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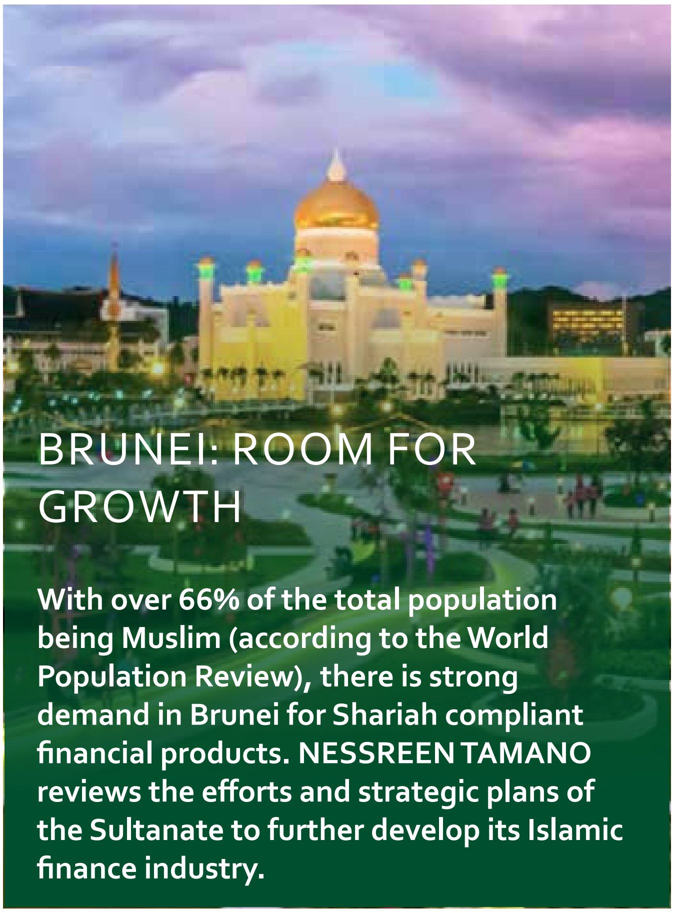

# BRUNEI: ROOM FOR GROWTH

**With over 66% of the total population being Muslim (according to the World Population Review), there is strong demand in Brunei for Shariah compliant financial products. NESSREEN TAMANO reviews the efforts and strategic plans of the Sultanate to further develop its Islamic finance industry.**

## Regulatory landscape

Brunei's legal system is based on English common law, despite Islam being the official religion of the country. The central bank, Autoriti Monetari Brunei Darussalam (AMBD), regulates the entire financial system, including the Islamic banking, Takaful and Islamic asset management sectors.

In 2006, the Syariah Financial Supervisory Board was established to enhance Shariah governance and supervision, as well as stimulate the growth, of the industry. The board ascertains the Shariah compliance of all Islamic products on offer in the country.

In 2018, the AMBD announced plans to introduce a governance framework for Islamic financial institutions and upgrade the Shariah audit framework.

## Banking and finance

Perbadanan Tabung Amanah Islam Brunei (TAIB), established in 1991, was the first Islamic financial institution to offer Shariah compliant products and services in Brunei.

There are eight banks in the country, only one of which is fully-fledged Islamic: Bank Islam Brunei Darussalam (BIBD), which is the result of a merger between the Islamic Development Bank of Brunei and the Islamic Bank of Brunei in 2005. Bank Usahawan offers Islamic financing to the MSME sector.

The BIBD, TAIB and Baiduri Bank are working with the central bank to implement its Digital Payment Hub Project, an initiative under the Digital Payment Roadmap for Brunei Darussalam 2019–25.

According to the AMBD, in 2019, Islamic banking represented 65% of total banking assets and demonstrated a stable return on assets at 2.1% and a return on equity of 13.8%.

There are no stock exchanges in Brunei, prompting the BIBD to turn to Bursa Malaysia for its IPO, a plan that later fell through. The Ministry of Finance has plans to finance the establishment of the long-awaited Brunei Darussalam Stock Exchange, with an allocation worth around US$21.94 million from the 2019/20 budget, but this has yet to materialize.

## Sukuk

Brunei has been regularly issuing short-term Sukuk since 2006, offering Sukuk Ijarah securities on a monthly basis to institutional investors. The papers, which serve to contribute to the development of the capital market and also as a liquidity tool to regulate the banking industry, have been consistently fully subscribed or oversubscribed.

