

The role of Islamic financial institutions in the development of the Islamic financial services industry

دور المؤسسات المالية الإسلامية في تطوير صناعة الخدمات المالية الإسلامية

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Received: 25/04/2023 ;

Accepted : 20/06/2023;

Published: 30/06/2023;

Abstract:

The present research attempts to clarify the role of Islamic financial institutions in the development of Islamic financial services by emphasizing the functional integration between its components alongside the changes it has undergone in recent years with respect to radical and fundamental changes through implementing an assortment of legal, economic, financial, and institutional reforms that made it occupy a leading position in the global financial scene regardless of what it struggles from. The former is vulnerable to economic, financial, and political instability, making it a substitute for moving the development wheel forward and achieving economic diversification, as well as by offering creative new solutions and products capable of mobilizing financial savings and fostering overall economic dynamism.

Keywords: keywords: Islamic financial institutions, Islamic banks, Sukuk, Takaful

ملخص:

تهدف هذه الدراسة إلى توضيح دور المؤسسات المالية الإسلامية في تطوير الخدمات المالية الإسلامية بإبراز التكامل الوظيفي بين مكوناتها وما شهدته خلال السنوات الأخيرة من تحولات جذرية وعميقة من خلال القيام بجملة من الإصلاحات القانونية الاقتصادية والمالية والمؤسسية جعلتها تتبوأ مكانة رائدة في المشهد المالي العالمي رغم ما يعانيه هذا الأخير من عدم الاستقرار الاقتصادي والمالي والسياسي، وجعلها كبديل للدفع بعجلة التنمية وإحداث التنويع الاقتصادي، وتقديم حلول ومنتجات جديدة مبتكرة قادرة على حشد المدخرات المالية وإحداث ديناميكية اقتصادية شاملة.

الكلمات المفتاحية: المؤسسات المالية الإسلامية، المصارف الإسلامية، الصكوك، التكافل.

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Introduction:

The Islamic financial sector has had substantial expansion over the past forty years, and a number of upbeat scenarios have been anticipated regarding the enormous potential for this sector's future growth. Future growth is dependent on a number of factors, including laws, policies, and regulatory frameworks; flexibility in the operations of Islamic financial institutions; innovation and adoption of financial technology; sustainable practices; and the ability to address related issues and seize the opportunities that will arise in the years to come, including climate change and rising sustainability awareness; digitization and artificial intelligence. as the demand for Islamic financial services and the needs these products fill grows. The magnitude of its issuances or the spread, especially after it has demonstrated stability and steadfastness in the midst of recent financial crises, has marked a significant turning point in the development and history of Islamic finance. and oversight, as well as the adoption of genuine products that set them apart from their customary freshness, which embodies the idea of its foundation.

Statement of the Problem: Based on the aforementioned, this study seeks to answer the following question: **What is the extent of the contribution of Islamic financial institutions in the development of financial services, and what is their role in that?**

The rationale of the study: The study's significance is highlighted by the enormous benefits and services provided by Islamic financial institutions, in line with global financial developments without prejudice to Sharia principles and purposes, in addition to highlighting the phenomenon of Islamic financial institutions and the degree they have attained at the international level through an increased Western interest in opening branches and windows for financial transactions.

Study objectives: This study aims to:

- Examining the pivotal role of Islamic financial institutions and their place in the global financial sector;
- Identifying the reality of Islamic financial institutions and their supporting institutions and the role of integration between them;
- Highlighting the most important services provided by Islamic financial industry institutions;
- Clarifying the challenges facing the Islamic banking and financial industry;
- Highlighting the important developments of Islamic financial institutions at the level of realized assets and at the level of geographical expansion;
- Clarifying the role of infrastructural institutions in the Islamic financial industry, such as the Islamic Financial Services Board, the General Council for Islamic Banks and Financial Institutions, and others, in providing services.

Previous studies:

The study, titled "**The Strategic Framework for the Development of Islamic Financial Services in Palestine 2021-2026: Towards Unlimited Horizons,**" published in 2021 by the World Bank Group's International Finance Corporation, aims to clarify the legal and supervisory frameworks governing Islamic financial institutions in Palestine, such as Islamic banks, Takaful insurance, and sukuk. The report provides a thorough assessment of each industry, emphasizing the relevance of legitimacy and support for digital transformation, as well as financial technology adoption. It advocates for the development of Islamic financial goods and services that are unique from regular products, as well as for the promotion of social finance in order to increase financial

inclusion. Furthermore, the study emphasizes the importance of increasing knowledge and awareness in the sector of Islamic financial services.

In 2021, the Arab Monetary Fund published **"Islamic Finance Bulletin in Arab Countries,"** which evaluates the role of Islamic financing in promoting economic growth and stability. The research examines sukuk markets in Arab countries and provides a complete overview of the Islamic financial industry and its institutions. It also assesses the evolution of the worldwide sukuk markets. The paper digs into Tunisia's experience in building Islamic financial institutions, defining their architecture and sectors. The analysis concludes that the Central Bank of Tunisia's changes have had a noticeable impact in the medium term. The passage of Islamic finance legislation has established a more open environment for many financial organizations that follow Islamic law principles, as well as addressed various difficulties that had previously hampered their operations. The Tunisian experience is viewed as a model for developing legislation, supervision, and support, and other Maghreb nations, such as Algeria and Morocco, are expected to follow suit in establishing similarly stable and robust banking and financial sectors.

In the second issue of the Al-Aseel Journal for Economic and Administrative Research published in 2017, Masouda Nasbah and Fella Ashour conducted a study entitled **"Islamic Financial Institutions and their Role in Supporting the Islamic Financial Industry and Islamic Banking Work"**. The study examines the institutions that form the infrastructure supporting the Islamic financial industry and the infrastructure that underpins Islamic banking work. The researchers also classify the various Islamic financial institutions and identify the challenges they face, while assessing the current state of the Islamic financial industry based on data from the General Council of Islamic Banks and Financial Institutions. Despite the obstacles and challenges encountered by the Islamic financial industry in achieving its desired developmental path, the researchers argue that the integration of these institutions has become essential to establish a solid foundation for the Islamic financial industry's work in the global economy.

