

# Global Islamic Bankers' Survey

May 2021



Executive Highlights

## Islamic Banking Sector: A Look into The Future



## STATEMENT BY The Secretary General

After five successful editions of the CIBAFI Global Islamic Bankers' Survey (GIBS), I am pleased to welcome you to the sixth edition of the GIBS. This year's edition coincides with the 20<sup>th</sup> Anniversary of CIBAFI. Thus, we have decided to publish a special edition of the GIBS report.

With the theme of "Islamic Banking Sector: A Look into the Future", this report includes a dedicated section on the Future Outlook of the Islamic Banking Sector with an objective to reflect on the Islamic banking sector and the evolving trends that will shape the future landscape of the industry.

In addition to the analysis conducted on the results of the survey, the GIBS report this year includes special articles written by prominent industry leaders who expressed their perspectives towards the future development and growth of Islamic finance on different topics and areas. We hope this report will highlight the outlook of the Islamic banking sector for 10 years down the road as well as the factors that will affect the growth and the development of the industry.

In the context of the challenges the world is currently facing, it is necessary to contemplate the future and identify the opportunities and actions needed for the industry to continue with its growth and development.

Technological developments, sustainability, issues related to Maqasid Al Shariah, human capital, regulatory challenges and so many other challenges require all industry players to combine their efforts for the purpose of contributing to the progress of the industry and reinforcement of its position in an ever-changing and competitive market.

This report gives a voice to the perspectives and opinions of top banking officials regarding these issues, as well as insights into how the industry can progress in the coming years. CIBAFI extends its warmest thanks to the banking officials who took the time to participate and share their views in the survey.

We hope that this report will help paint a clearer picture of the Islamic finance industry as we move forward.

**Dr. Abdelilah Belatik**  
Secretary General

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## Acknowledgements

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Finally, the Secretariat would like to convey its sincere and special thanks and appreciation to the leaders of the industry who contributed to this year's edition of the Global Islamic Bankers' Survey Report with their exclusive articles making the 6<sup>th</sup> edition of the GIBS very unique and special.

CIBAFI would like to express our appreciation and gratitude to:

- H.E. Dr. Bandar M. H. Hajjar, President, Islamic Development Bank (IsDB) Group
- H.E. Datuk Nor Shamsiah Mohd Yunus, Governor, Bank Negara Malaysia
- Professor Dato' Dr. Azmi Omar, President and CEO, International Centre for Education in Islamic Finance, (INCEIF), Malaysia
- Mr. Omar Mustafa Ansari, Secretary General, The Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain
- Mr. Ventje Rahardjo Soedigno, Executive Director, National Committee on Sharia Economics and Finance "Komite Nasional Ekonomi dan Keuangan Syariah (KNEKS)", Indonesia.
- Professor Ning Su and Professor Chris WH Chan, Ivey Business School, Canada

for sharing their expertise and vision about the future of Islamic banking sector.

We trust that the report will provide valuable insights to the Islamic bankers around the globe in measuring the pulse of the Islamic financial industry, as together, we drive it towards greater paths of success.

## Key Findings

This year's edition of CIBAFI Global Islamic Bankers' Survey (GIBS) is unique since it presents a reflection on the Islamic banking industry and the evolving trends that will shape its future landscape. The GIBS 2021 asked respondents to contemplate a 10-year projection, a period which far-sighted executives might reasonably consider even in the present uncertain times. Additionally, the report includes some special articles from different experts and leaders of the industry to share their perspectives regarding the future of the Islamic banking industry.

The distribution of the collected data is shown in the below table.

**Table 1. Respondents by Regions and Countries**

Group	Region	Countries from which banks responded	Number of banks in this group that responded
Group 1	GCC	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE	20
Group 2	Middle East ex-GCC	Egypt, Iraq, Jordan, Palestine, Syria, Yemen	21
Group 3	Southeast Asia	Indonesia, Malaysia	6
Group 4	West, Central, and South Asia	Afghanistan, Bangladesh, Pakistan, Sri Lanka	16
Group 5	North Africa	Algeria, Libya, Morocco, Sudan, Tunisia	24
Group 6	Sub-Saharan Africa	Burkina Faso, Djibouti, Guinea, Kenya, Mauritania, Nigeria, Somalia	8
Group 7	Europe	Bosnia Herzegovina, Turkey, UK	5
<b>Total number of countries and banks</b>		<b>33 Countries</b>	<b>100 Islamic Banks</b>

