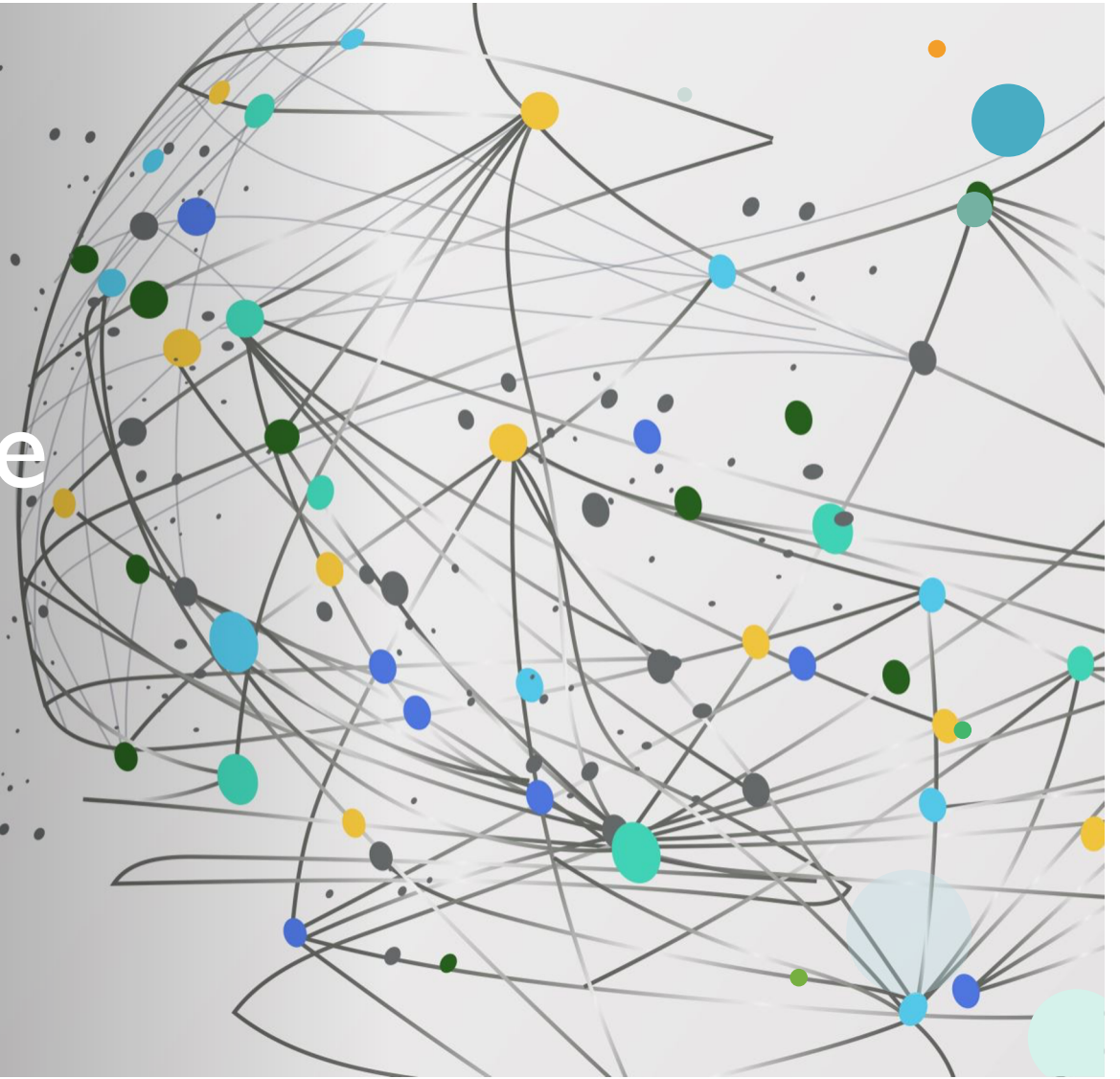


History of Islamic Finance in Malaysia

zulkiflihasan.com



Islamic Finance Industry and its Supporting Ecosystem in 2021



FINANCIAL PERFORMANCE

Total Islamic Finance Assets

US\$ 4.0 Trillion

YoY Growth of IF Assets

17%

Islamic Financial Institutions

1,679



GOVERNANCE

Countries with at Least One Type of Islamic Finance Regulation

47

Countries with Central Sharia Committee Presence

19

Average Disclosure Index

34%

Number of Shariah Scholars with Institutional Representation

1,296

Countries with FinTech Sandbox

50



SUSTAINABILITY

Total Value of ESG Sukuk Outstanding (US\$ Million)

16,454

Total Value of ESG Islamic Funds Outstanding (US\$ Million)

7,546

Number of Countries with Sustainability Guidelines

41

Average ESG Reporting Index

19%

Average CSR Reporting Index

16%

Total CSR Funds Disbursed (US\$ Million)

1,223



AWARENESS

Number of Islamic Finance Events

1,053

Share of Islamic Finance Virtual Events of Total Events

78%

Number of Islamic Finance News

13,216



KNOWLEDGE

Islamic Finance Education Providers

880

Islamic Finance Research Papers Produced

3,504

Islamic Finance Journals

124

Table 1.1.1.1 Breakdown of the Global IFSI by Sector and Region (USD billion) (2021)

Region	Islamic Banking Assets	<i>Sukūk</i> Outstanding	Islamic Funds Assets	<i>Takāful</i> Contributions	Total	Share (%)
Gulf Cooperation Council (GCC)	1,212.5	332.3	46.0	12.7	1,603.5	52.4
South-East Asia (SEA)	287.5	390.3	37.5	4.7	720.0	23.5
Middle East & South Asia (MESA)	477.1	26.9	22.0	5.6	531.6	17.4
Africa	58.2	1.8	4.0	0.6	64.6	2.1
Others	68.8	24.4	45.1	0.7	139.0	4.5
Total	2,104.1	775.7	154.6	24.3	3,058.7	100.0
Share (%)	68.7	25.4	5.1	0.8	100	

Source: IFSB Secretariat workings.