The Algerian Journal of Economic and Financial Research, published by the University of Setif, released a study in 2022 entitled **"The Role of Institutions Supporting the Islamic Industry in the Development of Investment Funds in Algeria"** authored by Mdaber Halim. The study highlights the significance of financial institutions that support the Islamic financial industry and outlines the role of investment funds in promoting Islamic banking. Furthermore, the study explores the potential of investment funds in developing the financial industry in Algeria. The activation of Islamic investment funds could have significant positive impacts on the Algerian economy, as these funds are distinguished by their flexibility in transactions, diversity in numbers, ease of investor monitoring, and freedom from legal prohibitions, and risks associated with their dealings are minimal.

I-Islamic financial institution:

I-1- The concept of an Islamic financial institution:

The Islamic financial institution is an integral component of the financial system that caters to the entire community by offering various services and financial businesses that meet the diverse needs and requirements of investors and entrepreneurs, thereby helping them achieve greater profits. Moreover, it contributes to the development of the national economy by its ability to make significant progress and keep pace with the ongoing developments that occur worldwide. The institution functions in line with the provisions and principles of Islamic Sharia laws, such as the prohibition of deception and dealing with usury. (Al Chikh, 2022) The commonly recognized types

of Islamic financial institutions include Islamic banks, Islamic insurance companies, investment companies, zakat and endowment institutions, among others.

I-2-Principles of Operation of an Islamic Financial Institution:

I-2-1-Commitment to the principle of what is permissible and what is forbidden:

According to the principle of Islamic jurisprudence, anything that God has created for human use is considered permissible unless explicitly forbidden by the Lawgiver. This applies to all aspects of life, including contracts and financial transactions. The freedom to enter into contracts is guaranteed, as long as the terms of the contract do not violate any established rules or prohibitions in Islamic law. The general principle is that everything is permissible, as God Almighty says in the Qur'an, "He has explained to you what has been forbidden to you".

However, there are specific texts in Islamic law that prohibit usury while permitting selling and other contracts, such as rent and partnership. Islamic financial institutions are therefore obligated to operate within the framework of Islamic law and use money in a manner that is pleasing to God. This includes adhering to ethical principles and avoiding prohibited practices. The objective is to utilize financial resources to promote social welfare and economic development, while ensuring compliance with Islamic legal principles. (Abd Al Naser, 2013)

I-2-2-Investment is the focus of Islamic financial institutions' activity: Islamic financial institutions place a strong emphasis on investment, as it serves as a primary means of generating revenue and reflects their commitment to contributing to the development of society. The distinguishing characteristic of Islamic investment is its focus on tangible assets and real assets, rather than solely financial instruments. The injection of funds into society through Islamic investment is translated into the creation of commodities and services that generate actual value. Furthermore, Islamic investment is intricately linked to the nature of the project or asset being funded, such as third-party financing or Murabaha financing (Al-Maghribi, 1425 A.H).

I-2-3-Linking economic development with social development: Since money serves a social purpose, this religion's first roots were in its concern in social issues because there is no institutional support for it. Finance in Islam as an economic and social institution, it invests in different areas of economic activity to further the interests of society by utilizing savings from both individuals and institutions. Money isn't just interested in making money; it's also interested in making money that fosters social cohesion among society's members in numerous ways, particularly through zakat funds, which are supported by multiple sources in addition to alms, donations, and gifts.

I-2-4-Commitment to Islamic priorities: The aforementioned principle pertains to the objectives that the Shari'a has identified for preservation, which include religion, life, intellect, progeny, and wealth, commonly referred to as the five essentials. These objectives are categorized into three levels, namely necessities, needs, and improvements .

Consequently, investment evaluations and project assessments are based on Islamic priorities, which are determined by experts who prioritize investment activities based on the three aforementioned living standards. The first level entails fulfilling an individual's needs for goods and services at a reasonable and appropriate level. The second level pertains to a higher standard of well-being, characterized by a comfortable life and a greater abundance of livelihood (Al-Maghribi, 1425 A)

I-2-5-Commitment to good morals in transactions: Islamic financial transactions require that these institutions' economic activity and good morals run parallel from the beginning to the finish of the transaction. They must therefore strive to uphold the high moral standards that Islamic law

brings to their dealings and reject and leave all corrupt and harmful dealings to social and economic values, such as dealing with prohibited interest, not dealing with bribery, not dealing with monopolies, not cheating in dealings, etc.

I-3-Types of Islamic financial institutions

I-3-1-Islamic banks: The Islamic Central Bank, as an integral part of the banking institutions hierarchy, operates as an independent governmental entity responsible for realizing the economic and social objectives of the Islamic economy in the monetary and banking sectors (Shabra, 1990). It aims to mobilize savings and channel them towards productive economic and social activities while adhering to Sharia provisions and regulations in its operations (Al-Hashemi). The bank offers a range of banking and investment services based on the principle of profit and loss sharing through financial intermediation. Islamic windows or units within conventional banks are also part of the Islamic Central Bank's offerings, providing money management and investment services that comply with Islamic Sharia principles (Islamic Financial Services Board, 2022).

I-3-2-Islamic investment institutions: It is one of the Islamic institutions that require the collection of investor funds in the form of investment units or sukuk and commits to managing it to a team of experts and specialists to use it in line with the proper Islamic investment formulas, provided that the net return is distributed among them in accordance with the agreement. The rules and guidelines of Islamic law, judgments, and regulations apply to all of its dealings. government, internal policies, and procedures.

I-3-3-Islamic Financial Markets: an organized market for the buying and selling of various securities that are held in a defined location and at regular intervals. It tries to mobilize cash reserves and channel them toward beneficial initiatives. For any investor trying to diversify his portfolio and boost returns, this is a crucial opportunity. funding effective projects

I-3-4-Takaful insurance companies: They are corporations founded by the shareholders to carry out insurance and investment activities in accordance with Islamic Sharia. The most crucial of these activities is insurance on everything specified in insurance policies for the benefit of the subscribers, and the other two are investments that increased the money of the subscribers with a percentage of the profit or a wage. (Kataf and Latrash, 2020)

II-Institutions and bodies supporting the Islamic financial industry:

II-1- The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI):

the organization under discussion is a renowned international non-profit entity that extends its support to Islamic financial institutions. The organization was established in accordance with the founding agreement that was signed by a cluster of Islamic financial institutions in Algeria in 1990, and subsequently registered in Bahrain in 1991. The entity operates as an autonomous international organization and has garnered significant backing from legal institutions across the globe, including central banks, Islamic financial institutions, and other entities that operate within the international Islamic finance and banking industry.

