TheCityUK

In partnership with:

DDCAP Group™

In collaboration with:

REFINITIV

Islamic finance: global trends and the UK market

2022

About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK, across Europe and internationally that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.2 million people, with two thirds of these jobs outside London. It is UK's largest net exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined. It is also the largest taxpayer, and makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and protect and manage risk.

About DDCAP Group™

Headquartered in London, DDCAP Group™ (DDCAP) is a market intermediary and financial technology solutions provider connecting the global Islamic financial market responsibly. Established in 1998, we have almost 25 years' experience providing award-winning commodity and asset facilitation services to support our customers' Shariah compliant financial requirements. DDCAP facilitates commodities and services, providing systems solutions to over 300 financial sector customers worldwide, including banks, non-bank financial institutions, asset managers and fintechs, across a diverse range of Shariah compliant products, contracts and asset classes.

We have a dedicated team of professionals, with broad, complementary skill sets drawn from financial industry backgrounds, focused on providing services to Islamic financial market participants from around the world. DDGI Limited and DD&Co Limited are wholly owned trading subsidiaries of DDCAP Limited. Together, these companies form the DDCAP Group™. Outside of our London headquarters, DDCAP's international footprint includes offices in Bahrain, Dubai (DIFC) and Kuala Lumpur.

DDCAP aspires to connect to the global Islamic financial market responsibly and works to promote awareness of the business and ethical case for responsible finance. DDCAP is a signatory to United Nations' endorsed Principles for Responsible Investment (PRI) and stakeholder endorser of the UN Environmental Programme Finance Initiative's (UNEP FI) Principles for Responsible Banking. DDCAP is a member of the Global Islamic Finance and SDGs Taskforce, steered by the UK Islamic Finance Council and also a member of the RFI Foundation. DDCAP's own commitment to Sustainable and Responsible Actions ("SRA") is being reinforced within policy that extends across its corporate environment and infrastructure, business offerings and services and engagement with its stakeholders and other third parties.

About ETHOS AFP™ and ETHOSTerminal™

ETHOS AFP™ is a market leading, multiple award-winning real-time trade and post trade services platform which provides continuous coverage and enables DDCAP clients worldwide to purchase from a responsible, diverse asset inventory via a secure, web-based portal for onward sale to their own clients and counterparties. The open market platform with full STP functionality delivers an array of benefits and efficiencies whilst mitigating trade and operational risks.

ETHOSTerminal™ was launched in 2021 and brings additional integration functionality to DDCAP clients via an open market environment that enables users full discretion in choosing trade counterparts. This upgraded functionality has been developed in response to user demand and Sharia'a preferences. In combination, these have caused Islamic financial market banks and institutions to seek transactional flexibility that enables them to select, and alternate, the market counterparties that they contract with for their individual trade requirements.

In addition to gaining access to the Sharia'a compliant automated trade and post trade services platform, ETHOS AFP™ and to the extended functionality of ETHOSTerminal™, DDCAP clients and counterparties also have access to the fully integrated service solutions of DDCAP's diverse and market leading technology partners which include Refinitiv, Murex and Instimatch.

Development of ETHOS AFP™ and its functionality is integrated within DDCAP Group's corporate policy formation, including its SRA programme and the review processes and procedures of its esteemed Sharia'a Supervisory Board.

About Refinitiv

Refinitiv, an LSEG (London Stock Exchange Group) business, is one of the world's largest providers of financial markets data and infrastructure. With $6.25 billion in revenue, over 40,000 customers and 400,000 end users across 190 countries, Refinitiv is powering participants across the global financial marketplace. We provide information, insights, and technology that enable customers to execute critical investing, trading and risk decisions with confidence. By combining a unique open platform with best-in-class data and expertise, we connect people to choice and opportunity – driving performance, innovation and growth for our customers and partners.

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Islamic finance is an important and fast-growing part of the global financial services sector. Following on from our previous research in 2019, this report summarises global trends in Islamic finance with a particular focus on the development of the UK market.

The industry's increasing importance for Islamic and other investors around the world is evidenced by its steady growth in recent years. For example, Islamic banking assets registered a compound annual growth rate of around 10% over 2016-21. Potential future growth prospects are robust, supported by global demographic trends and increased interest in sustainable finance and investment.

As the leading Western centre for Islamic finance, the UK has been at the forefront of key developments, as illustrated by the findings of this report. For example, the UK was the first Western country to issue two sovereign sukuk, and the London Stock Exchange is a global hub for sukuk listings. Islamic FinTech is a particularly fast-growing sub-sector, and one where the UK is well-placed to make a notable contribution given its global leadership in the wider FinTech space. Indeed, in the widely cited Global Islamic FinTech Index, the UK is the world's fifth-ranked country in terms of having a supportive environment for the growth of the sub-sector, and one of only three non-Muslim countries in the top ten. The UK's well-established strengths in legal, accounting and consulting services have also maintained its position as a Western leader in the provision of professional services related to Islamic finance. The UK is also a leading centre of Islamic finance education and training.

The government, regulators and our industry should continue to work together, not just to grow the sector and maintain the UK's unique position in Islamic finance, but also to become a leading player in setting international Shariah-compliant standards. We hope that this new research demonstrates the scale and growth potential of the industry and sets out the opportunity for the UK to continue and enhance its contribution to that growth. Globally for Islamic finance there is clear alignment with the sustainability agenda. The report illustrates the progressive approach taken by HM Government towards Islamic Finance; they should now confirm this approach by working with industry to develop and issue a programme of green sukuk. The report's findings should also be used by government and officials as further evidence of the strength and depth of the UK's financial and related professional services sector and London's role as a leading international financial centre.

Miles Celic
CEO, TheCityUK

Foreword from Refinitiv, a London Stock Exchange Group business

At Refinitiv, an LSEG business, we are pleased to partner with TheCityUK to develop this timely report to capture all the latest Islamic finance developments in the UK. As this report reveals, the UK is a vital component of the global Islamic finance industry. London is widely recognised as the leading Western centre for Islamic finance, due to multiple factors. These include investors' preference for the London Stock Exchange as a sukuk listing venue, the growth of London as an Islamic fintech hub, and the continued pivotal role that London and UK-based professional services firms play in enabling Islamic financial services domestically and globally.

One example is the use of English common law as the preferred basis for Islamic finance transactional activities. Other wider ongoing developments also help cement the UK's strengths as a venue for Islamic finance in the West, such as the UK's second sovereign sukuk issuance, and the introduction of an Alternative Liquidity Facility – a non-interest-based deposit facility, which is the first of its kind offered by a Western central bank.

The Islamic finance industry in the UK has been on a positive trajectory over the past few years and currently ranks 27th out of a total of 136 countries according to our 2022 ICD-Refinitiv Islamic Finance Development Indicator (IFDI) report. The UK has outperformed all Western countries excluding Turkey and has shown strong performance particularly in Islamic knowledge and sustainability indicators. The UK also ranks 10th globally on sustainability, which augurs well for the further development of Islamic finance in the UK, given the potential synergies between sustainability and Islamic finance. These favourable showings in the IFDI rankings confirm the UK's primacy among Western markets as a leading hub for Islamic finance outside traditional markets.

Moreover, the UK is one of the few countries outside the Organisation of Islamic Cooperation (OIC) countries to issue sukuk twice, providing it with further supply of high-quality Islamic liquid assets. The UK is also a leading country in financial services, as the world's largest centre for international debt issuance, commercial (re)insurance and foreign exchange trading, and is a global hub for asset management.

LSEG also sits on the UK's Steering Committee for Islamic finance and is a founding member of the High-Level Working Group on Green Sukuk. We are pleased to help contribute to the overall development of the Islamic finance in the UK, and hope that the industry benefits from the data, information and insights contained in this report.

Mustafa Adil
Refinitiv, a London Stock Exchange Group Business

Foreword from DDCAP

The DDCAP Group has been a member of TheCityUK since its formation in 2010. From that time DDCAP has worked closely with TheCityUK to develop, champion and support UK Islamic finance in the domestic and overseas markets.

This report again confirms the UK's position as the leading western hub for Islamic financial activity. This positioning has been driven by the private sector-based initiatives of the UK's Islamic finance industry, enabled by supportive government policy. The UK government has sought, for more than two decades, to create a level playing field for Islamic finance.

UK-based Islamic finance sector businesses and practitioners have been diligent in engaging with government to highlight their requirements and concerns, alongside those of their customers. There have been occasions when revisions to our domestic financial regulations or specific areas of law, especially taxation, have had an unintentional but profound and undesirable impact for Islamic finance. Usually, a collaborative, patient and supportive response by industry stakeholders, championed by intermediaries such as the Islamic Finance Market Advisory Group within TheCityUK, has delivered a positive outcome.

Since 2010 Islamic finance in the UK and across the globe has changed considerably. For many of our industry stakeholders, the past few years have signalled a step change in the development and positioning of the UK's Islamic financial proposition. This report shows the strengths of the UK Islamic finance offer and highlights the development and achievements of the Islamic fintech sector. The past two years have been noticeable for the step-up in the number of successful funding rounds and the amounts of capital raised by Islamic fintechs.

We are also seeing how many of the underlying principles of Islamic finance are being incorporated into the green and sustainable agenda. The Global Islamic Finance and SDG Taskforce, a UK led working group, has been established to encourage and promote accelerated issuance of sustainable sukuk, enabling countries to achieve their climate related targets through financings raised in accordance with Shariah-based principles.

At DDCAP we have worked with TheCityUK and its members in a considerable number of overseas jurisdictions – developing new markets, encouraging growth and the creation of jobs. The work has varied from finance and capital markets, through insurance to fintech and has prioritised green and financial inclusion. The global potential for Islamic finance products remains huge and this report confirms the UK is well placed to play a leading part in this growth.

We are very pleased to sponsor TheCityUK's 2022 report 'Islamic finance: global trends and the UK market'.

Stella Cox CBE
Managing Director, DDCAP

Executive summary

- This report evaluates the Islamic finance sector globally but with a special focus on the UK market in recent years, presenting the regulatory landscape, the performance of each major segment, and the most innovative developments.
- Global Islamic banking assets totalled $2.8 trillion in 2021, up from $1.7 trillion in 2016, and showing a compound annual growth rate (CAGR) of 10.1% over 2016-21. Assets are forecast to reach $4 trillion by 2026.
- In 2021, UK-based Islamic banks' assets were $7.5bn, down by 1.6% year on year. The UK made up just 0.3% of global Islamic banking assets. However, in Europe, the UK stands out as it made up 85% of total European Islamic banking assets, with the most Islamic banking assets of any single European country (excluding Turkey).
- Sukuk is the second largest segment of Islamic finance after Islamic banking. Global sukuk issuance has grown steadily in recent years, from $128.3bn in 2018 to $196.5bn in 2021. In the UK, there have been a handful of additional sukuk listings – a £500m sovereign sukuk in 2021, and two vaccine-focused sukuk by the International Finance Facility for Immunisation.
- Takaful is the smallest major segment of the Islamic finance industry. Over the period 2015-21, global takaful assets saw annual average growth of 8%, from $47bn in 2015 to $73bn in 2021. As one of the largest insurance markets in the world, and one of the leading global centres for wholesale insurance and reinsurance, the UK has the potential to support the growth of takaful business in the coming years.
- Over the period 2017-21, assets under management (AuM) of global Islamic funds experienced an average annual increase of around 13%. Total AuM of Islamic funds reached $125.3bn in 2021, corresponding to 1,418 active funds. The UK is one of the largest markets in the world for fund management; total AuM of UK-based Islamic funds was $19.6bn in 2021, corresponding to 37 active funds.
- The Islamic FinTech market is highly concentrated in some country members of the Organisation of Islamic Cooperation. The UK was ranked 5th in the 2021 Global Islamic FinTech index, and is the first Western country to have created an ecosystem supportive of Islamic FinTech. By the end of 2021, there were 68 Islamic FinTechs in Europe, and 45 of these were headquartered in the UK.
- The UK is a Western leader in supporting infrastructure and environment for Islamic finance. Services in the UK are offered by financial intermediaries, asset managers, insurance providers and international law, accountancy, and consultancy firms.
- There is a growing demand for skills as Islamic finance expands. The UK is one of the world's largest providers of Islamic finance education.

