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Islamic Securitization as a Yardstick for Investment in Islamic Capital Markets

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ABSTRACT

The paper shows that Islamic securitization through Sukuk securities is vital in fostering the Islamic capital market. Sukuk investments entail investors and issuers to follow a set of nuanced moral and ethical principles beyond maximizing profit. As measured by social trust, investor trust could be critical in the worldwide Sukuk investment boom. Therefore, the primary objective of the article is to demonstrate the impact of Islamic securitization through the Sukuk bonds in guaranteeing investment in the Islamic capital market. The study employs a systematic literature review and qualitative research methodology based on secondary data to achieve the purpose of the study. The finding of the study indicates that despite all the obstacles in slowing the progression of the Islamic capital market, it manages to develop gradually worldwide. Further, concerning class flow and risks, Sukuk is similar to conventional bonds, but certain characteristics of the Sukuk bond make it a reliable instrument in the Islamic capital market.

KEYWORDS

Islamic Capital Market, Islamic Capital Market Instruments, Islamic Finance, Islamic Securitization, Sukuk

1. INTRODUCTION

In contemporary times, Islamic banking and finance have recorded tremendous growth since a few decades ago. The Islamic financial system has emerged and evolved into a sustainable and vibrant counterpart of the traditional financial system. The swift development of the domestic Islamic banking system, accentuated by considerable expansion and advancements in Islamic banking and finance, has become significantly more important to fulfill the changing needs of the modern economy. The interdependence of these essential structural elements produces an all-encompassing environment conducive to the Islamic financial system's ability to function as an effective conduit for mobilizing resources and providing finance for profitable economic activity. The general stability of the Islamic

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financial system is aided by this structure, which also increases the Islamic financial system's resilience and robustness to absorb financial shocks.

Religious norms affect not only human behavior but also corporations. Religious norms influence individual attributes and corporate decision-making (Adhikari & Agrawal, 2016). An empirical study suggested that the persistence of human characteristics leads to adherence to strict policies (Malmendier et al., 2011). And such human traits are largely influenced by religious and social norms. Several studies asserted that social norms induced by religion could facilitate sound moral judgment and risk aversion in the organization (Hassan & Aliyu, 2018; Trinh et al., 2020). Nonetheless, religiously induced social norms influencing the banking risk management system (Arnaboldi et al., 2020; Baele et al., 2014; Fungáčová et al., 2019) vary depending on the variations in cultures, financial systems, and legal frameworks worldwide (Beck et al., 2003).

The global financial crisis of 2007-2008 calls into question the legitimacy of the financial mechanism system, where it is alleged that conventional securitization played a key part in disrupting global financial markets (Kara et al., 2016; Kiff & Kisser, 2014). Unrestricted lending, less oversight, screened incentives, and the shifting of credit risks by financial institutions are the prime reasons for this destabilization. (Franke & Krahnen, 2013; Panetta & Pozzolo, 2012). It is posited that the financial crisis may have accelerated its growth and potential market share even further as "principles based on religious law shelter the industry from the worst of the financial crisis" (Hasan & Dridi, 2011). Islamic banking may have been insulated from the effects of the financial crisis by its asset-based and risk-sharing qualities and its obligation only to involve products that minimize excessive leverage and disruptive financial innovation (Baele et al., 2014).

They have risen from modest and unknown funding vehicles to well-established securities in several nations over the last two decades, rivaling conventional bonds in many countries. Numerous researchers have stressed the characteristics and rationale for issuing (Mohamed et al., 2015; Nagano, 2016, 2017; Naifar et al., 2017). Existing Sukuk research remains limited and fragmented across several topics, despite the rise in global Sukuk issuances and market expansion (Ibrahim, 2015). Sukuk are Islamic securities with structural similarities to bonds. Due to the higher ethical criteria set by Shariah, particularly non-engagement in prohibited activities, Sukuk financing is expected to demand a higher threshold of investor trust (e.g., alcohol, gambling, and pornography) (Ashraf et al., 2020). With its ethical substance and financial characteristics, Sukuk is a fairly unique financial instrument.