### The GIBS 2021 Report consists of three parts:

**Part 1:** CIBAFI Islamic Banking Confidence Index (permanent section)

**Part 2:** CIBAFI Islamic Banking Risk Dashboard (permanent section)

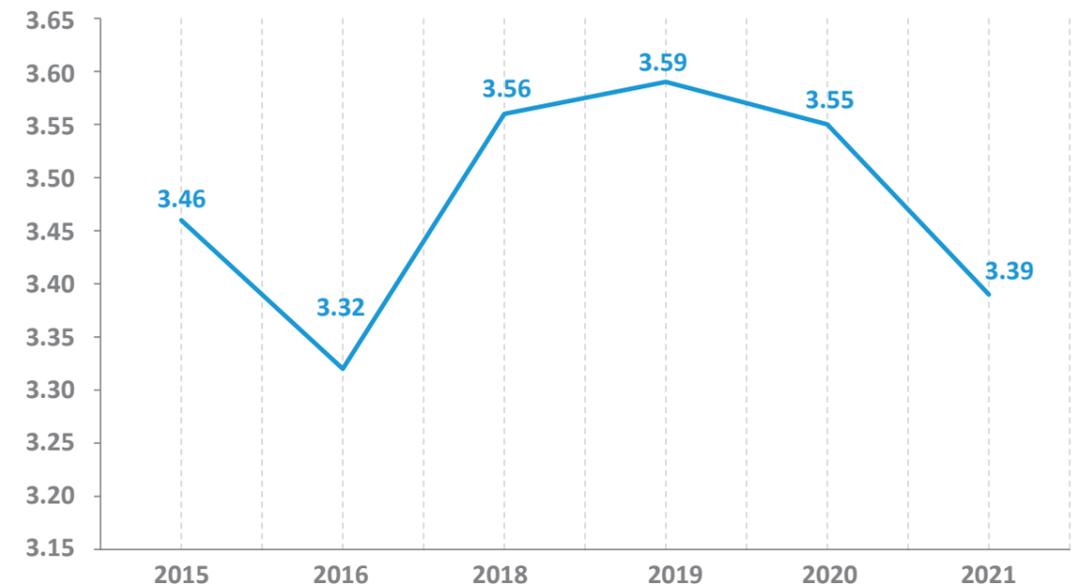
**Part 3:** Future Landscape of the Islamic Banking Sector (thematic section)

- **Sub-section 1:** Islamic Banks' Growth and Expansion
- **Sub-section 2:** Policies and Regulations within the Islamic Banking Sector
- **Sub-section 3:** Islamic Banks' Resilience and Risk Management
- **Sub-section 4:** Innovation and Technology within the Islamic Finance Industry
- **Sub-section 5:** Sustainability within the Islamic Banking Sector

# PART I: CIBAFI Islamic Banking Confidence Index

## Part I. CIBAFI Islamic Banking Confidence Index

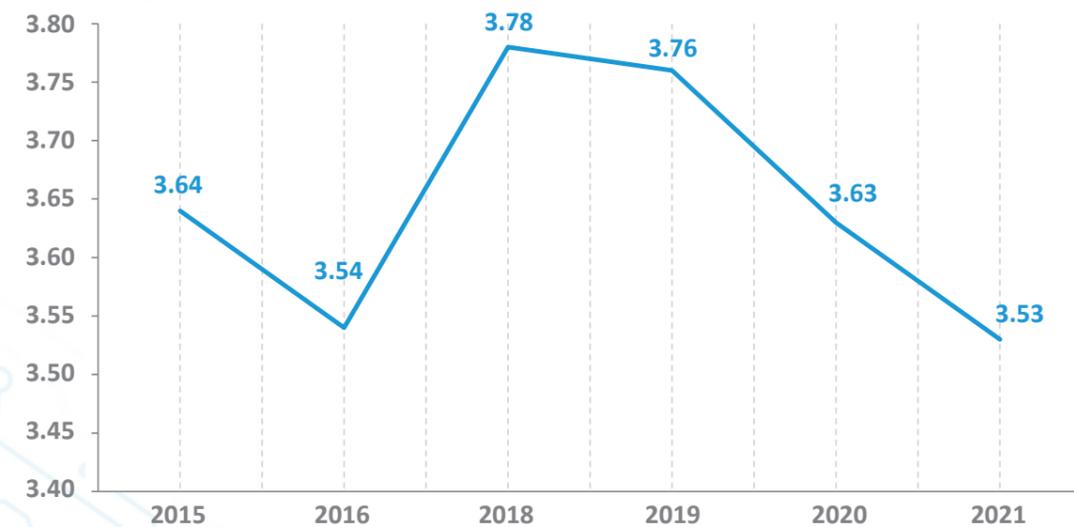
Figure 1: Development of the level of optimism towards the future of the banking industry