Islamic finance in the UK – the regulatory landscape

The principles of Islamic Shariah are not a codified set of rules that can be used with absolute certainty in all situations. For Islamic finance there is no single 'rule book' for Islamic law to which a regulator or judge can refer. Organisations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) set standards for Islamic finance institutions and the wider industry, but these standards, while often adopted, are not legally binding in the UK.

In the UK, the government, regulators and other authorities cannot opine on whether a particular Islamic finance activity or product is Shariah-compliant or not because as secular institutions, they cannot take a view on religious standards.

However, for nearly 30 years UK authorities have taken a positive approach to Islamic finance. In 2001 the late Lord Edward George, then Governor of the Bank of England, established and chaired a high-level working group with representatives from industry, government, the Muslim community and the Financial Services Authority (FSA, the then regulator), to examine the barriers to Islamic finance in the UK. In 2003, speaking at the Islamic Home Finance Seminar, he referred to a conversation ten years earlier where he thought: "many of the financial products commonly used in this country …already had some of the characteristics consistent with the teachings of the Qu'ran; if only we could come to a better and more precise understanding of the Islamic financial products…with a little imagination, we could surely find ways of fitting them in to our legal and regulatory framework in this country, on a par with our more traditional financial instruments."[1]

[1] Bank of England, Speech given by The Rt Hon Sir Edward George, Governor of the Bank of England (27 March 2003), available at: https://www.bankofengland.co.uk/-/media/boe/files/speech/2003/edward-george-islamic-home-finance-seminar.pdf

A level playing field – the approach of the UK government, regulators, tax authorities and courts

Government: The thinking of the UK Government was encapsulated in its 2008 White Paper, which emphasised both the contribution that a robust Islamic finance sector could make to the UK's position as a leading international financial centre, and its potential to expand consumer choice. Ian Pearson, the then Economic Secretary to the Treasury, noted with regard to the government's 2008 consultation on proposals for the legislative framework on alternative investment bonds, including sukuk: 'The Government wants to ensure no one in the UK is denied access to good financial services on account of their religious beliefs. We value the contribution Islamic finance makes to London's position as an international financial centre and we want to see this sector continue to grow and prosper in this country.'[2]

Regulatory: The UK's regulatory position is also clear. The Financial Services and Markets Act 2000 established that anyone seeking to conduct a regulated activity in the UK had to apply to the FSA for permission. The FSA's policy was that '….all financial institutions authorised by [them] and operating in the UK, or seeking to do so, are subject to the same standards. This is true regardless of their country of origin, the sectors in which they wish to specialise, or their religious beliefs.'[3] Islamic institutions wishing to carry out regulated activities in the UK must follow the same process as their conventional counterparts when applying for FSA authorisation.

This established the concept of a regulatory level playing field for Islamic finance, with no difference in considering and authorising applications from conventional or Islamic firms. The FSA's approach could be summed up as 'no obstacles, but no special favours.'[4]

The FSA was abolished in 2013 and its responsibilities split between two new agencies: the Financial Conduct Authority and the Prudential Regulation Authority of the Bank of England. The UK's approach to Islamic finance regulation has more or less remained the same, however.

[2] HM Treasury, 'Government launches consultation on Islamic finance in the UK' (11 December 2008), available at: https://www.wired-gov.net/wg/wg-news-1.nsf/0/F5FF1DD326D3C1858025751C00449AB3?OpenDocument
[3] Financial Services Authority, 'Islamic Finance in the UK: Regulation and Challenges', November 2007
[4] Sir Howard Davies, Head of Financial Services Authority, speech Bahrain 2003. Referenced in Financial Services Authority, 'Islamic Finance in the UK: regulation and challenges' (November 2007), available at: https://www.isfin.net/sites/isfin.com/files/islamic_finance_in_the_uk.pdf

Compliance with Shariah principles

Although the UK authorities do not regulate Shariah compliance, the Bank of England recognises the importance of dialogue with other authorities and it became an associate member of the Islamic Financial Services Board (IFSB) in 2015.

Without a central Shariah finance authority, UK Islamic finance firms will normally appoint a Shariah scholar or Supervisory Board (SSB) of Islamic scholars, to certify and evidence the fact that their activities and products are compliant with Shariah principles. It is the responsibility of the Shariah scholar or the Shariah board of the company offering the financial product to decide whether the product is compliant with Islamic law.

In some jurisdictions, SSB scholars are approved centrally by the regulator. In the UK SSB scholars are privately appointed by the firms that they advise.

The Courts and the legal system: In 2004 a legal case and subsequent ruling[5] established the principle on the use of Shariah law in financial contracts.

The *murabahah* agreement in question stated that it was to be governed by English law, but that this was 'subject to the principles of the Glorious Shariah'.

The central issue of the case was whether the agreement was governed by English law alone, or English law subject to the principles of Islamic Shariah. The English Court of Appeal held that the agreement was governed by English law alone and only the law of a particular country can be adopted as the governing law of a contract.

The ruling was significant because the issue of English law vs Islamic principles had never been considered by a secular court before. Although subsequent legislative changes permit Shariah as the governing law of a contract, Islamic finance contracts in the UK are generally governed by English law.

Taxation

In 2005 the government introduced legislation for the taxation of *murabahah* transactions (referred to as 'purchase and resale arrangements' in the legislation). The legislation provided that where the return (the profit charged on the resale of a product) equates in substance to an interest-like return, it will be taxed as if it were a loan.

Subsequently in 2008, the government listed the principles that would be followed in the UK when determining taxation of Islamic finance:

'Treatment should follow the economic substance of the transaction and the treatment would be on the same basis as equivalent financial products that bear interest. Ordinary tax rules should be applied where possible and rules that give undesirable or unpredictable results should be amended.'

UK tax legislation uses the term 'alternative finance arrangements' when describing certain Islamic products and how they should be taxed. While the changes to tax legislation are intended to level the playing field for Islamic finance providers and the purchasers of Islamic finance products, the changes are not aimed solely at Islamic finance providers and the purchasers of Islamic finance products, and it is not the concern of the tax authorities whether a particular product complies with Islamic Shariah.'

Over the past 20 years the government has continued to support the development of Islamic finance in the UK through changes in legislation, and in particular to tax legislation. Amendments have been made to tax and regulatory framework to facilitate *murabahah*, diminishing *musharakah* and *sukuk* (among others). TheCityUK has been active in informing the UK authorities of required changes to legislation.

Recent developments

The most significant recent development was the establishment by the Bank of England of a Shariah-compliant liquidity facility for UK Islamic banks. International banking rules require banks to always hold a liquid asset buffer (LAB) of unencumbered and high quality liquid assets (HQLA). All banks, including standalone Islamic banks, must comply. However, Islamic banks are unable to hold assets which earn interest, or which are based on activity which is otherwise prohibited under Shariah principles. In the UK, the pool of assets which are both suitable for use by Islamic banks and of sufficiently high quality is limited.

Announced in 2014, work commenced on the idea in 2015. After intensive consultations in the UK and internationally, the Bank of England decided on a Wakalah or fund-based facility, a commonly used model in Islamic finance. Participant deposits are backed by a fund of assets, the return from which, net of hedging and operational costs, is passed back to depositors in lieu of interest.

The Alternative Liquidity Facility (ALF) opened to take deposits in the first quarter of 2021 and was well received by the UK Islamic banking sector. 'The facility provides UK Islamic banks (and indeed any other UK banks with formal restrictions on engaging in interest-based activity) with greater flexibility in meeting High Quality Liquid Assets requirements, enabling them to hold a reserves-like asset in a non-interest-based environment.'[6]

[5] Shamil Bank of Bahrain EC v Beximco Pharmaceuticals Ltd and others [2004]

[6] Andrew Hauser, Executive Director, Markets at the Bank of England, December 2020

Key stakeholders

Accounting and Auditing Organization for Islamic Financial Institutions

The Accounting and Auditing Organization for Islamic Financial Institutions was established to maintain and promote Shariah'a standards for Islamic finance institutions, participants and the overall industry. Its main focus is on accounting and auditing standards relevant to Islamic financial institutions.

www.aaoifi.com

GEFI

The Global Ethical Finance Initiative (GEFI), based in Scotland with a global footprint, is dedicated to enabling finance to deliver positive change and help achieve the UN's SDGs. As well as curating independent conversations among a broad coalition of financial services stakeholders, GEFI's work includes: strategic campaigns, research and advisory service. In recent years GEFI has become widely recognised as one of the hubs of the global ethical finance movement.

www.globalethicalfinance.org

IIAL

The Islamic Insurance Association of London (IIAL) supports the London (re)insurance market to establish Shariah-compliant operations and deliver complaint commercial insurance and reinsurance products across the world. It provides its membership with a platform to meet, discuss and agree policy on developing London as a world leading provider of Islamic insurance and risk solutions. It provides analysis on the development of the wider Islamic financial market and how insurance will play a key role in the growth of the global market. The IIAL, in conjunction with leading scholars, has created a set of standards that ensure products provided by those in the market are fully Shariah-compliant.

Jon Guy, Secretary General IIAL , Jon.Guy@als-media.com

International Islamic Financial Market

The International Islamic Financial Market is a global standard- setting body of the Islamic Financial Services Industry focusing on standardisation of Sharia'a compliant financial contracts and product confirmation.

www.iifm.net

The Islamic Financial Services Board

The Islamic Financial Services Board is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry,

www.ifsb.org

UKIFC

The Islamic Finance Council UK (UKIFC) is a specialist, not-for-profit advisory and developmental body focused on promoting and enhancing the global Islamic and ethical finance industry. It has helped multiple countries develop enabling regulatory frameworks for Islamic finance. It has supported financial inclusion initiatives reaching out to 15m people. In 2010 it established the award-winning Ethical Finance Round Table series and launched the world's first joint venture between Islamic finance and the Church of Scotland. It has delivered development sessions to over 500 Islamic scholars across the globe. In 2020 the UKIFC published a four part thought leadership series on Islamic finance and the UN's Sustainable Development Goals (SDGs) before launching, in partnership with the UK's Treasury, the Global Islamic Finance and SGDs Taskforce. The Taskforce now has four active working groups covering: education and awareness, reporting and disclosure, green and sustainable sukuk and sustainable banking in Pakistan.

www.ukifc.com

UK Islamic FinTech Panel

The UK Islamic FinTech Panel, launched in 2018, is an independent group of Islamic finance and FinTech practitioners. The objectives of the panel are to create momentum in the Islamic FinTech sector by building on the UK's leading position as a global FinTech hub and as the recognised centre for Islamic Finance in the western world. The panel has convened regular roundtables since its launch, which have led to collaboration opportunities among UK Islamic FinTechs and investment into UK Islamic FinTechs. Through its observer members representing UK government – entities such as DIT, Bank of England and HM Treasury – the panel has formally responded to asks from government about the development of Islamic finance, and contributed an industry-led response for Islamic FinTech into the Kalifa Review of FinTech in 2021. During the Covid-19 pandemic, the panel convened virtually to connect firms and to discuss available support for firms. Through other observer members representing overseas Islamic FinTech jurisdictions, such as Bahrain, Dubai, Pakistan and Qatar, UK Islamic FinTechs have been able to build connections for overseas expansion. Most recently, a joint roundtable of Islamic FinTechs in the UK and North America led to the exploration of Transatlantic collaboration opportunities.