Chart 1.2.1 Islamic Banking Share in Total Banking Assets by Jurisdiction (%) (2021)

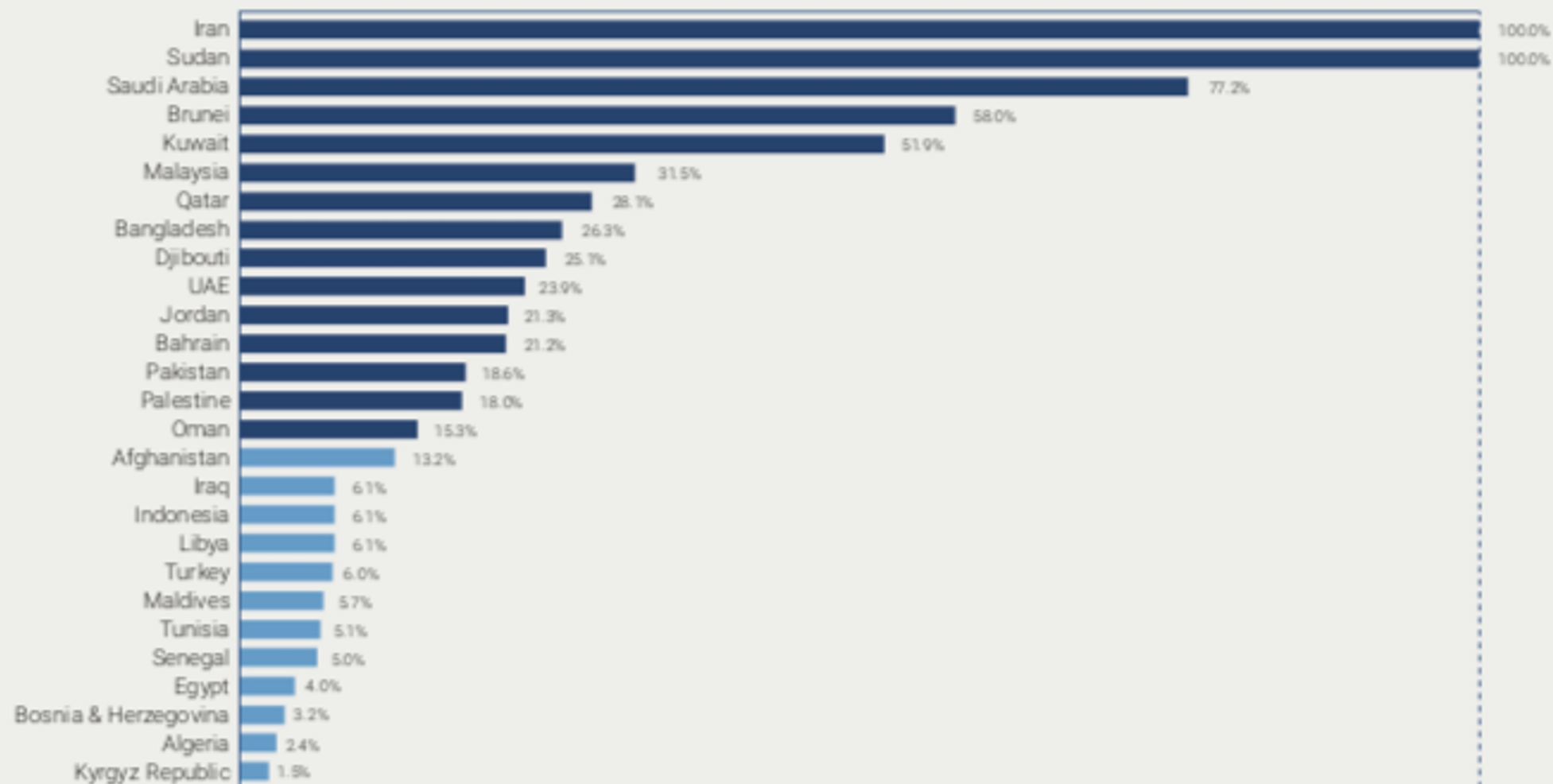


Chart 1.4.1.2 Share of *Takāful* Sector's Business Relative to Insurance Sector (%) (2020)