The primary objective of this organization is to establish and promulgate standards for Islamic financial institutions that support the growth and development of the industry. The organization has thus far issued close to 100 standards covering areas such as accounting, audit, ethics, job, and government, as well as standards pertaining to legitimacy. These standards have been adopted by central banks and financial regulatory authorities in numerous countries, either as mandatory or indicative guidelines. The authority enjoys support from over 200 member institutions, including

central banks, regulatory authorities, financial institutions, accounting and auditing firms, and legal offices from over 45 countries

Currently, the Commission's standards are being implemented by leading Islamic financial institutions in various parts of the world, and the organization continues to play a pivotal role in the development and growth of the Islamic financial industry.

Within the framework of the provisions of Islamic Sharia and its rules, it aims to:

- The advancement of intellectual discourse in accounting, auditing, and banking with regard to the operations of Islamic financial institutions is an important area of development for the industry.
- Dissemination of accounting and auditing thoughts related to the activities of Islamic financial institutions and their applications through training, holding seminars, issuing periodicals, preparing research and reports, and other means.
- the creation and issuance of accounting and auditing standards for Islamic financial institutions, as well as their interpretation to reconcile the accounting practices used by those institutions to prepare their financial statements and the auditing techniques used to review those financial statements.
- Reviewing and amending accounting and auditing standards for Islamic financial institutions to keep pace with the development in the activities of Islamic financial institutions and the development in the thinking and applications of accounting and auditing.
- Preparing, issuing, reviewing, and amending data and guidelines related to the activities of Islamic financial institutions in relation to banking and investment practices and insurance business.
- attempting to utilize and put into practice the accounting and auditing standards, information, and guidelines related to banking, investment, and insurance practices issued by the Authority, by each relevant supervisory authority, Islamic financial institutions, other parties involved in Islamic financial activity, and accounting and auditing offices (Accounting and Auditing Organization for Islamic Financial Institutions, 2022).

II-2- The General Council for Islamic Banks and Financial Institutions (GCIBFI):General Council for Islamic Banks and Financial Institutions (GCIBFI) is an international organization that operates under the auspices of the Organization of Islamic Cooperation. Established in 2001 and headquartered in the Kingdom of Bahrain, the GCIBFI serves as the official umbrella for the global Islamic financial industry. The organization's primary objective is to support and promote the development of the Islamic financial services sector while also safeguarding its interests. In pursuit of this goal, the GCIBFI fosters cooperation between its member institutions and other financial entities with shared interests and objectives.

The GCIBFI boasts a membership of over 130 financial institutions located across more than 30 countries around the world. The organization's membership includes some of the most significant players in the Islamic financial market, as well as international multilateral institutions, professional institutions, and associations in the industry. The GCIBFI is widely recognized as one of the main organizations that constitute the structure of Islamic finance, and it plays a vital role in promoting best practices within the industry while ensuring the general welfare of its members. (General Council for Islamic Banks and Financial Institutions, 2022)

II-3- The Islamic Financial Services Board (IFSB):The Islamic Financial Services Board (IFSB) is an international standard-setting organization that aims to enhance the strength and stability of the Islamic financial services industry. The IFSB achieves this by issuing prudential standards and

guidelines for the industry, which broadly includes the sectors of Islamic banking, financial markets, and takaful (Islamic insurance). In addition to standard-setting, the IFSB conducts research activities, coordinates industry initiatives, and organizes panel discussions, seminars, and scientific conferences for regulatory authorities and stakeholders interested in the Islamic financial services industry.

The IFSB was officially opened in 2002 and began its operations on March 10, 2003. The organization is headquartered in Kuala Lumpur and has 187 members as of December 2021. Its membership comprises 81 regulatory and supervisory authorities, 10 intergovernmental organizations, and 96 active market players, which include financial institutions, professional corporations, and trade unions, operating in 57 countries.

As an international standard-setting body, the IFSB is dedicated to promoting a prudent and transparent Islamic financial services industry. To achieve this, the IFSB develops new standards or adapts existing international standards that are compatible with Sharia principles and recommends their adoption by regulatory and supervisory bodies with a direct interest in ensuring the integrity and stability of the industry. (IFSB, 2022)

II-4- The Islamic Development Bank ISDB: It is a financial institution and International organization to support and develops the economic and social progress of member states. Established in 1973 and officially opened in October 1975. It has 57 members as members. The Islamic Development Bank aims to support economic development and social progress for the peoples of member states and Muslim communities in non-member states, collectively and individually, and to provide specialized banking services, contributing to economic and social development, and supporting it in Islamic societies; To improve the standard of living in accordance with the principles of Sharia, and to carry out all banking, commercial, financial and investment activities, and to contribute to industrialization, economic, urban, agricultural and commercial development projects.

Through human development, economic cooperation, and the promotion of Islamic finance's role in economic and social development, the Islamic Development Bank provides a range of kinds of development aid to finance trade and fight poverty. The bank was also given the responsibility of creating and managing special funds for specific purposes, including one to aid Muslim communities outside of member nations, taking over the oversight of private funds, mobilizing financial resources in accordance with Islamic law, and aiding in the growth of member states' foreign trade as well as the promotion of exchange trade between them, particularly in productive commodities.

II-5- International Islamic Financial Market (IIFM): Through the combined efforts of the Central Bank of Bahrain (previously the Bahrain Monetary Agency), the Islamic Development Bank, Bank Indonesia, and Bank Negara Malaysia (delegated to La Buan Financial Services Authority), Central Bank of Sudan, Central Bank of Brunei Darussalam (now the Central Bank of the Sultanate of Brunei), Central Bank of Sudan, and Central Bank of Bahrain, the International Islamic Financial Market was established in the Kingdom of Bahrain in 2002 as a neutral, non-profit international institution for the development

It promotes information flows, product innovation, and business infrastructure on a national and worldwide level while adhering to strict, open, and well-regulated rules and regulations, and it helps businesses better accept and integrate with major markets. (International Islamic Financial Market, 2022)

II-6- The International Islamic Rating Agency IIRA: The International Islamic Rating Agency is a specialist organization that rates Islamic banks and financial organizations and assesses how dependent they are on established international financial institutions. As a result, because it assesses Islamic financial institutions and their offerings, its role is complementary to that of Islamic finance.