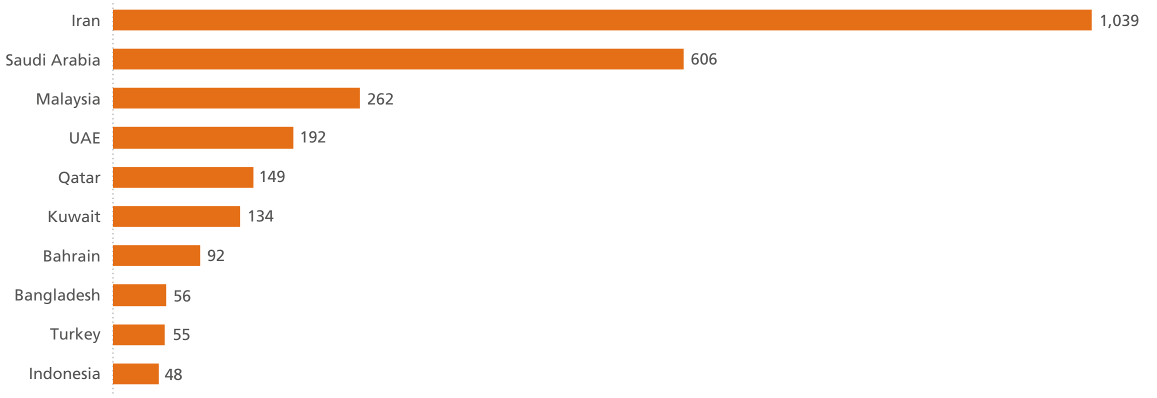
Islamic banking

Global market

Globally, Islamic banking assets totalled $2.8 trillion in 2021, up from $1.7 trillion in 2016. To give some context, over the five-year period 2016-21, Islamic banking assets grew robustly at a compound annual growth rate (CAGR) of 10.1% and are projected to increase to $4 trillion by 2026, according to projections from the London Stock Exchange Group[7]. Apart from Bangladesh, the top ten countries for Islamic banking assets were in the Gulf Cooperation Council (GCC), Middle East-North Africa (MENA, ex-GCC) and Southeast Asia, indicating the continued strength of these three regions in Islamic banking. These top ten countries made up 95% of global Islamic banking assets in 2021.

Figure 1: Top countries in Islamic Banking assets, USD bn, 2021

Source: Refinitiv IFDI data

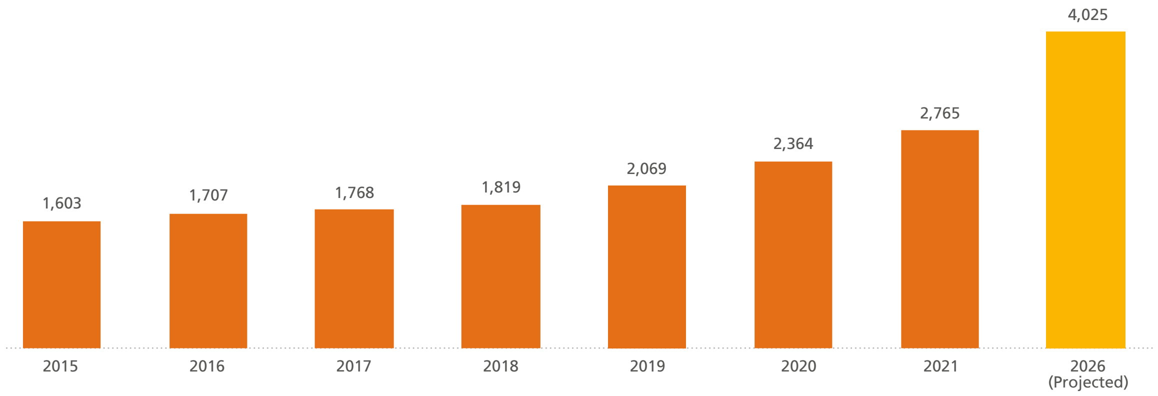


Moreover, the industry also experienced particularly high growth in 2021, with assets up by 17% compared with 2020. Other indicators that substantiate this high growth were a 290% growth in total global net income, and higher average return on assets for some countries. Some of the drivers for this growth included prolonged government support during the recovery from the pandemic, as well as several Islamic banks making operational efficiencies via initiatives such as partnerships with FinTechs and branchless banking.

[7] Refinitiv, Islamic Finance Development Report 2022, forthcoming

Figure 2: Islamic banking assets, USD bn

Source: Refinitiv IFDI data



Geographically, the fastest-growing markets for Islamic banking in 2021, Iran excepted, were non-core countries outside the major regions of GCC and South-east Asia: Tajikistan, Burkina Faso, and Ethiopia. Moreover, as of 2021, the total number of jurisdictions where Islamic banking is systemically important to the overall domestic banking system now stands at 15 countries. Additionally, according to Refinitiv data, there are now over 500 Islamic banks and windows worldwide. Of these 566 financial institutions, there are 316 full-fledged Islamic banks and 250 Islamic windows of conventional banks.[8] This increased systemic importance[9], along with diversification and growth beyond traditional Islamic banking regions, augurs well for the future of the wider global Islamic banking industry.

GCC countries continue to account for some of the largest Islamic banks worldwide, with the region possessing eight of the top ten biggest Islamic banks by assets in 2021. Some of these key players include Al Rajhi Bank, Dubai Islamic Bank, and Kuwait Finance House. Other large non-GCC Islamic banks include Malaysian-based players such as Maybank Islamic, CIMB Islamic, and Bank Rakyat.

Three recent developments in the Islamic banking market stand out. First, consolidations took place throughout 2020 and 2021, driven by tightened market conditions due to lower lending growth, low interest rates and higher risk

[8] IFDI Report 2022
[9] IFSB, 'Islamic Financial Services Industry Stability Report 2022', available at https://www.ifsb.org/sec03.php

costs. Some notable examples were Saudi National Bank (SNB), which resulted from the merger between National Commercial Bank and Samba Financial Group in March 2021. With $160bn (SAR 599bn) in assets as of March 2021, SNB is the largest bank in Saudi Arabia. Also, UAE-based Dubai Islamic Bank acquired Noor Bank in January 2020.

Second, there were several developments in non-core markets, particularly Africa and Central Asia. Africa saw regulatory and market developments in Sudan, Libya, Egypt, and Ethiopia, while in Central Asia, Uzbekistan's Xalq Bank launched the country's first Islamic window with the Islamic Development Bank's Islamic Corporation for the Development of the Private Sector (ICD), which is also training other conventional banks in Uzbekistan to launch domestic Islamic windows, including Turonbank, Kapitalbank and Orient Finans Bank to launch a window in Uzbekistan[10].

Third, the Islamic digital banking market is growing and fast becoming a crowded space, with at least 22 Islamic challenger bank market players worldwide as of August 2022[11], signalling a maturing of this segment of Islamic banking. Moreover, there are now some instances of collaborations between Islamic FinTechs and established Islamic banks, e.g. Kestrl (see pg 33 for more detail).

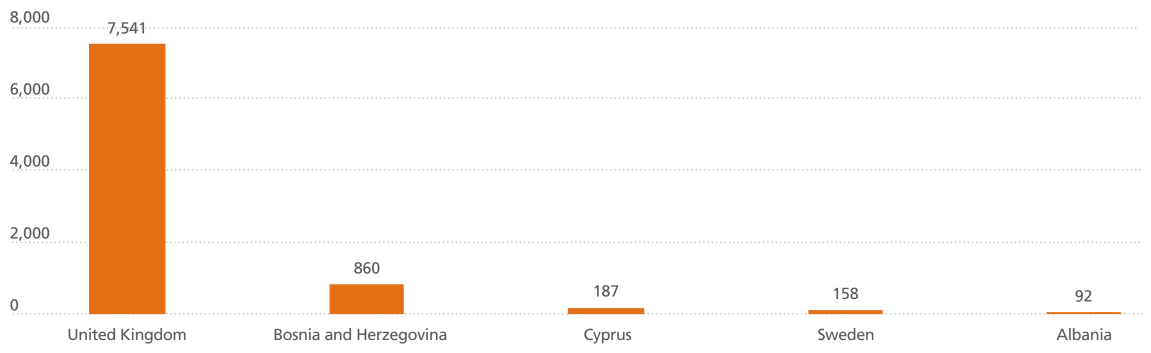
UK Market

In 2021, UK-based Islamic banks' assets were $7.5bn, down by 1.6% year on year. To put this into context, the UK made up just 0.3% of global Islamic banking assets. However, in Europe, the UK stands out as it made up 85% of total European Islamic banking assets, with the most Islamic banking assets of any single European country (excluding Turkey)[12] and considerably ahead of the second-most country, Bosnia, which had $860m of Islamic banking assets in 2021. In terms of other major Western countries, the United States had $636m of Islamic banking assets in 2021. Collectively, the numbers suggest that the UK is the main hub for Islamic banking in the Western world.

[10] IFN, available at: https://www.islamicfinancenews.com/isdb-group-trains-uzbek-lenders.html
[11] IFN, available at: https://ifnfintech.com/landscape/
[12] Turkey is excluded from the total for "Europe" as it falls under multiple regional classifications as a transcontinental nation, e.g. MENA, Central Asia as well.

Figure 3: Islamic banking assets in Europe by country, USD m, 2021

Source: Refinitiv IFDI data



Overall, there are four Islamic banks in the UK: Bank of London and Middle East (BLME), Gatehouse Bank, Islamic Bank of Britain (Al Rayan), and Qatar Islamic Bank UK (QIB UK), a wholly-owned subsidiary of Qatar's QIB. These are major and well-established players in the UK Islamic banking market. Of the four, Gatehouse Bank grew the most in total assets from 2020 to 2021, by 23%, while QIB UK also grew apace in the same period, at 7%. However, assets dropped by 5% and 12% for Al Rayan and BLME, respectively. These mixed year-on-year growth rates give some indication of the difficult conditions in the UK during the pandemic.

The rise of the UK as an Islamic FinTech hub has led to a corresponding growth in Islamic FinTech startups focused on the digital Islamic challenger banking space. Coupled with the anecdotal increase in Islamic finance awareness among UK-based Muslim Millennials who are now coming into the workforce and seeking Shariah-compliant solutions for their financial needs, the rise in Islamic digital banking players in the UK is creating opportunities for these UK-based Islamic FinTechs. Two UK-specific examples are Kestrl and Wahed. Kestrl, a UK-based Islamic FinTech focused on providing an innovative personal finance management (PFM) solution, is partnering with Bank Islam to develop and implement PFM features for Bank Islam's digital bank offering, Be U, which was launched in July 2022[13]. This marks the first formal partnership between an Islamic FinTech and an Islamic bank. Another one to watch is Wahed, the Islamic robo-advisory pivoting to digital banking via its acquisition of UK-based Niyah in 2020.