As at July 2020, the government has issued over BN$13.87 billion (US$10.1 billion)-worth of short-term facilities.

There has only been one offering outside of the sovereign issuance space: a US$100,000 Sukuk Ijarah facility from natural gas supplier Brunei LNG in collaboration with the BIBD.

There have been no long-term Sukuk issued out of the country, although the central bank had, in 2015, announced its plan to offer Sukuk with longer maturities and greater liquidity. This has yet to materialize.

## Takaful

The Brunei Insurance and Takaful Association, established in 2012, regulates (alongside the central bank) the Takaful sector.

Out of 12 insurance companies in Brunei, only four are Islamic: Insurans Islam TAIB's General Takaful and Family Takaful units, Takaful Brunei Keluarga and Takaful Brunei Am.

According to data from the regulator, the Takaful sector has, in 2019, maintained its average market share of 32% of the total assets of the insurance sector.

Meanwhile, Takaful and Islamic funds maintained their average market shares of 32% and 5% of the total assets in the respective sectors, leaving room for more growth in the future.

Asset management

In 2019, the Islamic fund sector's average market share stood at 5% of the total assets of the sector as a whole. Two companies conduct fully-fledged Islamic investment businesses in the country — one dealing in securities and another in fund management services.

There are also 14 collective investment schemes (CISs) registered for distribution, of which seven are public Islamic funds, three are private Islamic CISs and the rest are conventional.

## Outlook

Strong regulatory efforts from the government help boost Islamic finance in the Sultanate and attract foreign interest. But to be able to keep up with its peers and neighboring countries (particularly big players Malaysia and Indonesia), a lot more work needs to be done, including the development of the capital market.


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# CENTRAL ASIA: POWERING THROUGH

**Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan — the five countries of Muslim-majority Central Asia — have seen much progress in the way of building an Islamic finance ecosystem since 2017. NESSREEN TAMANO highlights further developments in the industry in the past 12 months.**

## Regulatory landscape

Three out of the five Central Asian countries — Kyrgyzstan, Kazakhstan and Tajikistan — have Islamic finance legislation in place. Kazakhstan introduced its Islamic finance law in 2008 and has amended it several times to accommodate more Shariah concepts, including Takaful and Sukuk. The country was admitted to the General Council for Islamic Banks and Financial Institutions as a member in 2018.

Meanwhile, Tajikistan passed its Islamic banking law in 2014, and the National Bank of Tajikistan is in the process of developing a regulatory framework to facilitate licensing Islamic credit organizations.

In 2019, the National Bank of the Kyrgyz Republic's board of directors approved instructions on running Shariah compliant bank accounts and deposits in accordance with AAOIFI standards.

## Banking and finance

Kazakhstan is leading in the region in Islamic banking, with its fully-fledged Islamic banks Zaman Bank and Al Hilal Bank. Agrarian Credit Corporation, which offers financing to agribusiness companies, is looking into offering Islamic solutions. The establishment of the Astana International Financial Center (AIFC), which formed the Advisory Council for Islamic Finance, has contributed greatly to the country's aspirations of being an Islamic finance hub in the region.

Tajikistan's Sohibkorbank converted into a fully-fledged Islamic bank in 2019 to join Alif Bank, which has expanded this past year by opening a branch in Uzbekistan.

Uzbekistan, meanwhile, is currently working on allowing banks to run Islamic windows. Asia Alliance Bank has confirmed with IFN that it is in the process of launching its Islamic banking window, while Alif Bank is in the process of converting into a fully Shariah compliant bank.

## Capital market

The development of the nascent Islamic capital markets of Central Asia is supported by its member countries' governments as well as the IsDB, but challenges remain, such as a lack of insurance coverage and Islamic institutions' inability to use central banks' liquidity and funding facilities, which are non-Shariah compliant.

Despite these challenges, the Central Asian countries are powering through their plans to issue Sukuk. The AIFC has a Sukuk issuance in the works, originally slated for the end of 2019, and Uzbekistan's Capital Market Development Agency (CMDA) announced that corporates would be allowed to issue Sukuk by mid-2020. The agency also confirmed that Uzbekistan is planning to tap the Islamic capital market with a green Sukuk facility.

In 2020, the Astana International Exchange (AIX) saw its first Sukuk listing since its formation in 2017 from Qatar's QIIB, whose US$500 million Sukuk offering was cross-listed on both the AIX and the London Stock Exchange.

