

## Islamic finance: Why Malaysia is in the lead, and why it will stay at the forefront

Welcome to the launch issue of MY Islamic Finance – a bespoke publication focusing exclusively on the burgeoning Shariah finance industry of Malaysia where we demystify, illustrate and present the Malaysian Islamic finance story to you without the jargon and transactional complexities to showcase the beauty of Halal financing and how Malaysia is, very deservedly, a world leader in this arena. To kick-off the inaugural issue of MY Islamic Finance, VINEETA TAN walks us through the Islamic financial terrain of Malaysia.

Aishah, like many other Malaysians, has heard of Islamic banking and finance before – and while she is aware of it, she admits that she does not know much about it nor does she have an Islamic bank account – despite being a Muslim herself.

Aishah's interaction with Shariah compliant finance may seem surprising considering her religious background and the fact that Malaysia has one of the most sophisticated and successful Islamic finance experiences worldwide, however, past studies would show that the average Malaysian does lack familiarity with Islamic financial products, and in respect to banking and insurance, conventional solutions are still the preferred choice over Muslim-friendly alternatives (See pages 6 and 10 for reports on banking and Takaful).

### Limited understanding

The lack of understanding and appreciation of Islamic financial principles among both Muslims and non-Muslims is not unique to Malaysia – in fact, this is the case with most financial jurisdictions, including Muslim-majority nations, offering Islamic financial services. One may have a slight idea of Islamic finance – it avoids interest (Riba) and prohibits investments into sectors deemed Haram. But beyond

that, many are likely to understand little of the underlying transactions or concepts making an Islamic financial instrument Shariah compliant.

“  
**Already as it is, Malaysia struggles with educating its people on basic financial planning and management, what more niche financial segments such as Islamic finance**  
 ”

As a matter of fact, it is not uncommon to hear disparaging comments questioning the authenticity and Shariah compliance of such products – that Islamic banking and finance products are merely conventional instruments repackaged with a Shariah spin by re-labelling interest rates to profit rates and the likes. Many a times, based on this erred understanding, some Muslims would avoid Islamic banking and finance believing that the products are non-Halal in essence.

### Inside this Issue

Cover Story	1
News Briefs	4
Capital Market	5
Banking	6
Asset Management	7
Takaful	10
Regulatory	11
Fintech	12
Case Study	13
Data	14
Events	16



The world's first end-to-end Shariah investing platform

Live Responsibly  
 Invest Responsibly  
 Invest Shariah

## Problem lies with education

There are several reasons which could perhaps explain the pervasiveness of this perception that Islamic products are merely veiled conventional instruments.

One glaring issue is that many Malaysians lack proper financial literacy – our staggering growing household debt, one of the highest in the region, is proof of this. Already as it is, Malaysia struggles with educating its people on basic financial planning and management, what more niche financial segments such as Islamic finance.

Another factor to consider is the natural evolution of Islamic banking and finance. In order to gain wider acceptance among the general public which has embraced conventional finance for so long, the Islamic financial community is left with little choice but to develop instruments that mimic conventional products in terms of returns or benefits so as to create a competitive product for customers who are not willing to part with performance, expediency and incentives in exchange for Shariah compliance.

This inherently creates the perception that Islamic and conventional products

are essentially one of the same but with a different skin. It does not help that banking and finance executives in front office roles may at times struggle to understand the uniqueness of the Shariah compliant products they sell and often mis-sell these products as “the same as conventional but just with a different name”.

## Top-down approach

Yet despite the paucity in Islamic finance awareness, Malaysia has still managed to emerge as an Islamic banking and finance stalwart in terms of growth, sophistication and market share.

Malaysia is one of the few countries in the world where over a quarter of the banking market is Shariah compliant, over half (60%) of the Malaysian capital market are made up of Islamic financial instruments and its Islamic insurance success story is one envied across the world.

A lot of this has to do with the strong political will by the government to champion the Islamic finance cause. When modern Islamic finance was a mere idea with only a few countries willing and bold enough to make it a reality, Malaysia dove into it – giving it its 100%.

more internationalized with more players entering the market to capture a slice of the fast-growing global Shariah finance industry and Muslim wealth.

Compared with a few years ago, the playing field has definitely become more crowded with the likes of the UK, Indonesia, Hong Kong, Turkey as well as several African nations carving a name for themselves in the Islamic finance space. Not forgetting that Malaysia also has to field competition from Islamic finance heavyweights such as Saudi Arabia and the UAE.

“  
Despite years of dominance in the Islamic finance universe, Malaysia is certainly not getting complacent – even more so when the industry is becoming more internationalized with more players entering the market to capture a slice of the fast-growing global Shariah finance industry and Muslim wealth

”

However, Malaysia is not showing any signs of a slowdown when it comes to enhancing its Islamic finance ecosystem. In the past few months alone, we have seen regulators and market participants churning out one new innovation after another: Bank Negara Malaysia introduced the world's first bank-mediated Shariah compliant investment account platform while Bursa Malaysia recently rolled out the world's first end-to-end Shariah compliant securities exchange platform.

One can be sure, that the innovation wheel does not stop there for this Islamic finance giant; one that is adamant on maintaining its world lead.<sup>(3)</sup>

Over a period of the last half century since the creation of Tabung Haji in 1963, Malaysia has steadily built its Islamic finance foundations with strong regulatory frameworks and supported market players and product development with incentives and necessary infrastructure. Today, the Malaysian Islamic banking and finance model is often used as the point of reference by emerging and new Islamic finance players.

## Not resting on one's laurel

However, despite years of dominance in the Islamic finance universe, Malaysia is certainly not getting complacent – even more so when the industry is becoming



Entrusted by the Islamic finance industry and linked to the Regulator, IBFIM has paved the way with the launch of IBFIM's Islamic Finance Qualifications Framework and Progression Route in 2011. To date over 1,300 have acquired AQIF, the core certification within the framework leading to CQIF.



**CQIF is**

- a multi-level certification
- a multi-discipline specialization
- offered via multi-modal learning methodology



**CQIF is**

- internationally benchmarked
- globally recognized

Best Islamic Finance Qualification 2012  
Global Islamic Finance Awards 2012

Let's talk to our Consultants:  
training@ibfim.com +603 - 2031 1010

www.ibfimonline.com  
www.ibfim.com

## CAPITAL MARKETS

### Bursa launches Shariah investing platform

Bursa Malaysia has officially launched Bursa Malaysia-i, the world's first end-to-end integrated Islamic securities exchange platform that offers investors the choice to invest and trade Shariah compliant products via a Shariah compliant platform.

Bursa Malaysia-i incorporates the full range of Shariah compliant exchange-related services including listing, trading, clearing, settlement and depository services. Investors can choose end-to-end Shariah investing via Bursa Malaysia-i with any of the nine Shariah-licensed participating organizations. (☺)

### Putrajaya Holdings to issue Islamic notes

Putrajaya Holdings on the 7<sup>th</sup> September issued Islamic medium-term notes worth RM170 million (US\$41.67 million) under its Sukuk Musharakah program. The proceeds from the notes, rated 'AAA-IS' by MARC, will be utilized for Putrajaya Holdings' Shariah compliant financing to Putrajaya Management for the construction cost and working capital purposes in relation to the development of the Ministry of International Trade and Industry building. (☺)

### Khazanah issues exchangeable Sukuk

Khazanah Nasional has raised US\$398.8 million from the issuance of a five-year Sukuk facility that is exchangeable into shares in Beijing Enterprises Water Group.