[13] IFN, available at: https://www.islamicfinancenews.com/bank-islam-partners-with-kestrl.html

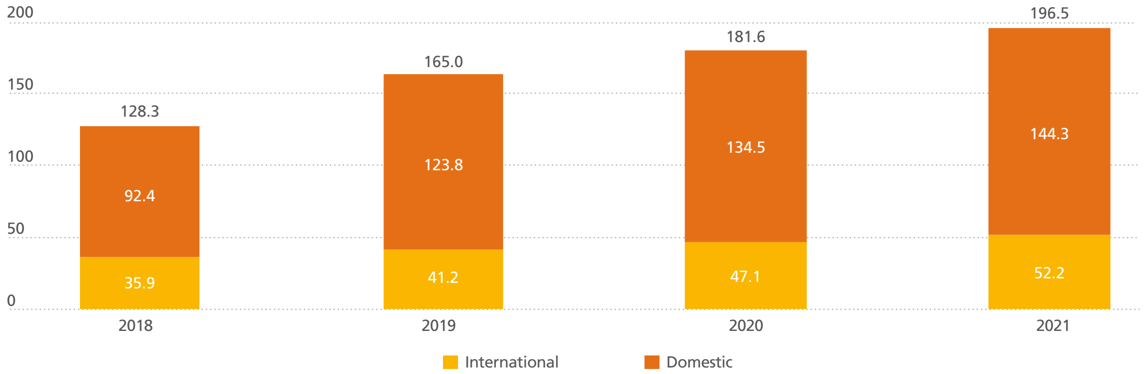
Sukuk

Global market

As the second largest segment of Islamic finance after Islamic banking, the sukuk market is an essential component of the global industry. Global sukuk issuance has grown steadily in recent years, from $128.3bn in 2018 to $196.5bn in 2021. The latest available data indicate that sukuk issuance passed the $100bn threshold as of the first half of 2022, at $100.9bn.

Figure 4: Sukuk issuance, 2018-21, USD bn

Source: Refinitiv Sukuk Report 2022



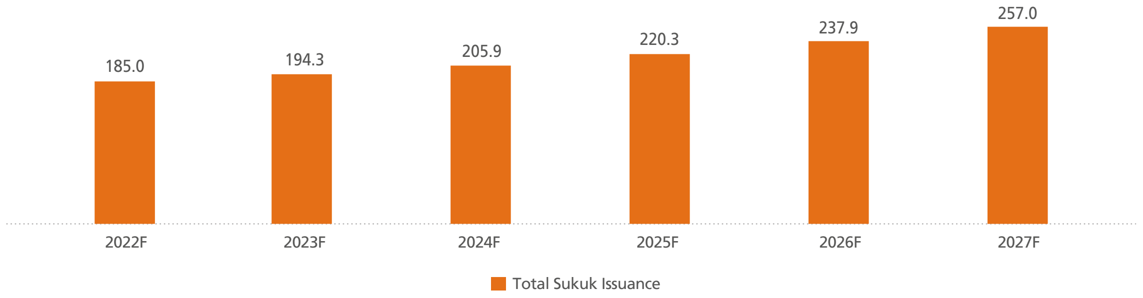
Looking ahead, robust growth is projected in sukuk issuance over the next five years, from a forecast 2022 figure of $185bn to $257bn by 2027[14]. Robust demand over these coming years means that the sukuk supply-demand gap will increase from $81.4bn in 2022 to $101.4bn in 2027[15]. Regarding overall market size, as measured by total sukuk outstanding, this figure has risen to $726.3bn in the first half of 2022, up 4.4% from end-2021. Interestingly, the sukuk market globally is significantly concentrated among just three jurisdictions. Malaysia, Saudi Arabia, and Indonesia comprised 80% of outstanding sukuk in the first half of 2022, with Malaysia alone accounting for 39% of the total.

[14] Refinitiv, Sukuk Perceptions and Forecast Study 2022, available at: https://www.refinitiv.com/en/resources/special-report/sukuk-perceptions-2022-new-economic-environment

[15] Ibid.

Figure 5: Sukuk supply projections, by issuance amount – 2022F-2027F, USD bn

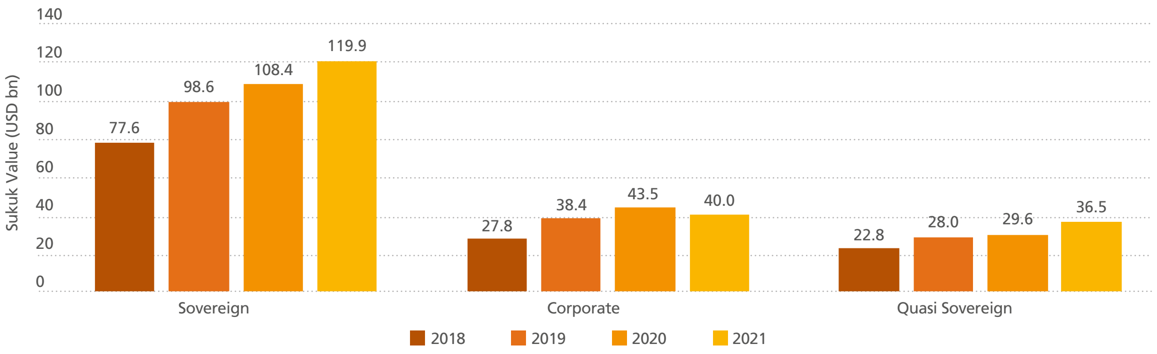
Source: Refinitiv Sukuk Report 2022



Sovereigns continue to dominate issuance, with $68.8bn in the first half of 2022. This figure increases to $81bn if quasi-sovereigns are included as well, indicating the continued importance of sovereign backing to the growth of sukuk across major Islamic markets. Corporate sukuk issuance in the same period was $19.7bn. Additionally, domestic issuances in 2021 were larger than international issuances – $144.3bn vs $52.2bn, indicating that sukuk to fund domestic public sector spending remained a key driver of sukuk issuance.

Figure 6: Sukuk Issuance by type of issuer, 2018-2021

Source: Refinitiv Sukuk Report 2022



Recent market developments have affected the growth of sukuk globally. While geopolitical tensions have so far had a limited impact on issuance, high oil prices have had a two-track effect. On the one hand, the increase in oil prices has reduced GCC economies' sukuk funding needs, while on the other hand it has increased the need for other major Islamic markets, e.g. Malaysia and Indonesia, to continue to tap the sukuk market to help fund the ongoing recovery from the pandemic and longer-term development projects.

Moreover, monetary tightening by major central banks across the globe has had the effect of increasing demand for sukuk from Shariah-sensitive investors, while reducing demand from non-Shariah sensitive investors. This is due to interest rates increasing the yields across the board for sukuk and other fixed income instruments.[16] Overall, demand is rising for both short-term and domestic sukuk.

UK market

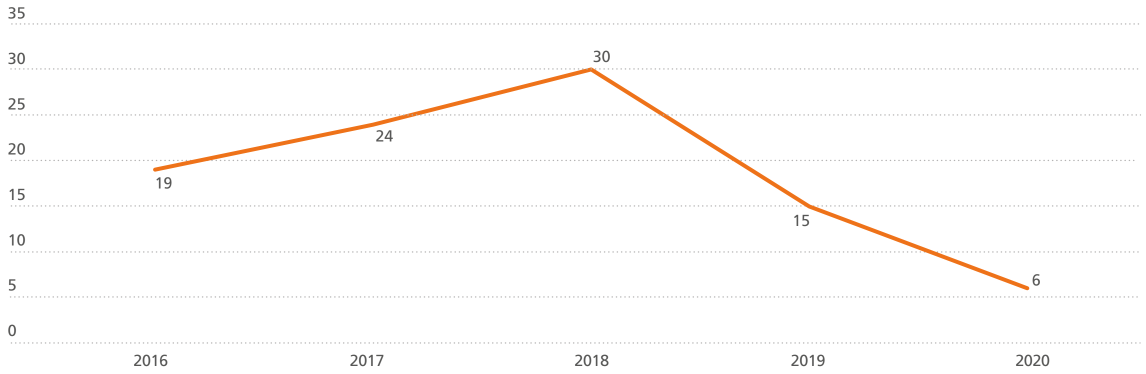
Since becoming the first Western country to issue sovereign sukuk in 2014, the UK has made incremental developments in the sukuk space in three aspects. First, there have been a handful of additional UK sukuk listings – a £500m sovereign sukuk in 2021, and two vaccine-focused sukuk by the International Finance Facility for Immunisation. The 2021 sovereign issuance was a five-year sukuk ijarah which witnessed demand particularly from investors in the Middle East, Asia, and the UK. At more than double the size of the £200m inaugural sukuk in 2014, the 2021 sovereign issuance was viewed as a welcome development by market players, who were encouraged by the geographical diversity of the order book and strong investor demand for a sterling denominated sukuk. Moreover, the issuance also helped increase the limited pool of UK-based shariah-compliant High Quality Liquid Assets (HQLA).

Second, the London Stock Exchange (LSE) has become a global hub for sukuk listings. There are currently 68 sukuk listed on the LSE, with over $50bn raised.[17] The exchange continues to attract global issuers who trust not only the UK's long-term positioning as a hub for Islamic finance, but also seek investor diversification, and cost-efficient issuance (the LSE does not charge an annual fee to issuers, unlike other major exchanges). For example, some major Islamic finance players that continue to list issuances on the LSE include the Islamic Development Bank (IsDB) and the Islamic Corporation for the Development of the Private Sector (ICD-PS).

[16] Ibid.
[17] London Stock Exchange, 'Sukuk at a glance', available at: https://www.londonstockexchange.com/raise-finance/debt/our-products/sukuk

Figure 7: Number of Sukuk Listed on LSE, 2016 to 2020

Source: A Study of Sukuk Bond Market-Making at the London Stock Exchange, 2011-20 (based on Refinitiv data)



Third, the sukuk-based Alternative Liquidity Facility (ALF) has helped level the playing field for Islamic banks. The Bank of England started the Alternative Liquidity Facility in 2021. This Facility represents a milestone in the development of Islamic finance in the UK, since it involves taking deposits from UK-based Islamic banks for the first time and is the first non-interest-based deposit facility offered by a Western central bank. By helping UK-based Islamic banks to hold deposits with the central bank, the ALF provides a level playing field with their conventional banking counterparts and shows greater flexibility in meeting regulatory requirements as per Basel III's prudential rules.