It was started in Bahrain in 2006. It was founded by many Islamic banks and credit rating agencies, with the Islamic Development Bank at the helm. to expand its operations and publish its documents on the global market following its ability to secure an international classification from this organization, particularly with foreign banks. Additionally, it provides Islamic financial institutions with the necessary openness in their operations, enabling them to gauge the magnitude of the risks they face, and offers two different classifications, namely:

- Credit technical rating: Its purpose is to highlight the strength and financial solvency of the Islamic bank and its products.
- Sharia rating: Its purpose is to highlight the extent to which the Islamic bank or its products comply with Sharia requirements and its commitment to the directives of its Sharia board.

III- The reality of the Islamic financial services industry:

The following were disclosed in the Islamic Financial Services Board's annual report on the sector for the year 2022:

- The Islamic banking sector retained its dominance, acquiring 68.7% of the assets of the global Islamic financial services industry in 2021. The sector recorded an annual growth of 6.5% in assets, 8.1% in the financing, and 7.3% in deposits in 2021. The number of important countries increased regularly to 15.
- At the end of 2021, the Islamic capital market sector acquired 30.5% of the assets of the global Islamic financial services industry on the back of positive performance due to the issuance of sovereign and multilateral sukuk in the main Islamic finance markets to support financial financing and environmentally friendly projects.
- Islamic funds also recorded a moderate growth of 6.0% in terms of total assets under management, while Islamic stock indices witnessed movements similar to the traditional market, but again outperformed their conventional counterparts in 2021.
- The share of the Takaful industry in the global Islamic financial services industry decreased slightly to 0.8%. However, global takaful contributions grew by 4.8% (yoy and in nominal terms) in 2020, with a 10-year (2011-20) compound growth average of 4.7%.
- The global financial industry is predicted to remain robust despite potential downside risks and slower global economic growth prospects. This is because many countries where Islamic finance is practiced are not directly affected by the impact of the Russia-Ukraine conflict, economies are gradually recovering and opening up again, and the transition process is accelerating digitalization, leading to better financial performance and resilience recorded in 2021. The following table shows the distribution of Islamic financial
 - services by region and industry (Islamic Financial Services Industry Stability Report, 2022).

Table n°1: Geographical distribution of Islamic financial services in 2021 (billion US dollars)

Region	Fundamentals of Islamic banking services	Money Markets (Sukuk)	Islamic investment funds	Takaful	Overall	%
GCC countries	1212.5	332.3	46.0	12.7	1603.5	52.4
Southeast Asia	287.5	390.3	37.5	4.7	720.0	23.5
Middle East and South Asia	477.1	26.9	22.0	5.6	531.6	17.4
Africa	58.2	1.8	4.0	0.6	64.6	2.1
other countries	68.8	24.4	45.1	0.7	139.0	4.5
Overall	2104.1	775.7	154.6	24.3	3058.7	

Source: FINANCIAL ISLAMIC FINANCIAL SERVICES INDUSTRY STABILITY REPORT 2022. Malaysia, 2022P12.

Financial assets in the worldwide Islamic financial services business are expected to increase annually to \$3.06 trillion in 2021, up 11.3% from \$2.75 trillion in 2020. The contributors came from the banking and Islamic capital markets industries. As many nations saw their economy begin to recover, the two main causes that increased the total value of financial services were takaful contributions, which saw a slight recovery despite growing pressure from the COVID-19 pandemic's effects in 2020.

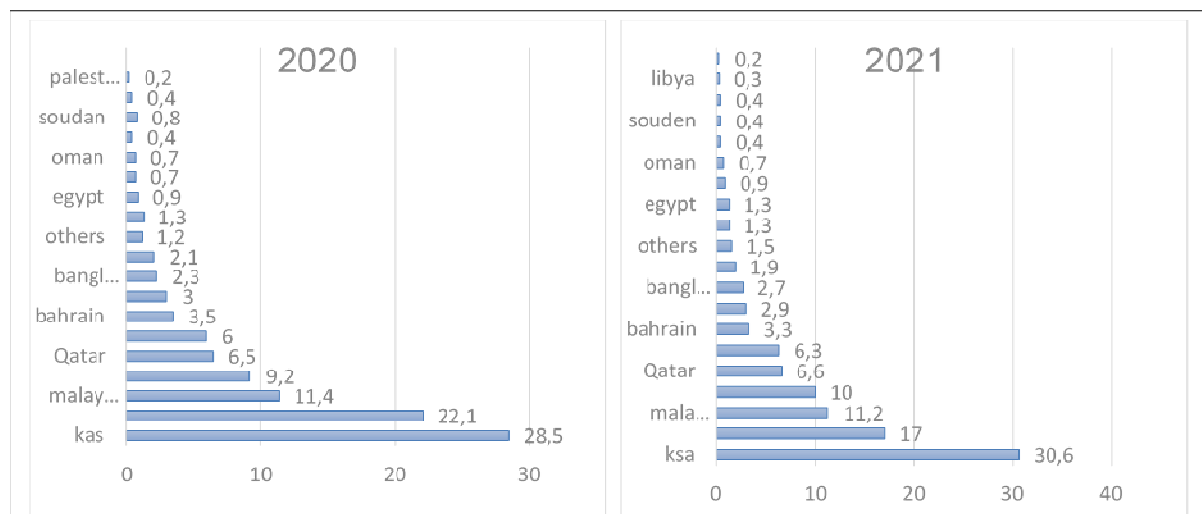
The Gulf Cooperation Council countries topped the ranking in terms of total assets with a combined total of 1603.5 billion US dollars, or 52.4%, and the reason is due to the recovery from the Covid19 pandemic due to the acceleration of their economies' reopening and the spread of the vaccine, as well as moderate inflation rates and the stability of exchange rates, which enabled them to maintain leadership in Islamic financial services. The Middle East and South Asia came in second with total assets of \$531.6 billion, followed by Southeast Asian nations with a total of \$720 billion, or 23.5%, the remaining nations, and African nations with total assets of \$139 billion, and \$64.6 billion, respectively.