The global Sukuk market has continued to grow since 2010. However, the contemporary discourse on Islamic securitization recorded remarkable and increasing participation in international securitization. Nonetheless, there have been complications recently in navigating the encouragement of investors appreciating Islamic securitization to show confidence in the capital market. It has been acknowledged that there are challenges, such as securitization in the global Islamic capital market (ICM), which requires a strategic approach to addressing the challenges (Aziz, 2007). Therefore, it is important to explore the contributions of Islamic securitization in guaranteeing investment in Islamic capital markets whereby its products are favorably competing with conventional investment products, specifically in the ICM, as the overall explanation in this paper forms a central climax.

The existing literature largely focuses on the empirical (Alhejaili, 2021; Derigs & Marzban, 2008; Godlewski et al., 2010; Hassan & Aliyu, 2018; Mimouni et al., 2019; Pirgaip et al., 2020; Razak et al., 2019; Smaoui & Khawaja, 2017; Uddin et al., 2020) or comparison between Islamic bank and conventional bank (Fathurahman & Fitriati, 2013; Hasan & Dridi, 2011; Kabir et al., 2015; Mimouni et al., 2019; Van Wijnbergen & Zaheer, 2013) Shariah, supervisory, legal (Ali, 2007; Kasim et al., 2013; McMillen, 2007) and other related aspects of research (Amrani et al., 2017; Baele et al., 2014; Fungáčová et al., 2019; Paltrinieri et al., 2020), the foundational aspect of ICM and Sukuk as a catalyst to foster ICM are hardly discussed. The present study provides foundational research on Islamic securitization and its importance in guaranteeing investment in the Islamic capital market. Hence, The objective of the study is to investigate the contribution of Islamic securitization to the development of the Islamic Capital Market. The question the present study will answer does Islamic securitization can be considered a yardstick for the Islamic Capital Market.

2. METHOD AND MATERIALS

The present study is based on an extension of a systemic literature review (SLR) of Islamic securitization to explore the importance of Sukuk securities in guaranteeing investment in the ICM. Literature review plays an integral part in academic scholarship (Brocke et al., 2009), for knowledge synthesis to keep pace with the exponentially increasing literature on Islamic finance. In the present article, SLR would help accumulate and synthesize the existing knowledge on Islamic securitization to demonstrate the value and importance of Islamic securitization in the Islamic capital market. Besides, a systematic document review would help produce evidence-based information by employing a replicable, scientific and transparent process (Tranfield et al., 2003). Further, SRL also facilitates policymakers, researchers, and entrepreneurs to accumulate and synthesize the current literature under review (Kraus et al., 2020), evaluate the same, and generate new frameworks and theories (Paré et al., 2015).

To reduce potential bias, the study primarily focuses on the existing documents, specifically peer-reviewed journal articles, because they represent the highest research rigor, and academics and policymakers rely on them to obtain and share information and new findings (Fosso Wamba et al., 2015). The existing resources are primarily collected from the Web of Science and Scopus Databases. In addition, reports of international organizations and other databases are also consulted to collect historical data during the study.

3. AN OVERVIEW OF ISLAMIC SECURITIZATION

Islamic securitization through Sukuk securities is expected to be compliant with the basic principles of Islamic finance. The transaction of securities concerning the asset should be based on the spiritual aspect, which forms the central basis of Islamic finance as an integral part of Islamic securitization (Worthington, 2007). Sukuk denotes a certificate of ownership of a pool of assets offered by a borrower to a lender as proof of ownership of those assets. Sukuk basically signifies that it must be asset-backed securities (ABS). This ABS is the prime difference between Sukuk securities with conventional bonds, which are inherently not asset-backed.

Shariah compliance of securitization transactions in Islamic nations is less of a demand-side problem than a supply-side phenomenon driven by sovereign-sponsored capital market broadens, and the investor base grows. Even though shariah-compliant structures increase the marketability and liquidity of securitization transactions, many institutional investors and high-net-worth investors in Islamic nations make significant investments in traditional, non-shariah-compliant, high-grade ABSs(Abdelsalam et al., 2021). Investors appeared to have given little attention to the actual source of servicing and the exposure to underlying assets, although these sovereign transactions were tied to underlying assets since they were more interested in purchasing sovereign credit quality, expansion endeavors, and the weight of precedent, with successful issues creating firsts for various Islamic finance collateral types that generate additional demand as the asset supply.