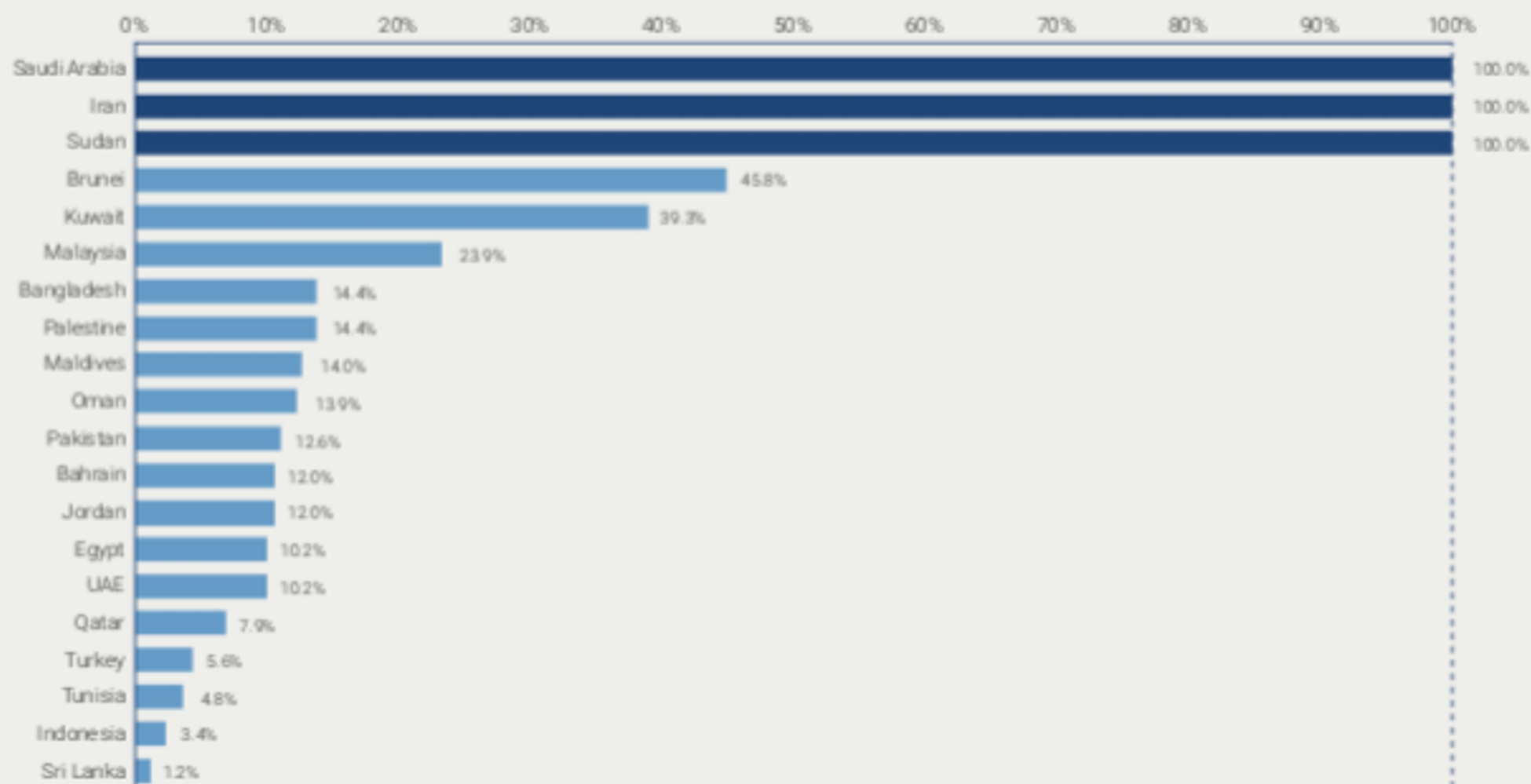
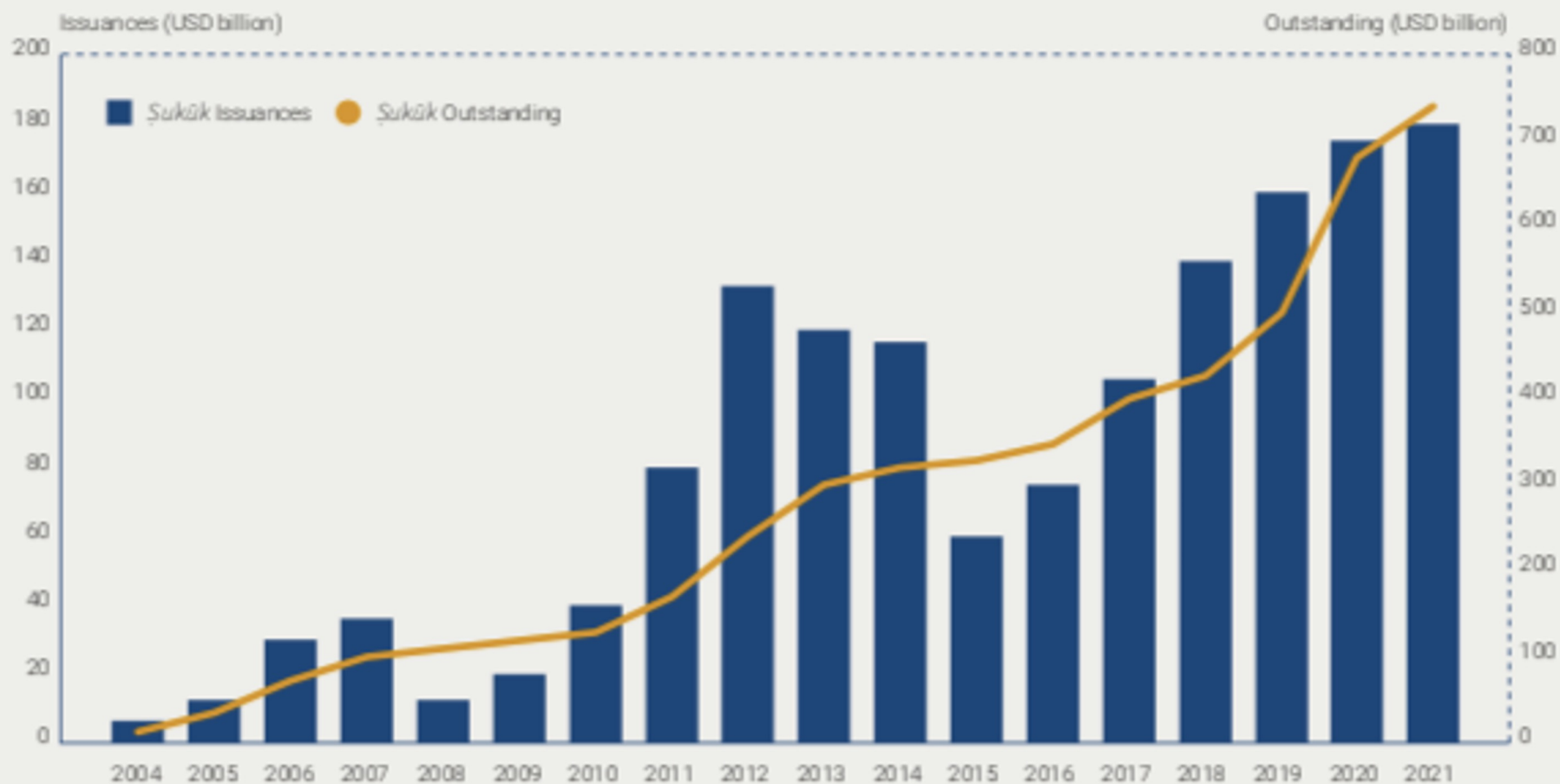