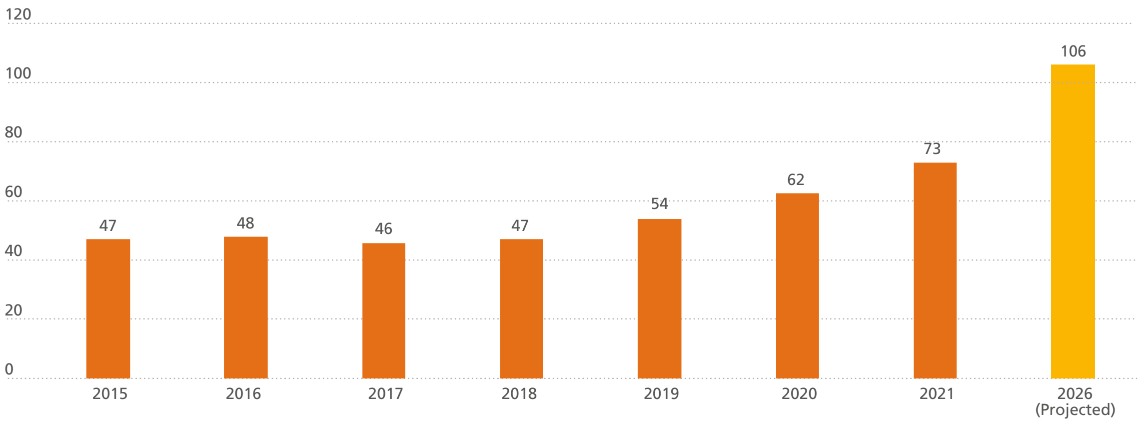
Briefly, the ALF was needed to surmount the historical problem UK-based Islamic banks had in meeting their regulatory obligations; to hold a buffer of HQLA, which help them meet financial obligations as they fall due. Previously, this was not possible as Bank of England deposits are usually interest bearing. The ALF model works by backing participant deposits with high-quality sukuk instruments. Returns from these sukuk, less operating costs, are used to pay depositors instead of interest. Initially, the Bank of England has purchased sukuk issued by the Islamic Development Bank to serve this purpose.

Takaful

Similar to mutual insurance, takaful is a structure that allows for the transparent sharing of risk by pooling individual contributions for the benefit of all subscribers. The global takaful market remains at an early stage of development; indeed, large segments of the insurance market in key Islamic finance jurisdictions remain untapped and are mainly dominated by conventional insurance providers. Hence, takaful is the smallest key segment in the Islamic finance industry, but one which has great potential for development. According to Refinitiv data, over the period 2015-21, global takaful assets registered annual average growth of 8%, from $47bn in 2015 to $73bn in 2021 (when there were 335 operators globally). Moreover, the global assets experienced fast growth in 2021, rising 17% year on year. The market is forecast to reach $106bn in assets and in 2026. For more information, see Figure 8.

Figure 8: Evolution of Takaful market assets, USD bn, 2015-21

Source: Refinitiv data



Geographically, the countries involved in the takaful market were some members of the Organisation of Islamic Cooperation (OIC): Iran, with assets of around $30bn in 2021, followed by Saudi Arabia ($18bn), and Malaysia ($12bn). In terms of regions, 95% of global Takaful assets are concentrated in three regions: other MENA, GCC and Southeast Asia, totalling £69bn. See Figures 9 and 10 for more information.

Figure 9: Top countries in Takaful assets, USD bn, 2021

Source: Refinitiv data

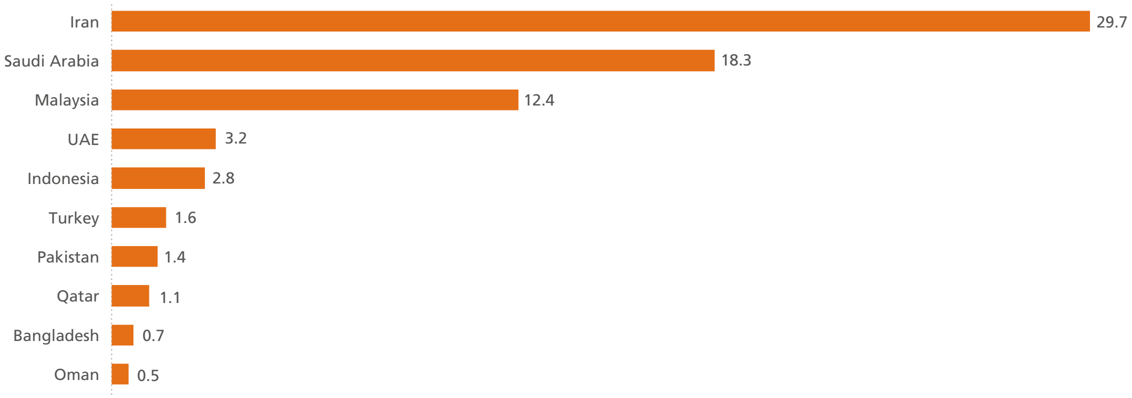


Figure 10: Takaful assets by region, 2021

Source: Refinitiv data

Region	Assets (USD m)
Other MENA*	30,080
GCC	23,597
Southeast Asia	15,457
South Asia	2,106
Europe	1,637
South America and Caribbean	4
Other Asia	0.04
Total	**72,880**

* Other MENA includes Algeria, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, Palestine, Sudan, Syria, Tunisia, and Yemen.

Global Developments

Despite the relatively small size of the sector, its importance continues growing because the insurance and re-insurance sector provide the critical risk-management support needed across the various markets offering Islamic finance services. In this context, it is worth highlighting the following recent developments as examples of recent initiatives:

- 4th Global Takaful & Re-Takaful Forum: took place in Dubai in August 2022, and was followed by a two days post-event workshop on takaful and Islamic microfinance. The main objective was exploring new ventures, challenges and opportunities.[18]
- Re-takaful in Morocco: in 2022, Société Centrale de Réassurance (SCR) obtained the necessary approvals from Morocco's Insurance and Social Security Supervisory Authority to create a 'Re-takaful' window, in order to undertake takaful reinsurance operations in the country. The 'Re-takaful' sector is expected to play a major role in the development of Morocco's insurance sector by contributing to the creation of new forms of insurance and reinsurance, which in turn will help boost economic development.[19]
- Takaful in Kuala Lumpur: Howden, an international insurance broker, announced that further to its merger with Malene Insurance Brokers in 2019, Malene will operate as Howden Takaful Brokers, a dedicated takaful specialist, reinforcing Howden's commitment to respond to the growing demand for Islamic finance solutions and providing a strong foundation for growth in Asia with around 30 specialists that will offer Shariah-compliant solutions across Howden's product range.[20]

Opportunities for the Takaful market in the UK

As one of the largest insurance markets in the world, and the leading global centre for wholesale insurance and reinsurance, the UK has the potential to support the growth of takaful in the coming years despite the fact that the UK market for this sector is still nascent. The Islamic Insurance Association of London was launched in 2015 with the objective creating a representative international body to ensure that the insurance industry plays a full role in the development of the Islamic finance Industry and its regulation, promoting the provision and capacity for Shariah-compliant insurance in the UK market, as well as engaging with the international markets and trade associations (see pg 12 for more detail).

[18] Zawya by Refinitiv, '4th Global Takaful & Re-Takaful Forum inaugurated prosperously in Dubai, United Arab Emirates', (August 26, 2022), available: https://www.zawya.com/en/press-release/events-and-conferences/4th-global-takaful-and-re-takaful-forum-inaugurated-prosperously-in-dubai-united-arab-emirates-dhbrk4o8

[19] Reinsurance News, 'SCR approved for Takaful reinsurance operations in Morocco', (May 17, 2022), available: https://www.reinsurancene.ws/scr-approved-for-takaful-reinsurance-operations-in-morocco/

[20] Howden, 'Malene Insurance Brokers becomes Howden Takaful Brokers, the largest Shariah-compliant specialist broker in Malaysia, (December 07, 2022), available at: https://www.howdengroup.com/news-and-insights/marlene-insurance-brokers-becomes-takaful-brokers

Islamic funds

While Islamic funds have the same main objectives as conventional funds – to preserve capital, spread risk and achieve specific financial targets – Islamic funds must avoid any elements forbidden by Shariah.[21] Moreover, in the Islamic financial system, the mobilisation of funds should be carried out through contracts permissible by Shariah, such as ***mudarabah, wakalah, murabahah, Ijarah, musharakah, istisna*** and ***salam*** to preserve their legitimacy.[22]

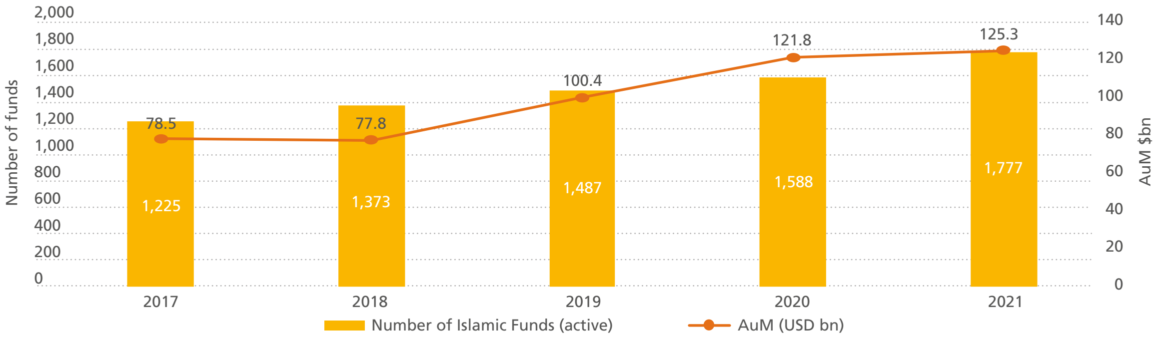
Global market

The market for Islamic funds began in the 1980's and experienced a boom in the early 21st century first in Muslim countries, and then in non-Muslim markets like the UK. Over the period 2017-21, assets under management (AuM) of global Islamic funds experienced an average annual increase of around 13%. According to data from Refintiv, total AuM of Islamic funds reached $125.3bn in 2021, corresponding to 1,418 active funds[23]. In that year 191 new funds were launched, 93% of which were classified as mutual funds. By the end of June 2022, there were 33 additional Islamic funds with total AuM of $667.6m; 88% of these were mutual funds focused on the equity market[24]. The Islamic funds market is small in comparison with the traditional one, accounting for less than 1% of the global total. For more information see Figure 11.

Figure 11: Evolution of Global Islamic funds by AuM and number, 2017-21

Source: TheCityUK analysis based on data from Refinitiv.

Note: Total AuM is an approximate value for the period because data are not available for all active Islamic funds. Fund numbers include funds for which AuM data were not available.



[21] General Council for Islamic Banks and Financial Institutions, 'Global Islamic Funds: Trends, Challenges and Opportunities', (2022),p.14, available at: https://cibafi.org/Files/L1/Content/CI2151-Islamic%20Funds%20Report%20(ENG)_20.01.2022.pdf

[22] TheCityUK, 'Global trends in Islamic Finance and the UK market 2019' (24 April 2019), p.10, available at: https://www.thecityuk.com/media/labhlcea/global-trends-in-islamic-finance-and-the-uk-market-2019.pdf

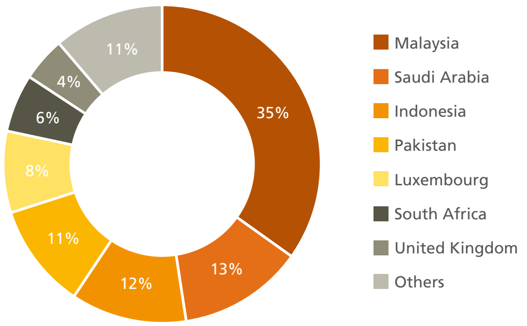
[23] There were 359 additional active funds; however, they did not report information in 2021.