III-1- Banking services: Islamic banks are regarded as one of the pillars of the Islamic financial sector—indeed, the most crucial link—and they are significant because they control the largest financial assets in the world, which will reach over \$ 2.10 trillion (68.7%) of all assets by 2021. With a growth rate of 17%, at the level of 566 A banking institutions, and given the proportion of Islamic banks' assets to the assets of the entire banking system, after the reopening of global economies and their recovery from the Covid 19 pandemic, and the increase in the digitization of financial services, in addition to the establishment of new Islamic banks in other countries, this number is expected to increase in the near future.

III-1-1- The evolution of the number of Islamic banks: The concentration of the global Islamic banking industry is primarily seen among the top five countries. Although the cumulative share of Islamic banking assets among these countries declined from 83.0% in 2020 to 75.4% by the end of 2021, the decrease in the number of Islamic banking assets in Iran was the main contributor to this trend. In particular, Iran's share of assets declined from 28.6% in 2020 to 17.0% in 2021. As a result, the Kingdom of Saudi Arabia's share of assets increased to 30.6%, consolidating its position as a leading Islamic banking center. Furthermore, there were improvements in the assets of the remaining three leading countries. Malaysia's share of assets increased to 11.2% in 2021 from 11.1% in 2020, while the UAE's share rose to 10% in 2021 from 8.7% in 2020. Similarly, Qatar's

share of assets increased to 6.6% in 2021 from 6.1% in 2020. Other countries such as Kuwait, Bahrain, Turkey, Bangladesh, and Indonesia also recorded improvements in their respective market shares.

Figure n°1: Countries' share of global Islamic banking assets (2020-2021).



Source : ISLAMIC FINANCIAL SERVICES INDUSTRY STABILITY REPORT :(2021-2022)

III-1-2- The size of the assets of Islamic banking services: The majority of the Islamic financial sector is made up of banks. According to the Islamic Financial Services Board (IFSB) report, it has seen an increase in the amount of its annual assets. It is credited with offering the real alternative to traditional banking, which is based primarily on the loan with interest.

Moreover, the share of Islamic banking assets in the GCC countries is the highest, as the region recorded a growth in Islamic banking assets by 23.7% year-on-year until the end of the fourth quarter of 2021, with a value of \$ 1212.5 billion, compared to 2020, when it amounted to \$ 979.9 billion. And by 43% of Global Islamic banking, because these countries have an important Islamic banking sector from a systemic point of view that plays a major role in various economic fields.

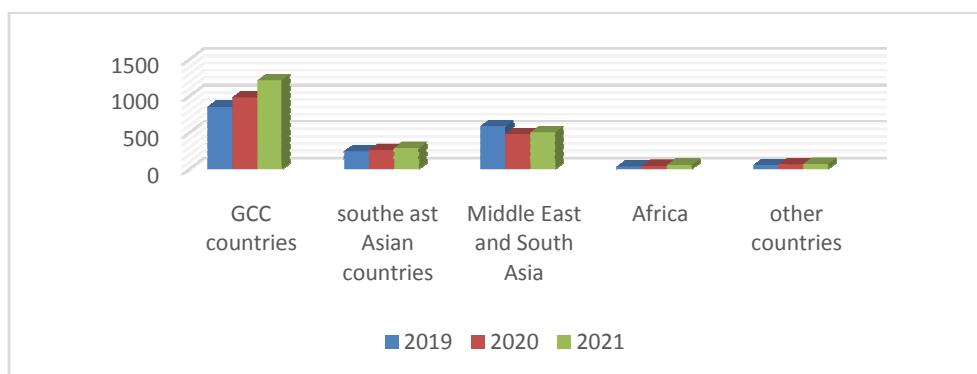
Given that Southeast Asia is made up of several nations, the value of assets related to Islamic banking services increased at an annual rate of 10.3%, reaching \$287.5 billion by the end of 2021 from \$260.6 billion in 2020 and \$240.5 billion in 2019. It has large holdings in countries that offer Islamic banking services, like Malaysia, Brunei, and Indonesia.

Concerning the Middle East and North Africa (MESA) region, despite the increase in the value of assets in major regional markets such as Bangladesh and Pakistan, the value of Islamic banking assets in the region in US dollars registered a value of \$584.3 billion in 2019, then \$477.1 billion, and \$499 billion in the years 2020 and 2021, respectively. Respectively, it continued its downward trend by -4.4%, mainly due to the decline in the value of Iranian Islamic banking assets after the continued depreciation of the Iranian rial. The economic and political conditions in both Lebanon and Afghanistan are other factors that affected the growth potential of Islamic banking assets in the region.

The African region recorded the highest rate of growth in Islamic banking assets among the five regions. With an asset growth rate of 35.0% till 2021 at a value of USD 58.2 billion, mainly due to the establishment of new Islamic banking institutions and the increasing awareness of Islamic banking, benefiting from the huge untapped market across the region. Nonetheless, Africa

still accounts for the lowest share of global Islamic banking assets at 2.8% due to high inflation rates and the impact of the depreciation of the exchange rate on the dollar value of Islamic banking assets in the region, in light of the economic slowdown in the recovery from the Covid-19 pandemic. Turkey and other countries recorded this From Europe and the Commonwealth of Independent States classified as (other countries) growth was slower by 11.3% at the end of 2021, reaching \$ 68.8 billion, in contrast to the year 2020, during which the growth rate of assets reached 16.4%, mainly due to the slowdown in asset growth in dollars The value of the assets of the Islamic banking sector in the UK and among the CIS countries in terms of US dollar value remained constant during the period.