The underlying assets became incidental to the credit risk assumed by investors during the first stage of the development of a market for Islamic fixed-income instruments and structured finance products, which was concentrated on the securitized issuance by creditworthy sovereigns(M Alhejaili Assistant professor, 2021). After the Malaysian government launched the market in 2002 with the issuance of US$600 million backed by lease payments, a large portion of Sukuk issuance—at least offshore—has been sponsored by sovereigns and quasi-sovereigns with explicit or implicit government guarantees.

The prevalence of government credit backing in Islamic securitization is not surprising given the lack of fundamental requirements for securitization in most Islamic countries, except self-contained enterprises with guarantees from host governments, e.g., Malaysia, Indonesia, Pakistan, Turkey, and others. Due to inadequate legislative frameworks and accounting standards for structured finance, regulatory restrictions, subpar market practices, origination, trading, investor protection standards, and a small local institutional investor base, securitization is still at a low level(Lai, 2022). Given the underdeveloped debt markets in Islamic nations, the dominant position of sovereign-sponsored structured finance is consistent with the natural path of capital market development, which begins with public sector debt before investors become accustomed to the product and move down the credit curve to generate demand for lower-rated corporate credit. Sukuks and associated investment products will go beyond low-yielding credits to cover the whole risk-return spectrum as the market develops and liquidity rises.

There is a fundamental principle in connection with the asset. The principle is that the acquisition or possession of an asset must be through lawful means and should be used for lawful things. This is a Shariah basis, which must be considered part of a securitization. In addition, the parties involved in securitization must be transparent in their dealings concerning the funding. The study by (Hamdow Gad Elkreem, 2017) investigated the relationship between Islamic securitization (*Sukuk*) and Islamic banks' liquidities in six banks in six selected countries, specifically between 2011 and 2013. The findings indicated a positive relationship between Islamic securitization (*Sukuk*) and Islamic banks' liquidities (Hamdow Gad Elkreem, 2017).

Undoubtedly, the paramount importance of Islamic securitization cannot be underestimated because it brings assets together and makes them security where the securities shall be distributed to the investors (McMillen, 2007). In addition, securitization is a process of changing non-tradable properties into tradable securities (DUALEH, 1998). It is considered a process for structured finance that attempts to distribute risk by accumulating debt mechanisms in a pool and allocating fresh securities, which will be considered a standby by the pool itself. The growth of securitization has been recorded based on asset-backed securitization, for example, in the Malaysian capital market (Kasim et al., 2013; Ripain et al., 2006). More importantly, a study contends that: four factors basically drive the growth of securitization; first, the capital adequacy ratios and reserve requirements imposed by regulatory bodies on financial institutions have made them safer places to invest. However, these constraints have "costs" because they either increase direct expenses or limit these financial institutions' capacity to expand their business volume. Securitization permits these financial entities to remove assets from their financial statements efficiently. It allows financial institutions to monetize previously illiquid assets, recycle cash for reinvestment, and hence expand their business volume without a corresponding increase in equity capital. Simply put, securitization enables financial organizations to serve more consumers without raising new capital in the form of shares or deposits.

The preceding is explicit because if there are no capital adequacy ratios, no investor will be interested in partaking in the activities in the financial institutions. Another interesting aspect is the permissibility of monetizing the earlier illiquid assets. Thus, Islamic securitization is considered an essential element for the growth and development of the ICM. Onwards, it is reiterated that securitization deals with selling finance by the lender to the issuer, who is considered a new owner and consequently sells securities to interested investors. It is noteworthy to posit that investors tend to buy bonds that basically made them entitled to a share of the cash being paid on the Islamic assets by the borrowers, which is considered a significant impact of Islamic securitization, specifically with the banks; liquidity as literature expounds (Hamdow Gad Elkreem, 2017).

