IRSTI 06.73.15

S.G. Pralieva[1], V.D. Zabolotnikova[1], A.S. Assilova[2]

[1] «Turan» University,
Almaty, Kazakhstan
[2]Al-Farabi Kazakh National University,
Almaty, Kazakhstan
E-mail: aijan1910@mail.ru

DEVELOPMENT OF THE ISLAMIC FINANCIAL SERVICES INDUSTRY

The global financial crisis has increased interest to Islamic finance as a form of mediation, contributing for maintaining of a financial stability. This stability is demonstrated by institutions that offer Islamic financial services, providing insight into the viability of financing based on the Sharia rules. Islamic finance has made progress in Asia in recent years, yet there is still great potential for further growth. Everywhere there is evidence that Islamic finance expands its borders in Asia. This article discusses the development of Islamic banking in the world. The global market for financial services, the relevant provisions of the Qur'an and Sharia canons, over the past decade has increased almost 6 times - from 150 billion US dollars till 822 billion US dollars. At the same time according to some experts, this market has a seven-fold growth potential - up to 4 trillion US dollars. Up today, Islamic finance has developed in more than 50 countries, including 16 countries that amended the legislation in order to create optimal conditions for its further development. These include both Islamic countries and Europe. At the present stage, Islamic financial services market shows active development in the United States, Britain, France, Germany, Canada, China, Japan and other countries.

Key words: Islamic finance, Islamic banking, assets, sukuk.

С.Ж. Пралиева, В.Д. Заболотникова, А.С. Асилова

Исламдық қаржылық қызметтер индустриясының дамуы

Әлемдік қаржылық дағдарыс исламдық қаржыландыру формасына қаржылық тұрақтылық ретінде қызығушылығы арта түсті. Исламдық қаржылық тұрақтылық қызмет түрін ұсынатын мекемелер шариғатқа негізделген қаржыландыру өміршеңдігін нығайтуға атсалысады. Соңғы жылдары Азия мемлекетінде исламдық қаржыландыру өте үлкен жетістіктерге жетті, бірақ әлі де болса болашақта дамуына әлеуеті бар. Барлық жерде Азиядағы ислам қаржыландыру, оның шекарасын кеңейтуде белгілері бар. Бұл мақалада әлемдегі ислам банкингін дамытуды талқылайды. Қаржылық қызметтерді, соңғы он жыл ішінде Құран мен Шариғат меңзейтін тиісті ережелеріне, жаһандық нарық шамамен 6 есе өсті – 150 млрд АҚШ долларына дейін 822 млрд АҚШ долларына дейін. Сонымен қатар, кейбір сарапшылардың пікірінше, бұл нарық жеті есе өсу әлеуеті бар – 4 трлн дейін АҚШ доллары. Бүгін, исламдық қаржыландыру әлемнің 16 елінен, соның ішінде 50-ден астам елдерде, оны одан әрі дамыту үшін оңтайлы жағдай жасау мақсатында заңнамаға өзгерістер енгізіліп дамып келеді. Бұл екеуіне де Ислам және Еуропа елдері кіреді. Қазіргі кезеңде, Америка Құрама Штаттары, Ұлыбритания, Франция, Германия, Канада, Қытай, Жапония және басқа да исламдық қаржылық қызметтер нарығын белсенді дамытуда.

Түйін сөздер: исламдық қаржыландыру, исламдық банкингтер, активтер, сукук.

С.Ж. Пралиева, В.Д. Заболотникова, А.С. Асилова

Развитие индустрии исламских финансовых услуг

Мировой финансовый кризис повысил интерес к исламским финансам как форме посредничества, способствующей поддержанию финансовой стабильности. Устойчивость, продемонстрированная учреждениями, предлагающими исламские финансовые услуги, дает представление о жизнеспособности финансирования, базирующегося на нормах шариата. Исламское финансирование добилось успехов в Азии в последние годы, но все же еще есть огромный потенциал для дальнейшего роста. Повсюду есть признаки того, что исламское финансирование в Азии расширяет свои границы. В данной статье рассматривается развитие исламского банкинга в мире. Мировой рынок финансовых услуг, соответствующих предписаниям Корана и канонам шариата, за последнее десятилетие вырос почти в 6 раз – с 150 млрд. долларов США до 822 млрд. долларов США. При этом, по некоторым оценкам экспертов, этот рынок обладает семикратным потенциалом развития – до 4 трлн. долларов США. На сегодняшний день исламское финансирование развивается более чем в 50 государствах, из них в 16 странах были внесены поправки в законодательство в целях создания оптимальных условий для его дальнейшего развития. К ним относятся как страны исламского мира, так и страны Европы. На современном этапе происходит активное развитие рынка исламских финансовых услуг в США, Великобритании, Франции, Германии, Канаде, Китае, Японии и др.