Figure n°2: The evolution of the volume of Islamic banking across the world during (2019-2021)



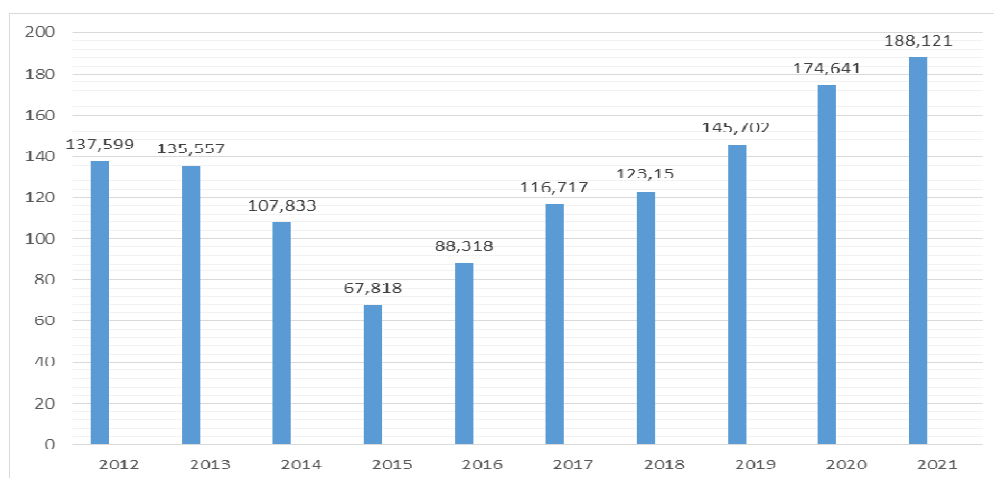
Source: ISLAMIC FINANCIAL SERVICES INDUSTRY STABILITY REPORT (2019-2022).

III-2- Islamic financial markets services: Although most economic and financial sectors experienced a decline in performance in 2020 and the first few months of 2021 as a result of the effects of the Covid-19 pandemic, the Sukuk sector continued to grow, achieving rates close to 20% in 2020, an increase from the previous year. By the end of 2021, the Islamic financial markets sector will have acquired more than 30% of the volume of the global financial industry. (Bulletin of Islamic Finance in the Arab Countries, 2022) and it is likely that the Sukuk market will tend to achieve high growth rates during the coming period, driven by an increase in the demand for financing in the global market, as crises of high inflation and problems of supply and supply chains, in addition to the Russian war in Ukraine, have caused In the direction of governments to search for new financing mechanisms.

Given that many nations have shifted to a green economy and financing in order to support continuous, sustainable, and all-encompassing growth as well as to improve economic and financial resilience, the trend toward green Sukuk issuance is regarded as one of the factors causing the increase in the volume of issuances. Indonesia, Saudi Arabia, the UAE, and Malaysia are the nations that issue the most green Sukuk. Thus, it had a value of 4.3 billion dollars in Indonesia and a rate of return of roughly 3.55% in 2021, with a value of 750 million dollars, making it the most significant and significant contribution to the green economy (Al-Minshaw, 2022).

III-2-1- Volume of global sukuk issuances: The total value of yearly sukuk issuances reached \$188.121 billion in 2021, which is the biggest amount to date. The global issuance of sukuk increased by 7.72% compared to 2020, hitting \$174.641 billion. Saudi Arabia and Malaysia continued to lead the global sukuk market, and the volume of stable issuance throughout 2021 was mostly driven by sovereign sukuk issuances from Asia, the GCC countries, Africa, and few other countries.

Figure n°3: The volume of global sukuk issuances will be placed during (2012-2021) (billion dollars).



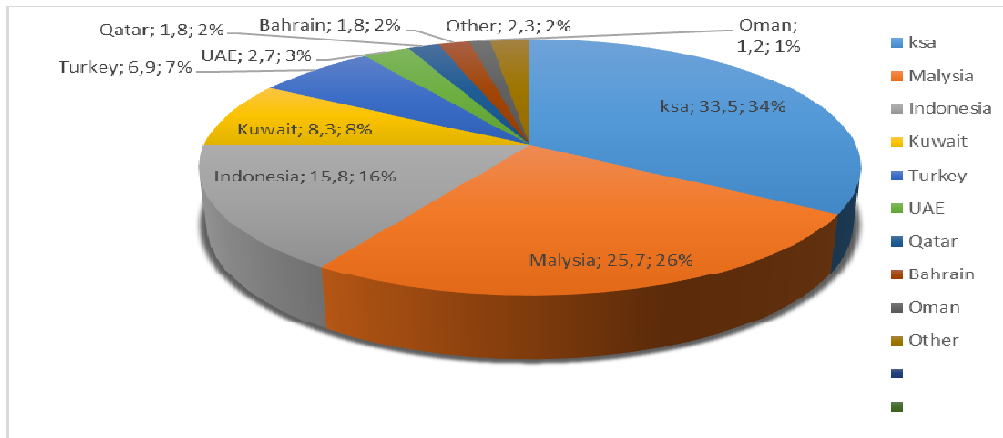
Source: IIFM SUKUK REPORTA COMPREHENSIVE STUDY OF THE GLOBAL SUKUK MARKE - International Islamic Financial Market, 202-2 p29.

The position of the Islamic financial market over the past five years is depicted in Figure No. 03, demonstrating that it was unaffected by the Covid-19 pandemic and its effects, which had an impact on nearly all economic sectors. It also demonstrated that it continued to grow with signs of economic recovery after the pandemic, benefiting from most of the countries of the world have returned to reopening their economies .

It is also noted the development of Islamic sukuk at the beginning of 2012, when it witnessed a great growth and unprecedented prosperity, as the total issuance reached \$131.599 billion, which represents three times the size of the sukuk market before the global financial crisis of 2008. After that, it fluctuated until 2015, then it rebounded within a year. 2016 and beyond, as the volume of issuances reached \$88.319 billion, to continue to rise until 2021, at a compound annual growth rate close to 19%, making it the fastest growing sukuk sector among all sectors of the Islamic financial services industry. This is due to the increase in sovereign sukuk issuances from Asia, the GCC countries, Africa and some other countries.

III-2-2- Share of countries in the volume of sukuk issuances: The Kingdom of Saudi Arabia ranked highest in issuing sukuk in 2021, closely followed by Malaysia and Indonesia regionally, and the GCC countries accounted for approximately 48% of the total volume of issuances in 2021, supported by an increase in issuances from Saudi Arabia, which overtook Southeast Asia as the largest regional issuer of sukuk, accounting for 42% of issuances as a result of a decrease in issuances across the three major issuers (Malaysia, Indonesia and Bangladesh), while (IFSB, 2022) it continued Malaysia retention at its center the first in Sukuk Issuances (2001-2020) with versions local and international combined About 800 billion dollar amric, followed by The kingdom Saudi Arab With a value of 174.6 billion dollar American, and Indonesia With a value of 124.90 billion dollar American, and the Emirates Arabic United 98.39 billion dollar and Turkey 66.90 billion dollars. Given to force head market the money Malaysian has enabled it to maintain on pioneering on counterparts in Asia And countries council cooperation Many countries are actively working to develop their sukuk markets, such as Gambia, Ivory Coast, Nigeria, Mali, Morocco, Egypt, Pakistan and Bangladesh, and Figure 04 illustrates this.