1: Extremely Pessimistic; 2: Pessimistic; 3: Fairly Optimistic; 4: Very Optimistic; 5: Extremely Optimistic

Islamic banks globally have indicated a decline in the level of optimism towards the future of the Islamic banking industry, with the lowest recorded score in all the published editions of the GIBS Report.

Figure 2: Development of the level of optimism towards the future of the Islamic banking industry

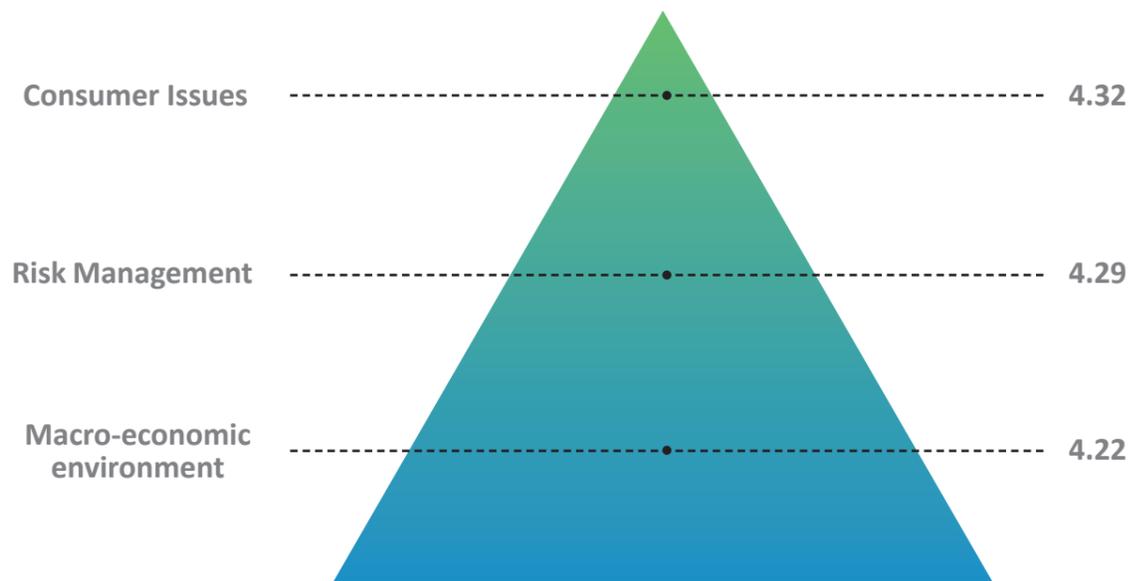


1: Extremely Pessimistic; 2: Pessimistic; 3: Fairly Optimistic; 4: Very Optimistic; 5: Extremely Optimistic

This year's score is still considered a positive sign regarding the future of Islamic banking, and remains higher than the score for the banking industry in general.

The banks also shared their top concerns for the near future, with consumer attraction, relation, and retention appearing as the most challenging concerns for banks in 2021 followed by risk management. Given the COVID-19 pandemic situation as well as the increased adoption of technology, it is not surprising that managing the risks associated with such disruptive events ranked second. Macro-economic environment ranked third.

**Figure 3: Global Islamic Banking Top 3 Concerns**



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5:Extremely Important

The results show that banks are putting customers at the centre of their concerns and recognize that retaining existing customers – not to mention attracting new ones – is becoming very challenging, especially in the situation of the COVID-19 pandemic.