[24] TheCityUK calculations based on Refinitiv data. Note: This database includes funds with unreported values for some periods.

By the end of June 2022, the leading markets in terms of number of active funds were Malaysia (597 Islamic funds), Luxembourg (218), Indonesia (202), and Pakistan (183). See Figure 12 for more detail.

Figure 12: Market share by number of Islamic funds as of June 2022

Source: TheCityUK analysis based on data from Refinitiv.
Note: Data for Iran, a key market for Islamic funds, are not available.



UK market

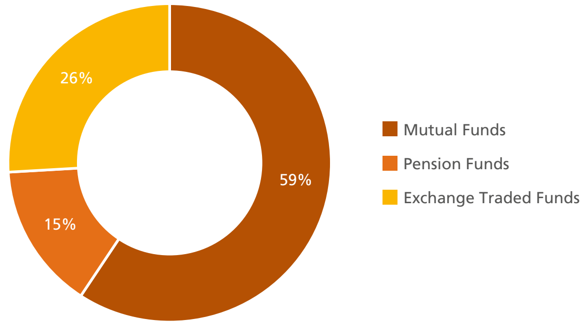
The UK is one of the largest markets in the world for fund management. It has a strong international orientation and attracts significant overseas funds. The global fund management sector continues to expand, as an emerging global middle class lives longer, saves for the future, and increases its investments. UK-based firms operate in one of the most open markets in the world for fund management, and they are in a prime position to gain new international business.

It is difficult to fully capture the size of the Islamic finance sector in the UK because some transactions combine elements of both Islamic and conventional financing. However, according to Refinitiv data, total AuM of UK-based Islamic funds was $19.6bn in 2021, corresponding to 37 active funds.[25] Furthermore, considering the launch dates, by June 2022, there were 77 active funds; the 27 of these reporting data had AuM of $17.5bn. Eighty-five per cent of UK funds corresponded to mutual funds (59%) and exchanged-traded (15%) funds (see Figure 13). In addition, equities are the asset class on which UK Islamic funds are focused. In January 2022, a new fund, HSBC Islamic Global Equity Index ACEUR, valued at $280,000, was launched.

[25] There were 39 additional active funds; however, they did not report information in 2021.

Figure 13: UK Islamic Funds by type -active funds as of June 2022

Source: TheCityUK analysis based on data from Refinitiv.
Note: By the end of June 2022, there were 77 Islamic funds; however, data on AuM is available for only 27 of them, which are considered in this analysis.



The UK has consolidated its position as the leading global centre for the management of funds on behalf of overseas clients in recent years. This has been one of the key reasons why many Islamic finance institutions have chosen the UK as their base of operations and are searching for market prospects. Islamic pension funds constitute an opportunity for UK Islamic finance firms which want to extend their market to the Muslim population. Some companies are starting to give their employees alternative options for accessing pension schemes that respect Halal principles. For example Uber UK – whose workers are predominantly Muslim – is reported to be working with NOW Pensions to create a Shariah-compliant fund.[26]

There is growing interest in establishing Islamic funds in the UK. For instance, Schroders launched a Shariah-compliant fund in 2020, which gives investors access to a diversified Shariah-compliant portfolio of equity. Other Islamic asset managers in the UK include the dedicated desks at the UK Islamic banks, Oasis Crescent, Arabesque, and TAM Asset Management.[27]

[26] The Times, 'Uber could face legal action over Sharia-compliant pension claims', (April 19, 2022), available at: https://www.thetimes.co.uk/article/uber-could-face-legal-action-over-sharia-compliant-pension-claims-8pdnp5lnr
[27] Keystone Law, available at: https://www.keystonelaw.com/keynotes/islamic-finance-in-the-uk

Islamic FinTech

FinTech is re-shaping the financial sector globally, especially since the Covid-19 pandemic, and its presence within the Islamic finance industry is becoming more important as well, particularly now that consumers are increasingly seeking alternatives to their traditional banks. Moreover, most of the Islamic FinTechs are concentrated in subsectors such as payments, crowdfunding, digital assets, alternative finance and wealth management, among others.

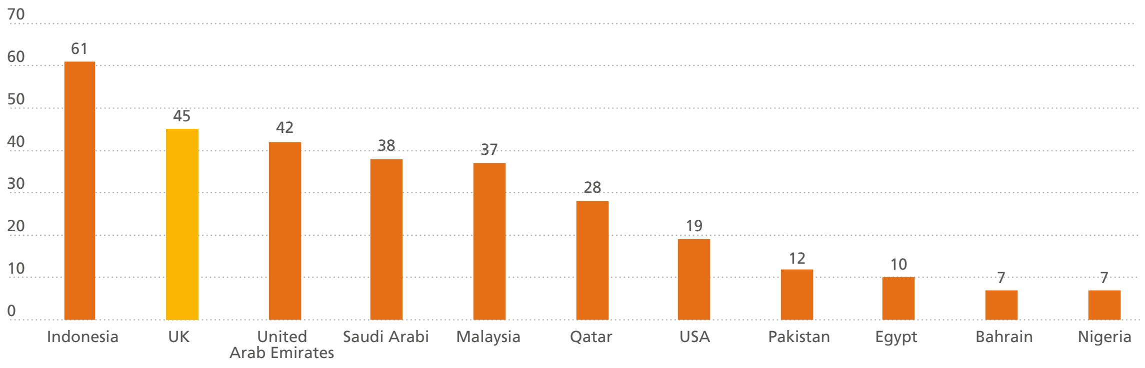
Global market

According to data from the most recent Global Islamic FinTech report 2022, there are over 375 FinTechs related to the Islamic finance sector around the world. However, their presence is highly concentrated in some of the 57 member countries of the OIC. The Islamic FinTech market in the OIC is expected to reach $179bn by the end of 2026. At present, however, the Islamic FinTech market is extremely small relative to the wider FinTech market. At an estimated $79bn in 2021, Islamic FinTech in OIC countries represented 0.8% of total global FinTech in that year. (Estimates of the value of the global Islamic FinTech market are unavailable due to insufficient data about transactions within this sector).

Saudi Arabi, Iran, Malaysia, the UAE, Turkey, and Indonesia are considered leaders within the Islamic FinTech sector. In aggregate, these countries accounted for 81% of the OIC Islamic FinTech transaction volume in 2021, or $63.3bn. These countries are also the most prominent in terms of the presence of Islamic FinTech firms: Indonesia, the UK, the UAE, Saudi Arabia and Malaysia were the top-ranked countries in this regard. (Figure 14).[28]

Figure 14: Countries ranked by number of Islamic FinTech companies

Source: Global Islamic FinTech Report 2022.

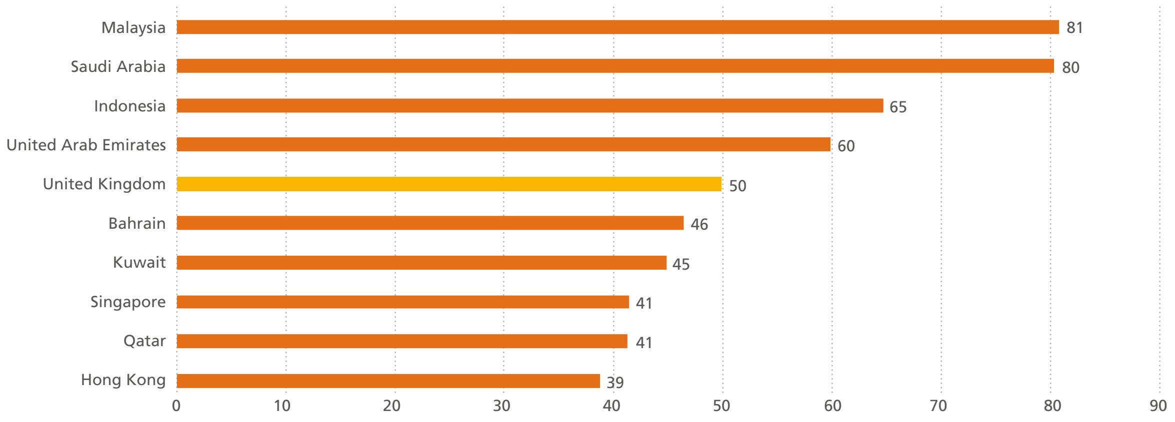


[28] DinarStandard & Elipses, 'Global Islamic FinTech Report 2022', (30 July 2022), p.2-9, available at: https://www.salaamgateway.com/specialcoverage/islamic-fintech-2022

The Global Islamic FinTech index (GIFT) shows which countries are the most supportive for growth of Islamic FinTech. This index uses a range of 19 indicators across five categories: talent, regulation, infrastructure, Islamic FinTech Market and Ecosystem, and capital. Of the sixty-four countries evaluated, Malaysia and Saudi Arabia led the ranking in 2021. Seven of the top ten countries were OIC members: the three exceptions were the UK, Singapore and Hong Kong. The participation of non-OIC countries in Islamic FinTech is becoming stronger. In 2020, nine out of the top ten nations in the ranking were Muslim countries (and the UK was the only non-Muslim country in that group).[29] For a comparison of the GIFT index around the world in 2021, see Figure 15.[30]

Figure 15: Top 10 Countries by GIFT Index Scores 2021

Source: Global Islamic FinTech Report 2022.



[29] DinarStandard & Elipses, 'Global Islamic FinTech Report 2021', (2021), p.16, available at: https://www.salaamgateway.com/specialcoverage/islamic-fintech-2021

[30] DinarStandard & Elipses, 'Global Islamic FinTech Report 2022', (2022), p.12, available at: https://www.salaamgateway.com/specialcoverage/islamic-fintech-2022

UK market

The UK is considered one of the world's leading FinTech markets. According to Innovate Finance, the UK FinTech sector saw record investment of $11.6bn in 2021, up 217% from 2020[31]; in 2021 the UK produced 12 new FinTech unicorns[32], becoming the second country after the US in the creation of this kind of company.[33] This strong base, combined with its position as a Western leader in the Islamic finance sector, the UK is considered the main hub for Islamic FinTech market outside the OIC, with a promising future.

The UK was ranked fifth in the 2021 GIFT index, with a score of 50. It is the first Western country to have created an ecosystem supportive of Islamic FinTech; this is based on a thriving overall FinTech sector; the presence of several Islamic FinTechs; strong regulatory support, an active talent pool of professionals with expertise in Islamic finance; a well-developed technology sector; and a growing Muslim population (around 3.4m people in England and Wales, according to estimates based on the latest Census data[34]), constituting a base of people who are potentially interested in Shariah-compliant products.

Case study: technological development in the service of Islamic finance growth

Continuous enhancements to DDCAP's technologies and practices are in step with the ongoing development of the Islamic finance industry, where the evolution of innovative liquidity management instruments, sectoral expansion, commitment to promote financial inclusion across borders through Fintech, and associated engagement by financial regulators and relevant standard setters has ensured that the outlook for Islamic finance is extremely positive. Accordingly, expectations are for sustained growth for the sector, assisted by the creative forces driving innovation in the sector, as well as the continual refinement of industry approaches to setting standards for Islamic finance market activity and best practice. This has had, and will no doubt continue to have, a beneficial impact on the ability of the Islamic finance sector to remain connected with global market developments, in established industries as well as those seeking to disrupt the status quo.

