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The advancement of Islamic banking and Finance in Global Markets

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Abstract

This study aimed to clarify general aspects of the Islamic Banking & Finance in global markets depending on some dimensions such as Global Islamic finance assets , Global Islamic funds sector & Global Islamic Sukuk sector. The researcher predicts the future growth for Islamic banking & Finance industry using statistical tools like Time series & forecasting. Among the most important results which were reached are: **1)** Study expects Islamic banking assets to grow at a Compounded Average Growth Rate of 20% over (2013–2020) across the countries to reach US\$3.034t by 2020. **2)** Global Islamic finance assets worth \$ 1.35 trillion @ end of 2012 & \$ 1.71 trillion @ end of 2013 . **3)** Malaysia' Islamic finance assets worth \$ 412 billion (30.51%). Saudi Arabia came second - worth \$ 217 billion (16%) .Next United Arab Emirates, Qatar, Indonesia & Turkey worth \$ 424 billion (31.4%). Finally, Other countries worth 22%. **4)** The three major markets dominating Islamic funds are, Saudi Arabia Malaysia', & Luxemburg reaching around 70% of global Islamic funds. **5)** Sukuk Is the most interesting investment instrument in Islamic finance .

Keywords: Islamic Banking & Finance ; Islamic Finance Assets ; Islamic Funds , Sukuk, Global Markets

Introduction of Research:

The 7 main players in Islamic finance are Qatar, Indonesia, Saudi Arabia, Malaysia, UAE, Bahrain and Turkey . They introduce large contributions to financial and capital of the Islamic industry across existing and new markets. Islamic banks still growing achieving good financial figures with high potential in futures. Different studies performed & revealed the advancement of Islamic banking & Finance in Global Markets .Some studies expect Islamic banking assets to grow at a Compounded Average Growth Rate of 19.7% over (2013–2018) across the countries to reach US\$1.6trillion by 2018. A lot of challenges facing Islamic banks ; needs to improve new products, Limited investment tools , to adjust the propositions, operating models, systems, tools sharia compliant and processes to understand and fully capitalize on the international opportunities provided. Research & Development centers demonstrates that , the Islamic banks achieved a good progress in all financial figures such as ROE , ROA & Expect that the future success of Islamic banks will be measured less by growth of assets and more by quality of growth. Islamic banks benefit from Globalization. Many Islamic banks are already started their business in unexpected markets such as China, Russia (Communist Schools) . In addition to the early entrance to old Capitalism Centers such as England & United States & New capitalism centers like France. The researcher attempts to introduce some important figures according Islamic banking industry.

Goal of Research

This study aimed to:

- 1- Derive useful insights from this report about Islamic Banking & Finance.
- 2- Discover the information provided by other R&D centers in fields of :
 - Global Islamic finance assets.
 - Global Islamic funds sector.
 - Global Islamic Sukuk sector.
- 3- Predict the future growth for Islamic banking & Finance industry using statistical tools.

Importance of Research:

This research is an attempt to point out the following points:

- Reveal the rapid growth & advancement of Islamic banking & Finance in Global Markets.
- Highlight the financial efficiency figures related to global Islamic finance assets, fund sector & Sukuk sector.
- Indicating the main player's countries in Islamic finance?
- Determine the important products acquiring the most attention in Islamic finance.

Theoretical Aspect of Research:

A -Exploring the new developments in financial figures for Islamic banking industry cross the world.

Islamic Finance Globally:

- Opportunities in Islamic finance “are great” – Mark Mobius said: the executive chairman for Franklin Templeton Emerging Markets, they run funds: USD 53 billion in assets.

Global Islamic finance assets worth \$ 1.35 trillion @ end of 2012- Thomson Reuters.& \$ 1.71 trillion @ end of 2013 – EY.

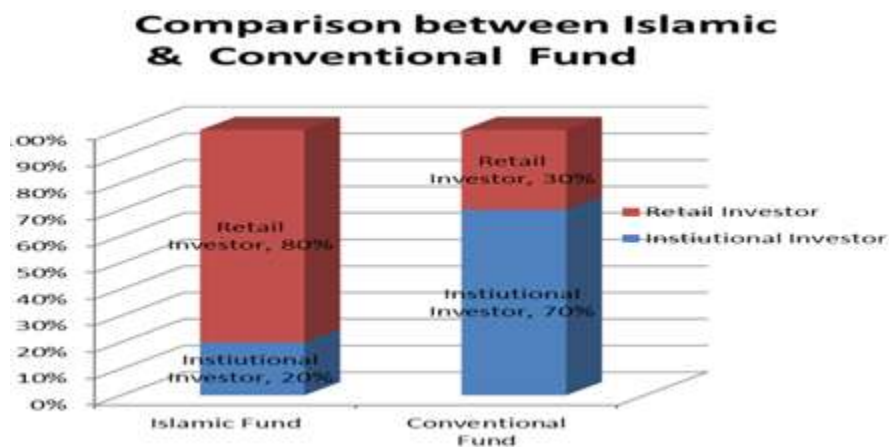
- According to Thomson Reuters, above figures: includes Islamic banking, investment funds, Sukuk, Takaful, and other Islamic investment instruments.
- Despite the fact that this figure represents a very small percentage of the assets of global funding (only 2% of global assets), but it is growing at a rapid way at growth rate between (15% - 20%) per year in several major markets.
- EY suggested the growth rate 17.6% for Islamic banks between 2009-2013 on average & revealed that the growth of assets of Islamic banking sector stood at 12 percent in 2013.
- In addition, the profits growth rate and the financial efficiency of Islamic banks reached to 20% on average.

