

# Malaysia to continue its lead

Malaysia has for many years been viewed as one of the leading Islamic finance players in the global arena due largely to the strong political will of its government. CHUNG CHEE LEONG walks us through the industry performance in Malaysia over 2013 and tells us what we can expect of this Southeast Asian stalwart in 2014.

**The Malaysian Islamic financial services industry has grown in size over the recent years with developments seen across various fronts and beyond traditional financial products and services.**

The stellar performance is attributed to the government's effort in promoting Malaysia as an international hub for Islamic finance supported by a robust and Shariah compliant regulatory system.

The primary market is well complemented by a strong Sukuk market, over 60% of the global total, making Malaysia one of the world's leading Islamic capital marketplaces.

As at the end of second half of 2013, Malaysia's Islamic finance assets stood at RM436 billion (US\$130.63 billion) or 22% of the country's financial system assets.

## 2013: A review

2013 has seen Islamic banks in Malaysia competing in a challenging and robust economic environment that also saw the introduction of guidelines by Bank Negara Malaysia (BNM), aimed at tightening household credit, which included limits for financing tenures in an effort to curb heavy consumer borrowings and property speculation.

On the other hand, the Islamic capital market has continued to outpace most other asset classes in the country's financial system. Growth in issuances has been exponential with several landmark deals most notably the Malakoff RM9 billion (US\$2.7 billion) and Cagamas RM4.2 billion (US\$1.26 billion) issuances that were completed amid the challenging market environment.

Another component in the Islamic financial system in Malaysia is the Takaful industry that has seen Malaysia emerged as the world's largest Family Takaful market. On the General Takaful side, however, there is much more room for growth within Malaysia itself.

From the legal and regulatory perspective, the highlight for 2013 was the introduction of the Islamic Financial Services Act 2013 (IFSA 2013) that has made sweeping changes to the country's existing regulatory and legislative framework.

The introduction of IFSA 2013, which is aimed to take Islamic finance to a whole new level, is expected to significantly raise the bar on transparency by Islamic financial institutions in Malaysia. The new law is evidence of Malaysia's commitment towards continuous development and further strengthening of its Islamic financial market.

**“ Islamic banks are expected to grow further in 2014 with expectation of higher demand from SMEs and larger corporates participating in infrastructure projects ”**

Under the newly-introduced act, Shariah scholars are now legally accountable for financial products that they approved. The act also distinguishes deposits made for savings and those for investment, resulting in significant changes in retail portfolios.

In addition, the ongoing Shariah harmonization efforts undertaken by BNM are expected to complement the newly-introduced act and further strengthen the Islamic financial industry in Malaysia.

The growth of Islamic finance in Malaysia had also seen multinational financial institutions and services firms broadening their internal capabilities and allocating significant resources into Islamic finance. Areas such as brokerage and asset management are quickly emerging and gaining traction in Malaysia as sign of positive development of the government's effort.

The resilience and growth of Islamic finance in Malaysia has been encouraging thus far and the country is expected to be at the forefront in many years to come amid concerns on banks' exposure to the property market and the rising household debts.

## 2014: A preview

BNM has undertaken continuous efforts to enhance and cement Malaysia's position in the Islamic finance marketplace at the international level. The Financial Sector Blueprint, which runs up to 2020, envisions greater participation from the Malaysian financial sector to further expand the globalization of Islamic finance.

It is expected that BNM would facilitate the development of a more conducive environment for the mobilization of higher volumes of international Islamic financial flows to be channeled through innovative Islamic financial instruments.

At the forefront, the Islamic banks are expected to grow further in 2014 with expectation of higher demand from SMEs and larger corporates participating in infrastructure projects, notwithstanding the demands from their retail base. Islamic banks in Malaysia are also expected to join the bandwagon in propagating Waqf development since its successful introduction by two fully-fledged Islamic banks in collaboration with the Islamic religious authorities. The Islamic capital market is expected to remain robust while the Takaful industry is expected to have better growth in 2014.

*continued...*

Continued

With the support and commitment shown by the government, Islamic finance in Malaysia is poised to grow further for years to come with growth covering wider areas of business including venture capital, asset management and REITs. At the rate it is going, Malaysia's Islamic banking assets are set to multiply by 2.8 times by 2018 i.e. increasing from its current base of Islamic banking assets to RM1.22 trillion (US\$365.53 billion).

**“ Malaysia’s Islamic banking assets are set to multiply by 2.8 times by 2018 from its current base of Islamic banking assets to RM1.22 trillion (US\$365.53 billion) ”**

**Conclusion**

From its humble beginnings more than 30 years ago, Islamic finance in Malaysia has gone through leaps and bounds to reach its level today. The regulators and the monetary authorities have introduced reforms and amendments to national legislations that included removal of regulatory and tax impediments to spur the growth of Islamic finance.

Establishment of various research and training centers as well as the Malaysia International Islamic Financial Center had facilitated the growth of the industry with steady supply of talents to the Islamic finance industry, both locally and abroad. With proper implementation of the Financial Sector Blueprint it is not impossible for Malaysia to materialize its vision to be an international hub for Islamic finance. (2)

Chung Chee Leong is the president/CEO of Cagamas. He can be contacted at chung@cagamas.com.my.

# IFN FORUMS 2014

An all New Experience in Events coming your way for 2014

• New Locations • New Format • Greater Interaction • More Focused • Better Networking • And Something Exclusive: RESULTS

**IFN FORUM**  
**GLOBAL**  
2014  
15<sup>th</sup> - 16<sup>th</sup> September, DUBAI

---

**IFN FORUM**  
**AFRICA**  
2014  
28<sup>th</sup> October, DUBAI

**IFN FORUM**  
**ASIA**  
2014  
26<sup>th</sup> - 27<sup>th</sup> May, KUALA LUMPUR

**IFN FORUM**  
**EUROPE**  
2014  
26<sup>th</sup> June, LUXEMBOURG

---

**IFN FORUM**  
**HALAL FINANCING**  
2014  
8<sup>th</sup> June, DUBAI

---

**IFN FORUM**  
**BANGLADESH**  
2014  
20<sup>th</sup> October, DHAKA

**IFN FORUM**  
**INDONESIA**  
2014  
15<sup>th</sup> April, JAKARTA

**IFN FORUM**  
**EGYPT**  
2014  
1<sup>st</sup> December, CAIRO

---

**IFN FORUM**  
**IRAN**  
2014  
28<sup>th</sup> April, TEHRAN

**IFN FORUM**  
**KUWAIT**  
2014  
10<sup>th</sup> June, KUWAIT

---

**IFN FORUM**  
**SAUDI ARABIA**  
2014  
17<sup>th</sup> November, RIYADH

**IFN FORUM**  
**SRI LANKA**  
2014  
13<sup>th</sup> October, COLOMBO

**IFN FORUM**  
**TURKEY**  
2014  
6<sup>th</sup> November, ISTANBUL

[www.redmoneyevents.com](http://www.redmoneyevents.com)