

Global Islamic Finance – A Driver for a more Inclusive & Sustainable Financial Order: A Primer

by

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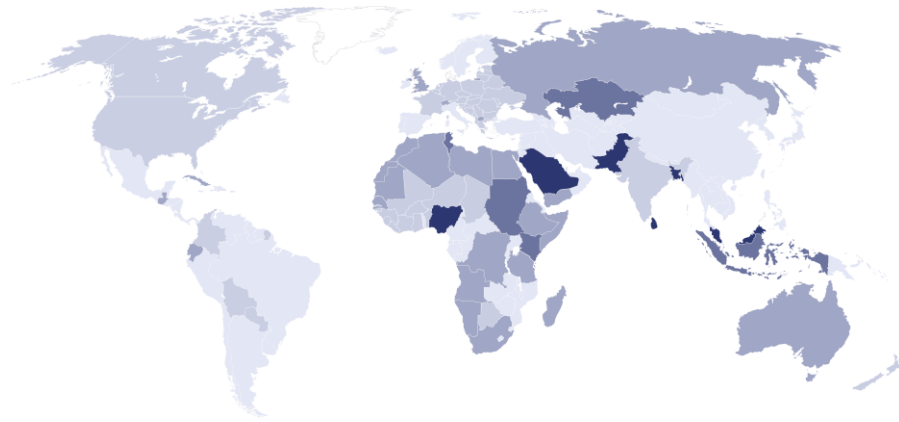
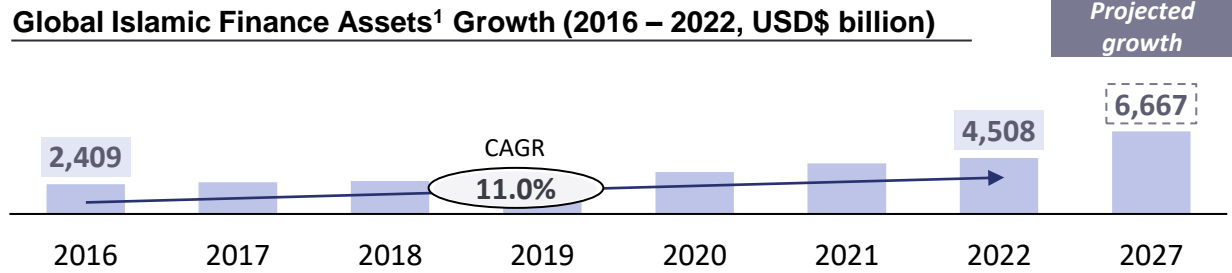
25 January 2024



A Journey of Driving Sustainable Growth over the last 40 years

Global Islamic finance has made significant advancement with an estimated USD4.5 trillion market, going at 11% CAGR, double by 2030

Significant developments have been made to promote the expansion of IF into other regions globally



Legend:

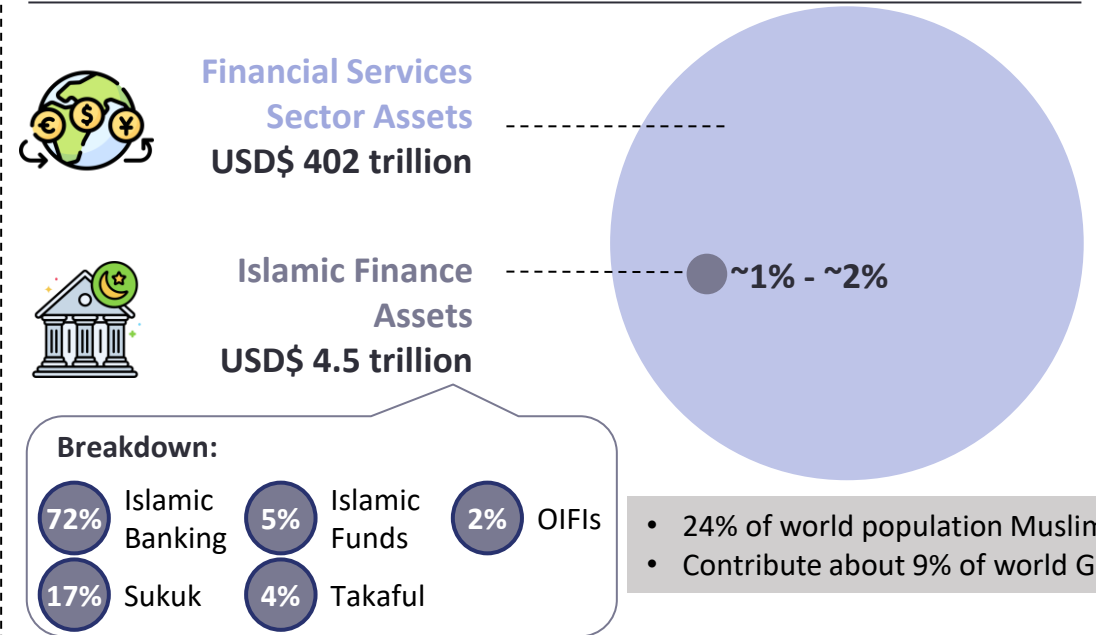
Less matured IF market

↕

More matured IF market

However, IF activities on a global scale remain small in comparison to conventional finance

Global Financial Services Sector & Islamic Finance Assets (2022, USD\$ trillion)



Notable developments of IF in non-muslim countries:

London Stock Exchange listed >USD\$ 50 bil *sukuk*

Luxembourg's Central Bank became the first European Central Bank to join the IFSB

Australia licensed its first Islamic bank

Thus, there is an **opportunity for IF to gradually evolve and expand** its presence and impact on a global scale due to:



