



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Islamic Finance: From Niche to Mainstream

*In conjunction with 6th MFPC International Conference on
Islamic Wealth Management and Financial Planning 2019*

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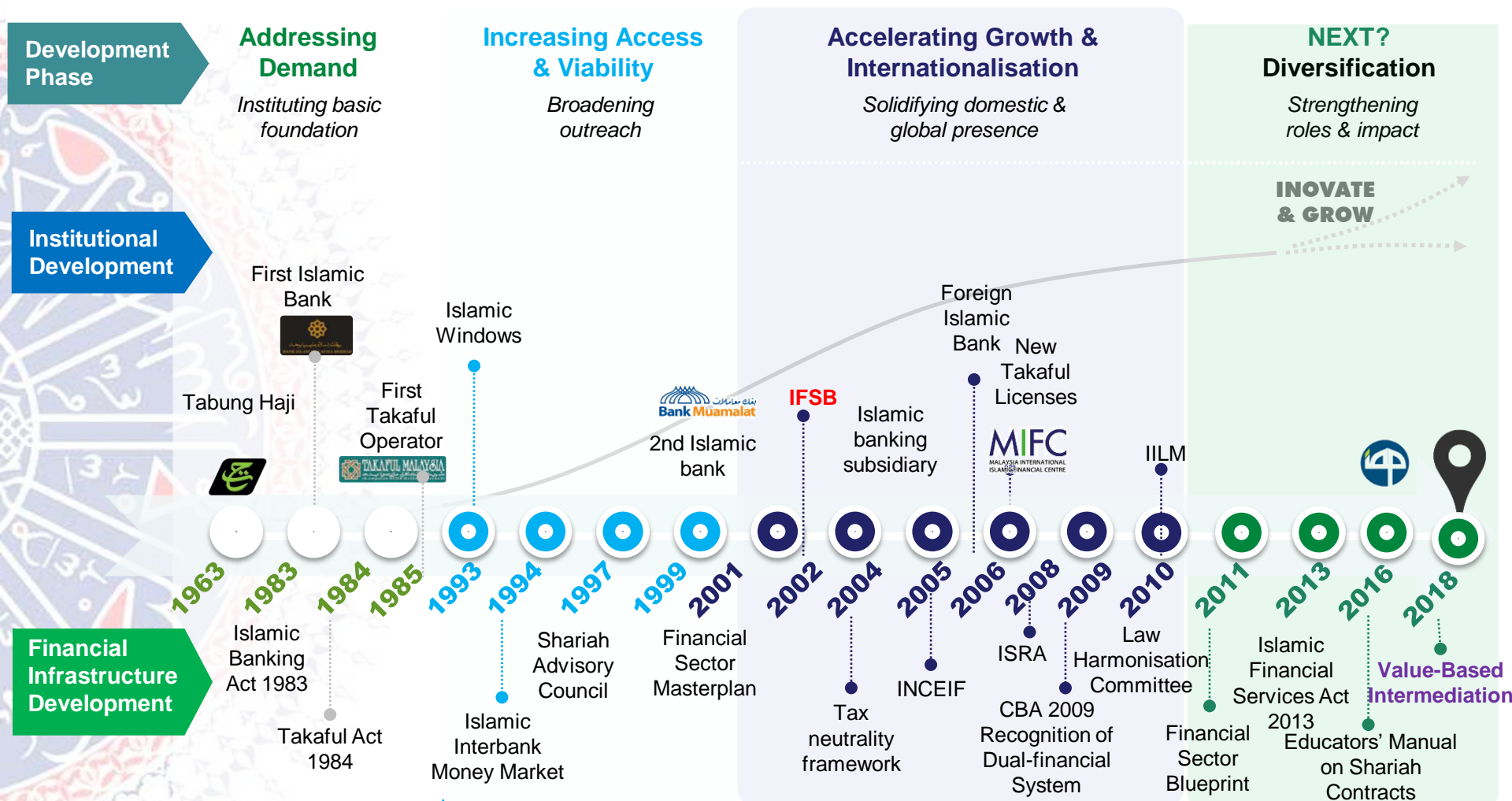
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Overview: Islamic finance in Malaysia has evolved into the mainstream

Strong global position	#1 ICD-TR Islamic Finance Development Indicator	18% share of global Islamic finance assets	#2 Largest takaful contribution globally	50.4% share of global sukuk market
	37% Share of total financing outstanding	11% Y-o-Y growth Business financing	13% Y-o-Y growth New business gross for family takaful	9% Y-o-Y growth Gross direct contribution for general takaful
Growing market share	16 Islamic banks	6 Development Financial Institutions	11 Family Takaful Operators	4 General Takaful Operators
	12 Islamic windows	2 International Islamic Banks	4 Retakaful Operators	2 Industry Associations
Diversified players				

The Islamic finance journey



The Defining Moment

"I have a dream, and my dream is that one day, Malaysia will have a dual financial system, Islamic financial system operating side-by-side with the conventional financial system."