## IsDB support

The growth of the Islamic finance industry in Central Asia is largely supported by the IsDB. According to the multilateral bank's latest data published in February 2020, it has a total of 131 ongoing projects in the five Central Asian countries collectively valued at US$3 billion, with a priority focus on infrastructure development.

Apart from those projects, the IsDB's Group members have also signed agreements with several Islamic financial institutions in the country to help them secure financing as well as develop further plans to complete Shariah compliant transactions. In 2019, Turkmenistan signed an agreement with the Islamic Corporation for the Development of the Private Sector to support the country's private sector with Islamic funding, and also announced its membership in the Islamic Corporation for the Insurance of Investment and Export Credit, which is hoped to help with the strengthening of Turkmenistan's economy.

In July 2020, the CMDA signed a cooperation agreement with the IsDB to develop a legal and institutional framework for Islamic financial instruments, with a goal to launch a new Islamic financial product in Uzbekistan in 2021.

## Takaful

Islamic insurance is offered in Kazakhstan by Takaful Halal Insurance, which has plans to venture into Azerbaijan through a fully-fledged Takaful operator. However, Takaful window operations are yet to be allowed in Kazakhstan, whose regulations require that a dedicated Islamic Insurance Council be appointed. This is reportedly currently being worked on.

## Outlook

The Central Asian countries are seen by experts to have full potential in terms of having robust Islamic financial systems, particularly as they would be serving their Muslim-majority jurisdictions and have the support of the big players in the GCC. The Central Asian region would benefit from capacity-building and awareness programs, as well as stronger regulatory frameworks to support its Shariah compliant financial transactions.

# MALAYSIA: AN INDUSTRY LEADER

**Malaysia's robust Islamic banking and finance industry is largely a result of the government, the regulators and the market players working closely together. NESSREEN TAMANO provides an overview of one of the biggest Islamic finance markets in the world, and how the country is poised for progress.**

## Regulatory landscape

The Islamic banking and finance industry is regulated by Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC) under the Islamic Financial Services Act 2013. The Shariah Advisory Council — the highest authority in Islamic banking, finance and Takaful in the country — was established in 1997 to ensure compliance and consistency, and is made up of prominent Shariah scholars, jurists and legal experts.

A Special Committee on Islamic Finance was introduced under Budget 2019 to lead the formulation of the Islamic Economic Blueprint, which is currently in the works. In 2020, BNM revised the Shariah Governance Framework to strengthen the implementation of Shariah governance in Islamic financial institutions, requiring them to have sound structures and policies.

The recently tabled Budget 2021 meanwhile has provisions for the development of Islamic finance, particularly in the areas of Islamic pawnbroking, Takaful and green Sukuk issuances, among others.

## Banking and finance

There are 16 fully-fledged Islamic banks and 12 Islamic windows in Malaysia. According to the IFSB's Islamic Financial Services Industry Stability Report 2020, the country continues to rank third in the world's top jurisdictions for Islamic banking assets, accounting for 11.1% of the global industry — an increase to the previous year's 10.8%.

In 2019, the government announced the central bank's restructuring plan for Malaysia's development financial institutions, specifically the formation of a new entity through the merger of Bank Pembangunan Malaysia, Danajamin Nasional, SME Bank and Export–Import Bank of Malaysia, all four of which have large Islamic finance portfolios.

In the fintech sector, Malaysia ranks second globally in the number of Islamic fintech providers at 22, second to the UK at 27, according to the IFN Islamic Fintech Landscape. In 2019, a ZakatTech platform was announced to be in the International Shari'ah Research Academy for Islamic Finance's pipeline, while the Malaysia Productivity Council announced a partnership with iSunOne to build an Islamic financial system based on blockchain technology.

## Capital market

Malaysia houses three Shariah indices: FTSE Bursa Malaysia Hijrah Index Emas, FTSE Bursa Malaysia EMAS Shariah Index and FTSE Bursa Malaysia Small Cap Shariah Index.

In the Sukuk landscape, Malaysia maintains its position as the jurisdiction with the largest volume of Sukuk issuance at 36.8% by the end of 2019 — an increase from the previous year's 35.2%.

The country has taken steps to boost green Sukuk issuances with a tax deduction on issuance costs for issuers and tax exemptions for investors of green Sukuk.