The exchangeable Sukuk, which offer exposure into China's growing water utility sector, achieved a final pricing of 43% exchange premium with zero periodic payment and zero percent yield to maturity,

and will be listed on Singapore Exchange Securities Trading, Labuan International Financial Exchange and Bursa Malaysia (under the exempt regime). (☺)

## BANKING

### Bank Islam launches Islamic credit card

Bank Islam Malaysia on the 13<sup>th</sup> September launched the Bank Islam VISA Infinite Business Card-i for its commercial and corporate clients. (☺)

### AmBank Islamic and Johor in partnership

AmBank Islamic and the Johor state government have signed an agreement for the provision of a financing scheme for an affordable housing program, in which the Islamic bank will provide financing to applicants from the state.

AmBank Islamic will provide a total funding of RM300 million (US\$72.86 million) for the scheme, which is expected to assist approximately 4,000 applicants. (☺)

## ASSET MANAGEMENT

### CIMB-Principal Islamic launches Sukuk fund

CIMB-Principal Islamic Asset Management (Ireland) has secured approval from the Central Bank of Ireland to launch its Global Sukuk UCITS fund – Malaysia's first global Sukuk fund under the Undertakings for Collective Investment in Transferable Securities (UCITS) funds structure. (☺)

### Malaysia's Islamic VC fund still in the works

The Islamic venture capital (VC) fund – a collaboration between Malaysia and the IDB and announced in May – is said to be in the final stages of development and will be launched at the "right time", according to Treasury Secretary-General Irwan Serigar Abdullah, as quoted by Bernama.

The US\$100 million fund was initially supposed to be finalized in May at the IDB's annual general meeting. Irwan also confirmed that Malaysia is negotiating with Indonesia to participate in the fund, adding that the fund will still be launched with or without Indonesia's participation. (☺)

### EPF's Simpanan Shariah reaches 41.07% take-up

The Employees Provident Fund (EPF) announced that a total of 41.07% or RM41.1 billion (US\$9.97 billion) from the initial allocation of RM100 billion (US\$24.26 billion) for its Simpanan Shariah 2017 have been taken up since registration for the fund was opened on the 8<sup>th</sup> August 2016. (☺)

## REGULATORY

### SIDREC welcomes new members

Following the Securities Commission Malaysia (SC)'s amendment to the Capital Markets and Services (Dispute Resolution) Regulations 2010 effective on the 5<sup>th</sup> September, a total of 43 commercial and Islamic banks have become members of the Securities Industry Dispute Resolution Center (SIDREC), as part of efforts to enhance the financial dispute resolution arrangements for consumers in Malaysia.

SIDREC is an independent body established by the SC in 2011 for the settlement of disputes between investors and capital market intermediaries. (☺)

## MOVES

### Khazanah Nasional

Khazanah Nasional has appointed Johari Abdul Ghani, Malaysia's minister of finance II, to its board of directors. (☺)

### PNB

Permodalan Nasional (PNB) has appointed Abdul Rahman Ahmad as the president/group

CEO and the appointment is to be effective from the 1<sup>st</sup> October 2016 after the retirement of Hamad Kama Piah Che Othman from the post at the end of this month. Abdul Rahman was previously CEO of Ekuiti Nasional. (☺)

### Bank Rakyat

Bank Rakyat has appointed one of its board members as the acting chairperson after getting the approval from the minister of domestic trade, co-operatives and consumerism, Hamzah Zainuddin.

The Islamic bank has also set up a Board Oversight Committee to "ensure [the] smooth operations of the bank and compliance to the standards set by Bank Negara Malaysia in its banking processes". (☺)

### Takaful Malaysia

Syarikat Takaful Malaysia has appointed Othman Abdullah as the new senior independent director effective the 1<sup>st</sup> September. Othman replaces Mahadzir Azizan, who has been redesignated as a non-independent director on the same day upon completion of a cumulative term of nine years as an independent director on the 31<sup>st</sup> August. (☺)

### KFH Malaysia

Kuwait Finance House (KFH) Malaysia has appointed David Power as its new CEO. Power was the group chief retail and private banking officer of KFH in Kuwait from 2014, and led the group retail and private banking function across the domestic market in Kuwait, as well as the retail and private banking franchise in Turkey, Malaysia and Bahrain.

KFH Malaysia also appointed Nor Azzam Abdul Jalil as its new deputy CEO and chief of consumer banking, and David Wee Kim Peng as COO. (☺)



# Malaysian Islamic capital markets explained

By Nurul Ashikin

The capital market is part of a financial system where companies or individuals seeking to raise funds for projects and investments can take advantage of in addition to the banking system. The market serves as a platform for buyers and sellers to engage in the trade of financial securities such as long-term debts (Sukuk/bonds), stocks and other money market instruments. In Malaysia, where the financial system is both Islamic and conventional (dual financial system), capital market activities take place at the country's prime exchange market, known as Bursa Malaysia.

According to Securities Commission Malaysia (SC), the Islamic capital market (ICM) has more than tripled in size between 2005 and 2015, reflecting a compounded annual growth rate of 11.7%, with the market representing 60% of the entire Malaysian capital market or RM1.69 trillion (US\$408.73 billion) by the end of 2015. Witnessing a rapid growth of Islamic finance over the years, Malaysia aims to position itself as the leading Islamic capital market center of the world. The Malaysian ICM is fairly robust with a vibrant debt and equity capital market as well as a range of Islamic instruments including Shariah compliant exchange-traded funds (i-ETFs), Islamic real estate investment trusts (i-REITs) and Islamic unit trusts.

## Shariah compliant equity market

A whopping 74% of listed securities on Bursa Malaysia are Shariah compliant, or 669 securities with a market capitalization of RM1.03 billion (US\$249.11 million) as at the end of June 2016. Islamic equity or stocks are screened and approved as Shariah compliant by the Shariah Advisory Council (SAC) of SC based on a certain methodology. These shares are dominated by companies in the industrial products vertical, followed by consumer products and trading/services, among others. Tenaga Nasional, Axiata, Sime Darby and Petronas Gas are among those listed entities which are considered Shariah compliant.

There are three Shariah indices, namely the FTSE Bursa Malaysia Hijrah Index Emas, FTSE Bursa Malaysia EMAS Shariah Index and FTSE Bursa Malaysia Small Cap Shariah Index, that not only serve as performance benchmarks of Shariah compliant securities on Bursa Malaysia but also as references by index tracking funds. Islamic indices have generally outperformed their conventional counterparts.

## Sukuk market

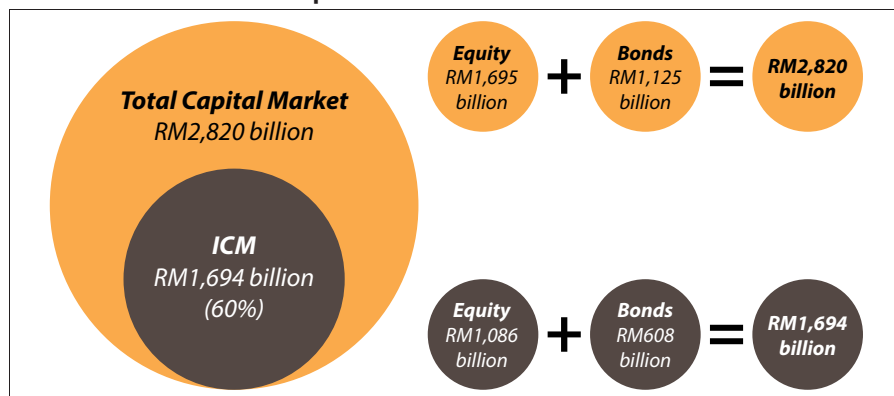
Malaysia is a world leader and pioneer in