Nonetheless, it is stressed that, in a situation whereby the lender sells the asset to the issuer, the lender could no longer exercise his authority to restructure the borrower's finance. In this regard, the servicer is responsible for collecting payments from Islamic assets, and it is expected that it is distributed to the issuer to pay to the investors. However, if the borrower is unable to pay, it is necessary to take action to recuperate the cash for investors. Notwithstanding, the servicer is expected to discharge what is stipulated in the securitization document, but it is not doubtful that the contracts can inhibit the servicer from restructuring the finance. As a result, the studies have mentioned the need for regulatory issues in investment in Islamic bonds (A. Abdul Rahman et al., 2010; R. Abdul Rahman & Saimi, 2015).

It should be stressed that in a situation whereby a bank needs additional capital to finance a new project and the bank does not want to sell the existing properties, hence, the bank may wish to sell a portion of the finance Special Purpose Vehicle (SPV) which is regarded as trustee. Hence, the SPV would collect the fund directly and openly, and the bank would undoubtedly take away the asset from the balance sheet of the bank. In consonance with this assertion, the study by Amine contends that Sukuk and Islamic securitization are considered financial mechanisms and product innovation at the international level (al-Bashir Muhammad al-Amine, 2012). Hence, it is essential to look at investment in the ICM.

4. INVESTMENT IN THE ISLAMIC CAPITAL MARKET

Islamic capital market (ICM) refers to the market free from non-Shariah compliant activities such as usury, gambling, and unpredictability. This is the market where shares, stocks, and other permitted financial products are bought and sold in accordance with Islamic law principles. ICM functions as a Shariah-compliant parallel market to the traditional capital market, allowing investors and capital providers to invest and interact in the market in a Shariah-compliant way. ICM is a comprehensive marketplace with a wide range of Shariah-compliant instruments for those seeking shariah-based investment, as ICM instruments must differentiate themselves from conventional ones in terms of market transactions and activities. The fact that ICM is an open market where anybody can participate in expanding the breadth and depth of the global Islamic financial market and enabling it to operate as a parallel market to the conventional market is one feature that sets it apart from other markets.

In the 1990s, the Islamic capital market started as a result of the demand of the market and investors' advocacy for Shariah-compliant investments in Muslim countries. Nonetheless, the evolvement of Islamic industry has remarkably contributed to all spheres of human endeavors. More importantly, there is a need for enhancement of Islamic banking, Takaful, and Islamic capital market due to the interconnectedness of the trio, which expectedly should be made compliant with Shariah principles (Kasim et al., 2013). ICM is one of the essential components of the Islamic financial system in Muslim countries that have developed regulatory guidelines for various products (Ali, 2007; Aziz, 2007). Sukuk takes an active role in ICM operation; therefore, Sukuk is a complementary instrument apart from other products offered by the ICM.

The COVID-19 pandemic has so far not dampened the resiliency of the Islamic financial services industry (IFSI), which expanded 11.3% year over year and is projected to be worth USD 3.06 trillion in 2021(Zangana, 2021). The dynamics of economic recovery and financial stability under a protracted conflict between Russia and Ukraine present a novel test of resiliency. According to a sectoral analysis, the Islamic banking sector, which is predicted to be worth USD 2.10 trillion and has grown by 6.5%, held onto the biggest share of IFSI assets (68.7%) and continued to be systemically significant in 15 countries in 2021(IFSB, 2022). Given that the proportion of Islamic banking assets to the total banking system's assets increased across the many jurisdictions on the back of momentum in the reopening and recovery of economies, increased digitalization of financial services, and merger and acquisition activities, it is anticipated that this number will increase in the near future. However, Islamic banking remained substantially concentrated, with 80.2% of worldwide Islamic banking assets concentrated in the top five jurisdictions in terms of assets(IFSB, 2022).

