Session 5: Capital market development II (Institutional investors & connecting capital markets)

Presentation

What are the prospects of Islamic Financing to improve financial services access?

by

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Islamic Finance

- Islamic finance has emerged as a rapidly growing industry with an increasingly global presence
  - It seeks to promote inclusive growth, equitable risk-sharing, and social justice.
  - Globally, the Islamic finance market has grown by more than 10%-15% annually, from 2000-2012.
  - Although the industry represents about 2% of banking assets worldwide, Islamic finance investments are now worth $1.6 trillion and are forecast to increase to $2.5 trillion by 2015.

- The growth of Islamic finance partly stems from the large share of sovereign wealth funds concentrated in the Gulf Co-operation Council countries.
- In addition, the industry benefits its purported attractiveness to Muslim and non-Muslim investors alike as ethical.
Principles of Islamic Finance

- Islamic finance prohibits activities that involve interest (riba), gambling (maisir) and speculative trading (gharar) are prohibited.

- These principles are supported by Islamic banking's core values whereby activities that cultivate:
  - entrepreneurship,
  - trade and commerce, and
  - bring societal development or benefit is encouraged.

- Through the use of various Islamic finance concepts such as *ijarah* (leasing), *mudharabah* (profit sharing), *musharakah* (partnership), financial institutions have a great deal of flexibility, creativity and choice in the creation of Islamic finance products.
  - Furthermore, by emphasising the need for transactions to be supported by genuine trade or business related activities, Islamic banking sets a higher standard for investments and promotes greater accountability and risk mitigation.

Global Track Record

- Malaysia's long track record of building a successful domestic Islamic financial industry of over 30 years gives the country a solid foundation - financial bedrock of stability that adds to the richness, diversity and maturity of the financial system. Presently, Malaysia's Islamic banking assets reached USD65.6 billion with an average growth rate of 18-20% annually.
- The method of raising funds through sukuk has become an integral part of Islamic finance and a pivotal pillar of overall Islamic finance's continuous growth.
  - Since 2001, the world has seen steady growth of the global sukuk market attracting great interest from the wider international community.
  - Sukuk have attracted numerous corporates, sovereigns, quasi-sovereigns and multilateral entities such as the Islamic Development Bank (IDB) and IFC to choose sukuk for fund raising.
  - This rapidly growing segment within the overall Islamic financial system has expanded by a compound annual growth rate (CAGR) of 19.35% between 2007 and 2012. As at 1H2013, total sukuk outstanding reached USD245.3bln, contributing an estimated 14.15% of the global Islamic financial assets.
Islamic Finance in Malaysia

Dedicated Shariah, Legal & Regulatory Framework (Dedicated Acts & mandate to regulate)

Supportive government (fiscal incentives & tax neutrality policy)

Dispute resolution platform (Dedicated High Court Bench & dedicated KLRCA Islamic Finance Arbitration Rules)

Dual financial system running in parallel

Conventional system

Islamic financial system

Size of Size of Malaysia’s Capital Market - as at 31 December 2013

Capital Market

Total Capital Market

Equity: RM1,702.1 billion

 Bonds: RM1,031.0 billion

RM2,733.1 billion

Malaysia’s Islamic Capital Market

RM1,541.7 billion

56.4%

Islamic

Equity: RM1,025.6 billion

 Sukuk: RM512.1 billion

RM1,541.7 billion
Subscribing to international best practices

Comprehensive and Facilitative Regulatory Framework

- Universal Regulatory Requirements applicable to both conventional and ICM products
- Specific Shariah Requirements applicable to ICM products

Conform to IOSCO’s objectives and Principles of Securities Regulations

- The protection of investors
- Ensuring markets are fair, efficient and transparent
- Reduction of systemic risks

Rated Highly Compliant with IOSCO Regulatory Framework

Thank you

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