**Table 1: Islamic indices against the benchmark index**

Attributes	FTSE Bursa Malaysia Hijrah Index	FTSE Bursa Malaysia EMAS	FTSE Bursa Malaysia EMAS Shariah
No of constituents	30	265	208
Net market capitalization (MCap)	RM31.25 million	RM679.72 million	RM417.49 million
2015 total return	1.8%	0.6%	5.1%
Top 10 Holdings (% index MCap)	70%	44.54%	52.46%
Launch date	21 <sup>st</sup> May 2007	26 <sup>th</sup> June 2006	27 <sup>th</sup> January 2007

Sources: Bursa Malaysia, FTSE Russell

**Chart 1: Growth of Islamic capital market**



Source: SC Annual Report 2015

the Sukuk market commanding over half of the market share, both globally and domestically. One reason why the Sukuk facility is such an attractive and preferable method of financing in Malaysia is because the government extends certain tax incentives to companies that raise debts Islamically. In the first half of 2016, Sukuk made up 50.4% of total bonds issued, at RM62.66 billion (US\$15.15 billion), according to the SC and a majority of these (52.7%) were denominated in ringgit, noted RAM Ratings. The most popular issuers of Sukuk hail from the infrastructure and utility sectors whose long-term funding needs are a good fit for Sukuk. In terms of structure, issuers prefer the Murabahah (cost plus profit) structure over Musharakah (partnership) and Wakalah (agency) for its simplicity, speed-to-market and familiarity. Several notable Sukuk deals which came to market recently include

Ekovest's RM3.64 billion (US\$1.21 billion) Sukuk Wakalah for the Setiawangsa-Pantai Expressway project, the RM5.54 billion (US\$1.34 billion) Sukuk Murabahah by state-owned Sarawak Hidro and also a Sukuk Murabahah offering worth RM2.6 billion (US\$628.82 million) from Penang's Jambatan Kedua.

## Bursa Malaysia-i

One of the most exciting developments that transpired in September is the launch of Bursa Malaysia-i – an integrated end-to-end Islamic securities exchange platform and marketplace for trading of Shariah compliant capital market instruments, the first such platform worldwide. Through this, investors will have access to a range of exchange-related facilities including listing, trading, clearing, settlement and depository services either directly or online via Islamic brokers. ☺

# Malaysia on track to achieving 40% Islamic banking market share target by 2020

By Nurul Ashikin

Islamic banking in Malaysia has come a long way since its first establishment in 1983. Currently, there are 16 Islamic banks out of a total of 43 banks in Malaysia, of which five are stand-alone fully-fledged Islamic banks and 11 are Islamic subsidiaries owned by conventional banks. Beginning the 1<sup>st</sup> July 2015, Islamic banks in Malaysia are governed under the Islamic Financial Services Act 2013.

As a banking system that complies with Shariah law or Islamic teachings, Islamic banks must ensure that the provision of financing and the deployment of capital are done within Shariah parameters: no charging of interest (Riba) is allowed, and involvement in uncertainty/speculation (Gharar), gambling (Maysir) and impermissible activities and businesses such as those involving liquor and illicit substances among others is restricted.

Islamic banking, in essence, endeavors to ensure fairness for all through the principles of profit and risk-sharing as well as banning interest-charging so that people of all backgrounds, status and faiths can avail themselves to the services with a peace of mind. The creation of Shariah compliant financial products are based on various Islamic finance concepts such as Ijarah (leasing), Mudarabah (profit-sharing) and Musharakah (partnership) among others, which are screened and approved by Shariah advisors and Bank Negara Malaysia (BNM).

## Growth story

While conventional banks continue to command the lion's share of the Malaysian banking industry, Islamic banks are showing strong growth – in fact, it is one of the largest Islamic banking markets in the world, after Iran and Saudi Arabia. In Malaysia, almost a third (27%) of the total banking asset market share is Shariah compliant and the industry continues to grow year by year, well on track with Malaysia's aspirations of having a 40%

Islamic banking market share by 2020. According to the latest figures from BNM, Shariah banking assets grew 4.26% to RM550.59 billion (US\$133.58 billion) as at the end of July 2016 against the first seven months of 2015.

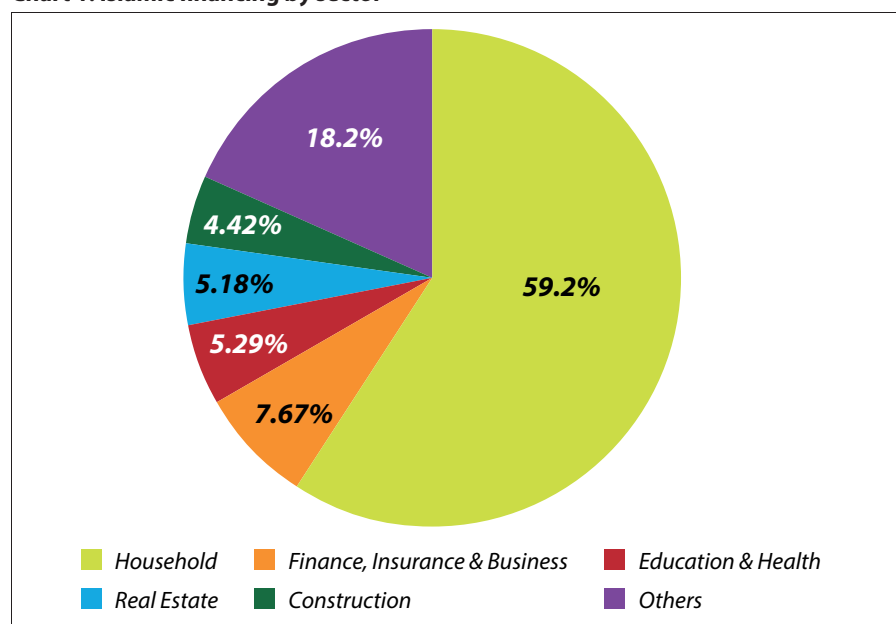
Religious principles aside, the driving force behind the popularity of Islamic financing facilities are the incentives extended by the government to boost the take-up of such products. For example, those who secure an Islamic home mortgage are exempted from the 20% stamp duty; this is in addition to the competitive financing rates. Understandably, home financing is the most popular Islamic

financing product in Malaysia, followed by auto and personal financing. (F)

“  
Religious principles aside, the driving force behind the popularity of Islamic financing facilities are the incentives extended by the government to boost the take-up of such products.

”

Chart 1: Islamic financing by sector



Source: BNM's monthly statistical bulletin July 2016

# ADNAN SUNDRA & LOW

# Islamic asset management gaining traction

By Nurul Ashikin

**Investing in a fund is a lot like shopping. Whether it is fixed-income instruments, equities or real estate assets, different people have different needs; and regardless of the nature, one is always looking for the best in terms of financial returns, and to some extent, ethical/religious beliefs.**

What differentiates Islamic funds above all others is that the fund must be structured and managed in accordance with Shariah principles (not investing in Haram assets). These requirements also include the necessity of appointing a Shariah board and carrying out an audit, the purification of income, asset screening, as well as custody and trading agreements. Depending on the investor's risk appetite, Islamic funds offer exposure to a multitude of assets (stocks, Sukuk, property, etc) across industries, sectors and geographical boundaries with almost similar operational cycles with respect to conventional funds. Products such as Islamic unit trust funds, Islamic equity funds, Islamic REITs, Sukuk funds, Islamic Private Retirement Scheme (PRS) funds and many more are easily available and accessible in the Malaysian market.