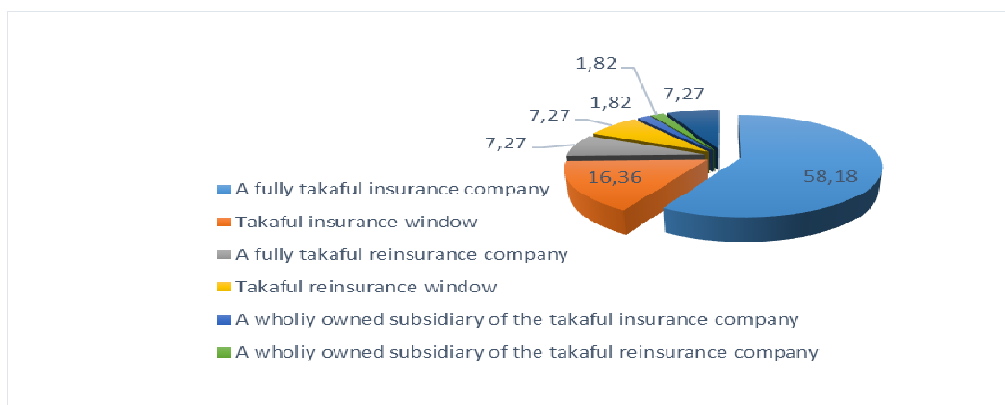
Figure n°4: the share of countries in the volume of sukuk issuances in 2021.



Source : FINANCIAL ISLAMIC FINANCIAL SERVICES INDUSTRY STABILITY REPORT , 2022. P29 .

III-3- Takaful insurance services : In accordance with the survey conducted by the General Council of Islamic Banks and Financial Institutions, which reflects the viewpoints of 55 institutional leaders from 24 different countries, approximately 58% of companies that responded to the questionnaire utilize entirely symbiotic Islamic insurance. Of those surveyed, 16% utilize conventional insurance windows for company insurance, 7.47% utilize entirely symbiotic reset insurance for companies, and corporate windows utilize affiliated Islamic banks or Takaful insurance companies for their insurance needs. The remaining 1.82% of companies are fully affiliated with Takaful Insurance and Reinsurance Company. The survey further explained that over half of the companies surveyed use the Wakala-Mudaraba compound sample, while a sixth of those surveyed utilize the agency model. The adoption rate for the Wakala-Waqf compound sample or the speculation model is approximately 10%.

Figure n°5 : The type of Takaful insurance operations.

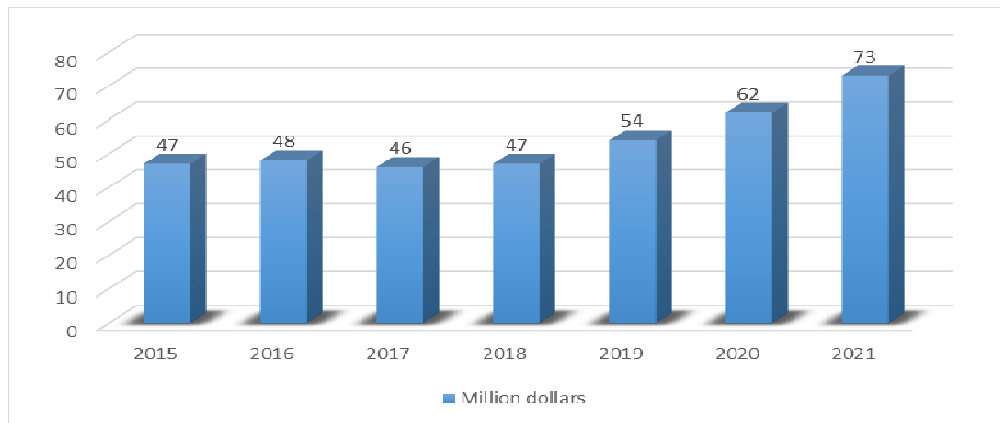


Source: Global Takaful Insurance Survey, General Council of Islamic Banks and Financial Institutions, 2018, p. 14.

In terms of the nature of operations for symbiotic insurance, more than half of the respondents reported utilizing symbiotic insurance for general and familial vehicles, while approximately a third reported utilizing symbiotic insurance for general purposes. Symbiotic insurance for familial purposes was reported to be almost equivalent in price to general symbiotic insurance. With regards to company size, over 40% of respondents reported annual total contributions in symbiotic insurance ranging from 11 million to 100 million US dollars, while a third reported contributions

ranging from 1 million to 10 million US dollars. Companies with annual total contributions of less than 1 million US dollars accounted for approximately a sixth of the surveyed companies. Companies with annual total contributions ranging from 101 million US dollars to 1 billion US dollars accounted for less than 10% of the surveyed companies.

Figure n°6 : the growth of Takaful assets (2015-2021).



Source: ICD - REFINITIV ISLAMIC FINANCE DEVELOPMENT REPORT 2022: EMBRACING CHANGE - P36.

Takaful assets grew significantly until the year 2021, when it recorded 73 million dollars, compared to the previous year, when it recorded 62 million dollars. It is noticeable that the Takaful assets have been growing continuously since 2015, as shown in Figure No. (06), and the GCC countries accounted for 43.2% . Of the global Takaful assets, as it recorded 12.72 million dollars, and this is due to a number of reasons, most notably the provision of health coverage, as its countries expanded the scope of their health coverage to include all examinations and treatment costs, which led to a high demand for Takaful products, while the Middle East and South Asia region amounted to 11.36 billion US dollars by 42.0 % , and North African countries accounted for 2.03 % , equivalent to \$0.55 billion.