Ключевые слова: исламское финансирование, исламский банкинг, активы, сукук.

Introduction

The global Islamic financial services' industry reached an overall total value of USD1,88 trillion as of 2015 YTD (FSR2015 : USD1,87 trillion), weathering a series of economic challenges ranging from prolonged low energy prices and downwardly revised economic growth outlook, to geopolitical conflicts, exchange rate depreciations and an assets sell-off spree on emerging markets. There was a marked change from the double-digit growth rates in recent years.

Experimental part. This article is based on the study of Islamic financial services industry, conducted by Islamic Financial Services Industry, summarizes the positive and negative factors influenced on the Islamic finance development in the world.

Results and discussion. In comparison to values reported in the previous IFSB Islamic Financial Services Industry (IFSI) Stability Report 2015, by sector, the global sukuk outstanding (based on par value at issuance) has declined by 1,4% to USD290,6 billion (FSR2015: USD294,7 billion), while Islamic funds' assets have contracted by 6,3% to USD71,3 billion (FSR2015: USD75,8 billion). In contrast, the takaful sector is estimated expanding by 8,4% to USD23,2 billion (FSR2015: USD21,4 billion), while the dominant Islamic banking sector has grown moderately at 1,4% to USD1,5 trillion (FSR2015: USD1,48 trillion). As it will be analyzed in details in the following subsections, exchange rate depreciations in key Islamic finance markets (e.g. Iran, Malaysia, Turkey, and Indonesia) have been an important reason for the relatively modest performance of the global IFSI in US Dollar terms in 2015, particularly in the Islamic banking segment. Similarly, the withdrawal of major issuers on the global sukuk market, leading to a substantial fall in primary market issuances in 2015, combined with overall downward pressures in the global equity markets, have featured as prominent reasons for asset value contractions in the Islamic capital markets. As an indicative comparison in US Dollar terms, the assets of the top 1000 global conventional banks had grown by 0,6% (y-o-y as of end-2014); the international debt securities outstanding in global markets had declined by 1,3% (between end-2014 and 1H2015); and the premiums in the insurance industry are modestly estimated to have expanded by 2,0% (life insurers) and 2,5% (non-life insurers) in 2015.

The number of jurisdictions where the IFSI has achieved systemic importance7 has expanded to 11 in 2015, with the latest addition being Djibouti in Africa, where the share for Islamic banking in its total domestic banking sector exceeded on 15%. Meanwhile, Iran and Sudan continue as the two jurisdictions that operate fully Sharī'ah-compliant banking systems; hence, a 100% Islamic banking market share for each. The share of Islamic banking in Brunei has increased substantially, to 49% in 1H2015 (FSR2015: 41%), bringing it to a level similar to Saudi Arabia, which is also estimated to hold a 49% share in 1H2015 (FSR2015: 51%). A substantial improvement in market share is also noted in Yemen at 33% (FSR2015: 27%), while Kuwait at 38,9% (FSR2015: 38%), Qatar at 26,1% (FSR2015: 25,1%), Malaysia at 23,0% (FSR2015: 21,9%), Bangladesh at 19.4% (FSR2015: 17%) and the United Arab Emirates at 18,4% (FSR2015: 17,4%) have all improved on their market share compared to the previous year [1].

Table 1 – Breakdown of Islamic Finance Segments by Region (USD billion, 2015 YTD)

Region	Banking Assets	Sukūk Outstanding	Islamic Funds' Assets	Takāful Contributions
Asia	209,3	174,7	23,2	5,2
GCC	598,8	103,7	31,2	10,4
MENA (exc. GCC)	607,5	9,4	0,3	7,1
Sub-Saharan Africa	24,0	0,7	1,4	0,5
Others	56,9	2,1	15,2	-
Total	1496,5	290,6	71,3	23,2

As the size of Islamic banking assets shows a positive association with oil revenues, the liquidity and profitability of Islamic banks may be adversely impacted by low oil prices. Deposits from governments and government-related entities may decrease and the overall asset quality may deteriorate. But there are also opposite effects: if governments resort to external sources of financing for infrastructure projects and budget deficits, institutions offering Islamic financial services (IIFS) could find new business opportunities in financing and in sukūk markets. IIFS are sufficiently capitalized to sustain the additional risks, and they have reduced concentration risks by scaling down exposure to real estate and energy projects. Liquidity management remains a prime challenge, especially in jurisdictions where no active Sharī'ah-compliant interbank market has emerged.