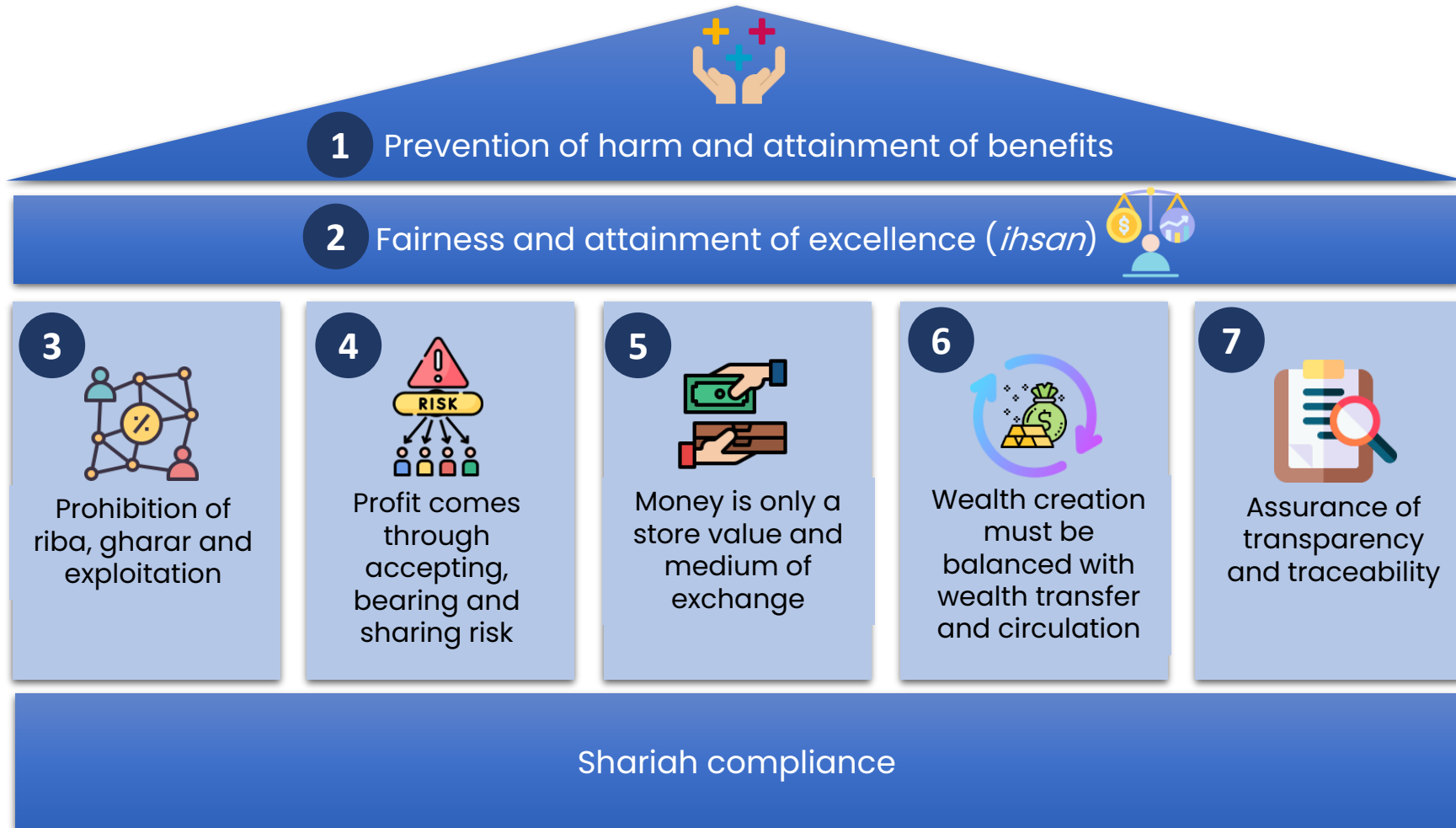
Rise of challenges faced in the Western financial system (e.g. **collapse of Western financial institutions** such as Silicon Valley Bank)

Note: ¹Total Islamic Finance Assets include Islamic banking, sukuk, Islamic funds, takaful and other Islamic Financial Institutions (OIFIs) (e.g. Islamic FinTechs) as per the IFDI report

Source: "Islamic Finance Development Report 2023", ICD-LSEG; McKinsey Panorama; EY Analysis

Fundamentals of Islamic finance

Islamic finance ecosystem must remain anchored on Shariah principles – aimed at realising a vision of economic growth that is balanced, progressive, sustainable and inclusive