One of the most recent and significant developments for DDCAP, supported by a Fatwa from its Shariah Supervisory Board, (SSB) has been the launch of ETHOSTerminal™, which brings additional integration functionality to DDCAP clients via an open market environment that provides users with full discretion in choosing trade counterparts. This upgraded functionality has been developed in response to user demand and Shariah preferences. In combination, these have caused Islamic financial market banks and institutions to seek transactional flexibility that enables them to select, and alternate, the market counterparties that they contract with for their individual trade requirements.

System enhancement through integration of platform functionality has been a principal focus for DDCAP in recent years. This latest development is one of a series of planned system upgrades that will further improve the seamless trade and post trade automated experience for DDCAP's clients within an expanded and open market environment. While fully contained within ETHOS AFP™, through ETHOSTerminal™ clients and counterparties of DDCAP will have access to the fully integrated service solutions of DDCAP's diverse and market leading technology partners.

DDCAP is proactively exploring partnerships and integration opportunities with various third-party systems providers. It welcomes approaches from prospective, systems technology-focused partners who are seeking to broaden their own engagement with the ever-expanding Islamic financial marketplace. This will build on DDCAP's existing partnerships with leading digital solutions providers, including with REFINTIV Eikon Open Platform, to develop the Islamic Deal Connector; with Murex, the global leader in trading, risk management and processing solutions for capital markets, through Murex MX.3 for Islamic Finance; and with Instimatch, an international digital network for the institutional money market.

DDCAP will continue to invest in ETHOS AFP™ and ETHOSTerminal™, working to deliver a cost-effective solution that provides its clients with a dynamic product that has the ability to align with their specific Shariah stipulations and preferences. This increased efficiency of automated procedures—for example, through increasing use of APIs (Application Programming Interfaces) and STP (Straight Through Processing)—has proved to be of significant appeal both to our established banking clients focused on a path to digitalisation, as well as to new start up FinTech 'disruptors', across the Islamic world.

Development of ETHOS AFP™ and its functionality is integrated within DDCAP Group's corporate policy formation, including its Sustainable and Responsible Actions (SRA) programme and the review processes and procedures of its SSB. ETHOS AFP™ and ETHOSTerminal™ also incorporate another aspect of DDCAP's SRA programme—namely, sustainability and corporate responsibility considerations. In this regard, the commodity inventories that support DDCAP's Shariah-compliant trades are sourced under the standards of the London Metals Exchange and London Platinum and Palladium Market, which embody the industry best practices for sustainable and responsible sourcing. The ETHOS AFP™ infrastructure accordingly incorporates screening modules that can apply strict commodity and counterparty parameters against international sanctions and KYC screens (based on data from an industry-leading third-party service provider) and may in addition be subject to additional screens according to individual client requirements.

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[31] Innovate Finance, 'UK sees record year for FinTech investment – reaching $11.6bn in 2021', (6 January 2022), available at: https://www.innovatefinance.com/news/uk-sees-record-year-for-fintech-investment-reaching-11-6bn-in-2021-2/

[32] Start-ups valued at $1bn or more.

[33] Centre for Finance, Technology and Entrepreneurship, 'Top Fintech Unicorns', (2022), p.8, available at: https://courses.cfte.education/ranking-of-largest-fintech-companies/

[34] Office for National Statistics, 'Population estimates by religion, England and Wales' (16 December 2021), available at: https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/datasets/populationestimatesbyreligionenglandandwales

Similarly, the Global Islamic FinTech report evaluated the UK as an international hub for Islamic FinTechs. Of the eight categories considered, the UK scored most highly in regulation, Shariah compliance, access for international FinTechs, talent and capital. The categories where the UK was considered to have opportunities to improve are: proximity to customers and banks' participation. For more information, see Figure 16.

Figure 16: UK evaluation as a hub for the Islamic FinTech sector 2020/21

Source: Global Islamic FinTech Report 2022.

Category	2020	2021	var.2020/21
Regulation	4	4	=
Shariah compliance	3	4	↑
Access for international fintechs	3	4	↑
Proximity to customers	4	2	↓
Talent	5	4	↓
Capital	3	4	↑
Banks' participation	4	2	↓
Islamic finance market share	2	3	↑
Average score (out of 5)	**3.5**	**3.4**	↓

To promote the growth of this market, the UK launched the Islamic FinTech Panel in 2018. The Panel is an independent group that aims to connect the industry and launch commercial initiatives to support the sector. Some of its achievements include successful networking among members of the UK Islamic FinTech community, the creation of international connections and the launch of offshoot projects to support the sector.[35] These efforts bolster the outlook for FinTechs' contribution to the Islamic finance industry. By the end of 2021 there were 68 Islamic FinTechs in Europe, and 45 of these were headquartered in the UK.[36] Most of those companies were focused on subsectors such as: alternative finance (24%), deposits and lending (20%), raising funds (18%), and wealth management (18%). For more information, see Figure 17.[37]

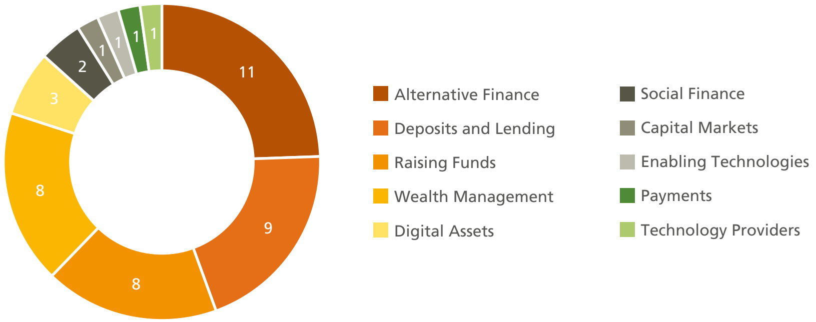
[35] The UK FinTech Panel, 'UK Islamic FinTech Panel re-launched for 2019', available at: https://islamicmarkets.com/publications/uk-islamic-fintech-panel-re-launched-for-2019

[36] DinarStandard & Elipses, 'Global Islamic FinTech Report 2022', (30 July 2022), p.5-9, available at: https://www.salaamgateway.com/specialcoverage/islamic-fintech-2022

[37] Ibid, p. 39-45

Figure 17: Number of UK Islamic FinTechs 2021 by subsector

Source: Global Islamic FinTech Report 2022.



Islamic FinTechs and the development of the alternative financial system

Technological developments are lowering the barriers to entry for entrepreneurs who want to operate in the Islamic FinTech sector—especially after the onset of the Covid-19 pandemic, which pushed the financial sector to innovate more to facilitate digital transactions and to reduce in-person financial transactions and formalities. Moreover, in the UK, Islamic FinTechs have been created to offer financial services to marginalised groups such as migrant workers or small Muslim businesses; however, all of them are also open to customers who have been using the traditional financial system and want alternative options.

Some of the most innovative and recent Islamic FinTechs in UK are:

- **Nomo** – launched in 2021, it is the world's first Islamic international digital bank. It gives account holders in Kuwait and the UK access to a suite of state-of-the-art banking products, including daily banking, simple wealth management solutions, and new investment and payment products.[38]
- **Algbra** – a start-up founded in 2020 that invokes ESG values, it obtained full FCA authorisation to operate as an electronic money institution in 2021. Algbra's current product portfolio includes debit and virtual card offerings as

[38] BLME & Boubyan Bank, available at: https://www.blme.com/about-us/nomo/#:~:text=Launched%20by%20BLME%20in%20July,and%20Sharia%20compliant%20digital%20banking

well as a digital platform enabling users to track and offset, the carbon footprint of their transactions. They have partnered with over 100 charities in the UK, allowing users to donate to various causes, in line with their ESG and Shariah ethos.[39]

- **Qardus** – launched in 2020, it is the first ethical and Shariah-compliant peer-to-peer platform which offers up to £200,000 in working capital to SME businesses in the form of a commodity ***murabahah***[40], an Islamic financing structure in which the seller and buyer agree to the cost and mark-up of an asset.[41]
- **Minted** – a UK-based gold trading platform launched in 2020 which enables the UK retail market to invest in gold under Shariah-compliant principles. The platform allows users to own physical gold, with the option to withdraw or sell at any point. Currently, Minted offers gold bars ranging in size from 10g to 1kg and is set to add other precious metals to its platform.[42]
- **Kestrl** – a UK- based Islamic FinTech launched in 2019 to offer personal finance solutions to Muslims. In 2022, they partnered with Bank Islam to develop and implement personal financial management features for its newly launched digital bank 'Be U'. Bank Islam aims to maintain its status as Malaysia's leading Islamic Bank and to channel Kestrl's personal financial management tool and the Be U app to market its Islamic banking products and cater to over 350,000 younger and digitally savvy users. This platform would be the country's first digital bank that is built natively on the cloud.[43] This recent partnership demonstrates that UK is well-known and well-regarded for its expertise in FinTech, and has the talent and the technological capacity to contribute to the development of the Islamic finance industry overseas – even in a Muslim country.
- **Offa** – founded in 2019, this FinTech enables investors in UK residential and commercial property to take out short-term property finance that is compliant with Islamic finance principles.[44]
- **Nester** – founded in 2018, Nester uses a platform that offers property financing solutions for buyers of UK property and then converts those financing arrangements into a simple secured investment.[45]

[39] IFN FinTech, available at: https://ifnfintech.com/uk-islamic-fintech-start-up-inches-toward-ethical-lifestyle-banking-ambition-with-fca-license/
[40] An Islamic financing structure in which the seller and buyer agree to the cost and markup of an asset.
[41] Qardus, available at: https://www.qardus.com/news/islamic-fintech-to-flourish-in-post-covid-world
[42] IFN Fintech, available at: https://ifnfintech.com/minted-to-expand-metal-portfolio-on-the-back-of-savings-app-launch/
[43] Islamic Markets, available at: https://islamicmarkets.com/articles/bank-islam-malaysia-and-uk-islamic-fintech-kestrl-collaborate-for
[44] Offa, available at: https://offa.co.uk/about/
[45] UK Fintech, available at: https://ukfintech.co/company/nester/

Professional services and the UK opportunity

Professional services related to financial services – that is, legal, management consulting and accounting services – complete the wider Islamic financial ecosystem. The UK's well-established strengths and the expertise in these sectors have positioned it as a Western leader in the provision of professional services related to Islamic finance. Services in the UK are offered by financial intermediaries, asset managers, insurance providers and over 30 international law, accountancy, and consultancy firms.[46] All the UK's largest accountants, consultants, and professional service firms, such the ones included in the Policy & Reputation Group (PRG), have Islamic finance departments which have valuable expertise that comes from their work in markets in the Middle East and elsewhere. Nine fund managers offer Islamic asset management services to their clients[47].