It is reiterated that Sukuk and Islamic equity are regarded as commodities meant for trade in the Islamic capital market. Lenders (i.e., investors) and borrowers (i.e., entrepreneurs) concur to divide any gains from profitable projects according to the amount of funding or ownership of the asset by each party in Islamic profit-sharing contracts (equity-based). As a result, it is asserted that mobilization, allocation, and adequate utilization of funds in the Islamic capital market. This is paramount because the Islamic capital market immensely contributes to the international financial system (Derigs & Marzban, 2008). Between 2008 and 2014, the Sukuk market grew at a rate of nearly 20% per year, making it the fastest-growing sector in the Islamic financial services business (Naifar et al., 2017; Smaoui & Khawaja, 2017). However, significant obstacles remain in the way of the Sukuk market's growth (Dow et al., 2006; Godlewski et al., 2010). Sukuk instruments have continued to grow in the financial sector despite all the challenges and are steadily expanding globally (Fathurahman & Fitriati, 2013).

The ICM is expected to be worth USD 930.3 billion in 2021 and represents 30.5% of all IFSI assets worldwide. With an estimated value of USD 775.7 billion and a y-o-y rise of 12.5%, the Sukuk sub-segment continues to dominate the ICM sector, supported by a resilient global risk appetite and favorable external conditions(IFSB, 2022). Notably, improvements to the issuing process and supportive surroundings resulted in a major advance in corporate issuances. The financial sector continues to make up most Sukuk issuers, followed by governmental issuances in sectoral distribution. In terms of origination, 2021 saw several new market entrants and the return of issuers from nations that are not the core markets for Islamic finance. Sustainability-related issuances have increased in both established and emerging markets, with the Islamic Development Bank (IsDB), Indonesia, and Malaysia leading the charge (IFSB, 2022). Saudi Arabia and Oman's sovereign entities implemented sustainability-related debt frameworks in 2021.

Moreover, there is interconnectedness between the Islamic capital market and the money market because the former can (the impact of Sukuk on the conventional bank) bring an expansion to Sukūk issuance, contrary to the latter (Wahyudi & Sani, 2014). In addition, studies suggest that the Islamic banking system, to some extent, is considered less efficient. Still, at the same time, it is less exposed to credit risk than the conventional banking system and Islamic bank-owned high-quality assets and is consequently more stable than their traditional counterparts (Abedifar et al., 2013; Van Wijnbergen & Zaheer, 2013). Kabir et al. found that both Islamic and conventional banking systems shared similar credit risks and suffered equally during the worst financial crisis (Kabir et al., 2015). Other studies also show identical findings regarding Islamic and conventional capital instruments (Nasir & Farooq, 2017; Reboredo & Naifar, 2017). Whereas the empirical research of Akram and Rahman showed that the credit risk management of Islamic banks of Pakistan is better than that of conventional banks (Akram & Rahman, 2018). On the other hand, the empirical study by Lassoued on the Malaysian financial market argues that Islamic banks in Malaysia are more vulnerable to credit and insolvency risks than conventional banks (Lassoued, 2018).

It is basically challenging to determine which banking system is more prone to credit risk since every country has its own developmental background and unique characteristics in developing the financial industry. According to certain studies, Islamic banking's profit and loss sharing (PLS) characteristic add extra complexity to the bank's risk management, resulting in higher levels of risk (Hasan & Dridi, 2011). Another study shows that Islamic bank is unprotected against a high level of credit risk in a healthy information asymmetry environment and their limited practical use of risk management measures (Lassoued, 2018). Furthermore, other studies suggest that Islamic banks rely on markup financing due to the lack of sophisticated Sharia-compliant hedging products, which limits their risk-sharing operations (Smaoui & Khawaja, 2017). Nevertheless, the heterogeneous financial systems of different countries make it impossible to conclusively claim that the Islamic financial system is better than its conventional counterpart.

Furthermore, it is interesting to note that there are broad investment areas in the Islamic capital market, such as Islamic equity, Islamic compliant derivatives, and Islamic bond (*Sukūk).* For instance, on the one hand, Islamic venture capital or Private Equity, Islamic Exchange Trade Funds, and Shariah-compliant securities are indicators of Islamic equity where investment can be made in the Islamic capital market. On the other hand, Islamic bond (*Sukūk)* market, various products are expected to be Shariah compliant as well as in consonance with Islamic financial and contractual dealings because studies have argued that *Sukuk* structures in the Islamic capital market should explicitly reflect the objectives of Shariah (Dusuki, 2010; IOSCO, 2004). This is why Islamic banks, as institutions that promote the Islamic financial system, have a significant role in ensuring the implementation of Shari'ah governance.