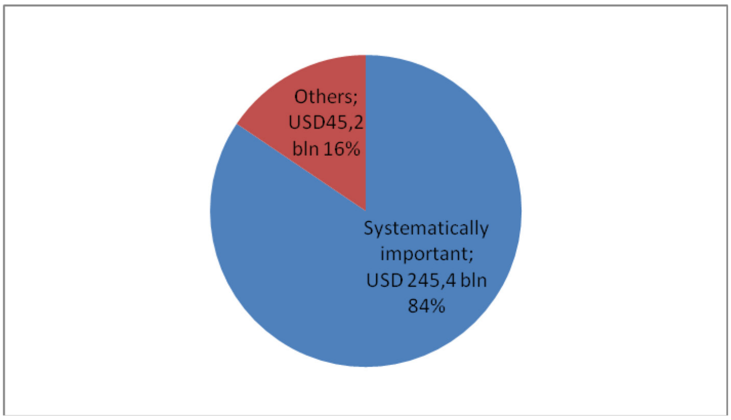

Chart 1 – Sukūk Outstanding in Jurisdictions with an Islamic Finance Sector of Systemic Importance (11M15)

The Islamic banking sector continues to be the dominant segment, accounting for almost 80% of the global IFSI; assets in full-fledged Islamic banks, subsidiaries and windows amount to approximately USD1,5 trillion as at 1H2015 (FSR2015: USD1,48 trillion) [2].

The aggregated average industry growth in US Dollar terms has been very moderate at 1,4% y-o-y, particularly on account of exchange rate depreciations in several key Islamic banking markets, including Iran, Malaysia, Indonesia and Turkey. For instance, the Turkish participation banking sector, which represents nearly 3% of the global Islamic banking assets, expanded by 15,1% y-o-y in 1H2015 in local currency terms; the comparative growth figure in US Dollar terms is, however, negative. Similarly, the growth in Malaysian Islamic banking assets, which represent more than 9% of the global industry, was over 16% between 1H2014 and 1H2015 in local currency terms, while the comparator US Dollar figure is also negative. A more meaningful assessment is done by analyzing the expansion of Islamic banking services in the domestic market share of the various jurisdictions.

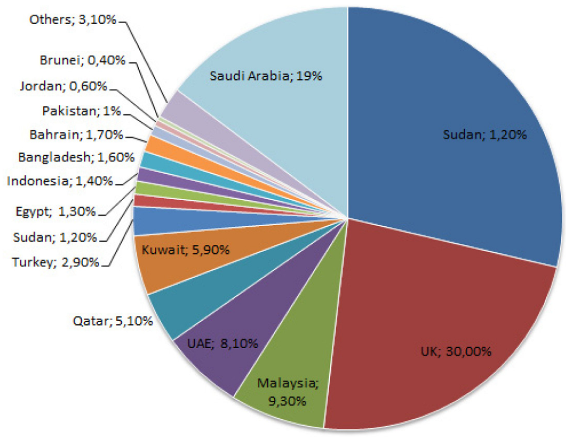

Chart 2 – Shares of Global Islamic Banking Assets (1H2015)

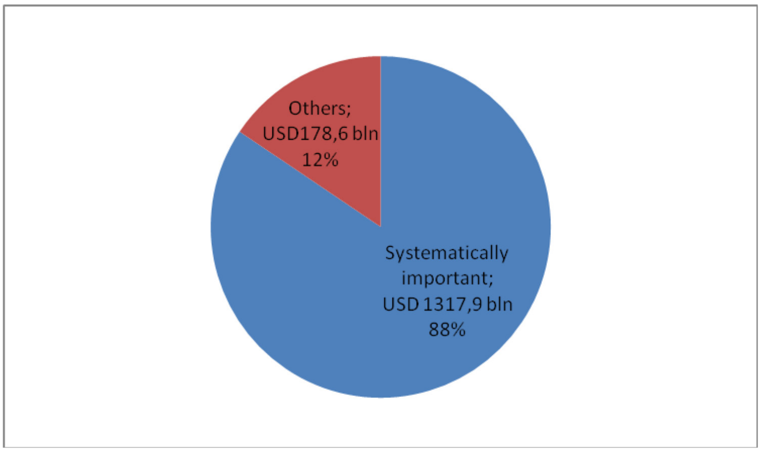

Chart 3 – Islamic Banking Assets in Jurisdictions with an Islamic Finance Sector of Systemic Importance (1H2015)

Among these, the GCC jurisdictions have further strengthened the penetration of the Islamic banking sector; notably Oman, which in 2012 had been the most recent, and in fact the last, GCC entrant into Islamic banking. The share of Islamic banking in Oman has increased substantially, to 6,5% in 1H2015 (FSR2015: 4.35%), within a period of less than four years. In the other GCC countries, as of 1H2015, the Saudi Islamic banking sector is nearly one-half of the domestic banking sector, accounting for 49% of the total banking sector assets; the other two major markets with large domestic shares are Kuwait and Qatar, with almost 39% and 26% shares, respectively. Bahrain now has a 13,5% share (FSR2015: 12,7%) for Islamic banking services in its domestic banking market and is gradually moving towards achieving domestic systemic importance based on the 15% benchmark [3].