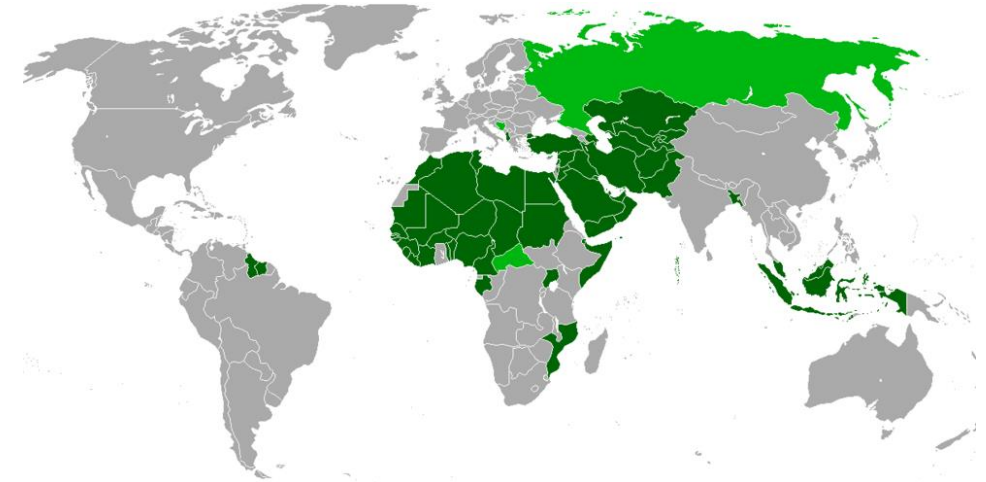
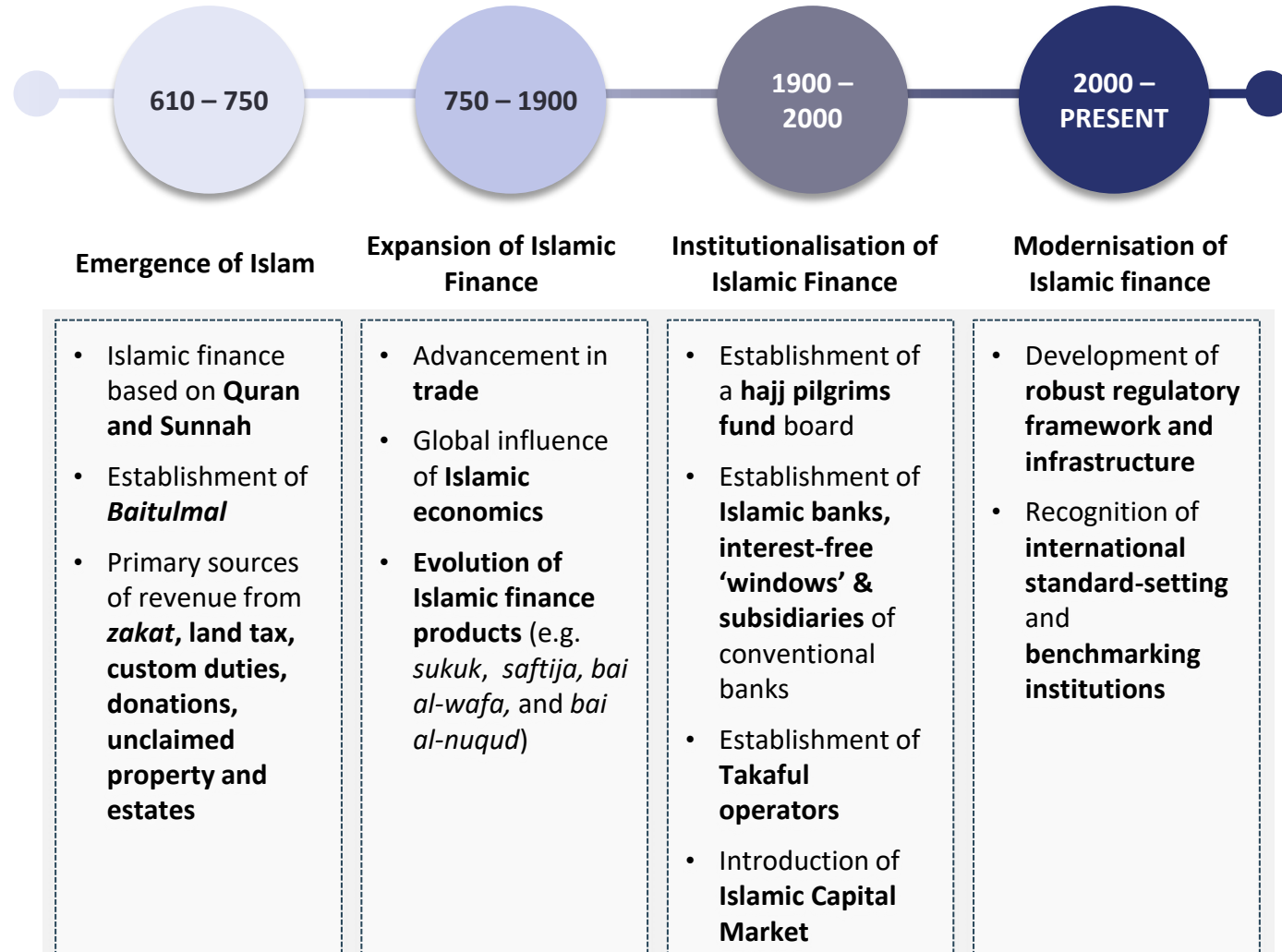
Deliver Maqasid Shariah (the objectives of Shariah)

1. Protection of *deen* (way of life)
2. Protection of life
3. Protection of intellect
4. Protection of lineage
5. Protection of property

Context: Evolution of Islamic Finance

The practice of Islamic finance dates back to the emergence of Islam in 610 AD, and it has been applied during the historical era of Malacca Sultanate period

Timeline of history and development of global Islamic finance



In the Malaysian context, Islamic finance has been in practice, primarily through early business dealings



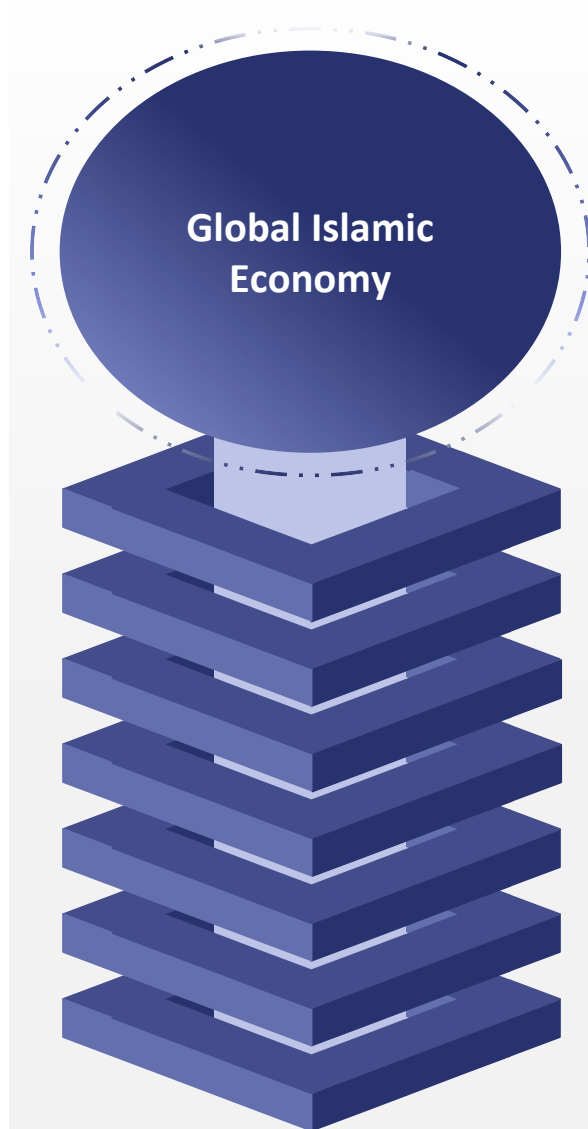
Prohibition of *riba* (usury) in the code of laws of the Malay kingdom of Malacca, **Undang-undang Melaka**