- Experts estimated that the estimated value of the assets for Islamic banking in the world in the range of 4.1 trillion dollars.
- Malaysia’ Islamic finance assets worth \$ 412 billion (30.51%).
- Saudia Arabia worth \$ 217 billion (16%).
- Islamic finance assets for United Arab Emirates, Qatar, Indonesia & Turkey worth \$ 424 billion (31.4%).
- Other countries worth 22%.
- Malaysia’ & KSA: the main player in Islamic finance industry.
- The other major centers in Islamic economics are UAE, Turkey, Indonesia & Qatar.
- These countries have more than 40 million customers in around 20 Islamic banks.
- With regard to countries that aspire to leadership in the field of Islamic finance industry, there are a lot of countries in this aspect.
- The UAE occupies a convenient position to take the lead in the stage of development of the next due to the strategies adopted recently under the title "Dubai, the capital of Islamic economy”.
- In Europe“UK- London” joined to declare it is the capital of Islamic finance in the West after Cameron, British Prime Minister agree to issue Islamic bonds worth 500 million Sterling pounds.

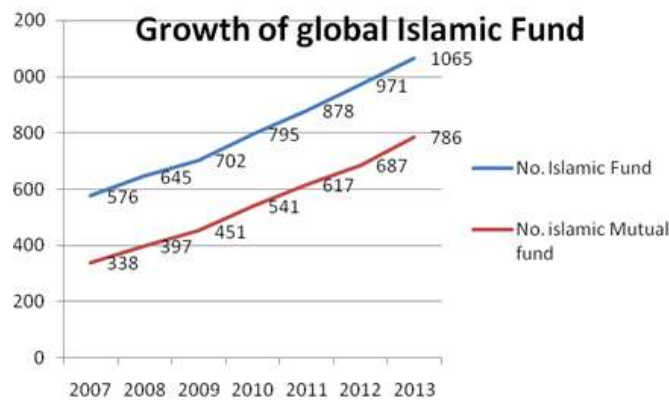
Source: Reuters, Ernst Young ,others

B- Global Islamic funds sector:

- Islamic fund sector are estimated at USD 62 billion around 4.7% of global Islamic assets, while Islamic mutual fund mainly worth totaling USD 46 billion.
- For Islamic fund, only 20% of Islamic fund are for institutional investors, 80% came from retail sector.
- In comparison point of view, for conventional fund, 70% contributions from institutional investors while the rest (30%) from retail investor.
- **Chart (1) below illustrate the differences as follows:**



- The three major markets dominating Islamic funds are, Saudi Arabia Malaysia, & Luxemburg reaching around 70% of global Islamic funds.
- The year 2013 saw the highest number of funds which launched (94) new funds (22 are liquid funds).
- Islamic funds significantly increased over the last 5 year, but still a fraction of the total Islamic finance assets.
- **Chart (2) The Growth of Global Islamic fund during last 7 years**



In Sep 2013, the total no. of global Islamic fund reached to 1065 fund. It nearly doubled (85% growth) in comparison with No. of fund issued in 2007 (576 fund).The total value of Islamic assets fund reached to 62 billion .We can observed that the total no. of Islamic mutual fund in 2013 are(786) fund with value of \$ 46 billion While it was 338 mutual fund in 2007 (growth rate 132.5%). Most of Islamic fund directed toward Money market funds (Short term investment – less than 1 year rather than long term investment or capital market).

C- Global Islamic Sukuk sector:

- Sukuk is the bellwether of the Islamic finance industry & umbrella for Islamic capital market : Long term instruments .
- In addition to sukuk , Capital market instrument includes :Stocks , Mutual Fund, Syndications , ... etc.
- Best Definitions: The sukuk, loosely defined as ‘participation certificates linked to assets from the real economy’, may just be the capital market instrument that acts both as a locomotive that pushes Islamic finance to 2.0 (\$2 trillion).
- Sukuk deployed at the headquarters of both Western capitalism & Communist : new countries start dealing with sukuk like : China , Russia , South Africa ..etc.
- Different studies revealed the major role for sukuk in financing needs , fundraising opportunities under various Islamic finance structure such as : Ijara , Istisna’, Salam , Musharaka&Murabaha.