In 2020, the government issued its Sukuk Prihatin, the proceeds from which are channeled to the country's COVID-19 Fund to implement economic recovery measures. The landmark issuance is the first to only be available for subscription online, via the digital banking platforms of 27 banks in Malaysia. The government plans to tap the Islamic capital market again with a second digital Sukuk issuance.

## Asset management

Of the 34 jurisdictions where Islamic funds are domiciled, Malaysia, Saudi Arabia and Iran remain the most prominent, collectively accounting for about 81.5% of total assets under management in 2019, according to the IFSB.

The Guidelines on Islamic Fund Management were introduced in December 2007, and the Islamic Fund and Wealth Management Blueprint in 2017. Tax exemptions on fees for Islamic fund management as well as the liberalization of foreign ownership of Islamic fund management companies, without any restrictions on overseas investments, were also implemented.

## Takaful

There are 11 Takaful operators in Malaysia, two of which are foreign-owned. According to the latest data from the IFSB, Malaysia has maintained its position as one of the five countries generating a total of 91% in total global Takaful contributions (along with Iran, Saudi Arabia, Indonesia and the UAE). As at the end of 2018, Malaysia's Takaful contributions grew 8.8%, with its General Takaful and Family Takaful contributions collectively representing 22% of gross premiums of the overall insurance market in the country.

## Outlook

The Malaysian government continues to promote a deeper understanding of Shariah banking and finance through different initiatives as well as drive its implementation; the central bank has a targeted mix of 40% Islamic financing by the end of 2020.

According to industry experts, the growth outlook for the Malaysian Islamic banking and finance industry remains strong, especially with a well-established Islamic banking infrastructure to support it.

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# BANGLADESH: CHANGE IS UNDER WAY

**The past year has been a busy one for Bangladesh's Islamic banking and finance industry, as it sees greater demand for Islamic financial products with the influx of Shariah compliant transactions. NESSREEN TAMANO looks at the highlights of the last 12 months.**

## Regulatory landscape

While Bangladesh still does not have a dedicated Islamic finance and banking regulation, the Banking Companies Act and Companies Act have some provisions for Shariah compliant activity. Bangladesh Bank (BB) also issued Islamic banking guidelines in 2009, covering licensing and conversion requirements, as well as financial reporting and investment.

In 2019, the Bangladesh Securities and Exchange Commission (BSEC) announced it was working on regulations for Sukuk and derivatives to facilitate their trading in the capital market. The regulator also sought public feedback on its BSEC (Alternative Trading Board) Rules 2018 draft, which facilitates the entry of new items — including Sukuk — into the stock market. It later finalized and issued both regulations.

## Banking and finance

The country's Islamic banking sector holds an almost one-fourth share of the entire banking industry in terms of deposits and investments, as at the end of September 2019, according to data from the central bank.

There are 11 fully-fledged Islamic banks, up three from 2019 as Standard Bank, Jamuna Bank and NRB Global Bank (which recently received approval to change its name to Global Islami Bank) have all received approval from BB to convert their operations into fully Shariah compliant ones.

In late 2019, Mercantile Bank announced plans to establish an Islamic window, and City Bank received a membership award from AAOIFI, its first step toward offering Islamic solutions to its clients. In January 2020, NRB Commercial Bank launched Al Amin, its Islamic unit. All three will be joining the 15 Islamic windows already operating in Bangladesh with a total of BDT189.61 billion (US$2.19 billion) in assets as of June 2019, according to the IFSB's latest report.

Al-Arafah Islami Bank (AIBL) announced its plan to form a subsidiary company for its Shariah compliant mobile financial services — said to be the country's first Islamic digital financial services delivered through mobile phones — pending approval from the regulator.

Meanwhile, in September 2019, Abu Dhabi Commercial Bank closed a blockchain-based trade finance deal involving Islami Bank Bangladesh (IBBL) to move goods worth US$6.5 million from Canada to the South Asian nation.

## Capital markets

A few years ago, the central bank issued the Refinance Scheme for Investment in Green Products or Initiatives targeted at Islamic banks and financial institutions, in addition to the Inter Islamic Fund Market and the Islamic Refinance Fund Account. The government also issues three- and six-month Bangladesh Government Islamic Investment Bonds.

The past two years have seen a rise in Sukuk issuances, particularly from financial institutions, including AIBL, IBBL, Dhaka Bank and EXIM Bank Bangladesh. Summit Communication also announced its plans to issue a non-convertible Sukuk Mudarabah facility worth BDT1 billion (US$11.62 million), the proceeds of which will be used to expand the company's fiber optic cable network to remote parts of the country.