Practice of **riba-free capital transactions** (e.g. *bai al-wafa* by paddy farmers in Kedah, Perlis, Perak, and Kelantan)

Context: Global Islamic Economy

The global Islamic finance market is part of a bigger global Islamic economy



Islamic finance is the largest industry within the Islamic economy

	MYR
 Islamic Finance <i>(66% of market share)</i>	15,073 bil
 Halal Food	5,263 bil
 Modest Fashion	1,223 bil
 Halal Media & Recreation	957 bil
 Muslim-friendly Travel	423 bil
 Halal Pharmaceuticals	414 bil
 Halal Cosmetics	290 bil

Note: Islamic finance figure is derived from the total global Islamic finance assets reported by Refinitiv Islamic Finance Development Indicator 2022. Figures for Halal food, modest fashion, Halal media & recreation, Muslim-friendly travel, Halal pharmaceuticals and Halal cosmetics are based on Muslim consumer spending analysis by DinarStandard. Figures are converted to Malaysian ringgit based on average USD to MYR exchange rate of 4.1444 (2021)

Source: "State of the Global Islamic Economy Report 2022", DinarStandard; "Islamic Finance Development Report 2022", ICD-Refinitiv

Islamic Finance in Malaysia: A Comprehensive Landscape

Solid position of banking, takaful and Islamic capital market



2022

Islamic banking

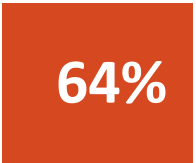
Market share of Islamic banking system by total financing



2022

Takaful

Market share of takaful sector by total net contributions



2022

Islamic capital market

Market share of Islamic capital market

Spearheading sustainability objectives



RM302.2bil

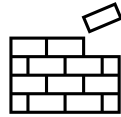
VBI-aligned initiatives since introduction of VBI strategy



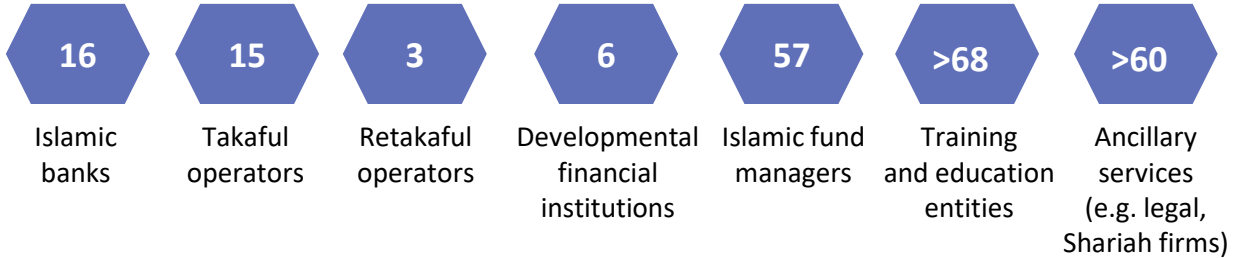
>RM65.2mil

Distributed by Islamic social finance tools (Oct 2020 – Sept 2021)

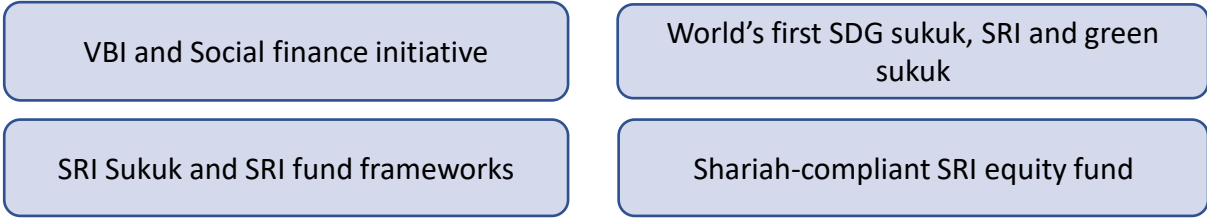
Key achievements and ecosystem



Diverse players offering Islamic financial services



Innovative financial solutions in meeting socio-economic objectives.