Tan Sri Jaffar Hussein, Governor BNM, March 1990

The Strategic Vision

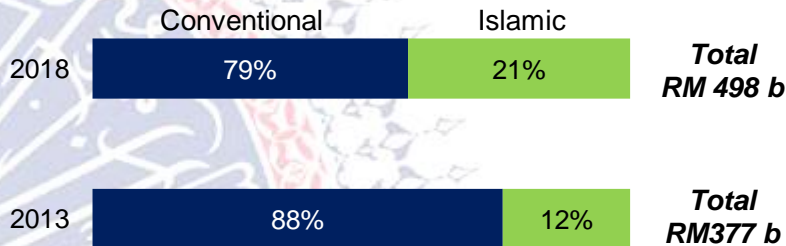
Formulation of a dedicated long-term plans for Islamic Finance

Tan Sri Zeti Akhtar Aziz, Governor BNM

Islamic finance is key enabler for growth of businesses

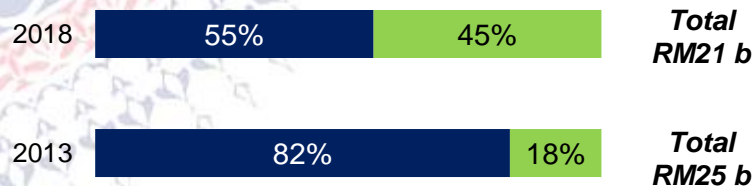
① Islamic banks are supportive of SMEs

Disbursed financing to SMEs



1. 5-year average growth of Islamic financing for SMEs surpasses conventional (*Islamic: 19%; Conv: 4%*)
2. Financing extended to SMEs less than 3 years of operation also surpasses conventional

Disbursed financing to SME (less than 3 years)



② Islamic financing is as competitive as conventional loan

	Conv	Islamic
Weighted Average Lending Rate* (Sept 2018)	5.52 – 6.07 %	5.14 – 5.54%

*Based on top 3 providers of SME financing

In addition, businesses will enjoy:

1. 100% stamp duty waiver on the existing refinance loan balance in case of refinancing from conventional to Islamic.
2. Government rebate of 2% profit rate up to RM1 bil financing (eligible for halal exporters)

③ Islamic finance is for all

No restriction on users as long as businesses are Shariah-compliant.

Islamic finance has wide ranging solutions to address business development

Start business



- Business advisory
- Cash management

Expand production



- Working capital
- Asset acquisition financing (building, land and other fixed assets)
- Supply chain finance

Expand abroad



- Trade finance:
- Letter of credit
 - Invoice discounting
 - Export & import financing

Risk management



- Hedging solutions
- Guarantee scheme
- Takaful solutions to cover from loss (inc. physical and negligence)

What makes IF different?



No compounding financing rate



No penalty for early settlement

What's next for IF?

Bridging IF with the real economy towards realising VBI aspirations

1 Enhanced offering of impact-driven and sustainable financing solutions through adoption of value-based intermediation (VBI)