## Trends

Although Malaysia's Islamic asset management industry is still relatively small compared with its conventional peers, the sector, however, has consistently witnessed a yearly double-digit growth in assets under management (AUM). In the first half of 2016, Islamic AUM increased by 20.5% to RM138.47 billion (US\$33.59 billion), higher than the same period in 2015 when Islamic AUM grew by 17.9%. There are 36 companies offering retail products and 45 offering wholesale funds, while three financial institutions operate collective investment schemes.

The Malaysian Islamic asset management industry is more concentrated on the retail side: a total of 199 Islamic unit trust funds were approved compared to 97 Islamic

**Table 1: Islamic retail funds versus wholesale funds**

Attributes	Islamic unit trust funds	Islamic wholesale funds
No of approved funds	199	97
No of launched funds	198	97
Total net asset value (NAV)	RM54.88 billion	RM37.45 billion
% to Bursa Malaysia's market capitalization	21.07%	5.79%
No of management companies operating both Islamic and conventional funds	36	45

Source: Securities Commission Malaysia (Data as of July 2016)

**Table 2: Managed investment schemes as at June 2016**

Managed investment schemes	Number of launched funds	% to total industry
i-UTF	198	15.6%
i-WF	98	38.8%
i-PRS	20	34.6%
i-ETF	4	14.6%
i-REIT	4	41.7%

Source: Securities Commission Malaysia 2015 Annual Report

wholesale funds (i-WF) as at the end of July 2016, according to latest data by the Securities Commission. Interestingly, there is encouraging growth in the Islamic pension sector – out of the 30 PRS funds in the market, 20 are Shariah compliant. At four, Malaysia is the largest Islamic exchange-traded fund issuer in the world; the country also has four Islamic REITs.

## Recent developments

Times are indeed interesting for the Malaysian Islamic asset management industry, buoyed not only by increasing demand and awareness for Shariah compliant products but

also by market players proactively engaging the Islamic market.

One of the most promising developments is the Employees Provident Fund (EPF) launching a dedicated Shariah scheme to much fanfare – in the first week of its opening registration, the EPF saw a take-up rate of 25.09% amounting to RM25.1 billion (US\$6.09 billion), demonstrating the huge appetite for Shariah compliant retirement products. Members are still able to submit their application by the 23<sup>rd</sup> December 2016, subject to the availability of the RM100 billion (US\$24.26 billion) fund. This Islamic pension offshoot is yet another world's first. ☺

YEARS OF RATING EXCELLENCE  
1996 - 2016

**MARC**  
MALAYSIAN RATING CORPORATION BERHAD  
(364803-V)

www.marc.com.my

Provider of Trusted Insights on Risk

# Players target micro segment to boost Takaful business

By Vineeta Tan

**When we break it down, Takaful – a beautiful Shariah concept – is likely to be familiar to many Malaysians. Islamic insurance, or Takaful, is a mechanism whereby members pool their money together to guarantee or cover each other against losses or damage – in other words, mutual help. This concept bears resemblance to the common practice of 'kutu' among some Malaysian communities.**

Globally, Malaysia is one of the largest Takaful markets by gross contributions (US\$2.7 billion in 2014) and the segment is anticipated to double its expansion rate this year. The Malaysian Takaful Association projects for the number of Islamic policies to increase 10% to 5.05 million this year, more than double the 4.3% growth recorded the year before.

Yet despite the healthy growth projections and strong global standing, Malaysia still has significant untapped potential when it comes to Shariah compliant insurance – largely due to the nation's low insurance penetration rate and huge Muslim population. Only 5.2% of Malaysia's some 29 million population are covered by insurance, and comparing the conventional life insurance market and its Shariah counterpart – Family Takaful – the latter's market penetration rate is much lower at 14.5% against 41.2%.

In order to increase the take-up of Islamic insurance, both market players and regulator are turning their attention to the rural population – with plans to use micro-Takaful to boost the segment. Micro-Takaful, like

microinsurance, is designed for low-income individuals (those on less than US\$4 a day) and while the proposition is a good fit with the principles of Shariah which promote social equality and community well-being, the micro-Takaful segment has been slow to take off due to the high costs involved. But things could potentially change in the favor of market players.

Unlike before, the microTakaful segment now has stronger support from the regulator; Bank Negara Malaysia at the end of 2015 released a draft framework specifically to address the microTakaful conundrum. Under the new framework, any microTakaful products launched by operators would be jointly endorsed by the central bank, thus lending credibility to the solutions and subsequently increase the likelihood of product take-up. While the draft has yet to be implemented, MY Islamic Finance understands that several operators are keeping a close eye at the development as they plan to launch micro-Takaful solutions once it is commercially viable.<sup>(2)</sup>

## Types of Takaful businesses in Malaysia

### Family Takaful

In general, a Family Takaful plan is a combination of long-term investment and mutual financial assistance scheme. Examples of covers available under Family Takaful business are as follows:

- Individual Family Takaful plans;
- Takaful mortgage plans;
- Takaful plans for education;
- Group Takaful plans; and
- Health/Medical Takaful.

### General Takaful

The General Takaful scheme is purely for mutual financial help on a short-term basis, usually 12 months to compensate its participants for any material loss, damage or destruction that any of them might suffer arising from a misfortune that might inflict upon his properties or belongings. The contribution that a participant pays into the General Takaful fund is wholly on the basis of Tabarru (donation).

If at the end of the period of Takaful, there is a net surplus in the General Takaful fund, the same shall be shared between the participant and the operator in accordance with the principle of Mudarabah (profit and loss), provided that the participant has not incurred any claim and/or not received any benefits under the General Takaful certificate.

The various types of General Takaful scheme provided by the Takaful operators include:


- Fire Takaful scheme;
- Motor Takaful scheme;
- Accident/Miscellaneous Takaful scheme;
- Marine Takaful scheme; and
- Engineering Takaful scheme.

Source: Bank Negara Malaysia

**Table 1: Breakdown of Islamic (re)insurers in Malaysia**

Types of Takaful operator	Number operating in Malaysia
Family Takaful	3
Family and General Takaful	8
General Re-Takaful	1
Family and General re-Takaful	3

Source: Bank Negara Malaysia



**Your Shariah Investment Partner**

<p><b>Exchange Traded Fund</b>            MyETF Dow Jones Islamic Market Malaysia Titans 25            MyETF MSCI Malaysia Islamic Dividend            MyETF MSCI SEA Islamic Dividend            MyETF Thomson Reuters Asia Pacific ex-Japan Islamic Agribusiness</p>	<p><b>Private Mandate</b>            Equity            Sukuk</p>	<p><b>Wholesale Fund</b>            Money Market</p>
--	--	--

[www.ivcap.com.my](http://www.ivcap.com.my)



# Malaysia continues to enhance regulatory environment to facilitate Islamic finance

By Vineeta Tan

**When it comes to Islamic finance regulations, Malaysia is a global bellwether. The country has one of the most sophisticated and comprehensive legal infrastructure for Shariah compliant financial transactions, a culmination of strong political will and assertiveness of regulators.**

While there are already various guidelines on Islamic banking, Takaful and asset management in place, Bank Negara Malaysia (BNM) and Securities Commission Malaysia (SC) continue to work on enhancing the regulatory landscape; this year has been particularly marked with measures designed in tandem with the government's goal of liberalizing the financial markets to position Malaysia at par with other developed nations in a bid to attract foreign wealth.