Malaysia consistently topped global indicators for nine consecutive years

- ▶ Ranked 1st – Islamic Financial Development Indicator 2022
- ▶ Ranked 1st – Global Islamic Economy Indicator 2021/22

Malaysia as a Leading Center of Islamic Finance

Top performance in Islamic finance led by Gulf Cooperation Council (GCC) and Southeast Asian (SEA) countries

Overall ranking in Islamic finance, as per the Islamic Finance Development Indicator (IFDI)



Malaysia

1



Saudi Arabia

2



Indonesia

3



Bahrain

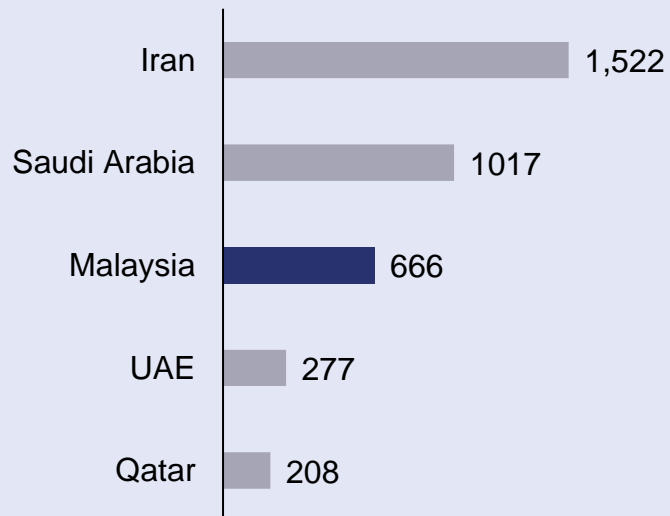
4



Kuwait

5

By Total Islamic Finance Assets (2022, RM billion)



By Islamic Bank Performance



Malaysia Moving to the Next Stage of Islamic Finance

KUALA LUMPUR, JULY 27 (Bernama) – Bank Negara Malaysia (BNM) and the Securities Commission (SC) have been taking steps to ensure the sustainability and Effectiveness of the Islamic finance system by raising the standards to not only *halal* (permissible), but also *Halalan Thoyyiban* (permissible and impactful).

Prime Minister Datuk Seri Anwar Ibrahim said BNM and the SC have charted the course towards halalan thoyyiban via the **Malaysia International Islamic Financial Centre** through collaborations with the industry and the Islamic finance ecosystem, including zakat and waqf boards, the banking system, Islamic stock market and sukuk.

“Insyah-Allah (God willing), these efforts will help to enhance the Islamic financial system in Malaysia and further strengthen our position as a leader in the global Islamic economy,” he said at the launch of the Madani Economy: Empowering the People, here, today.

“A holistic and Madani national development effort cannot be achieved without a financial system that is fair, just and based on Maqasid Sharia (the objectives and purposes behind Islamic rulings),” he said.



Spearheading more Impactful Islamic Finance – Halal to Tayyib



BANK NEGARA MALAYSIA SASANA SYMPOSIUM 2023

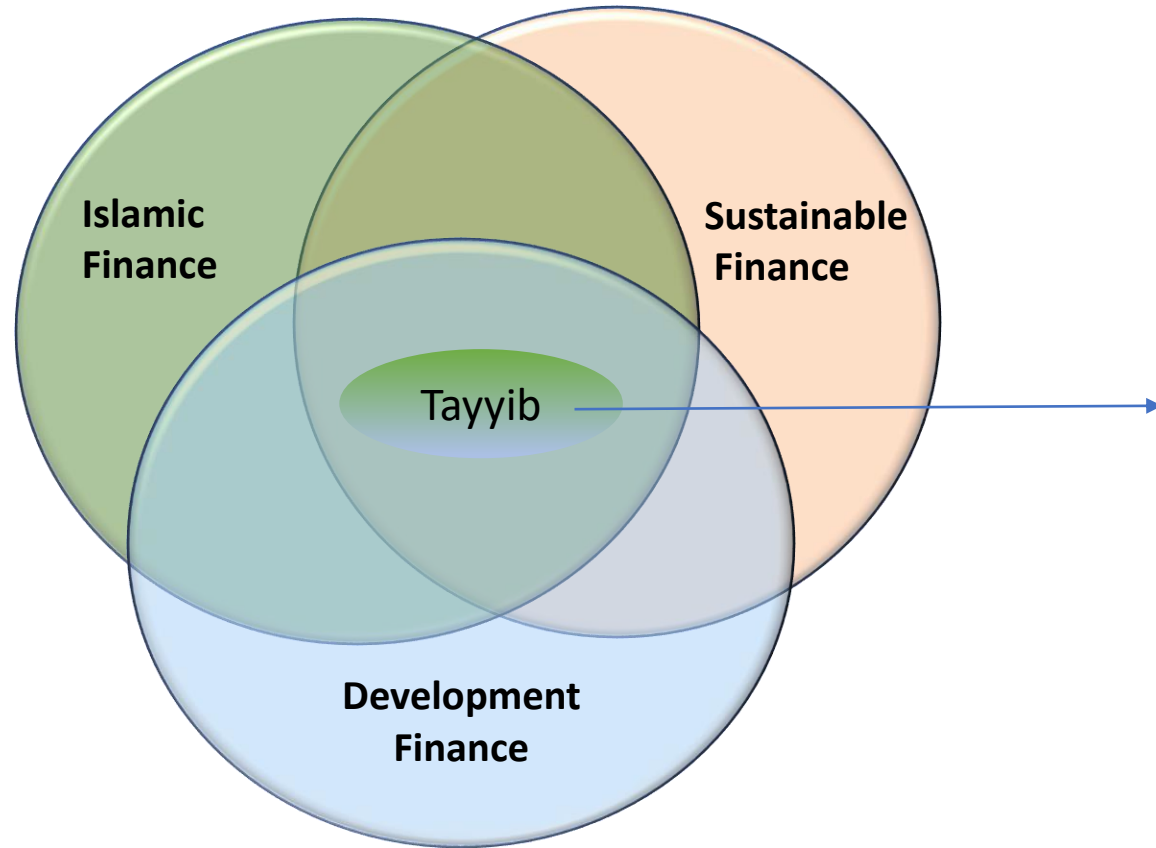
Chairman Tan Sri Azman Mokhtar said the council is working on mapping out the whole Islamic finance ecosystem for better understanding and creating solutions on how to address the challenges in the system.