Onwards, in an attempt to invest in the ICM, it is imperative to stress the paramount ethics and norms of the ICM in connection with Shari'ah compliance. The Shari'ah principles indicate various prohibitions such as debt-bearing investment, usury, deception, gambling, alcohol, and many others (Dusuki, 2010). The rationale behind the restrictions is mainly to protect parties involved in contractual dealings or transactions in the ICM. Considering this, the parties involved in the transaction will have a sense of fairness and justice, strengthening the overall transparency inherent in Shariah-compliant because it is regarded as a guideline for all aspects (Dusuki, 2010). More so, it is important to say that Islamic equity is an important aspect to be considered as far as transaction in the Islamic capital market is concerned. Islamic equity refers to partnerships in business transactions whereby both profit and loss are shared accordingly. The organization issuing equity is expected to share dividends whenever profits are being accrued in the transaction (International Shari'ah Research Academy for Islamic Finance, 2012). Notably, Islamic equity contracts used to be in the form of Mudarabah and Musharakah, which are expected to conform with the aforementioned Islamic ethics and norms of business transactions. More importantly, it is stressed that the permissibility of any business transaction to be involved must be taken seriously by equity companies because it is an essential aspect to be considered as an integral part of business ethics in Shariah.

However, equity companies that operate non-Shariah compliant must undergo scrutiny. If, at the end of the day, it is discovered that there is an infinitesimal amount of non-halal portion, such will not make such equity company be invalidated. Onwards, there is an important criterion that the realization of capital can be determined in a situation whereby shares are being sold at the best price, and it is established that securities owned by a company can be transferred or exchanged as long as the assets remain in the form of illiquid while involving in the transaction.

Furthermore, criteria for stock selection are an integral part of the Islamic capital market in the operation of Islamic banking and finance. Many regulatory bodies in different parts of the world set other criteria for screening equity companies. Such bodies are Meezan Islamic Fund Criteria, Kuala Lumpur Stock Exchange, Dow Jones Islamic Index, and Shariah Index in the United States, Pakistan, and Malaysia. For instance, the Shariah Advisory Council of the Malaysian Securities Commission determines suitable stocks. The bodies mentioned above play vital roles in determining guidelines for potential investors regarding the permissible and prohibited investment, which determines the performance of Shari'ah-Compliant investment (Mehdi, 2008).

Based on the preceding, it has been lucidly explained by (International Shari'ah Research Academy for Islamic Finance, 2012) that stock selection must be made in two primary ways, namely qualitative and quantitative, to fulfill the compliance with Shari'ah-based equity by companies operating equity. On the one hand, qualitative criteria deal with assessing companies' stocks whose major business transactions are in prohibited commodities such as manufacturing or retailing tobacco products, interest-based finance, foods/drinks like pork or alcohol, and gambling. Moreover, in terms of quantitative screening, the stocks by a particular company should not be predominant with prohibited products, if it is so, this kind of operation is not permitted, but in a situation whereby it only constitutes an infinitesimal percentage of income contribution such as 5%, then it is not disallowed to transact with such an equity company.

In addition, the debt and equity markets are an essential part of the Islamic capital market. Nonetheless, Sukuk is an important component worldwide in the Islamic debt market (International Shariah Research Academy for Islamic Finance, 2012). Notably, Sukuk is considered a license symbolizing financial obligations emanating from commercial transactions. It is noted that the purpose of Sukuk is to improve the Islamic capital market, especially for long-term alternatives for financing for various corporations and institutions. Sukuk provides security for investments because it guarantees holders or investors in the Sukuk market. There are important characteristics of Sukuk which distinguish it from conventional bonds. Firstly, the return from Sukuk comes from the profits gained from its underlying assets, and in the event of default, losses will be divided among the parties. Second, Sukuk indicates ownership in a specific asset that is devoid of guaranteed receivables and debt, while traditional bonds are debt bonds (Smaoui & Khawaja, 2017). Thirdly, Sukuk can only be invested in sectors that are Shariah compliant. Some sectors are prohibited due to non-compliant with Shariah, such as alcohol, pornography, gambling, and the weapon industry. Fourthly, the Sukuk certificate requires more money and time to issue because of its complex nature and structure than its conventional counterparts (Naifar & Hammoudeh, 2016).