For example, beginning 2017 onward, Malaysia will follow in the steps of the US where credit rating requirements for debts issued will be removed. What this means is that, any company which intends to issue Sukuk or bonds will not be subjected to mandatory credit ratings therefore making it cheaper and faster to sell debts – a potential boost to the country's Sukuk and bonds market. Last month, the SC's amended guidelines to enhance the com-

petitiveness and efficiency of the Malaysian unit trust industry came into effect – the initiative which followed the regulator's Lodge and Launch framework in 2015 includes an expedited approval process for non-complex retail unit trust funds to reduce time-to market and the removal of the need for prospectuses to be renewed yearly. The SC also recently concluded its public consultation on proposed enhancements on the Guidelines on Real Estate Investment Trusts. In addition to that, the regulator is currently working on designing an Islamic fund and wealth management blueprint to be released before the year ends.

Fintech is also another area of regulatory focus. Both BNM and SC have begun designing frameworks for the sector in order to facilitate its adoption into the mainstream financial center. The SC detailed the requirements and responsibilities of peer-to-peer financing (P2P) earlier in the year

and is understood to be considering granting a P2P license to an Islamic crowdfunding platform if the application is successful. BNM on the other hand is in the process of introducing a fintech regulatory sandbox which will allow regulated financial institutions and fintech companies looking to engage in banking businesses to experiment with fintech solutions in a production or live environment, subject to appropriate safeguard and regulatory requirements.

Another significant regulatory development is the new central bank ruling which stipulates that CEOs of financial institutions would not be allowed to take over as chairperson of board of directors and that the boards must comprise a majority of independent directors. These rules are designed to enhance the corporate governance of financial institutions by separating ownership and management of banks and to rid of any possible conflicts of interest.<sup>(2)</sup>

## IFN EDUCATION – Cultivating talent for Islamic finance



### WEBSITE

IFN Education is a one stop portal keeping you abreast with the global human capital developments across the Islamic finance industry



### NEWSLETTER

Our monthly newsletter features all the latest news influencing the Islamic finance human capital, through news briefs, reports, contributions, interviews and a cover story

And the best bit . . .

**IT'S ALL FREE:** Register now for full unlimited access to the website, directory and newsletter.

**IFN EDUCATION**  
Cultivating talent for Islamic finance



# Fintech – an Islamic finance gamechanger

By Vineeta Tan

Like the rest of the world, fintech is disrupting the financial landscape of Malaysia, but instead of viewing it as competition to traditional banking, regulators are pooling their resources together to harness the transformative power of fintech to propel the banking and finance sector – both Islamic and conventional. This development holds particular significance to the Islamic finance fraternity as many, including Bank Negara Malaysia (BNM) Governor Muhammad Ibrahim, believe that fintech will be the game changer for the Shariah finance industry, and interestingly this development is also creating a new class of fintech – Islamic fintech.

## Promising growth

At the global level, Malaysia accounts for less than 1% of total fintech transactions. Figures from Statista put the transaction value in the Malaysian fintech market at US\$6.27 billion in 2016 (out of which US\$6.25 billion is in the digital payments segment) against US\$769.32 billion worldwide. The number, however, is expected to grow as regulators and market players are working to support and leverage from the vibrant fintech scene.

In the Islamic fintech arena in particular, we have seen the emergence of new participants – many groundbreaking in their own right – such as the world's first Waqf (Islamic endowment) crowdfunding platform launched by former prime minister Abdullah Badawi in August, and the Investment Account Platform (IAP), the first bank-intermediated Shariah compliant fintech platform – the brainchild of the central bank. It is learned that the IAP, which has listed one venture so far, is expecting another four to five more listings by four of its sponsoring Islamic banks over the next three months and

new enhancement to its portal will be implemented by mid-2017.

## Setting the scene

Regulations to accelerate the growth and adoption of fintech are underway. BNM, which established the Financial Technology Enable Group this year to spearhead formulating and enhancing regulatory policies to facilitate the adoption of fintech, is anticipated to release a fintech regulatory sandbox framework soon following a one-month public consultation period which concluded on the 30<sup>th</sup> August. The sandbox grants banks and fintech companies certain regulatory flexibilities to experiment with fintech solutions in a production or live environment.

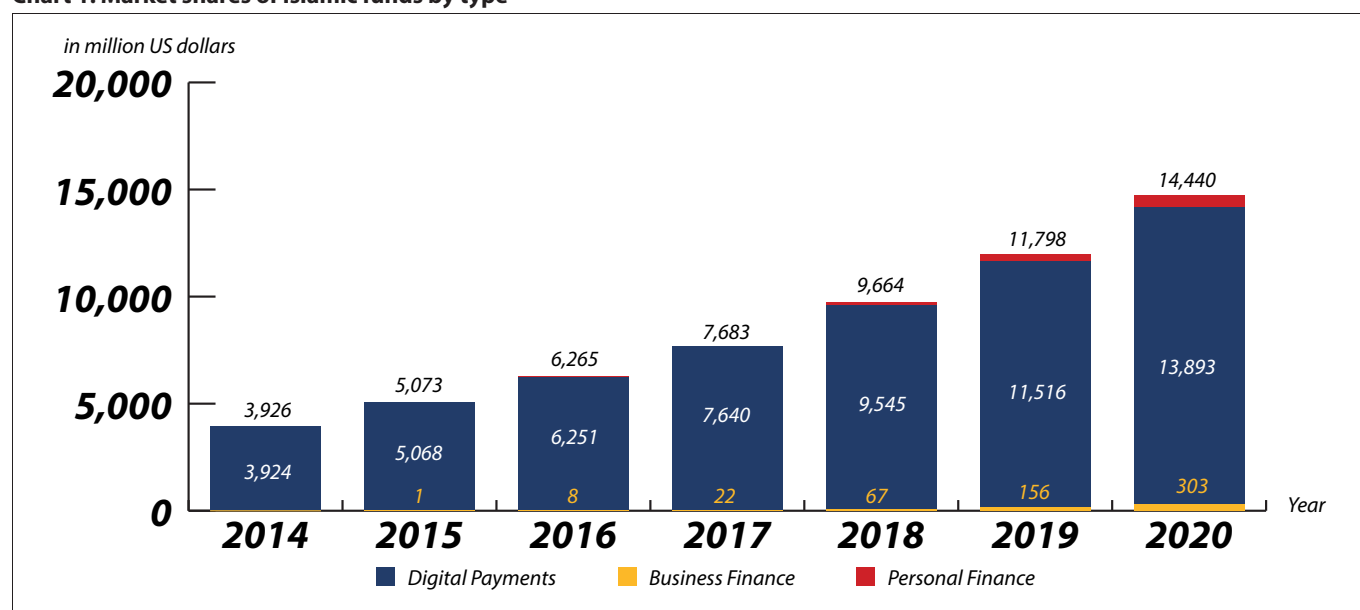
The regulatory guidelines follow the peer-to-peer financing (P2P) framework issued by the Securities Commission Malaysia (SC) earlier in April which set out the requirements for the registration of a P2P platform, duties and responsibilities of a P2P operator and the type of issuer and investor who can participate in P2P.

EthisKapital, an Islamic crowdfunding platform, has applied to the SC for this P2P license, and if approved, it would be the first licensed Shariah compliant crowdfunding platform in the world. The platform, a product of Singapore-based Ethis Ventures, has also recently agreed to collaborate with retail-start-up incubator LOKAmotion Malaysia to develop SMEs.