Chart 1.3.1.1 Global *Şukūk* Issuances and *Şukūk* Outstanding Trends (USD billion) (2004–21)*



Source: Refinitiv.

*2020 figure restated

Growth Factors



The flow of funds into Muslim oil-producing states.



Growing political and social desire in the Muslim world for financial alternatives to banking moreover, investment institutions that have been historically dominated by the West.



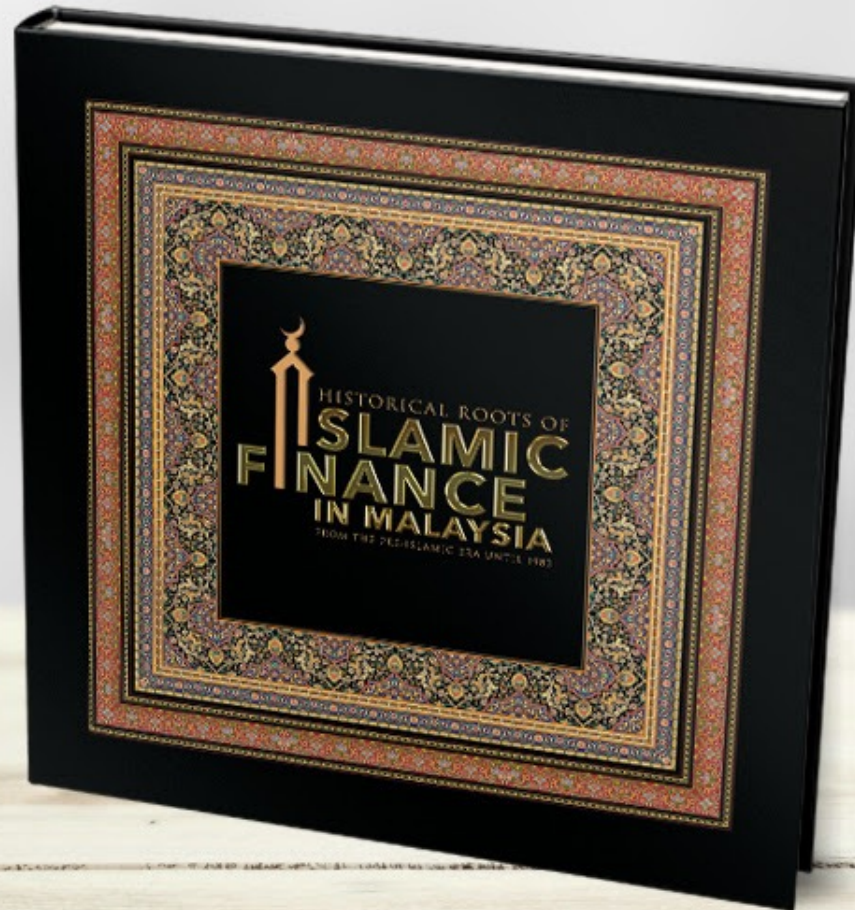
The spreading of the credit crisis in the global financial markets and the need to access new sources of investment capital.



The growth of sovereign wealth funds and the desire to have shariah compliant instruments through which to invest them; and