Islamic securities are important for asset securitization in the ICM. Notably, the structure of Sukuk must go alongside Shariah-compliant with Islamic contractual dealings such as *Wakalah, Mudaradah, Musharakah, and Murabahah,* among others. However, there is a need for proper regulation that will undoubtedly promote the products and services of the Islamic capital market, whereby ethical consideration is importantly connected with the investment (Wilson, 1997). Further, it is also equally pivotal to mention that well-articulated regulation and Shariah compliance auditing will ensure Islamic securities are traded following the spirit of risk-sharing finance (Razak et al., 2019).

5. ISLAMIC SECURITIZATION STRUCTURE FOR ISLAMIC CAPITAL MARKET

Islamic securitization is an integral part of the Islamic capital market, and Shariah advisors to the financial institutions play vital roles in ascertaining compliance with the principles and objectives of Shariah as an integral part of the Islamic financial system (Laldin, 2008; Tanega, 2014). Securitization is one of the fundamental principles of the ICM (Maiyaki, 2013; McMillen, 2007). In addition, it is elucidated in the study by (R. Abdul Rahman & Saimi, 2015) that the disclosure of ethical identity by Islamic banks is an essential part of Islamic securitization. Islamic securitization via Sukuk securities has gained popularity recently among both Muslims and non-Muslims. After Islamic banking, Sukuk is the second-largest segment of the Islamic finance sector. It has been promoting Islamic finance since the 2000s, attracting the interest of a variety of issuers and investors. Sukuk are regarded as a key tool for raising money by both Muslim-majority and non-Muslim countries, expanding the Islamic financial industry to distant jurisdictions around the world. According to data from Rating Service Berhadd (RAM), Sukuk is the second fastest-growing asset class, with a Compound Annual Growth Rate (CAGR) of 5% since 2012 (ISRA, 2017). It gives issuers a different financing option for their capital expenditures and acquisitions than bonds and syndicated loan financing. They can use the ICM to raise more capital supported by significant investor demand. The ICM and non-equity-like instruments are also accessible to investors who may have previously over-relied on equity and bank deposits.

Conventional financial firms and organizations are shifting to Sukuk because the instruments are similar to traditional bonds in class flow and risk (Razak et al., 2019). However, Sukuk is distinct in several ways, making it better than the conventional bond (Bhuiyan et al., 2018; Muamalah, 2014). The Sukuk market has expanded outsides the Gulf region and Muslim-majority countries. Study shows that countries like France, Germany, Luxembourg, the United Kingdom, Singapore, Hong Kong, South Africa, and the United States currently have outstanding Sukuk (Smaoui & Khawaja, 2017). Indeed, the expansion of the Sukuk Market is not accidental or arbitrary; instead, it is the outcome of market environment in which it has operated (Razak et al., 2019).

Hence, there are different players in the structure of securitization in the Islamic capital market. These players are borrowers, lenders, Islamic asset brokers, issuers, servicers, trustees, securitization documents, underwriters, and credit enhancement providers. Several studies (Kasim et al., 2013) have explained the securitization structure in the Islamic capital market, as demonstrated in the subsequent paragraphs.

First, it is essential that as part of the securitization practice, an individual or organization that should be considered a borrower must access finance from the bank or any other financial institution that offers this, and the payment should be made on a monthly basis. Second, a lender is regarded as a body or institution or even bank or non-bank that provides funds or finances that would subsequently be sold to Special Purpose Entity (SPE) mainly for its annexation into securitization. There is cash compensation for the lender for finance. Third, an Islamic asset Broker is considered an intermediary between a borrower and a lender. In other words, an Islamic asset broker is a facilitator between a borrower and lender, and he will consequently receive income after the finance closure.