## If you can't beat them, join them

It is clear that Malaysian regulators (and banks) are taking the proactive approach of joining hands with fintech companies to leverage their unique proposition instead of alienating them as competitors. For example, BNM is inviting ASEAN fintech firms to showcase their ideas and solutions to CEOs and chairpersons of financial institutions in a pitching session this month. Doing so, creates a win-win situation for both parties: allowing fintech companies access to much-needed funding, and enabling traditional financial institutions to capitalize on groundbreaking technologies to advance their business. 😊

Chart 1: Market shares of Islamic funds by type



Source: Securities Commission Malaysia (Data as of July 2016)

# Ekovest's greenfield toll-road Sukuk

Sukuk Wakalah of up to RM3.64 billion (US\$900.43 million) in nominal value



23<sup>rd</sup> August 2016

## Summary of terms and conditions

<b>Issuer</b>	Lebuhraya DUKE Fasa 3
<b>Size of issue</b>	Up to RM3.64 billion (US\$893.35 million)
<b>Mode of issue</b>	Bought deal
<b>Purpose</b>	Part-finance all costs associated with the development, design and construction of the Setiawangsa-Pantai Expressway (formerly known as DUKE Phase 3)
<b>Tenor</b>	Eight to 23 years
<b>Periodic profit rate</b>	Please refer to Appendix I
<b>Payment</b>	Principal payment: Serialized maturity Periodic profit payment: Semi-annually
<b>Currency</b>	Malaysian ringgit
<b>Maturity date</b>	Up to 23 years from the date of issuance
<b>Currency</b>	AmlInvestment Bank
<b>Maturity date</b>	Up to 23 years from the date of issuance
<b>Principal advisor and lead arranger</b>	AmlInvestment Bank
<b>Lead manager(s)</b>	AmlInvestment Bank CIMB Investment Bank Maybank Investment Bank RHB Investment Bank
<b>Governing law</b>	Malaysia
<b>Legal advisor(s)/counsel</b>	Zaid Ibrahim & Co
<b>Listing</b>	Not applicable
<b>Underlying assets</b>	Investment portfolio which comprises Shariah compliant businesses and commodity Murabahah investments
<b>Rating</b>	'AA-IS' by MARC
<b>Shariah advisor(s)</b>	AmlInvestment Bank (backed by AmBank Islamic Shariah Committee) and Dr Mohd Daud Bakar
<b>Structure</b>	'AA-IS' by MARC
<b>Shariah advisor(s)</b>	AmlInvestment Bank (backed by AmBank Islamic Shariah Committee) and Dr Mohd Daud Bakar
<b>Structure</b>	Sukuk Wakalah Bi Istithmar
<b>Tradability</b>	Yes
<b>Investor breakdown</b>	To be determined
<b>Face value/minimum investment</b>	Each Sukuk Wakalah facility shall be issued in denomination and multiples of RM1 million (US\$245,426)

Property and infrastructure developer Ekovest in August tapped the Malaysian Islamic capital market, raising up to RM3.64 billion (US\$893.35 million) through an Islamic bond, or Sukuk, to part-fund the construction of Setiawangsa-Pantai Expressway (SPE), what was previously known as DUKE Phase 3. MY Islamic Finance breaks down the transaction.

As with many infrastructure projects in Malaysia, a significant number, including the MRT project, is financed – either wholly or partially – in a Shariah compliant manner; public-listed Ekovest has done the same for all phases of the DUKE project.

Through an SPV (Lebuhraya DUKE Fasa 3, LDF3), Ekovest issued a Sukuk Wakalah Bi Istithmar facility, basically Shariah compliant bonds/certificates representing the ownership of certificate holders in investment assets pursuant to their investment through an investment agent. LDF3 preferred this structure as it allows it the flexibility to use a combination of assets and debt to underpin the paper.

“Securing the financing for the DUKE Phase 3 was the last piece of the puzzle to ensure that the project is implemented immediately,” said Lim Keng Cheng, the managing director of Ekovest.

The SPE, a RM5.05 billion (US\$1.24 billion) 32.1 km toll highway which will traverse north to south of Kuala Lumpur, is by far the largest greenfield project undertaken by Ekovest and the first public-private partnership project to receive the

government's interest-free reimbursement interest assistance worth RM560 million (US\$137.44 million). A total of RM850 million (US\$208.61 million) in equity will be injected by Ekovest into the project and the company will also cover any overruns in costs and/or the financing costs incurred during the period of delay in the construction of SPE, which is expected to be completed in 2020.

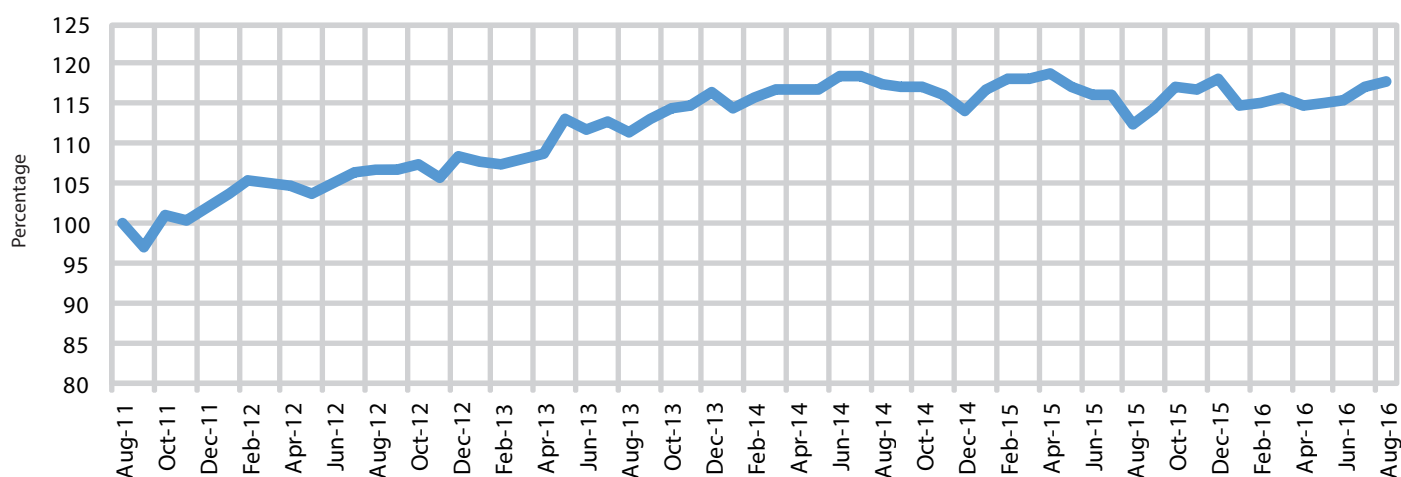
The Islamic deal proved to be successful, receiving positive feedback from a wide range of investors, spanning financial institutions, fund management houses and insurance companies, evident from its attractive weighted average periodic profit rate of 6% per year.