Eventually, we will land on 10 impact projects that will be rolled out within three to five years period so that the public and the market will see how to address sustainability and inequality in the system using Islamic finance principal and products,” he told Bernama on the sideline of Sasana Symposium 2023 organised by Bank Negara Malaysia (BNM) here today....

Additionally, he said the council is working on enhancing the current framework involving Islamic finance that has been put in place, which would need some intervention.

“For example, how to scale up the investment account. The framework is already there, however, we will need to work with industry players and regulators on some of the problems,” he said.

The Convergence to Fulfilment - to achieve Tayyib/ Sustainable Impact



Tayyib - meaning being pure and wholesome and closer to the ideals of the purpose or Maqasid Shariah of Islamic law, which is to ultimately establish social justice in this world.

Common pursuit, among others:

- Serve the real economy
- Profits with purpose
- Impact investing
- Addressing inequality
- Promotes social justice
- Protects biodiversity and nature

Three strong headwinds:

- 🔄 Greenwashing
- 🔄 Green-flagging
- 🔄 Greenspanning

Source: Sustainable Finance Discussion - 2023, the Centre for Sustainable Finance SOAS University of London, 7th March 2023 – Presentation by MIFC Leadership Council



Scaling the Sustainability Mountain: Moving from Halal to Tayyib¹: Integrating Islamic Finance & the SDGs – UK Islamic Finance Council in conjunction with the UN and IsDB Islamic Finance and the SDGs virtual global summit on 28 September 2021

Thank You

For more information, please contact or visit:

MIFC Leadership Council

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Malaysia International Islamic Finance Centre (MIFC)

<https://www.mifc.com/>

Securities Commission Malaysia

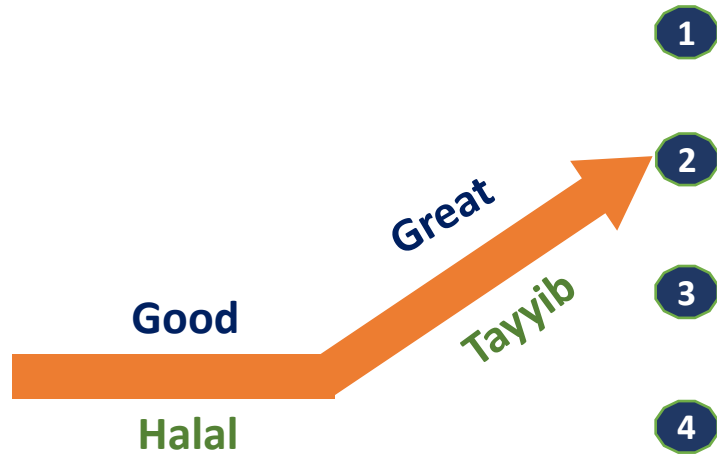
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In support of



Appendix 1 - Form to Fulfilment - From Good to Great, Halal to Tayyib: A Case for 7 transitions



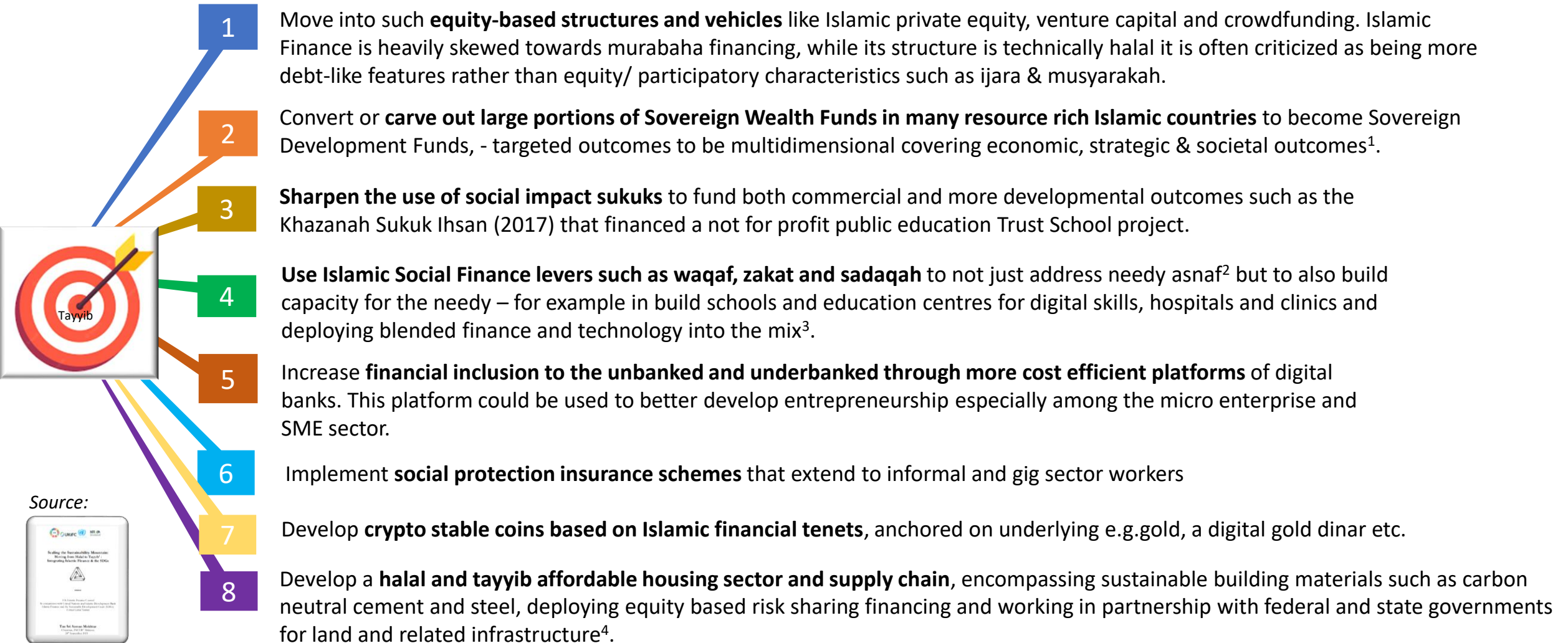
- 1 **In business**, to migrate from an axiom of a shareholder economy to a stakeholder economy, from only profits to profits with purpose, or even to profits through purpose.
- 2 **In finance**, to migrate, indeed to return to a notion that finance is there to serve the real economy, which is then, in turn, to ultimately serve a better society.
- 3 **In investing**, to migrate from being merely compliant to more responsible investing and along the continuum to more sustainable investing and ultimately, impact investing.
- 4 **In climate action and the environment**, to make the urgent transition to net zero carbon, but to also drive greater awareness and action on the other aspect of the environment, that is better outcomes on biodiversity and nature.
- 5 **In human development**, in all its multifaceted forms; to continue the war against poverty, to heal the immediate regress arising out of the pandemic, and to narrow the significant and widening inequalities within and between nations.
- 6 **In implementing the 17 SDGs by 2030**, to migrate to a deeper and broader conception of implementation; of bringing a whole-of-society approach, using the full suite of levers from governments, multilaterals, businesses, finance sector and philanthropy and civil society.
- 7 **In Islamic finance**, the time has come where, after more than four decades, the excuse of the mitigating circumstances of darurah (emergency) is wearing thin, and to accelerate the process of moving from being merely of halal form to the ideal of a more tayyib substance.