There are two Islamic indices in Bangladesh: the DSEX Shariah Index by the Dhaka Stock Exchange and CSE Shariah Index by the Chittagong Stock Exchange.

## Takaful

There are 11 Takaful operators in Bangladesh out of 77 insurance companies, all regulated by the Insurance Development and Regulatory Authority. About 12 conventional insurers offer Takaful products on a window basis.

According to the IFSB's latest data, over two-thirds of total Takaful contributions written in 2017 were attributed to Family Takaful which recorded a negative growth of -0.09%, whereas General Takaful showed a positive growth of 2.98% in the same period.

In October 2019, Fareast Islami Life Insurance Company expressed its intention to buy 2.5 million shares of Prime Insurance Company, of which it is one of the corporate directors.

## Islamic funds

IBBL has two Islamic funds: the SEMI IBBL Shariah Fund and the CAPM IBBL Islamic Mutual Fund, which started trading in March 2018. Conventional player Asian Tiger Capital Partners Investment launched a BDT100 million (US$1.2 million) Shariah fund in 2016.

IDLC Asset Management in September 2019 also rolled out its maiden Islamic fund, targeting a return per annum of 8–9% over a period of three to five years.

## Outlook

Bangladesh's Islamic banking and finance industry has ample growth potential that would enable it to hold its own with neighboring Pakistan. However, there is still a lack of comprehensive legal and regulatory infrastructure that is its biggest obstacle.

Things are expected to change for the better as new regulations continue to be issued, addressing the issues faced by Islamic banks and the Islamic capital market.

# KEYNOTE ADDRESS BY ASSISTANT GOVERNOR OF BNM ADNAN ZAYLANI AT IFN ASIA FORUM 2020 — 'REVITALIZING THE ECONOMY THROUGH VALUE-BASED FINANCE'

**Assalamualaikum and a good afternoon to all.**

"A hopeful person sees opportunities in every difficulty" — it is in this spirit that we are gathered here today, amid this health and economic crisis, at 2020 IFN Asia Forum. A very warm welcome to all, and thank you to the organizers for inviting me to deliver this address.

Revitalizing the economy is becoming an increasingly pressing imperative. Livelihoods are at stake. And as this crisis goes on, at some point, we need to replenish our capacity and buffers and rebuild our resilience. Unfortunately, we see countries experiencing a fresh spike in COVID-19 cases with the total number worldwide approaching 60 million. In addition to the human tragedy, the output losses and costs are escalating. The IMF estimated that the cost of the pandemic to the global economy will reach US$28 trillion by 2025, a staggering number. Nonetheless, global economic activity has shown improvements and there is hope in a vaccine. But the road remains challenging. Coupled with this is tackling the climate risk challenge. For now, there is some respite with the economic slowdown reducing environmentally damaging activities. But we know this is not an optimal nor long-term desirable situation. Moving forward, these 2Cs (COVID-19 and climate change) will weigh on us and finding new solutions, [and] striking a better balance will be important in striving for a sustainable economic recovery.

Islamic finance has much to offer. The moral and ethical values provide a foundation of a system that considers, beyond profits, issues of public interest, transparency and good governance, inclusion and sustainability. Traditional finance, as is often after any crisis, tends to self-reflect exactly upon these issues. This has led to the embracing of aspirations such as stakeholder capitalism, sustainability, or more recently, a proposition of a kind of reset of the economic system to deal with all the current challenges. Islamic finance already has many of these embedded. And so is our claim.

The question then is how has it fared? Has Islamic finance been part of the solution to these challenges, in particular, this crisis? Has Islamic finance measured up to expectations in delivering value to the economy and society? Has the industry acted with compassion and demonstrated agility in serving its customers in times of urgent need?

By and large, the global Islamic finance community has responded. Across many Islamic finance markets, financial relief facilities were made available. Deferment to repayments was granted, including waivers on customary charges. Restructuring facilities was also widely offered to those in need. All as part of the packages to support the recovery.