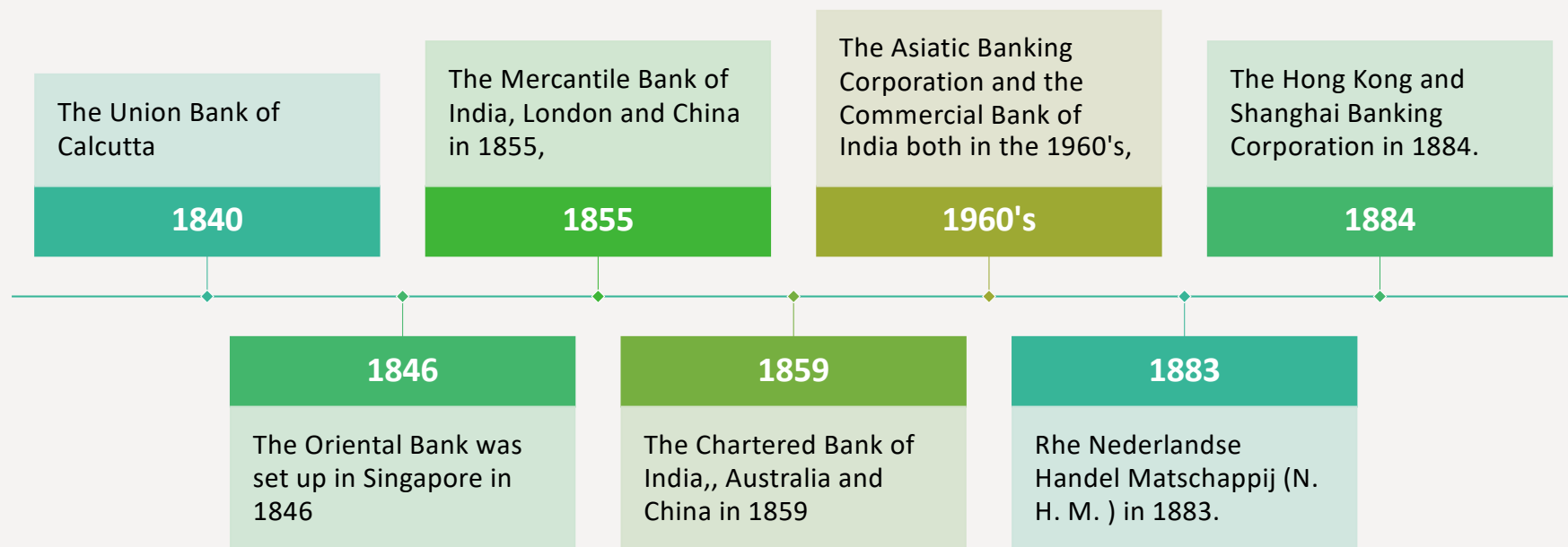
The rapidly accelerating number of cross-border multi-jurisdictional financial transactions that are possible and required in a globalized world economy assets held by Muslim investors worldwide.



History of Banks in Malaysia



Phase 1: 1840-1900



Post 1900: Gradual emergence of Local Chinese Banks

The 1st local Chinese bank,, Kwong Yik Bank in Singapore in 1903.

Kwong Yik (Selangor) Banking Corporation in 1913. The 1st bank in KL.

Sze Hai Tong in 1906. Chinese Commercial Bank in 1912

Ho Hong Bank in 1917 Overseas-Chinese Bank in 1919.

Lee Wah Bank, Bank of Malaya and Batu Pahat Bank in 1920

Ban Hin Lee Bank in 1935 United Overseas Bank in 1935.

Malay bank was established in 1947 by Maarof Zakaria but it failed in 1952.