2 Optimisation and integration of social finance (e.g. waqf) instruments in Islamic financial products and services

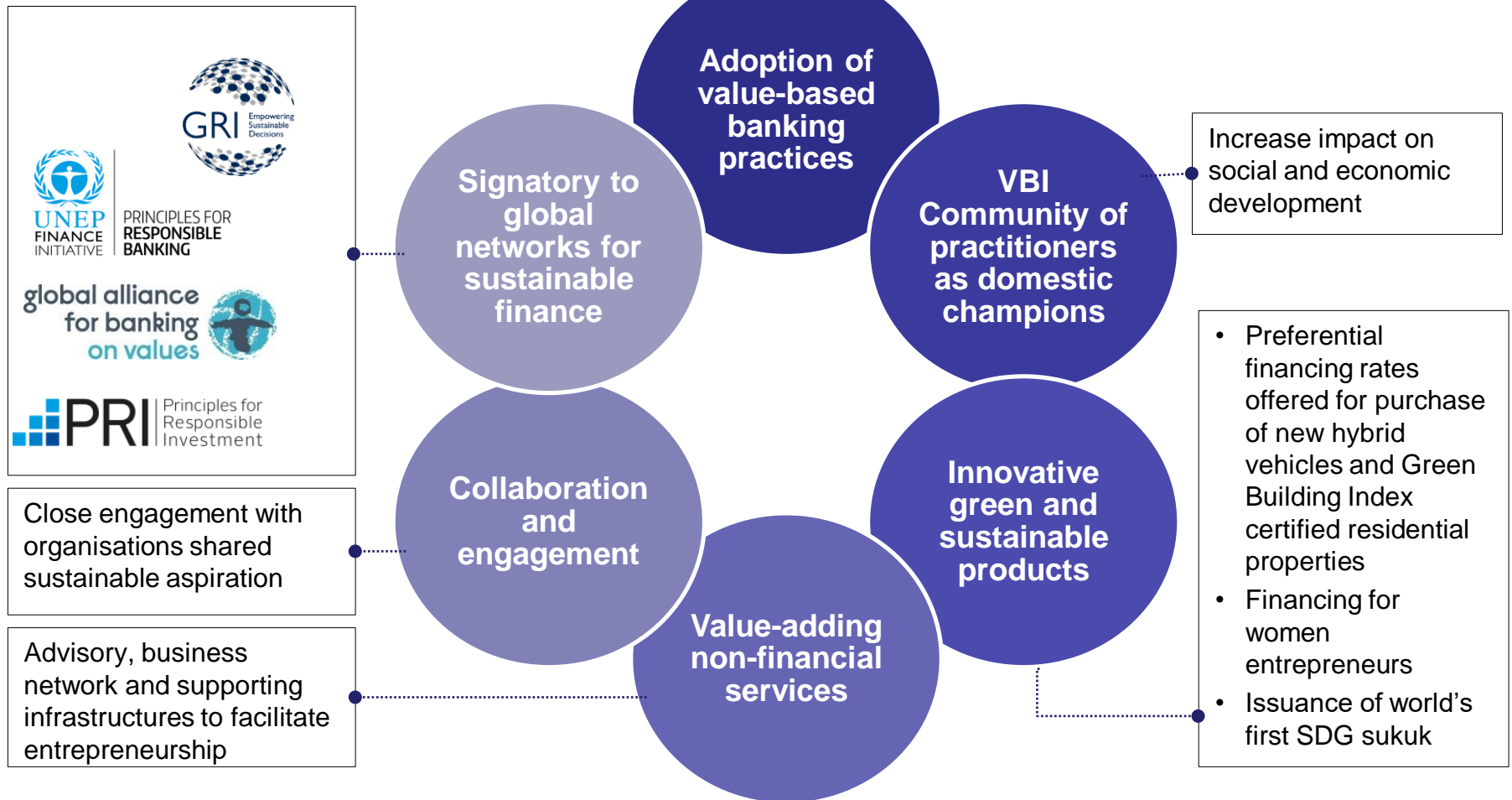
3 Expansion of trade finance and protection solutions in support of halal trade agenda

and beyond....

...supported by technology and digitalisation as key enablers

What's next for IF...

Leading efforts in sustainable financing



Enabled by supportive regulatory environment

Guidance on VBI implementation tools through multi-stakeholder collaboration through (i) VBI Implementation Guidance, (ii) VBI Scorecard and (iii) VBI Financing and Impact Assessment Framework

Thank You

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Intrinsic Values of Islamic Finance

Islamic Finance as a Viable Alternative Compatible with Shariah

Islamic Finance is a financial transaction in which

1

Has no elements that are prohibited by Shariah

- ✓ Riba' (usury)
- ✓ Gharar (uncertainty)
- ✓ Injustice

2

Complies with Shariah contract requirements

- ✓ Clear & transparent terms
- ✓ Observe fiduciary duties & accountabilities

Ethical

- ✓ Avoidance of unethical activities
- ✓ Avoidance of excessive leveraging

Real Activities

- ✓ Direct link to real economy
- ✓ Always supported by underlying activity

Partnership

- ✓ Promote 'entrepreneurship
- ✓ Equity based and risk-sharing transactions
- ✓ Due diligence

Evolution from credit to investment intermediation backed by diverse Shariah contracts

Under IFSA, customers have the choice of placing their funds in Islamic Deposit or Investment Account

Acceptance of funds

Islamic Deposit



- Principal guaranteed (up to RM250,000 per depositor for each banking institution)
- Flexible fund withdrawal
- Many types of deposits e.g. current account, savings account and term deposits

Investment Account



- Returns are based on performance of underlying assets
- Maturity and withdrawal condition agreed at inception



Application of funds

Business Financing

House Financing

Car Financing

Personal Financing



Shariah contracts

Ijarah (leasing)

Murabahah (mark-up basis)

Etc.

Debt-based

Musharakah (profit and loss sharing)

Mudarabah (profit sharing and loss bearing)

Etc.

Equity-based