“Our ability to raise such long-term fixed-rate financing at competitive rates is testament to the dynamism of the Malaysian Sukuk market,” affirmed Lim, while highlighting the significances of this latest Sukuk instalment: it is one of the largest stand-alone ringgit-denominated investment grade issuances in 2016 in addition to being the largest local currency greenfield toll-road project financing (in nominal value) as at the 30<sup>th</sup> August. ☺

## APPENDIX I

Tranche	Tenor (years)	Periodic payment rate (% per annum)
1	8	4.94
2	9	5.04
3	10	5.14
4	11	5.24
5	12	5.34
6	13	5.44
7	14	5.54
8	15	5.64
9	16	5.77
10	17	5.86
11	18	5.95
12	19	6.04
13	20	6.13
14	21	6.23
15	22	6.33
16	23	6.43

## Eurekahedge Islamic Fund Balanced Index over the last five years



## Top 10 monthly returns for Malaysia-domiciled Islamic funds

Fund	Fund Manager	Aug - 2016 (%)
1 PB Islamic Asia Strategic Sector	Public Mutual	3.89
2 Public Islamic Asia Tactical Allocation (PIATAF)	Public Mutual	3.34
3 Public China Ittikal	Public Mutual	3.03
4 PB Islamic Asia Equity	Public Mutual	2.9
5 Public Islamic Select Treasures	Public Mutual	2.29
6 Public Asia Ittikal	Public Mutual	2.23
7 Public Islamic Asia Dividend	Public Mutual	2.23
8 PB Islamic Equity	Public Mutual	1.78
9 CIMB Islamic DALI Equity Theme	CIMB-Principal Asset Management	1.77
10 Public Islamic Select Enterprises	Public Mutual	1.44
<b>Eurekahedge Islamic Fund Index</b>		<b>0.83</b>

Based on 47.83% of funds which have reported August returns as of the 15<sup>th</sup> September 2016

## Top 10 year-to-date returns for Malaysia-domiciled Islamic funds

Fund	Fund Manager	2016 Aug YTD (%)
1 Public Islamic Asia Tactical Allocation (PIATAF)	Public Mutual	9.54
2 Public China Ittikal	Public Mutual	5.46
3 Public Islamic Bond	Public Mutual	5.42
4 PB Islamic Bond	Public Mutual	5.06
5 Public Islamic Enhanced Bond	Public Mutual	4.22
6 Public Asia Ittikal	Public Mutual	4.04
7 Libra SyariahExtra	Libra Invest	3.89
8 PB Islamic Asia Equity	Public Mutual	3.68
9 Public Islamic Select Bond	Public Mutual	3.64
10 PB Islamic Asia Strategic Sector	Public Mutual	3.57
<b>Eurekahedge Islamic Fund Index</b>		<b>(0.31)</b>

Based on 47.83% of funds which have reported August returns as of the 15<sup>th</sup> September 2016

## Contact Eurekahedge

To list your fund or update your fund information: [islamicfunds@eurekahedge.com](mailto:islamicfunds@eurekahedge.com)  
For further details on Eurekahedge: [information@eurekahedge.com](mailto:information@eurekahedge.com) Tel: +65 6212 0900

## Disclaimer

Copyright Eurekahedge 2016, All Rights Reserved. You, the user, may freely use the data for internal purposes and may reproduce the index data provided that reference to Eurekahedge is provided in your dissemination and/or reproduction. The information is provided on an "as is" basis and you assume and will bear all risk or associated costs in its use, and neither Islamic Finance news, Eurekahedge nor its affiliates provide any express or implied warranty or representations as to originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for any purpose.



Year-on-year outstanding amount by class as at the 30<sup>th</sup> Aug 2016

Class	Aug-15	Aug-16
Government	234000	262400
Quasi-Government	124317	144337
BNM	2750	0
Financial	17575	16530
Corp(G)	32860	35721
Corp	166567	190393
ABS	3896	4800
<b>Total</b>	<b>581,965</b>	<b>654,181</b>

Outstanding (unit: RM Mil)

Year-on-year trading volume by issuer class as at the 30<sup>th</sup> Aug 2016

Class	Aug-15	Aug-16
Government	11956	27671
Quasi-Government	1034	4965
BNM	1942	0
Financial	225	258
Corp(G)	490	1093
Corp	2538	7302
ABS	102	1
<b>Total</b>	<b>18,287</b>	<b>41,290</b>

Trade Amount (unit: RM Mil)

Year-on-year issuance amount by class as at the 30<sup>th</sup> Aug 2016

Class	Aug-15	Aug-16
Government	500	3000
Quasi-Government	0	230
BNM	500	0
Financial	120	0
Corp(G)	1200	1240
Corp	3255	9880
ABS	0	900
<b>Total</b>	<b>5,575</b>	<b>15,250</b>

Issuance (unit: RM Mil)

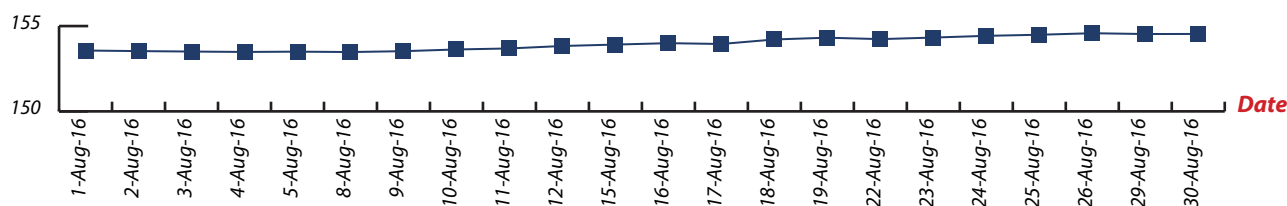
Year-on-year 5-year year-to-month movement as at the 30<sup>th</sup> Aug 2016

Class	Aug-15	Aug-16
Government-Gill	4.04	3.27
Quasi Government-Khazanah	4.24	3.76
Corporate-AAA	4.44	4.04
Corporate-AA2	4.78	4.41

Issuance (unit: RM Mil)

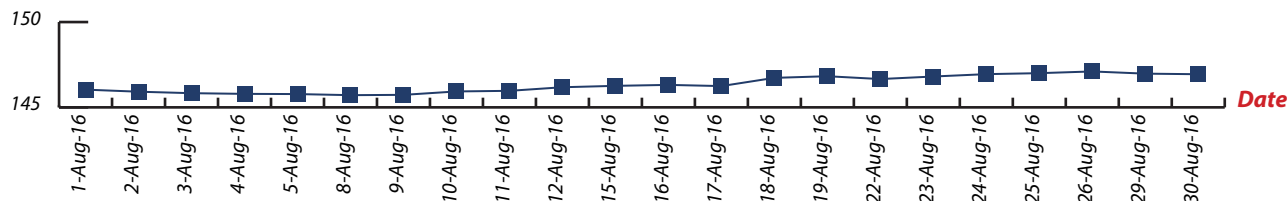
## TR BPAM SUKUK INDEX

Index



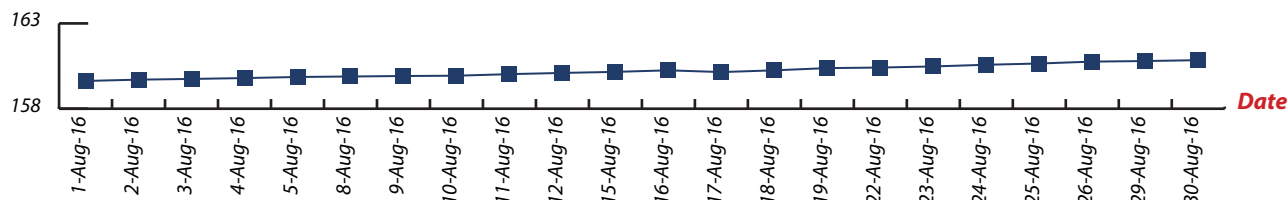
## TR BPAM GOVERNMENT SUKUK INDEX

Index



## TR BPAM CORPORATE SUKUK INDEX

Index



[For further details on BPAM: enquiries@bpam.com.my Tel: +603-2772 0899]



Information on this page is intended solely for the purpose of providing general information on the Ringgit Bond market and is not intended for trading purposes. None of the information constitutes a solicitation, offer, opinion, or recommendation by Bond Pricing Agency Malaysia Sdn Bhd to buy or sell any security, or to provide legal, tax, accounting, or investment advice or services regarding the profitability or suitability of any security or investment. Investors are advised to consult their professional investment advisors before making any investment decision. Materials provided on this page are provided on an "as is" basis, and while care has been taken to ensure the accuracy and reliability of the information provided in this page, Bond Pricing Agency Malaysia Sdn Bhd provides no warranties or representations of any kind, either express or implied, including, but not limited to, warranties of title or implied warranties of fitness for a particular purpose, accuracy, correctness, non-infringement, timeliness, completeness, or that the information is always up-to-date.