In Malaysia, Islamic finance also rose to the occasion, offering similar relief and working in tandem with the industry at large, both on the banking and Takaful side. Besides normal financing, specific purpose funds of more than RM10 billion [US$2.45 billion) primarily for SMEs, including microenterprises, were also well supported and intermediated by Islamic financial institutions. These facilities had concessionary rates and were targeted at sectors in dire need including such [those] hard-hit [such] as tourism and retail services. The industry was also at the forefront in providing assistance to individuals and SMEs through an industry-coordinated targeted repayment assistance program. This is in addition to the earlier moratorium on financing repayments that significantly eased cash flow constraints. The Takaful industry also implemented several measures including providing temporary deferment on Family Takaful contributions and jointly establishing the COVID-19 Test Fund with the insurance industry that contributed to more testing for certificate holders.

But is this good enough? Our assessment thus far is that the positive contribution and impact of Islamic finance remain fairly modest. Islamic financial institutions continue to be constrained by limited operational capabilities to provide agile and 'best in-kind' service to customers. Resources are being channeled, but mainly to address the short-term needs of the business. Structural issues relating to infrastructure, talent and impactful innovation continue to build up. Corporate KPIs [key performance indicators] remained misaligned to support long-term objectives. Incentive structures may

**ADNAN ZAYLANI MOHAMAD ZAHID**
*Assistant Governor, Bank Negara Malaysia*

also not necessarily reflect the appropriate approach in an environment where many are experiencing job losses and reductions in income. So there is still work to be done.

To this end, I would like to offer some thoughts for Islamic finance to be part of solutions-building, particularly in three key aspects: sustainability, social finance and SMEs (the 3S's).

Ladies and gentlemen,

## Stewarding the transition of the economy toward sustainability

In Islam, we are the custodians of nature. By this principle of trusteeship, economic activities should be conducted with a view to preserving our environment and protecting societal interest at large. Finance has an important role to play in aligning economic decisions with sustainability objectives and the value-based intermediation (VBI) initiative involving Islamic financial institutions in Malaysia, which was first introduced in 2017, has continued to advance forward.

The issuance of the VBI Financing and Investment Impact Assessment Framework [VBIAF] in November 2019 was a concrete step toward encouraging closer alignment of financing and investment decisions with environmental, social and governance

impact. In August this year, a series of 'Sectoral Guidance for Palm Oil, Renewable Energy and Energy Efficiency' went for consultation. Led by the VBI Community of Practitioners, the sectoral guides aim to provide technical and practical steps for industry players to integrate sustainability considerations in various business decisions. Work is also underway to develop the next VBIAF sectoral guides on manufacturing, oil and gas, infrastructure and construction, targeted for issuance in 2021.

These initiatives complement the more targeted efforts for building climate resilience within the Malaysian financial sector via the Joint Committee on Climate Change (JC3). A key priority under JC3 is the development of a principles-based taxonomy and climate risk management guidance to prepare the financial sector to support the transition to a low-carbon economy. The discussion paper on this was issued in December 2019 and is expected to be finalized by early 2021. JC3 is also paving the way for the adoption of the Task Force on Climate-related Financial Disclosures recommendations in the immediate future. In all these initiatives, Islamic financial institutions have consistently played an active role. With strong stewardship by the global Islamic finance community, further progress can certainly be made toward realizing the UN Sustainable Development Goals.

## Amplifying social impact through innovation and technology

The second aspect relates to optimizing social finance to promote social resilience. In essence, finance should aim to serve the entire society. While steady progress has been made in promoting financial inclusion worldwide, 1.7 billion adults — a significant portion of which are in Muslim-dominated countries — remain without access to formal financial services. Islamic finance can play a significant role in narrowing the finance gap.

Two levers have immense potential: digital finance and social finance. In Malaysia, there is a growing appetite to infuse social finance instruments in products and services. Over the last three years, Islamic financial institutions in Malaysia have raised more than RM20 million [US$4.91 million] through incorporating Waqf, Sadaqah and Zakat instruments to fund projects related to healthcare, education and business empowerment. Initiatives such as myWakaf, Sadaqah houses and Jariyah funds have expanded the frontiers of Islamic finance into segments that would typically be excluded from formal finance. The intermediation process is also made more efficient through digital means of payment and services. More than 10 different channels are available to mobilize social finance contributions including online and mobile banking, debit cards, QR functionalities as well as the ATM. The integration of social finance into Takaful offerings has also enabled the provision of financial protection to 18,000 'hardcore poor' households in Malaysia, with RM860,000 [US$211,066] death benefits paid in 2019.

This integration of social finance in mainstream Islamic financial services helps to better internalize the social costs and impact of finance provision. The values-driven approach in social finance motivates financial institutions to go beyond profit and manage more responsibly negative externalities that may arise from financial activities.