Note: Move from a predominantly Halal paradigm (that is to say being permissible and lawful according to Islamic law and jurisprudence) to Tayyib (meaning being pure and wholesome and closer to the ideals of the purpose or Maqasid Shariah of Islamic law, which is to ultimately establish social justice in this world). The Holy Quran making reference to the word Tayyib no less than 40 times.



Scaling the Sustainability Mountain: Moving from Halal to Tayyib1 : Integrating Islamic Finance & the SDGs

Appendix 2 - A call to action: Some practical examples and aspirations towards Tayyib



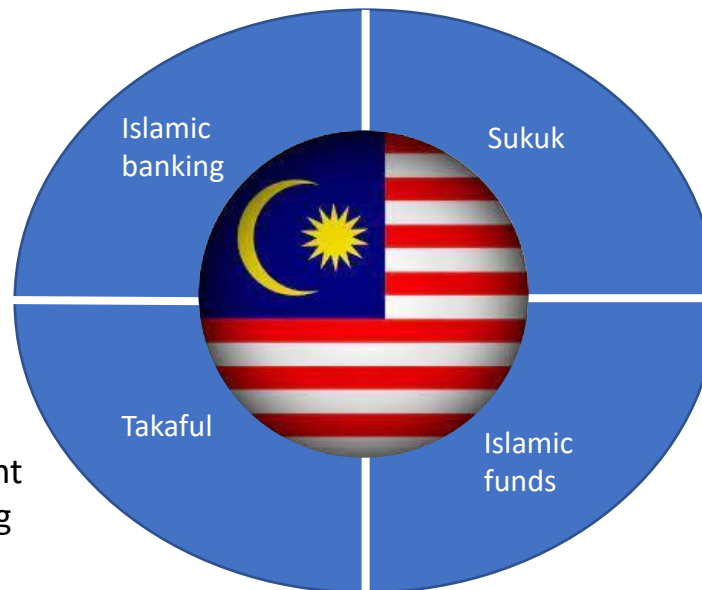
Source:



1. Khazanah Nasional in Malaysia between 2004 and 2018 developed an investment style as a SDF. Malaysia recently reinforced a more developmental role for sovereign funds through the Perkukuh program.
2. Asnaf is the permissible recipients of zakat (alms) money, for e.g. the poor and destitute
3. Some examples include KPJ Waqaf hospitals and clinics in Malaysia and the Myanmar Muslim waqaf hospital in Yangon.
4. A reference business model is 8990, a company Khazanah invested in that is a builder of affordable housing in the Philippines where more than 90% of the customer base are from the unbanked.

Appendix 3 - Key milestones in driving sustainability agenda – evident across all Islamic finance business segments in Malaysia

- **Value-based Intermediation (VBI) concept introduced** towards realising the objectives of Sharīah. RM146.6 billion in financing, investments and deposits were intermediated in VBI-related between 2020 and 2021.
- Deploying **blended capital** – using social impact investment, donation, waqf and zakat e.g. iTEKAD
- Takaful industry issued the **Value-based Intermediation Takaful Roadmap** - a commitment to creating value for takaful stakeholders including society
- INCEIF and MTA is currently pioneering industry-driven research to develop a Maqasid-based scorecard for the Malaysian Takaful industry