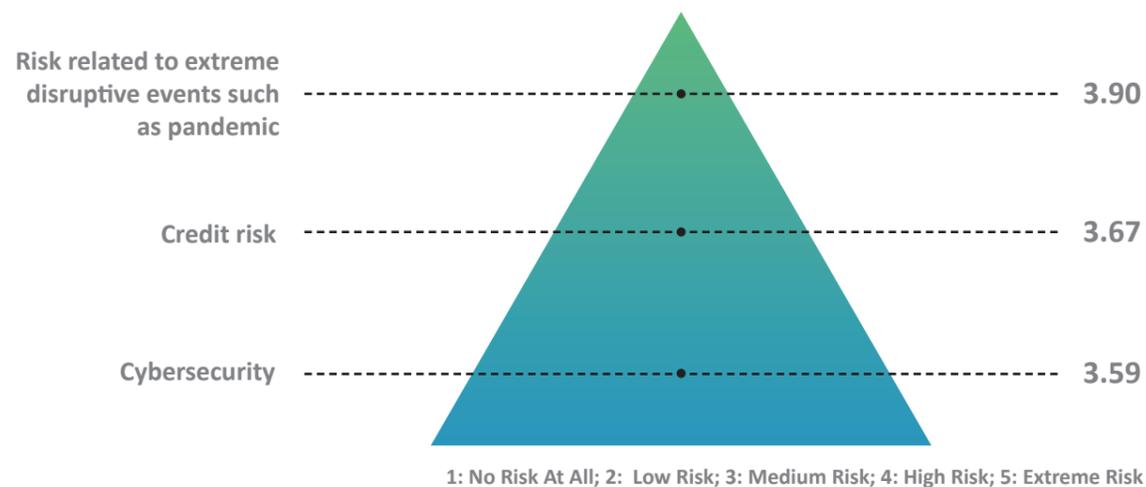
## PART II: CIBAFI Islamic Banking Risk Dashboard

## Part II. CIBAFI Islamic Banking Risk Dashboard

This year, we extended the risk dashboard by adding two new risks: “risk related to extreme disruptive events” and “climate change risks.”

The results show that the newly added risk related to extreme disruptive events is on the top of the risk dashboard. Similar to last year, credit risk is the second most concerning risk, posing a serious risk to several Islamic banks followed by cybersecurity risk.

**Figure 4: . Global Islamic Banking Top 3 Risks**



**With the emergence of the COVID-19 pandemic in late 2019, all economic sectors are facing unprecedented challenges and the banking industry is no exception, being faced with both economic and operational issues.**

Moreover, seeing the impact of the COVID-19 pandemic, banks share their experiences on government initiatives, institution’s performance, changes in customer behaviour, risk management, and strengths and weaknesses that had been revealed during the pandemic.

Banks reported that the most common initiatives by the governments, across many jurisdictions are:

- Decreasing interest/profit rates on monetary policy tools;
- Reducing the limit for mandatory cash reserve on deposits with banks;
- Postponing payments and granting grace periods;
- Concessional financing to SMEs;
- Reducing working hours; and
- Supervisory focus on business continuity plans.

They also shared the effects of the pandemic on institutions performance, which is the result of a decrease in earnings, higher provisions and expected credit losses, increased level of risks, and affected liquidity ratios of the banks.

On the changes in customers’ behaviour, most of the banks are experiencing a surge in customer demand for electronic channels. Some banks also reported changes in customers’ financial behaviour, notably a reduction in demand for financing products due to concerns on movement restrictions.

Moreover, the banks’ responses, in general, showed that the main weakness is related to their inability to meet increasing customer demands for digital or mobile banking services. As for strengths, the banks believe that their quick response and flexibility to adopt new operational measures is turning out to be an advantage in the time of the pandemic.

Banks are also experiencing challenges in risk management, such as mitigating credit risk, investment risk, collateral risk, and liquidity risk. In some cases, this has led to changes in processes. Operational risk, in particular, is also posing multiple challenges where the banks are experiencing technology risk, cybersecurity risk, and significant business disruption and delivery risk.