## Embracing entrepreneurial finance through wealth and risk-sharing

The third aspect is empowering SMEs through embracing entrepreneurial finance and supporting trade activities. This is in line with the fundamental values of Islamic finance that profit is justified when risk is accepted or shared. In an environment where capital is in the hands of a few, this call for entrepreneurial capital is vital to deliver the intended purpose of finance.

Beyond the traditional credit intermediation, the Islamic finance industry in Malaysia has gradually embraced features of entrepreneurial finance through a 'test and learn' approach, premised on a sound regulatory framework that provides certainty of Shariah contracts. A wide range of Shariah contracts are available in meeting the diverse needs of businesses. SMEs can access asset-based and equity-based financial solutions offered by Islamic financial institutions that complement the provision of traditional credit. Several Islamic financial institutions are also now supporting supply chain finance via digital platforms to assist SMEs to scale up their businesses. And the Investment Account Platform, which was established in 2016, remains available as another avenue for fundraising. Through this, RM204 million [US$50.07 million] [in] funds was raised for 13 listed projects, generating returns for more than 300 registered investors.

For micro SMEs, in May this year, a blended finance program called iTEKAD (which means 'My determination'), was introduced by the bank [Bank Islam] in collaboration with the Islamic finance industry and a network of implementation partners. Structured training and mentorship are part of the program for these selected entrepreneurs from the low-income group. The blended finance program combines social finance instruments such as Zakat, Waqf and donation with microfinancing. This combination of charity and financing helps reduce the cost of financing while also providing 'skin in the game' in the venture, both incentivizing success. More participating banks are expected to come on board in 2021 to provide a wider range of solutions and outreach for small businesses.

Looking ahead at the future needs of the economy, in an environment where households and firms are already highly leveraged, entrepreneurial finance needs to go further. Adding more and more debt cannot go on forever. This in itself can be a cause of future crises. There is also the need to invest to unlock new growth areas. Frontier activities such as bioengineering, modern farming and electrification which are anchored on innovation, new technologies and experimental business models will need more risk-absorbent capital. These are inherently high-risk activities in which deposit-backed financing may not be suitable. Expanding the breadth and depth of equity solutions and providers in the financial ecosystem is critical to realize the new economic aspirations.

Such new aspirations could also involve promoting countercyclical financing or investment. A perennial challenge of any crisis and its aftermath is overcoming risk aversion in extending financing to the economy. Normal credit intermediation is not well-positioned for this. Perhaps it is time to consider entrepreneurial finance, [and] risk-reward sharing solutions of which Islamic finance has much to offer.

Ladies and gentlemen,

As concluding words, the theme of this gathering could not be more apt. A revisit to the fundamental values in Islamic finance could be a renewed opportunity for Islamic finance to be more inclusive, responsible, ethical and impactful. To achieve a sustainable economic recovery amid extraordinary uncertainties will require sound thinking and resolve. This gathering of minds, InshaAllah, will surface new ideas to take us forward. To all participants, I wish you a productive week ahead.


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# INTERVIEW: DIGITAL BANKING 2021 OUTLOOK WITH RAHEEL IQBAL, THE MANAGING PARTNER OF CODEBASE TECHNOLOGIES

**2020 has been a notable year for a variety of reasons – historically resilient global industries buckling under the pressure of underserved markets due to social distancing, stay-at-home orders, and shuttering businesses have truly launched the new decade with many challenges to overcome. The chasm that COVID-19 has created inadvertently accelerated the bourgeoning digital landscape in Southeast Asia and across the region, with the financial industry leading the way. We interview Raheel Iqbal, the managing partner at Codebase Technologies, to understand the digital banking outlook for 2021.**

**With the introduction of a new digital banking licensing model in APAC, how do you see the adoption of digital financial services in the region?**

APAC countries have taken the initiative of introducing the digital banking license as a separate category to support innovation and enhance experiences for the end consumer. Non-traditional companies, who are often business-to-consumer entities, have applied for it hoping that they'll be able to break into this segment and disrupt the traditional banking industry. The market is already adopting digital banking, with huge growth reflected in this segment. Customers already trust these service providers with their non-banking lifestyle needs, and as such are more willing to adopt financial services being offered to them in a manner that's completely different from traditional banking methods. These challengers have the ability to transform the entire operating model, especially how customer-centrism is applied within their other services as well. If you look at the numbers across the markets where these banks have been established, they have a huge number of banking customers adopting their services.