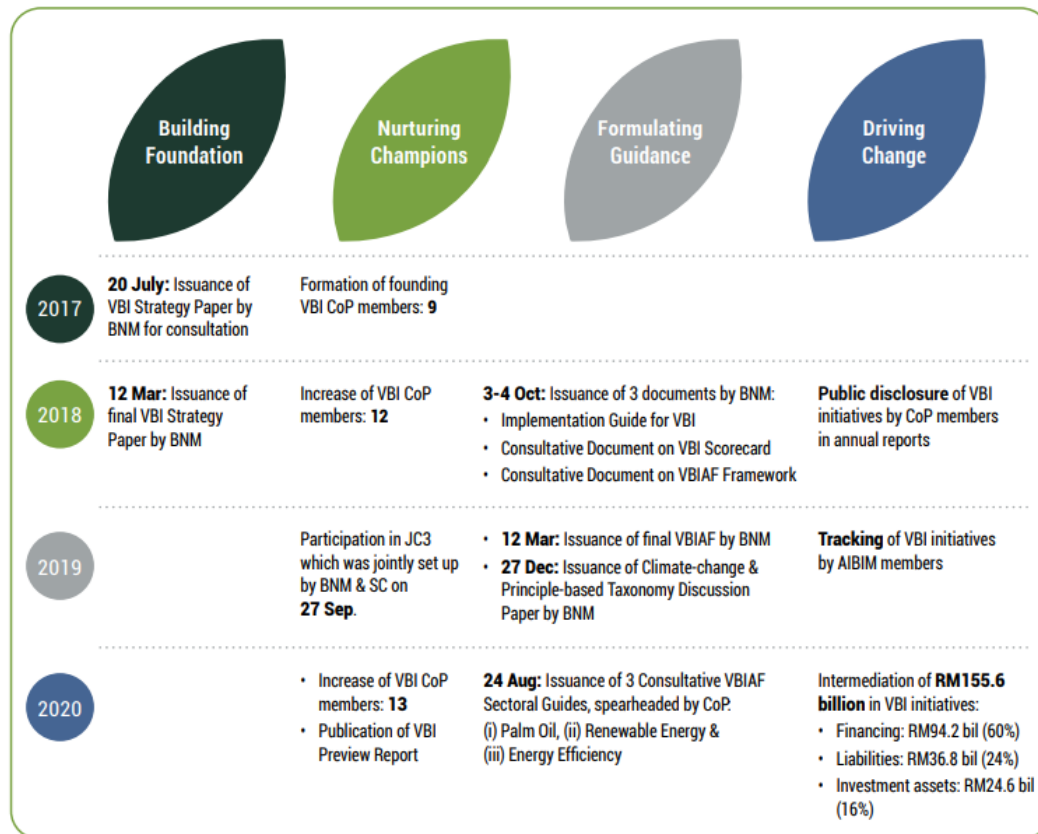
- Launched **SRI-linked Sukuk Framework and SRI Sukuk and Bond Grant Scheme**
- **Malaysia issued the world's first green SRI sukuk in 2017**
- As at Q3 2022, there were **21 SRI sukuk issued under the SC's SRI sukuk framework.**
- Launched the **Guidelines on SRI Funds** in 2021
- To date, there are **16 Islamic SRI funds** under the Guidelines

Appendix 3 - Value-based Intermediation (VBI): An effort towards Tayyib

What is Value-Based Intermediation (VBI)?

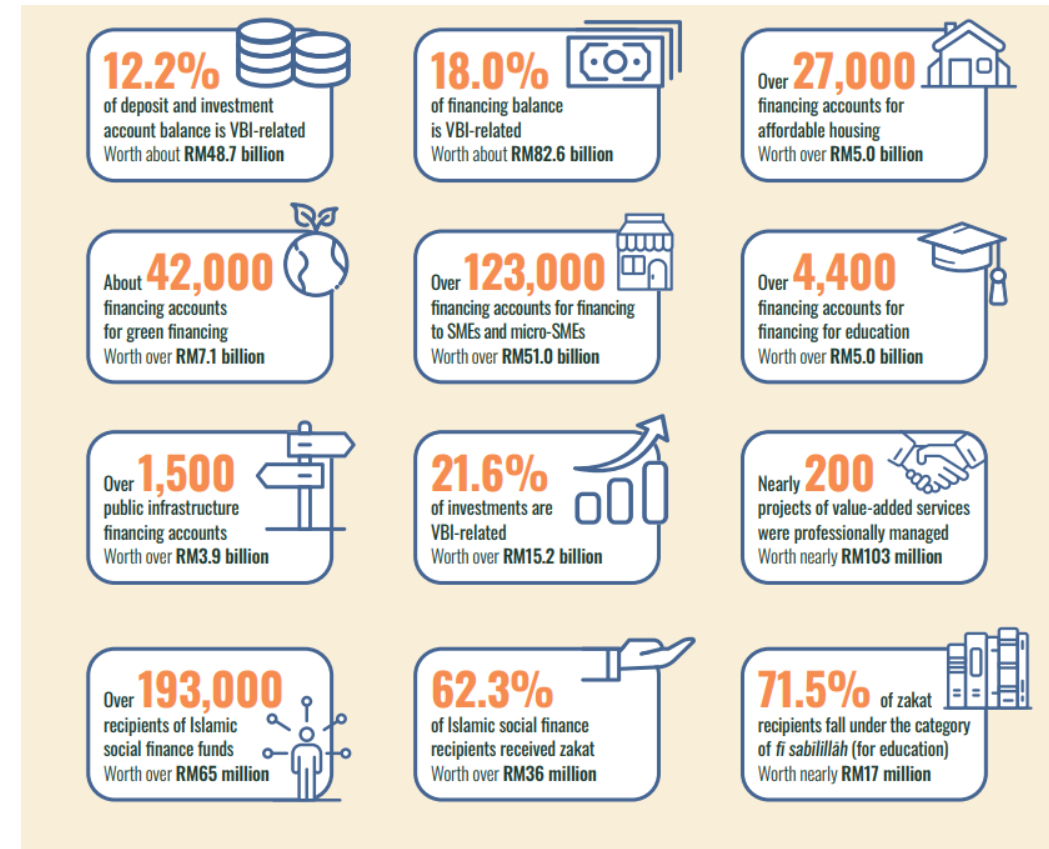
A concept launched by BNM in 2017, aimed to re-orient Islamic finance business models towards realising the objectives of Shari'ah in order to generate a more positive and sustainable impact on the economy, community and environment through the practices, processes, offerings and conduct of the industry players.

Key Achievements of the Four-year VBI Journey (2017-2020)



Source: Adapted from AIBIM (2020)

A snapshot of VBI outcomes in Malaysia



Source: AIBIM's Value-based Intermediation 2021 Full Report