Bank of Canton in 1953,

Bank of America in 1955,

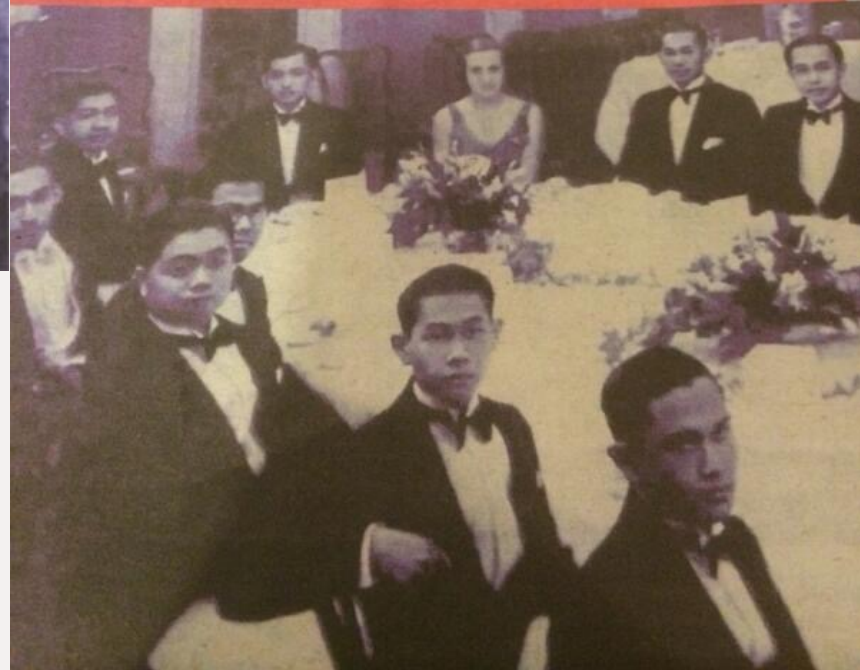
Bank of Indonesia in 1955,

Bank of Tokyo and Bangkok Bank in 1957

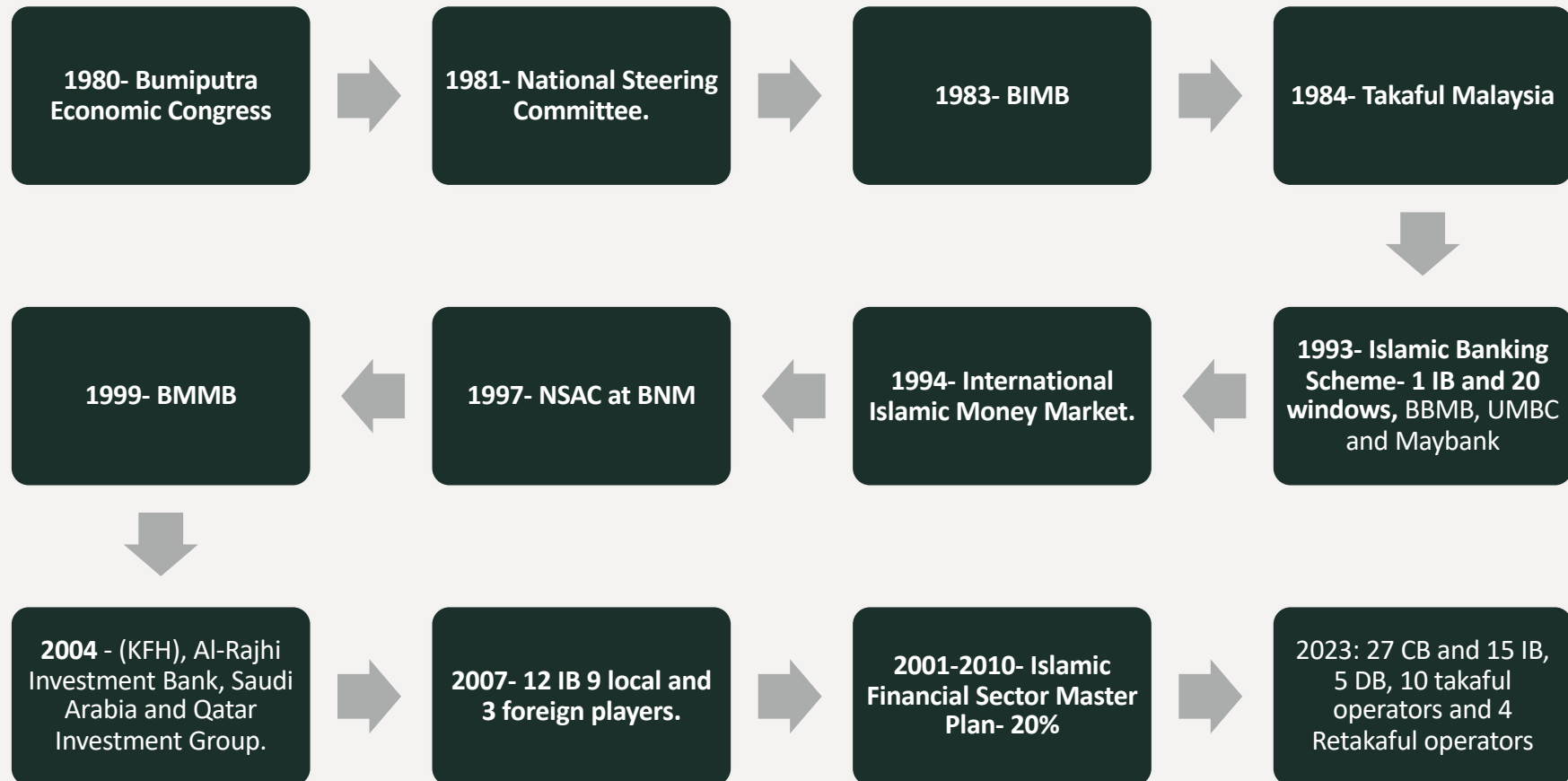
The First Malay Bank 1947



**Maarof diculik,
digantung
dalam hutan**



Islamic Finance



Pragmatic Development of Legal Framework



Enactment of dedicated acts for Islamic banking, takaful & Shariah compliant government funding

- Islamic Banking Act 1983 (IBA)
- Government Funding Act 1983 (GFA)
- Takaful Act 1984 (TA)

Legislative amendments to allow Islamic banking windows

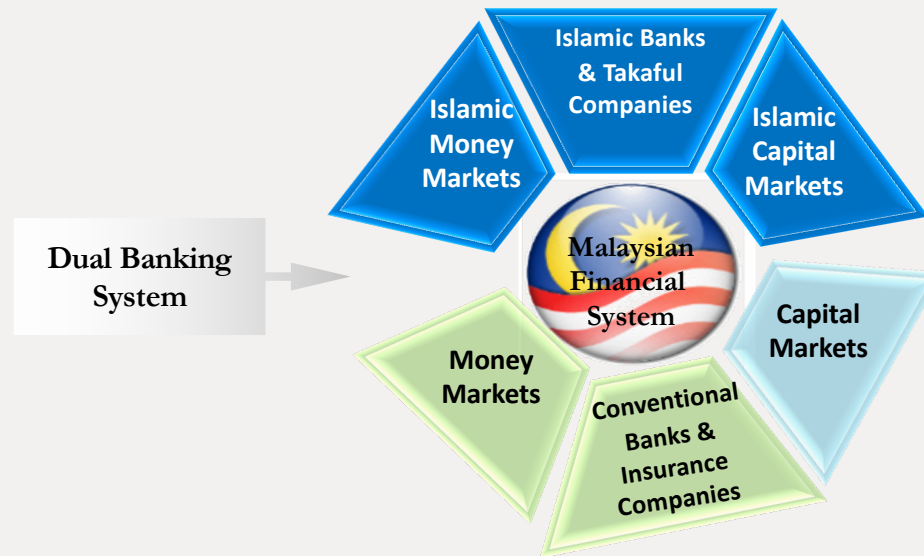
- Banking and Financial Institutions Act 1989 (BAFIA)

Several measures to ensure legal framework are accommodative of Islamic finance

- Central Bank of Malaysia Act 2009
- Capital Market Services Act 2007 (CMSA)
- Development Financial Institutions Act 2002 (DFIA)
- Dispute Resolution
- Tax Neutrality Framework
- Law Review Committee
- Law Harmonisation Committee

- Islamic Financial Services Act
- VBI
- Islamic Fintech

Malaysia's Approach



Supported by:

Robust legal & regulatory framework

Diversified players with wide-ranging products

Integrated human capital infrastructure

Professional services with familiarity on IF

Building a **comprehensive** Islamic finance system

- Governance**
- **Legal & Regulatory**
 - ✓ Islamic Banking Act
 - ✓ Takaful Act
 - ✓ Government Funding Act
 - ✓ Capital Market Services Act
 - ✓ Deposit Insurance Act