Fourth, it is noteworthy that pertaining to the issuer, the Special Purpose Entity (SPE) is formed to play a facilitating role in securitization in general and provide securities to all investors in particular.

Fifth, the servicer is responsible for collecting payment, especially from the borrower, and it is given to the issuer to distribute to the investors. As a result of this role, the servicer is rewarded with a certain amount of money, which will serve as compensation for the rendered financial service. Nonetheless, the primary task of the servicer is the maximization of payment, majorly from the borrowers to the issuer. In addition, the servicer also attempts to handle aberrant finances as well as foreclosures of the finance.

Sixth, a trustee refers to a third party being appointed and responsible for representing the profits of investors in securitization. Indeed, the trustee ascertains that the securitization is being operated as an integral part of the documents involved in the securitization. This implies that it can determine the compliance of the servicer with the criteria provided in the service. Seventh, securitization documents relate to essential documents establishing securitization and providing specifications for its operation. For instance, Pooling and Servicing Agreement (PSA) is one document that deals with a contract that specifies how finances are harmonized in a securitization. Onwards, it also relates warranties, the permissibility of loss mitigation strategies whereby the servicer performs in a situation of financial default. Eight, the underwriter is under obligation to the issuance of the securities to investors. Ninth, credit enhancement provider attempts to decrease the risk of credit expected to be provided by a third party, which will appear in the form of guarantees. The preceding explanation offers the basis for Islamic securitization for the ICM, undoubtedly promoting products and services.

Apart from that, a strong legal and regulatory structure, with Shariah governance as the guiding principle in every jurisdiction, is necessary to grow Sukuk markets. To encourage the issue of Sukuk, a sound market and strong infrastructure are required. A market with different suppliers and customers creating a dynamic ecosystem.

6. CONCLUSION

This paper has illustrated the securities transaction in connection with the assets that form the basis for the ICM. It has been further stressed that securitization must be Shari'ah compliant. Securitization completes domestic fixed-income markets where financial institutions are unable to issue straight bonds due to insufficient credit standing, forcing domestic investors to accept government paper in the absence of other investment options in order to reduce their cost of capital. Islamic securitization supports a rising investor base, notably pension and insurance fund investors who want long-term, highly rated local currency bond investments to match their responsibilities amid regulatory, fiscal, and legal reforms in many developing market nations. Thus, it enhances risk diversification within the financial industry, raises overall financial sector sophistication, and helps underdeveloped financial systems establish more liquid yield curves.

Also, the paper has shown that the advisors on Shariah principles have a significant role in promoting the harmonious relationship between Islamic securitization and the liquidities of Islamic banks. It should be mentioned that the goal of Islamic finance was to provide the social justice that the egocentric mentality of the traditional system lacked. The notion of accomplishing socioeconomic and environmental goals through capital allocation and financial decisions is therefore, at the core of the Islamic financial system.

In addition, factors promoting the growth of securitization have been highlighted, which are ultimately important in enabling financial institutions to increase their business and, more essentially, it will help financial institutions such as banks to serve their customers diligently, especially with an increase in injecting new funds which may either be deposits or equity. The paper postulated the significance of investing in the ICM because investors advocated for investment in the products and services that are Shariah compliant.

Also, the article mentions different regulatory bodies that set criteria for stock selection which is part of the ICM. In addition, various structures of Islamic securitization to improve the Islamic capital market have been highlighted. It is undeniable that Islamic securitization is one of the major contributing factors that encourage investors to invest in Islamic capital markets. Thus, trust-based investment is an essential indicator of Islamic securitization, which must go alongside Shariah compliance to promote different products and services of the Islamic capital market.

The present study is limited in its discussion to postulating the concept and importance of Islamic securitization and its role in the Islamic capital market. The foundational discussion paves the way for further discussion and analyses in this area, for instance, the influence of Islamic capital market growth on the conventional capital market, including companies' access to and use of financial instruments. Future research can also analyze the cost and benefits of green Sukuk and its impact on the economic growth and conventional Sukuk market.

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COMPETING INTEREST

The authors declare no competing interest.

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