0.00	**2.86**	5.70	0.00
United Arab Emirates	**57.44**	**37.36**	64.96	33.34	46.36	17.93	24.20	**38.17**	53.10	23.26
United Kingdom	**16.16**	**4.82**	1.26	0.08	0.47	0.04	22.30	**22.13**	26.30	17.94
United States	**1.99**	**7.97**	0.09	0.01	0.05	8.40	31.30	**1.54**	1.00	2.12
Uzbekistan	**0.56**	**0.00**	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00
Yemen	**11.07**	**2.78**	10.60	3.32	0.00	0.00	0.00	**1.02**	0.00	2.03

COUNTRY	GOVERNANCE	REGULATION	SHARIAH GOVERNANCE	CORPORATE GOVERNANCE	CSR	CSR FUNDS DISBURSED	CSR DISCLOSURE	AWARENESS	SEMINARS	CONFERENCES	NEWS
Global	**12.43**	15.76	11.20	10.33	**9.89**	4.57	15.22	**15.07**	7.42	8.54	29.26
Tajikistan	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**28.86**	0.00	76.62	9.95
Tanzania	**0.95**	0.00	2.84	0.00	**0.00**	0.00	0.00	**4.10**	0.00	0.00	12.31
Thailand	**0.43**	0.00	1.29	0.00	**0.00**	0.00	0.00	**2.77**	0.00	4.09	4.21
Togo	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**7.43**	0.00	0.00	22.28
Trinidad and Tobago	**0.39**	0.00	1.17	0.00	**0.00**	0.00	0.00	**0.11**	0.00	0.00	0.34
Tunisia	**3.67**	0.00	6.24	4.80	**0.00**	0.00	0.00	**40.40**	17.15	19.74	84.32
Turkey	**15.09**	33.33	0.00	11.90	**29.15**	0.00	58.30	**14.70**	16.02	10.54	17.56
Turkmenistan	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**2.28**	0.00	0.00	6.83
Uganda	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**5.36**	0.00	0.00	16.08
United Arab Emirates	**51.83**	50.00	60.72	44.80	**57.01**	57.76	56.27	**102.81**	31.84	57.60	219.00
United Kingdom	**16.71**	0.00	1.12	49.00	**23.32**	0.00	46.64	**13.80**	20.17	9.78	11.46
United States	**0.04**	0.00	0.13	0.00	**0.00**	0.00	0.00	**0.41**	0.77	0.18	0.30
Uzbekistan	**0.00**	0.00	0.00	0.00	**0.00**	0.00	0.00	**2.78**	0.00	0.00	8.34
Yemen	**17.35**	33.33	14.34	4.40	**23.32**	0.00	46.64	**10.88**	0.00	0.00	32.65

IFDI CONTRIBUTORS

Authors

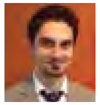
Emmy Abdul Alim
IFG Editor



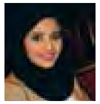
Shaima Hasan – Project Leader
Research & Product Development Manager, Islamic Capital Market Specialist

Shereen Mohammed
Research Analyst

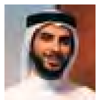
Zahra Eid
Research Analyst



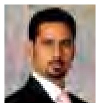
Redha Al Ansari
Senior Islamic Capital Market Analyst



Ameena Al Haddad
Senior Research Analyst



Ammar Radhi
Research & Product Development Manager, Emerging Markets Specialist



Mustafa Adil
Head of Research and Development

IFDI Team

Dr Sayd Farook
Global Head of Islamic Capital Markets

Mohammed Al Sharaf
Head of Business Development

Nada Almuhafda
Research Associate

Noor Al Rahma
Research Associate

Nooralhuda Owais
Research Associate

Yara Talal
Research Associate

Ahmed Al Sada
Client Specialist

Zawya Content Team

Report Design: Kung Pik Liu, Founder, Studio of Kung Pik Liu

Disclaimer
The data in this report is believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings and conclusions that the report delivers is based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of Thomson Reuters. As such the information contained in this report is intended to provide general information only and, as such, should not be considered as legal or professional advice or a substitute for advice covering any specific situation. Thomson Reuters specifically disclaims all liability arising out of any reliance placed on this material. Thomson Reuters makes no representations or warranties of any kind, express or implied about the completeness, accuracy, reliability or suitability of this material for your purposes.

NOTES

ICD THOMSON REUTERS
ISLAMIC FINANCE DEVELOPMENT INDICATOR 2014

Gearing Up the Islamic Finance Industry for the Mainstream

ICD
Islamic Corporation for the Development of the Private Sector

ISLAMIC FINANCE GATEWAY

THOMSON REUTERS™

Visit http://bit.ly/IFDI2014
for IFDI Model & Report

#IFDI2014

A Joint Initiative of