- **Dispute Resolution**
 - ✓ Judicial system – dedicated high court
 - ✓ KL Regional Centre for Arbitration
 - ✓ Financial Mediation Bureau

- **Shariah Advisory Council**

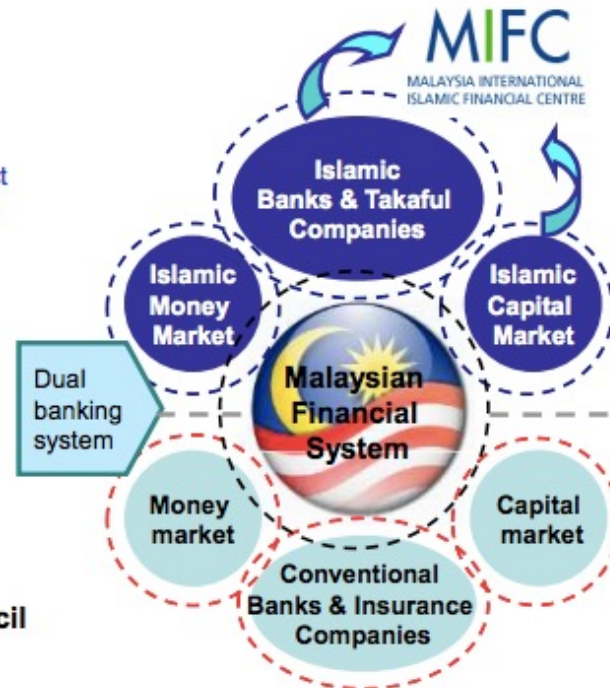
Financial Markets

• Money Market

- ✓ Islamic interbank money market
- ✓ Diverse short-term Islamic money market instruments

• Capital Market

- ✓ 55.9% of outstanding private debt are sukuk
- ✓ 87% permissible counters



Diversified Players

• Islamic Banking

- ✓ 17 Islamic banks
- ✓ 10 Islamic windows
- ✓ 6 DFIs offering Islamic banking
- ✓ 3 International Islamic Banks
- ✓ 14 International Currency Business Units

• Takaful

- ✓ 8 takaful operators
- ✓ 3 retakaful operators
- ✓ 1 International Takaful Operator
- ✓ 5 International Currency Business Units

• Fund Management

- ✓ 8 approved Islamic fund management companies
- ✓ 35 fund management companies with Islamic mandates
- ✓ 149 Islamic unit trust fund

Supported by human capital infrastructure

INCEIF

ibfim

ISRA

AFFINBANK ALLIANCE BANK BANK ISLAM BNP PARIBAS

CIMBBANK citibank Deutsche Bank HONG LEONG BANK

HSBC ICBC JPMorgan Maybank MIZUHO

OCBC Bank PUBLIC BANK RHB SMBC AGRO BANK

Al Rajhi Bank AmBank Bank of America Merrill Lynch Bank Muamalat

BANKRAKYAT BSN بيت التمويل الكويتي Kuwait Finance House MUFG

RBS Standard Chartered UOB 大華銀行

AmMetLifeTakaful

AIA PUBLIC TAKAFUL

FWD takaful

eTiqa Takaful

ZURICH TAKAFUL

Great Eastern TAKAFUL

PRUDENTIAL BSN TAKAFUL

HongLeong MSIG Takaful

Sun Life Malaysia

TAKAFULmalaysia

Takaful IKHLAS

Stages of Islamic Finance

STAGE 1: Focus on how to migrate Muslim from practicing riba. The focus was to find halal solution by replicating certain features of conventional product with some *hiyal* to quickly migrate the practice from riba.



STAGE 2: Focus on to be genuinely based on *Shari'ah* by removing excessive *hiyal* in their practice.



STAGE 3: Concern with the TAYYIB and IHSAN dimension of having a “good and responsible finance”. The permissibility of a transaction will not only depend on the pillars of a valid contract but also on Maqasid al-Shari’ah, the values, ethics, outcome or consequences of the transactions.



STAGE 4: Use of latest technology including AI to deliver Shariah compliant financial solution, products, services and investment.

Value-based Intermediation

VBI: An intermediation function that aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, without compromising the financial returns to shareholders

Greater attention will be devoted to value creation and value-based businesses that reflect the true essence of Islamic finance.

- Driven by long term and wider objectives (profit, people and planet)
- Performance measurement considers both financial and non-financial aspects
- Innovation to create values for all
- Impact-based approach that fosters good conduct
- Meaningful and active roles of key stakeholders (consumers, employees and public)



Five successful applicants for the digital bank licences

Embargo : For immediate release

29 Apr 2022

Bank Negara Malaysia (BNM) wishes to announce the five successful applicants for the digital bank licences as follows:

A. The following applicants are to be licensed under the Financial Services Act 2013 (FSA):

- a consortium of Boost Holdings Sdn. Bhd. and RHB Bank Berhad;
- a consortium led by GXS Bank Pte. Ltd. and Kuok Brothers Sdn. Bhd; and
- a consortium led by Sea Limited and YTL Digital Capital Sdn Bhd.

B. The following applicants are to be licensed under the Islamic Financial Services Act 2013 (IFSA):

- a consortium of AEON Financial Service Co., Ltd., AEON Credit Service (M) Berhad and MoneyLion Inc.; and
- a consortium led by KAF Investment Bank Sdn. Bhd.