# PART III: Future Landscape of Islamic Banking Sector

## Part III. Future Landscape of Islamic Banking Sector

This section presents insights into how Islamic banks see the outlook of the Islamic banking sector.

The analysis shows that banks are generally optimistic about the future of the industry over the next 10 years. There is, however, a recognition that in the areas where Islamic finance is well-established it may be difficult for growth to exceed that of the general economy.

Therefore, to sustain higher growth rates, the expansion will have to come from areas where Islamic finance is relatively new, and from those where, despite a long-term presence and a predominantly Muslim population, it continues to represent a small proportion of the overall financial sector.

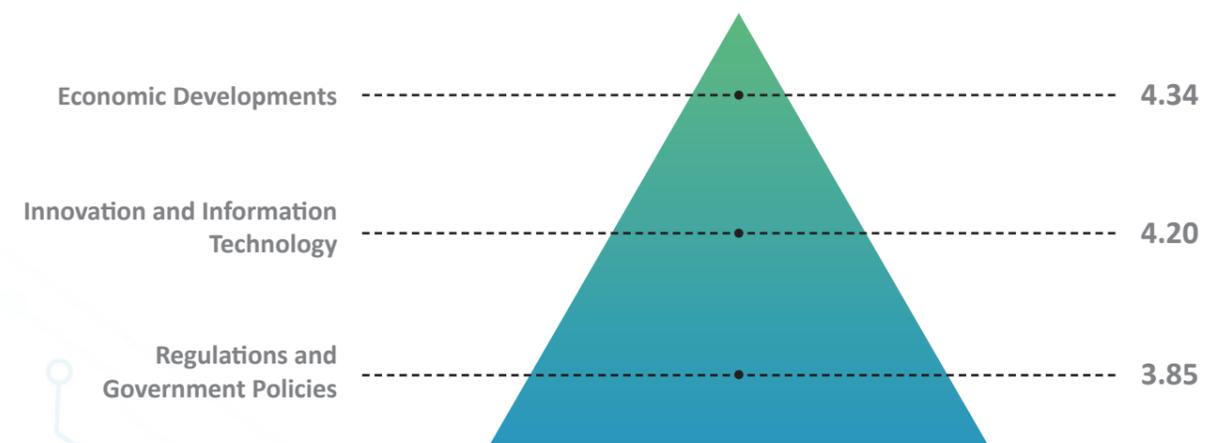


**Within the discussion of economic and financial development, the IsDB also considers the Islamic finance industry and its instruments as critical enablers of achieving growth and development objectives. Islamic finance with its risk-sharing principles, ethical dimensions and mutual solidarity and in-built social finance elements is well-suited to counter adversities during challenging economic times such as this COVID-19 pandemic.**

- H.E. DR. BANDAR M. H. HAJJAR, President, Islamic Development Bank (IsDB) Group

When it comes to the factors that would impact the institutions' growth and development, the responses showed that economic developments were top of the list, with innovation and information technology in second place followed by regulations and government policies.