- Jordan was the first country to introduce special law to recognize sukuk .That law was issued in 1982 named “Muqarada Bond Law “ & considered as the basis stone in sukuk building. Slow action taken prevented its development there.
- Malaysia , in comparision worked hard on these laws & organized multiple sukuk issuances.**Researcher Article IFN :Islamic Finance News : 13 March 2012.**
- **Malaysia becoming a leading global player in field of sukuk industry with 68.8% of the issuance. Rasameel : 2013 Annual Global Sukuk Report .**
- **Sukuk also can finance emerging markets : 57 Muslim countries which needs billions of dollars directed toward infrastructure particularly build roads , hospitals , bridges , airports , housing and so on .**
- Sukuk have a lot of advantages such as : Finance Assets , promoting development , contributing to the Real Economy & Financing Diversification.

Table (1) below shows the development phases of Sukuk Market as follows :

Table (1): Development phases of Sukuk Market

Phases	PHASE - CHARACTERISTICS	NUMBER OFISSUANCES	VALUE OF ISSUANCES (\$ BILLION)
1982	Muqarada Bond Law by Jordanian .	-	-
1990-2001	<ul style="list-style-type: none"> • Started in 1990 with Shell MdS corporate sukuk in Malaysia • Small issue by Malaysian government. 	95	5.89
2002-2007	<ul style="list-style-type: none"> • Started with the Malaysian government issuing the first rated international sukuk . • Many local & Int issuances. 	726	87.71
2008-2010	<ul style="list-style-type: none"> • Global financial crisis . • AAI OFI issued Sharia compliance Issues . 	909	108.0
2011-2013	<ul style="list-style-type: none"> • Still spreading into different markets. • New countries entered the race. 	1060	194.78

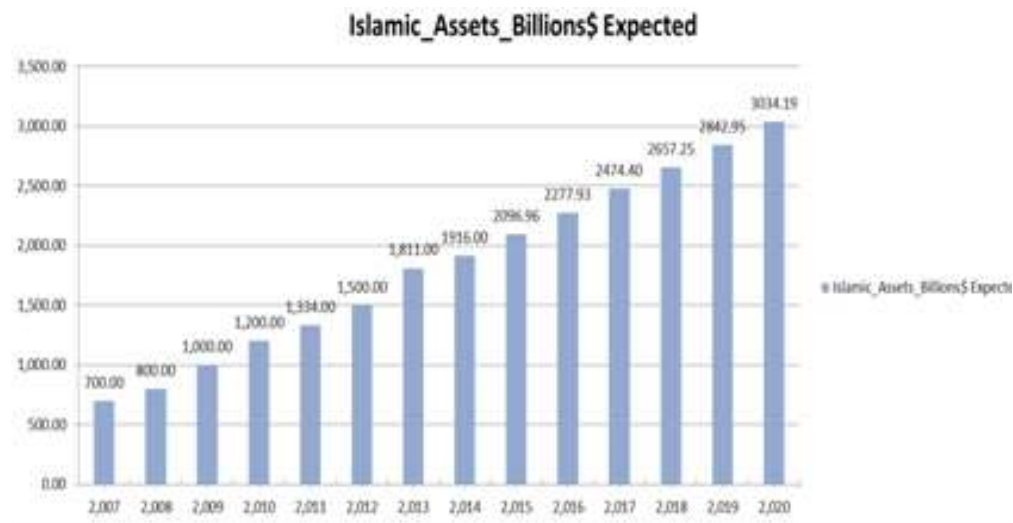
- ZAWYA estimated the current outstanding sukuk market @ \$230 billion in 2013& expected to grow reaching \$ 421 in 2017.
- Key interesting findings in Zawya Survey 2013 “regarding sukuk highlight the following findings:
- In sukuk structure investors (buy side) prefer Ijara Structure by 63.3% .While arrangers (Sell Side) prefer Ijara & Wakala by 29.6% for each .
- Average investors expect (35% - 40%)of their portfolios to be allocated to sukuk .

- Investors most prefer to invest in sovereign issuance, then quasi-sovereigns, followed by state-linked issuance. While arrangers expect quasi sovereign Sukuk , then sovereign sukuk , finally financial services sector sukuk .
- For tenor, majority of investors prefer tenors of (3-5) years by 52.5%) while arrangers expected tenor between (5-10) years by 66.7%, Only 25.9% of arrangers prefer tenor (3-5) years.
- In coupon type , 50% of investors prefer fixed coupon (50% for floating rate) , while 70.4% of arrangers choose fixed rate coupon & 29.36% for floating rate).
- Investors looking for USD issuance by 77.8% & about 50% of arrangers prefer USD .
- For emerging markets, investors & arrangers looking for countries such as Oman & Egypt .
- For credit quality , Majority prefer investment Grade (BBB-/Baa3 and above) sukuk certificates .The same for arrangers (Sell Side).
- For Country dimension , Most investor prefer Saudi Arabia to invest in , followed by UAE & Malaysia .While Arranger expect to see most investors came from UAE , Saudia Arabia & Malaysia .