The Central Bank of Bahrain (CBB) has called upon the Bahraini Islamic banks to explore mergers in order to create institutions of size and achieve economies of scale. In the United Arab Emirates, where Islamic banks now have an 18,4% market share (FSR2015: 17,4%), the central bank this year has decided to include Sharī'ah-compliant securities in the range of instruments it accepts as collateral for accessing liquidity, as part of its efforts to promote efficient liquidity management in Islamic banks. Overall, the GCC Islamic banking sector is worth almost USD600 billion.

In Asia, the Malaysian Islamic banks have begun the segregation of investment accounts (structured on Sharī'ah contracts of mushārakah, muḍārabah and wakālah) from deposit accounts, with the former being prohibited from any form of principal and profit guarantees by the Islamic banks. This is required by the country's recent Islamic Financial Services Act 2013 (IFSA 2013) which introduces Sharī'ah contract-based regulatory framework that provides greater clarity of Sharī'ah rulings with regards to each Sharī'ah contract while also outlining operational requirements for the diversified IIFS product range. The regulatory implication of such is that investment accounts are risk-absorbing and hence the Islamic bank is not required to hold regulatory capital against assets funded by them. The market share of Islamic banks in the Malaysian banking sector has increased to 23% as of 1H2015 (FSR2015: 21,9%). Pakistan is another jurisdiction where strong demand from the population, combined with facilitative regulatory support, is rapidly growing the country's Islamic banking sector; Islamic banking has now captured more than 11% of the domestic market share as of 1H2015 (FSR2015: 9,8%).

The country's central bank expects the sector to reach 15% market share before 2018, and this would elevate the jurisdiction to being classified as having domestic systemic importance for Islamic banking. Jordan, in the Middle East region, is another jurisdiction that, with a 14% domestic market share in 1H2015 (FSR2015: 11,7%), is expected to be elevated to domestic systemic importance status by as early as 2016. Elsewhere, Brunei has also achieved nearly 49% of the country's banking assets being Sharī'ah-compliant. In recent years, the country's financial system has been gradually transitioning into a Sharī'ah-compliant one, including offering both Islamic banking and takāful (Islamic insurance services) [4].

In addition, the country's central bank runs a regular sukūk issuance programme to support the liquidity management of the country's Islamic financial sector. Bangladesh is another jurisdiction that has consistently been gaining market share for Islamic banking services. As of 1H2015, the country's Islamic banking sector has achieved nearly a 20% domestic market share and the focus of the regulators is now moving towards developing Sharī'ah-compliant money market instruments. Islamic finance in the Sub-Saharan African region has been making inroads in recent years, with Islamic banking now being offered across many countries, including Kenya, Senegal, Niger, Nigeria and South Africa, among others. Islamic banking law and regulatory developments have also taken place in North Africa, particularly in Morocco and Tunisia. Morocco introduced a law in January 2015 to regulate Islamic financial products and allow local and foreign banks to set up units that comply with Sharī'ah. Furthermore, the law also allows for the formation of a centralised Sharī'ah board to oversee Islamic banks.

The country's central bank, Bank Al-Maghrib, is currently reviewing applications for Islamic banking licences and the sector is expected to achieve a double-digit market share over the next ten years. Comparatively, Tunisia has two full-fledged Islamic banks, and the IDB-affiliate ICD is currently helping an additional leasing company to convert its operations into a full-fledged Islamic bank; the third for Tunisia [5].

Inference

Overall, global Islamic banking assets are forecast to amount to approximately USD1.57 trillion by the end of 2015. However, there remains substantial asset concentration in a few Middle Eastern and Asian countries. The top ten Islamic banking jurisdictions by assets11 account for 92,1% of the global Islamic banking industry; this is a slight reduction in the concentration compared to the 94% assets concentration in 1H2014. Hence, the stability of the global Islamic banking system critically hinges upon the smooth functioning and viability of the Islamic banks in these ten jurisdictions alone. In the following subsection, an overview 12 of the Islamic banking sectors' assets, financing and deposits growth patterns across 11 major Islamic banking domiciles (excluding Iran, due to data constraints) is presented using sample data from 59 prominent Islamic banks in these domiciles13. The total assets of these sample banks amounted to USD672,2 billion as at 1H2015, which represents 71,6% of the total Islamic banking assets in 1H2015 (if Iran is excluded). These 11 markets include Bahrain, Bangladesh, Indonesia, Jordan, Kuwait, Malaysia, Pakistan, Qatar, Saudi Arabia, Turkey and the UAE.

References

1 World Islamic Banking Competitiveness Report 2016.
2 Islamic Financial Services Industry Stability Report 2015.
3 Islamic Financial Services Industry Stability Report 2015.
4 Islamic Finance news 2016, Annual Guide.
5 Islamic Banking and Finance: Fundamentals and Contemporary Issues № 47.