**Figure 5: Top 3 factors impacting institutions' growth and expansion in the next 10 years**

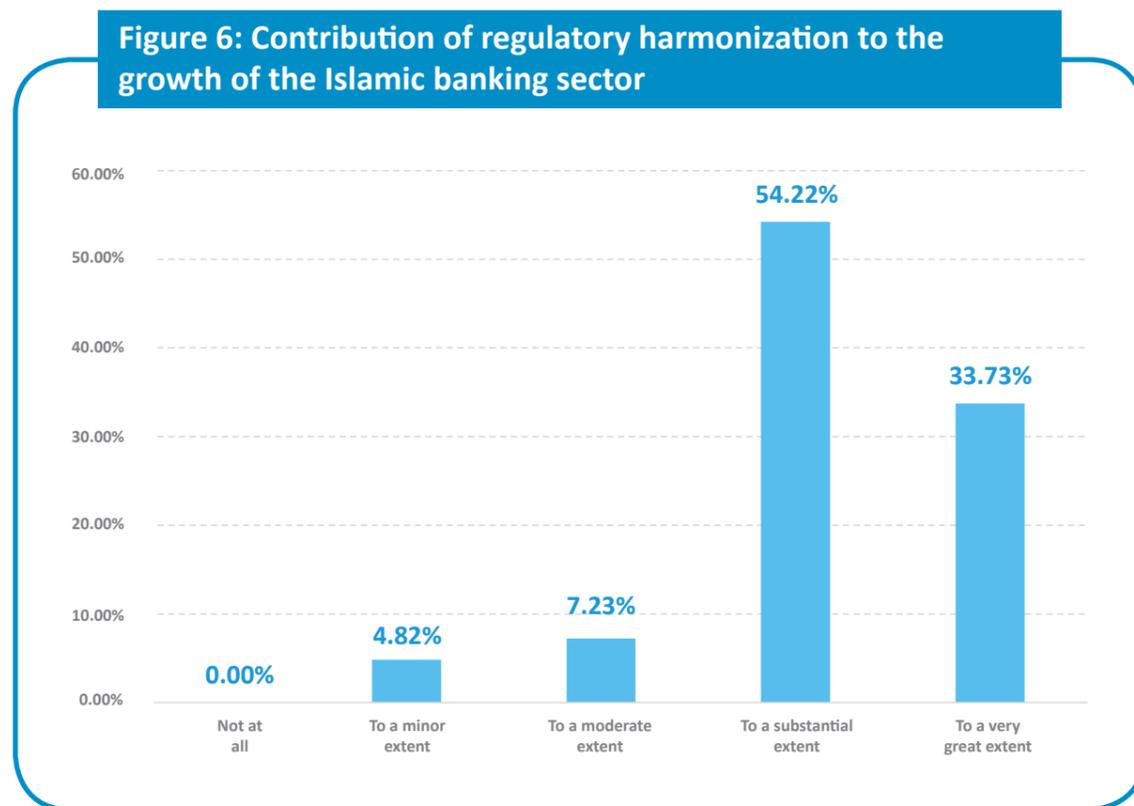


1: Not at all; 2: To a minor extent; 3: To a moderate extent; 4: To a substantial extent; 5: To a very great extent

“ A collaborative approach bringing Islamic finance education providers, the Islamic finance industry, accreditation body, and regulators can bring a significant change to the quality of the education programmes and its graduates. Collectively, this effort will produce the desired human capital for the industry based on the Maqasid Shariah approach.

- PROFESSOR AZMI OMAR, President and CEO, International Centre for Education in Islamic Finance (INCEIF)

The majority of the banks consider that regulatory harmonization would contribute to the growth of the Islamic banking sector.



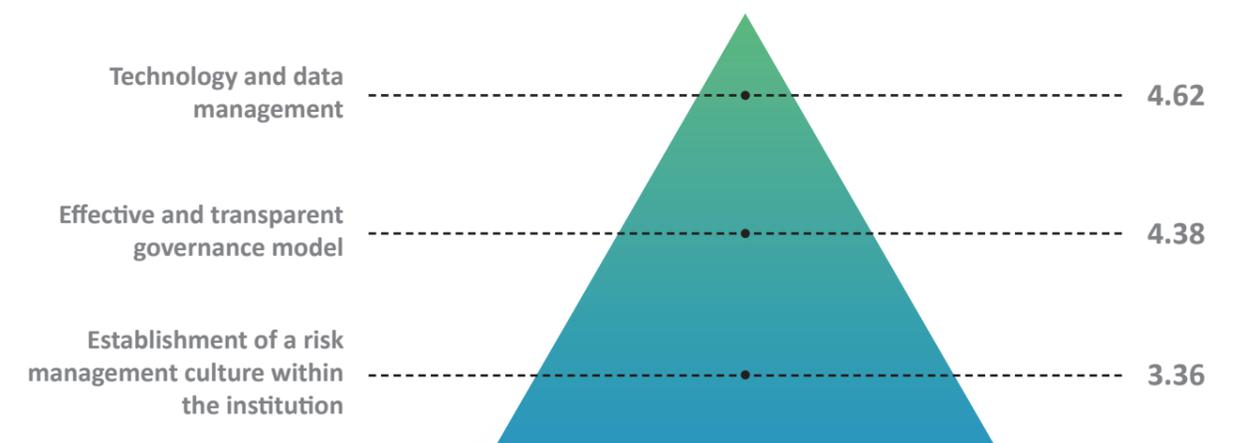
Furthermore, there is a clear demand from the industry for the practical implementation of international standards. Some of these are regulatory standards; while others are transactional standards, such as standard documentation for interbank transactions.