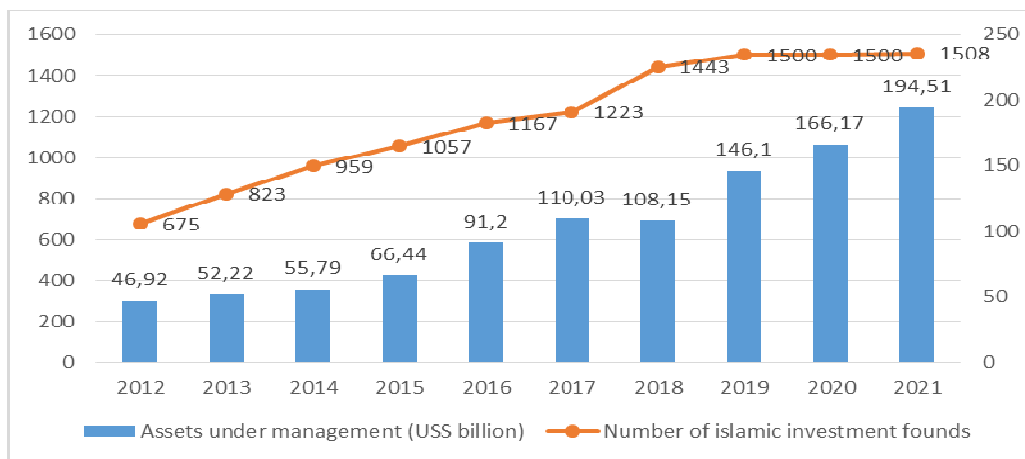
Given the entry of some countries into amending the laws regulating the insurance market, as Tanzania amended the regulatory frameworks for Takaful in early 2019, and approved the accreditation of three insurance companies, and Moroccan legislation allowed insurance companies to launch family and general takaful offers, in addition to the Algerian government issuing the Takaful Law for the first time in the country in an effort to boost the Islamic finance sector, contributions within the Southeast Asian region were recorded at 11.2 % , with a value of \$3.02 billion. Countries such as Indonesia and Malaysia enjoy a strong Takaful market. Indonesia It is the 5th largest Takaful market in the world with assets of USD 3 billion, and Malaysia The government has undertaken significant efforts in revising and improving the Takaful framework, which has led to the creation of new credit-related Takaful products, and the presence of platforms such as InsurTech providing access to the largest consumer base at controlled costs across area, along with the benefits of optimization speed, comfort and efficiency. For example, the Malaysian Takaful program uses blockchain technology to direct endowment funds towards providing affordable takaful products to low-income consumers . (Islamic Finance and Wealth Management, 2021).

III-4- Investment Funds Services :Shahd market Boxes investment Islamic Global developed by 18% in assets managed during Contract the past, on though from Archaeology Economic negative for a pandemic covid 19 , which slowed down growth assets managed for boxes investment Islamic From 35.1% in 2019 to 13.7% in 2020 , unless that market Boxes investment Islamic Global to

attest in recovery amazing in 2021) until quarter Third (and developed by 17.1%. And promise this the growth Whopper in the years past a result to order growing on investments compliant with Islamic Law Islamic.

and includes market Global in the time the present 1,508 boxes _ investment Islamically It is managed by 345 institutions Finance Islamic in 29 countries around the world . and with growth middle size Boxes investment in the years Last, reach Total assets managed in market Boxes investment Islamic Global 194.51 billion dollar American in September 2021 _ And who from Expected that grow more in end 2021 and own Malaysia) 401 boxes investment Islamic (and Indonesia) 209 boxes my investment Islamic (and Saudi Arabia) 183 boxes my investment Islamic (and considered more three Countries run Boxes investment Islamic in year 2021 , But when look to Total assets managed, occupy Saudi Arabia, and Iran, and Malaysia centers The first by 72.24% of market Boxes investment Islamic Global any what Equivalent to 140.51 billion dollar American .

Figure n°7: Explains growth assets managed and number Boxes investment Islamic (2012-2021).



Source: Special Report of the General Council on Islamic Investment Funds: Trends, Challenges and Opportunities, General Council of Islamic Banks and Institutions, 2022, p. 17.

Islamic investment traded funds (ITFs) are rapidly expanding their reach across different regions. In mid-2021, Canada witnessed the introduction of its first ITF, followed by the launch of the first Islamic fund in Australia in August of the same year. The lack of Islamic financial products to cater to the needs of Muslims in Australia, where 36% reportedly kept their savings at home, prompted the development of the first Sharia-compliant app in Russia, as well as the introduction of an ETF by Chimera Capital in the UAE in August 2022, which focused on Turkish stocks that comply with Islamic law (ICD, 2022)

Interestingly, despite some Muslim-majority countries belonging to the Organization of Islamic Cooperation such as Bangladesh, Iraq, Sudan, and Jordan having advanced Islamic financial services, the market for investment funds is limited in some cases, which points to a general weakness in this sector. For instance, Jordan has a small number of local investment funds due to the weak structure of investment funds in the country, while Bangladesh has a large number of investment funds, but most of them do not adhere to the provisions of Islamic Sharia, which suggests the presence of other factors. Conversely, some countries exhibit greater flexibility in distributing Islamic investment funds, allowing financial institutions in these nations to offer their clients a broader range of globally compatible investment options that are compliant with Islamic Sharia (CIBAFI, 2022).

Conclusion:

The Islamic financial services industry has experienced modest growth in recent years, but has recorded double-digit growth globally since 2019. The growth is attributed to the emergence of new products, such as green sukuk and socially responsible investment (SRI). The core markets in the Middle East, North Africa, and Southeast Asia are expected to see a rise in sukuk issuances, while non-core markets such as Kazakhstan and Uzbekistan are also expected to experience growth. Islamic investment funds have also seen impressive growth rates, driven largely by the Islamization of ETFs and increased access to environmental, social, and governance (ESG) assets through digital media. Islamic banking services accounted for 69.3% of total services, with new Islamic banks emerging in financial markets such as the United Kingdom. Takaful services also played an important role in the Islamic financial services sector, reaching 82.6% of total contributions in 2020.

Despite the impact of the Covid-19 pandemic, the Islamic financial services industry is gradually recovering, and the global industry is expected to remain strong. The accelerated digital transformation, improved financial performance, and resilience recorded in 2021, as well as the rebound of the global economy with real GDP growing by 5.9%, are contributing factors. However, there are potential downside risks and lower global economic growth prospects, such as the conflict between Russia and Ukraine and the turmoil in global supply chains. Nonetheless, the industry has shown improvement across all sectors of the Islamic financial services index, particularly in Islamic banking and Islamic capital market.

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