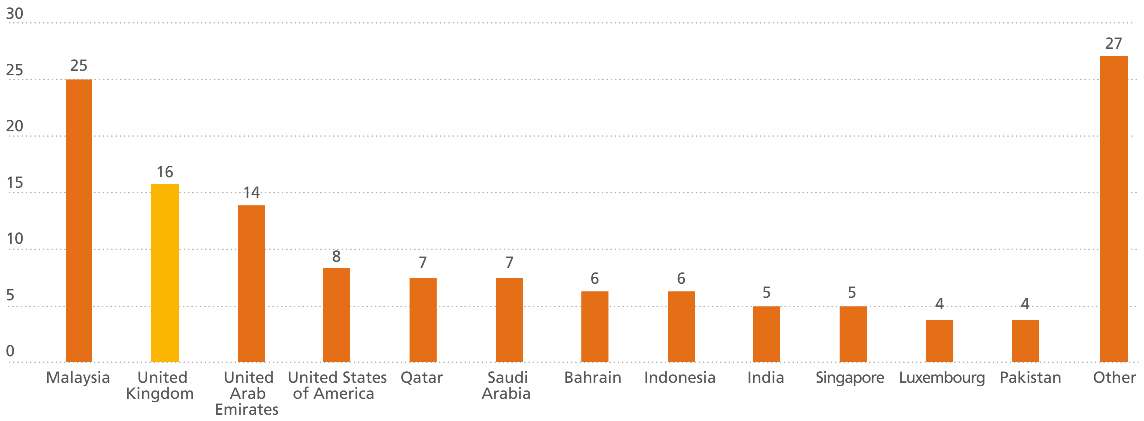
Moreover, the UK is recognised not only as the major global hub for international legal services, but also as one of the major global providers of the specialist legal services required for Islamic finance industry. The UK is home to over 200 foreign law firms. London is one of the leading global centres for international financial services. The clustering effect of banking, insurance, fund management and other financial services help to underpin its position as a major centre for international legal services; indeed, according to The Legal 500, there are 13 firms in London which offer legal services for the Islamic Finance industry.[48] Reflecting the crucial role of English common law as the preferred system for undertaking Islamic finance legal transactions, these firms generally also have offices in regional Islamic finance hubs like GCC countries.

The UK not only offers related professional services to the Islamic finance industry through the presence of international companies; UK-headquartered firms also support the growth of the industry. According to our analysis based on data from Refinitiv, there are 16 firms in the UK that offer related professional services for the Islamic finance industry. This put the UK behind Malaysia in terms of number of headquartered firms and ahead of the UAE and the US. For more information see Figure 18.

[46] British Embassy Bishkek, 'Islamic Finance in the UK – Insight from TheCityUK', p.8, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/503491/2015047_Is_Fin_A5_AW_ENG_WEB.pdf
[47] UK Trade and Investment, 'Opportunities for Islamic finance in the UK', (28 October 2013), available at: https://www.gov.uk/government/news/opportunities-for-islamic-finance-in-the-uk.
[48] TheCityUK, 'Legal excellence internationally renowned UK legal services 2021', (9 December 2021),p.2 & 19, available at: https://www.thecityuk.com/media/oi5iqvzy/legal-excellence-internationally-renowned-uk-legal-services-2021.pdf

Figure 18: **Number of companies offering related professional services to the Islamic finance industry by country of headquarters**

Source: TheCityUK analysis based on data from Refinitiv

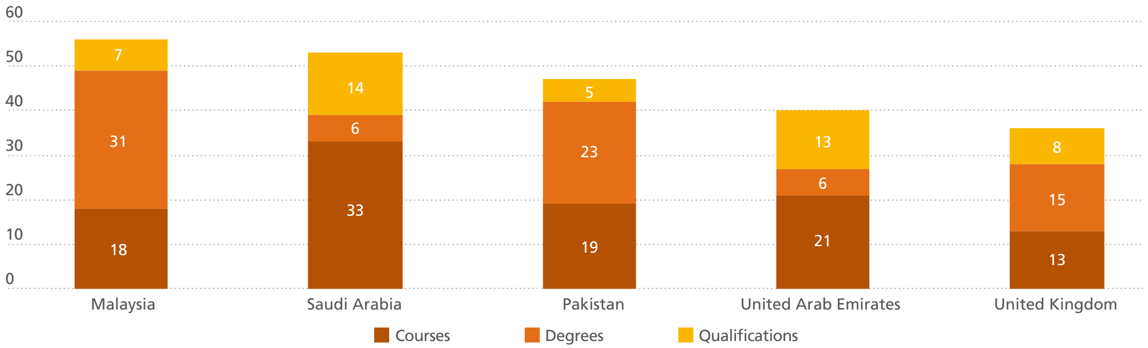


Education and the UK opportunity

Although not a Muslim-majority country, the UK has a well-established and developed Islamic finance education landscape, with many academic and vocational course providers. In 2021, the UK was within the top five countries globally, by total number of Islamic finance-focused degrees, qualifications and courses provided. Notably, it was the only non-OIC company in the top five.

Figure 19: **Top 5 Islamic finance education providers globally (degrees, courses, and qualifications, combined), 2021**

Source: Islamic Finance Development Indicator Report 2021



Key institutions and programmes have helped the UK build a formidable reputation for Islamic finance education, leveraging the UK's wider strengths in research and higher education. Durham's Centre for Islamic Economics and Finance (DCIEF) has been producing many Masters and PhD graduates each year, resulting in a sizeable body of alumni worldwide who help cement the UK's reputation as a leading higher education provider for Islamic finance. Other UK universities that offer postgraduate degrees in various aspects of Islamic banking and finance include Bangor, Bolton, Coventry, Dundee and London Metropolitan.

Other well-known UK higher education providers such as the University of Oxford, University of Cambridge and School of Oriental and African Studies (SOAS), while not offering degrees per se in Islamic finance, are engaged in Islamic finance research or research themes via their interdisciplinary research centres. For instance, Oxford's Centre for Islamic Studies (OCIS) has an annual Visiting Fellow in Islamic finance who is sponsored by OCIS together with Malaysia's

Securities Commission. Cambridge has a Centre for Islamic Studies (CIS), and SOAS a Centre of Islamic and Middle Eastern Law (CIMEL) that hosts Islamic finance workshops. Additionally, research-intensive Russell Group universities such as Nottingham and King's College London have provided doctoral research supervision in recent years on Islamic finance-themed theses[49].

In terms of research disciplines, Islamic finance education providers cover a changing and diverse set of themes, reflecting the adaptability of scholars' research interests, evolving market needs, and the vast set of disciplines and research topics that Islamic finance academic research encompasses. For example, some of the current doctoral research topics in Islamic finance at Durham include empirical and comparative analyses on topics such as regulatory standards, Takaful (Islamic insurance), capital adequacy, Islamic mutual funds' performance, Islamic home financing, and sukuk[50].

The outlook is bright for the continued growth of the UK Islamic finance education sector, as there are strong underlying drivers. These include: a growing UK Muslim population, high numbers of international students from Muslim-majority countries who are interested in obtaining UK qualifications in Islamic finance, and London's formidable reputation as the leading Western Islamic finance centre.

Having said that, several opportunities and challenges remain for the further development of Islamic finance education in the UK. Some of the opportunities include ongoing demand for Islamic finance professionals globally, strategic collaborations, and e-learning. According to a 2020 Refinitiv report[51], the UAE's 84 Islamic financial institutions alone require almost 8,000 professionals to fill various positions. While a considerable share of demand for educating and training professionals is met locally, the formidable reputation of the UK's Islamic finance academic and vocational education providers in global Islamic markets such as the Gulf Region, South-east Asia and South Asia ensures that some of this demand will also be met by UK-based institutions.

On strategic collaborations, a handful of these partnerships now exist between UK universities and local counterparts. For instance, Coventry University and Bahrain Institute of Banking and Finance (BIBF) offer a postgraduate degree in Islamic finance, while the University of Reading has tied up with the Islamic Banking and Finance Institute Malaysia (IBFIM) to provide a host of Islamic finance courses. These strategic collaborations help open global markets for UK Islamic education providers, who in return enable education and knowledge transfers in Islamic finance on an ongoing basis. Finally, the growing trend in e-learning, such as massive open online courses (MOOCs) like edX and Coursera, provide another opportunity for Islamic finance education providers to broaden their reach beyond their traditional audiences. Although UK providers are yet to noticeably enter this space for Islamic finance, this may gradually change.

On the challenges side, three main challenges exist for Islamic finance education globally. First, there is a continued shortage of Islamic law professionals, both in terms of Shariah scholars, as well as other applied Shariah professionals, such as Shariah auditors. As a leading country in higher education research, including in Islamic studies research at the postgraduate level, the UK is well-placed to help those Islamic finance professionals who wish to specialise in comparative legal research at the postgraduate level. Several well-known Shariah scholars in Islamic finance have undertaken postgraduate degrees focusing on Islamic finance jurisprudence and other adjacent research themes at well-known UK universities such as Cambridge and Edinburgh. Second, there is a shortage of specialised courses on applied aspects of the Islamic finance industry that address gaps in workforce competencies. Some providers are approaching this in innovative ways, such as UK Islamic finance startup and education provider IslamicMarkets, leveraging seasoned practitioners and visual, engaging learning methods too. Third, diversity and inclusion in Islamic finance education and financial literacy remains a work in progress, such as encouraging the spread of Islamic finance knowledge to rural areas, or primary- and secondary-focused educational courses that introduce youth to Islamic finance before they join university or vocational courses.

One of the globally recognised vocational training courses is run by the UK's Chartered Institute of Securities and Investment. Their Islamic Finance Qualification expands upon knowledge gained from Fundamentals of Islamic Banking and Finance. It is an award-winning global qualification that covers Islamic finance from both a technical and a Shariah perspective, providing the first international benchmark in the area of Islamic finance.

[49] British Library, https://ethos.bl.uk/Home.do
[50] Durham University, https://www.durham.ac.uk/research/institutes-and-centres/islamic-economics-and-finance/phd-by-research/
[51] 'INCEIF Refinitiv Islamic Finance Knowledge Outlook Report 2020: Taking Islamic Finance Education to New Heights' (September 2020), available at: https://www.zawya.com/en/islamic-economy/islamic-finance-reports/inceif-refinitiv-islamic-finance-knowledge-outlook-report-2020-taking-islamic-finance-education-to-new-heights-e896omvx

Conclusion

Islamic finance is a prime example of financial inclusion focused on that part of the population interested in Shariah-compliant products. By leveraging its position as one of the world's leading international financial centres, as well as government policies that support the development of Islamic finance, the UK is well positioned to further develop its role as the leading Western centre for this dynamic and fast-growing sector. As the sector has developed, the breadth of Islamic products and services offered in the UK has grown and is increasingly competing with offerings of conventional financial institutions, most of them through innovative Islamic FinTechs. In addition, a concentration of intermediaries that facilitate services to Islamic institutions helps enable interbank and capital market functioning, thereby contributing to the UK's competitive advantage in this sector.

Appendix:
glossary of Islamic finance terms used in this report

Halal: that which is permitted

Ijarah: a leasing contact of a physical asset or property where a lessee receives the benefits associated with ownership of the asset against payment of predetermined rentals for a period

Istisna: a contract to manufacture, where the delivery is deferred and the sale price may be spot payable, amortised or deferred

Mudarabah: Islamic finance technique in which a lender and an investment manager establish a profit-sharing partnership to undertake a business or investment activity

Murabahah: a sale of goods with an agreed profit mark-up on the cost price

Musharakah: a joint enterprise or partnership structure in Islamic finance in which partners share in the profits and losses of an enterprise

Salam: peace

Shariah: legal rules and principles derived from the teachings of the Quran, Islam's holy book

Sukuk: financial certificate that complies with Shariah, representing an ownership interest in assets generating a cash flow – similar to a bond in Western finance

Takaful: a type of insurance system that complies with Shariah, in which money is pooled and invested

Wakalah: a Shariah-compliant contract whereby an agent is appointed by a depositor to manage an investment on its behalf

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