**AUGUST 2016**

16<sup>th</sup> **Shariah Non-Compliance Risk Management and Reporting for Islamic Banking & Finance Seminar** Kuala Lumpur, Malaysia

**SEPTEMBER 2016**

6<sup>th</sup> **Islamic Investment Products & Accounts Seminar** Kuala Lumpur, Malaysia  
 21<sup>st</sup> **IFN Investor Forum** Kuala Lumpur, Malaysia  
 26<sup>th</sup> **IFN Pakistan Forum** Karachi, Pakistan  
 28<sup>th</sup> **IFN Turkey Forum** Istanbul, Turkey

**OCTOBER 2016**

9<sup>th</sup> **IFN Project & Infrastructure Forum** Dubai, UAE  
 11<sup>th</sup> **IFN US Forum** New York, US  
 17<sup>th</sup> – 18<sup>th</sup> **Africa Islamic Finance Forum** Abidjan, Ivory Coast  
 24<sup>th</sup> **IFN Kuwait Forum** Kuwait City, Kuwait

**NOVEMBER 2016**

7<sup>th</sup> **IFN Iran Forum** Tehran, Iran  
 28<sup>th</sup> **IFN Saudi Arabia Forum** Jeddah, Saudi Arabia

**MARCH 2017**

TBA **IFN Oman Forum** Muscat, Oman  
 TBA **China OIC Forum** TBA

**APRIL 2017**

10<sup>th</sup> – 11<sup>th</sup> **IFN Asia Forum** Kuala Lumpur, Malaysia

**MAY 2017**

18<sup>th</sup> **IFN Indonesia Forum** Jakarta, Indonesia  
 24<sup>th</sup> – 25<sup>th</sup> **IFN Europe Forum** Chambre de Commerce, Luxembourg

**ZAKAT & WAQF-BASED FINANCIAL PRODUCTS**

*Structure, Innovation, Regulation and Practice*

19<sup>th</sup> October 2016, DoubleTree Hotel, Kuala Lumpur

Waqf is a financial charitable institution established by withholding one's property to eternally spend its revenue on fulfilling the various needs in a given society depending on the choice and condition made by the founder. Through its financial support, it manages to provide a variety of goods and services needed in different societies such as sheltering and feeding the poor and needy, providing education and promoting healthcare for the masses, financing the needy, opening jobs for the majority, activating business, constructing highways and linking countries and providing basic infrastructure. Waqf is not a new concept; however, its recent emergence in its movable form of cash and corporate Waqf, and the opportunities this presents, have caught the attention of financial institutions and corporates alike.

**Panel Speakers:**

 Associate Professor Dr Magda Ismail Abdel Mohsin  
Lecturer & Researcher, International Center for Education in Islamic Finance (INCEIF)  
 Dr Aida Othman  
Partner, Zaid Ibrahim & Co  
 Tan Sri Muhammad Ali Hashim  
Chairman and Founder, Awqaf Holdings

**REDmoneyseminars**

**REGISTER NOW**  
www.REDmoneyevents.com  
SIDC CPE - accredited: 10 CPE Points

**SHARIAH REQUIREMENTS AND ARRANGEMENTS FOR ISLAMIC FINANCIAL PRODUCTS & FEATURES**

*• Hibah, Wadiah & Qard • Wakalah & Kafalah • Ijarah*

27<sup>th</sup> October 2016, DoubleTree Hotel, Kuala Lumpur

Bank Negara Malaysia recently released detailed Shariah guidelines, requirements, optional practices and arrangements for various Islamic financial contracts, products and features. Following on from this, banks and financial institutions will be required to submit action plans based around these requirements and practices. As such, a great deal of important information-gathering and analysis will have to take place in a relatively short period of time. REDmoney Seminars is pleased to offer an insightful, concise and incisive update on Shariah standards, requirements, optional practices and arrangements for Hibah, Wadiah, Qard, Wakalah, Kafalah and Ijarah. Industry experts will cover the most important elements of each, and will identify key areas for attention and action.

**Panel Speakers:**

 Associate Professor Dr. Rusni Hassan  
Member, Shariah Advisory Council, Bank Negara Malaysia  
Deputy Dean, IUM Institute of Islamic Banking and Finance  
 Mohd Johan Lee  
Managing Partner, J Lee & Associates  
 Associate Professor Dr Aishath Muneeza  
International Center for Education in Islamic Finance (INCEIF)

**REDmoneyseminars**

**REGISTER NOW**  
www.REDmoneyevents.com  
SIDC CPE - accredited: 10 CPE Points

**MY ISLAMIC FINANCE**  
Your Gateway to the Multibillion Islamic Finance Market

<b>Editor</b>	<b>Vineeta Tan</b> vineeta.tan@REDmoneygroup.com	<b>Marketing Manager</b>	<b>Lorelie Panaligan</b> lorelie.panaligan@REDmoneygroup.com
<b>Senior Contributions Editor</b>	<b>Sasikala Thiagaraja</b> sasikala.thiagaraja@REDmoneygroup.com	<b>Business Development Manager</b>	<b>Matt Gabriel</b> matt.gabriel@REDmoneygroup.com
<b>Senior Copy Editor</b>	<b>Kenny Ng</b> kenny.ng@REDmoneygroup.com	<b>Associate Publisher</b>	<b>Steve Stubbs</b> steve.stubbs@REDmoneygroup.com
<b>Senior Journalist</b>	<b>Danial Idraki</b> daniel.idraki@redmoneygroup.com	<b>Group Managing Editor</b>	<b>Lauren McAughtry</b> lauren.mcaughtry@REDmoneygroup.com
<b>Journalist</b>	<b>Nurul Ashikin Abd Halim</b> nurul.ashikin@REDmoneygroup.com	<b>Finance Director</b>	<b>Faizah Hassan</b> faizah.hassan@REDmoneygroup.com
<b>Head of Production</b>	<b>Hasnani Aspari</b> hasnani.aspari@REDmoneygroup.com	<b>Managing Director</b>	<b>Andrew Tebbutt</b> andrew.tebbutt@REDmoneygroup.com
<b>Senior Graphic Designer</b>	<b>Eumir Shazwan Kamal Bahrain</b> eumir.shazwan@REDmoneygroup.com	<b>Managing Director &amp; Publisher</b>	<b>Andrew Morgan</b> andrew.morgan@REDmoneygroup.com

Published By: **REDmoney**

MALAYSIA - Suite 22-06, 22<sup>nd</sup> Floor, Menara Tan & Tan, 207, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Tel: +603 2162 7800  
Fax: +603 2162 7810

**DISCLAIMER**

All rights reserved. No part of this publication may be reproduced, duplicated or copied by any means without the prior consent of the holder of the copyright, requests for which should be addressed to the publisher. While every care is taken in the preparation of this publication, no responsibility can be accepted for any errors, however caused.