Practical Aspect of Research

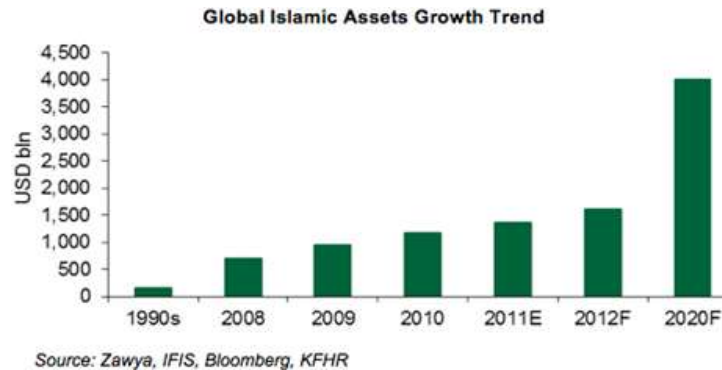
The researcher used Time series & forecasting to predict the trend of Islamic assets in billions USD .Upon data analysis the graph shows that the expected Islamic assets in 2020 will be around \$ 3,034.19 million .the graph as follows:-

Chart (3) The Expected Islamic Assets in Billions \$



Foreseeing the future growth for Islamic banking & Finance industry.

Chart (4) The Global Islamic Assets Growth Trend



Experts & Study centers expected Global Islamic Assets Growth to reach around 4 trillion dollar in 2020. This number expected to double four times in 2020 (4 trillion) from 1 trillion in 2010. Source: Zawya, IFIS, Bloomberg, KFHR.

Ernst & Young counted Global Islamic banking Assets Growth to reach 1.811 trillion dollar in 2013 from 1.334 trillion in 2011 with growth rate 35.75%. GCC Countries acquired 131 billion dollars. Total outstanding sukuk maturity was 179 billion dollars in 2011 & expected to reach 400 billion in 2015 with growth rate 123.46%. This figure illustrates the attitude toward Sukuk over the world. Chart (5) explain that as follows:

Chart (5) The outstanding Sukuk Profile



Also Experts estimated that the growth rate for Islamic banks on average 17-20% exceed the growth rate for conventional banks (10%).

- Islamic finance may be growing at approximately twice as the conventional; there is still no visible race since Sharia-compliant funding represents a measly 1% of global banking assets.

According to Standard & Poor's, the growing economies of several Islamic countries, especially those in the GCC, are building up momentum in Islamic finance, which is expected to reach USD 2 trillion globally by 2015.

-Dubai diversifies its economy. It's not only Islamic finance, Dubai aims to "become the Islamic economy hub" to a greater level. It also seeks to capture a bigger slice of the halal food industry, encourage family friendly tourism, develop sectors such as digital economy, fashion, arts and design, and economic education, as well as promote standards and certification.

- From Nasdaq Dubai's sukuk listing offering to the availability of Shariah-compliant hotels for conservative tourists, Dubai continuously hones its reputation in the Islamic finance space.

Conclusions

The research highlight major key findings:First:study expect Islamic banking assets to grow at a Compounded Average Growth Rate of 20% over (2013–2020) across the countries to reach US\$3.034t by 2020. Second :Global Islamic finance assets worth \$ 1.35 trillion @ end of 2012 & \$ 1.71 trillion @ end of 2013 .Third : Malaysia' Islamic finance assets worth \$ 412 billion (30.51%). Saudi Arabia came second - worth \$ 217 billion (16%).Next United Arab Emirates, Qatar, Indonesia & Turkey worth \$ 424 billion (31.4%). Finally, Other countries worth 22%.The three major markets dominating Islamic funds are, Saudia Arabia Malaysia', & Luxemburg reaching around 70% of global Islamic funds.In Sep 2013, the total no. of global Islamic fund reached to 1065 fund. It nearly doubled (85% growth) .

Sukuk Is the most interesting investment instrument in Islamic finance Sukuk deployed at the headquarters of both Western capitalism & Communist : new countries start dealing with sukuk like : China , Russia , South Africa ..etc.Malaysia becomes a leading global player in field of sukuk industry with 68.8% of the issuance.Total outstanding sukuk maturity was 179 billion dollars in 2011 & expected to reach 400 billion in 2015 with growth rate 123.46%. This figure illustrates the attitude toward sukuk over the world.

In Islamic finance industry , Experts expect Dubai to "become the Islamic economy hub" in east & London to be in West .

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