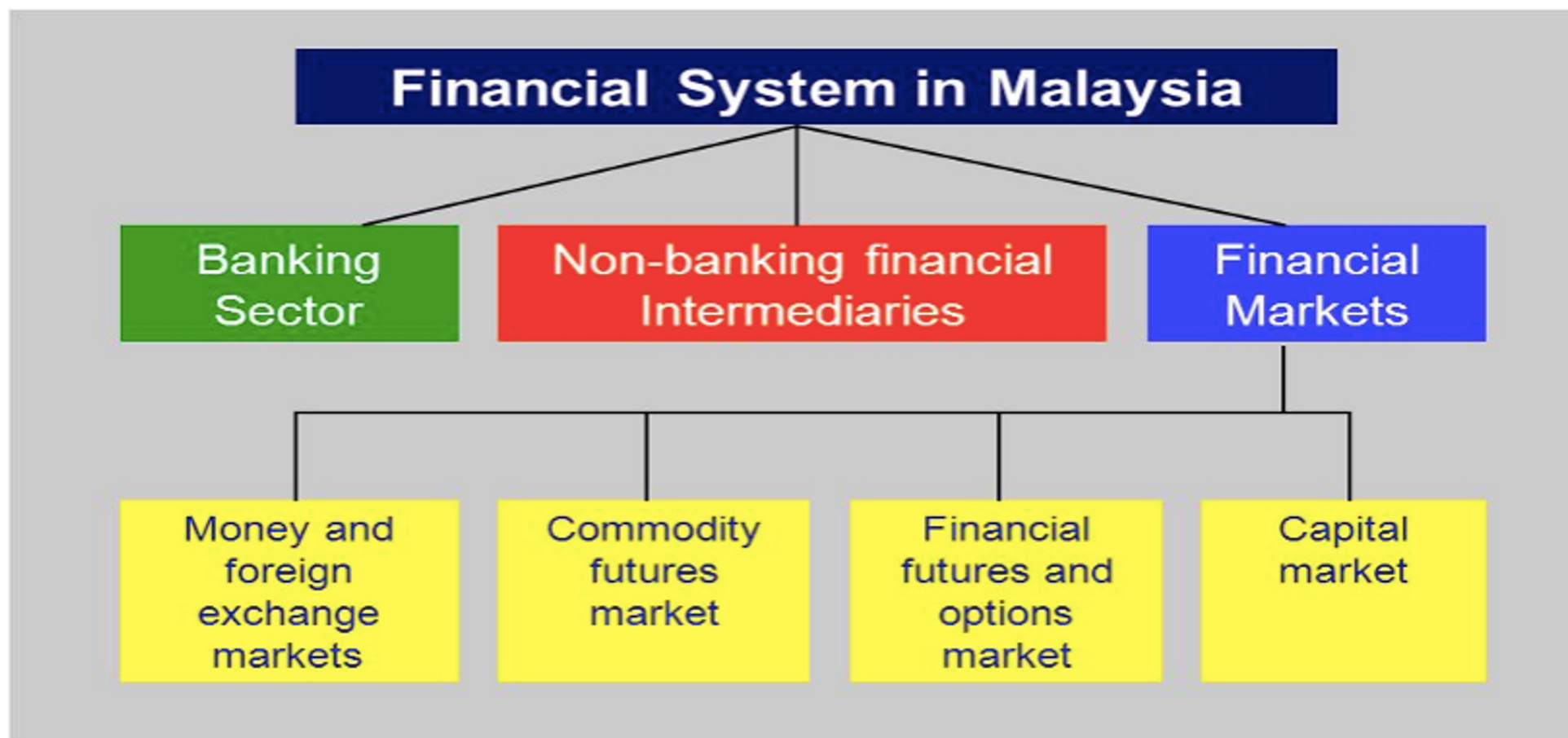
YAB Dato' Seri Anwar Ibrahim

- As Malaysia solidifies its position as the leader of the global Islamic economy, the comprehensive financial ecosystem will be modernised, centering on **the Maqasid Shariah principles**.
- In line with the Ekonomi MADANI framework, the Government will collaborate with Islamic financial industry players to offer more digitalised, innovative and diversified Islamic financial instruments by leveraging Islamic social finance such as zakat, waqf and sadaqah.
- A sustainable and effective Islamic finance that encompasses the halal and tayyib principles will be aligned with the growing global environmental, social and governance (ESG) funds.
- Through a **greater understanding of Maqasid Shariah**, Islamic finance can be fortified to balance between the social and environmental needs with economic development.
- The strategy encompasses a comprehensive array of *halalan toyyiban* activities and Islamic financial innovation, pursuant to **the Maqasid Shariah principles**.
- The Financial Sector Blueprint 2022 – 2026 consists of five strategic thrusts, where one of the thrusts, “advance value-based finance through Islamic finance leadership”, envisions a financial system that can deliver tangible socio-economic impact and ultimately demonstrate the values and full potential of Islamic finance, including **realising Maqasid Shariah**. (*Malaysian Economic Outlook 2024*)

Islamic products and services offered by 400+ Financial Institutions around the world



Financial System in Malaysia



Banking System

**Monetary Institutions-
BNM, Commercial Banks.**

**Non-monetary Institutions-
Finance Co, Merchant Banks
and Discount Houses.**

Non-Bank Financial Intermediaries

Development Financial Institutions- Bank Pembangunan, BKR

Saving Institution- National Saving Banks and Credit Cooperative

Provident and Pension Fund-EPF, Pension Trust Funds, LTAT.

Insurance Companies- Conventional and Islamic

Other Financial Intermediaries- Leasing Co. LTH.

Financial Markets

Money and Foreign Exchange- Market for securities less than 12 months to maturity. Eg- banker's acceptance, negotiable instruments.

Capital Market- Primary and secondary securities market. Halal and Non-Halal Counters.

Commodity Futures market and financial futures market and options market