“ Islamic finance is experiencing unprecedented growth throughout the world. Products and services are being evolved at a rapid pace, that in turn requires development of accounting policies and treatments that show the essence of the transactions.

- OMAR MUSTAFA ANSARI, Secretary General, AAOIFI

From a number of specific elements, using technology and data management is considered the most important in improving the institutions' longer-term resilience followed by effective and transparent governance model. Establishing a risk management culture within the institution ranked third.

**Figure 7: Top 3 important elements in improving the institutions' longer-term resilience**



1: Extremely not Important; 2: Not Important; 3: Fairly Important; 4: Very Important; 5:Extremely Important

It is also interesting to note that industry leaders recognize the need to respond to and adopt the innovations in technology that are transforming financial services, though some of them start from very different bases, not only in their operations, but in the national infrastructure available. However, only a handful of banks see themselves as challengers, using technology to implement new business models or to leapfrog established banks.

“ Overall, the world is going through accelerated and unprecedented digitalization. The ongoing digital transformation and disruption taking place in different markets and countries is creating a new normal for the global economy. It is important for different stakeholders, including financial institutions, regulators, policymakers, and governments, to learn, experiment, adapt, and capitalize on, this new normal, in order to thrive in our ever-changing digital age.”

- PROFESSOR NING SU and PROFESSOR CHRIS WH CHAN, Ivey Business School

Sustainability in the Islamic banking sector is also one of the areas covered by the report, as there is increasing concern internationally that banking should contribute to wider sustainable development aims.

**“ Value-based Intermediation (VBI) Financing and Investment Impact Assessment Framework (VBIAF) and Sectoral Guides jointly developed by the industry, regulator and relevant stakeholders provide guidance for the financial institutions on risk management and considerations related to ESG in financing and investment decision making.”**

**- H.E. DATUK NOR SHAMSI AH MOHD YUNUS, Governor, Bank Negara Malaysia**

Some banks have embarked on the process, which many recognize will be a long journey of building sustainability into both their operational practices and their core business strategies – most notably the areas in which they are willing to advance finance. For other banks, sustainability is expressed through a distinct set of programmes and activities, rather than fully integrated into business strategy. However, for some banks, it does not seem to have had much impact at all.

**“ The agenda in minimizing the financing gap and creating a robust circumstance of sustainable financing based on Islamic principles needs to be enhanced and disseminated to all stakeholders. Collaboration and synergy between all parties and elements in the Islamic economic ecosystem are the engine of global Islamic finance growth.”**

**- VENTJE RAHARDJO SOEDIGNO, Executive Director, National Committee on Sharia Economics and Finance “Komite Nasional Ekonomi dan Keuangan Syariah (KNEKS)”, Indonesia**

The publication of the survey findings will allow readers to comprehend the bigger picture that depicts the major concerns and risks faced by Islamic banks in times of the pandemic. More importantly, this report provides stakeholders with a perspective of Islamic banks and industry leaders on the outlook of the Islamic banking industry as well as insights on the factors that may impact the growth and development of the industry, 10 years down the road.

## About the General Council for Islamic Banks and Financial Institutions (CIBAFI):

CIBAFI is an international organisation established in 2001 and headquartered in the Kingdom of Bahrain. CIBAFI is affiliated with the Organisation of Islamic Cooperation (OIC).

CIBAFI represents the Islamic financial services industry globally, defending and promoting its role, consolidating co-operation among its members, and with other institutions with similar interests and objectives.

With over 130 members from 34 jurisdictions, representing market players, international intergovernmental organisations, professional firms, and industry associations, CIBAFI is recognised as a key piece in the international architecture of Islamic finance.

In its mission to support the Islamic financial services industry by being the leading industry's voice in advocating regulatory, financial and economic policies that are in the broad interest of its members and that foster the development of the Islamic financial services industry and sound industry practice, CIBAFI is guided by its Strategic Objectives, which are:

- 1) Advocacy of Islamic Finance Values and Related Policies & Regulations,
- 2) Research and Innovation, and
- 3) Training and Professional Empowerment.

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