**Will this new operating model threaten the incumbent banks?**

Between new-age business models and APAC's new digital-only license operating model, challenger banks have certainly become a threat to incumbents. These organizations are agile, delivering far more customer-centric experiences than their traditional counterparts. Challenger banks threaten incumbents because the market isn't happy with traditional banking players' services, and want its banking services delivered similarly to how non-financial organizations offer services. These organizations can break down the entire banking services value chain, identify key focal points, and deliver them with vastly improved experiences. For example, they can look at specific areas such as payments, microlending, card management or account services, and break it apart – they don't have to be a monolithic industry titan to do so – and modularize their services to offer hyper-personalized experiences to customers. Challenger banks have certainly become a threat to the market incumbents, encroaching directly into their market share.

**What should incumbent banks do to maintain their market share?**

Incumbent banks must address the legacy system architectures that they have been operating on for decades. Legacy systems are costly to maintain and update, are inefficient by modern benchmarks, and cannot quickly adapt to dynamic customer segments. A complete legacy system overhaul can be unfeasible for banks and financial institutions, and disrupt day-to-day IT operations.

This is the key driver behind our award-winning Digibanc™ Suite, which empowers banks and fintechs with a range of modular, open API [application programming interface]-driven digital banking ready solutions that can seamlessly integrate with legacy systems, creating a faster digital go-to-market proposition enhancing the overall customer experience delivery. This way incumbents can fast track their digital agenda in a fast and highly competitive market.

Islamic Corporation for the Development of the Private Sector

Member of the Islamic Development Bank Group

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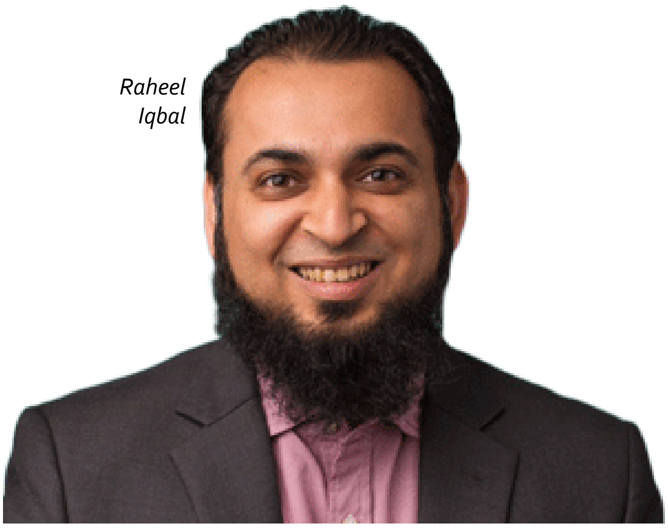
**How will this impact Islamic banks and financial institutions in the region?**

Digitization can help Islamic banks and financial institutions by offering them technological capabilities that were completely unheard of a decade ago. A modernized digital platform that allows a robust, modular architecture can drive up new customer adoption, expand the existing customer user base, and ensure that all operations are sustainable and ethical.

Islamic banks and financial institutions have immense potential across the continents they serve, which is why we wanted to elevate their technological competitiveness with our offering. Digibanc™ IslamicBanker from Codebase Technologies enables Islamic institutions to offer more personalized, intuitive customer experiences on a platform that's highly customizable, rapidly scalable, and compliant with AAOIFI and local Shariah regulations.

*Raheel Iqbal*



"Entering a market that's eager to evolve requires a depth of knowledge and agility that challenger banks won't be able to deliver without costly internal development"

**What are some of the challenges that new challenger banks will face while creating trust in the market?**

Non-financial organizations focused their energies on developing intuitive user experiences that maintain customer loyalty and stickiness within the lifestyle product space. Entering a market that's eager to evolve requires a depth of knowledge and agility that challenger banks won't be able to deliver without costly internal development. The risk involved for consumers is high – would they trust innovations for more complex, high-risk transactions, or would they be primarily used for low-risk functions, such as children's allowances and grocery payments? Building trust with new players who don't have branches or any previous mainstream banking establishment will be very difficult. Codebase Technologies helps challenger institutions by providing them mainstream, enterprise-grade systems that cover banking services in its entirety. While they develop the front-end, we support them with modern core enterprise systems to service their customers and build a mainstream-grade institution.

**Do you see the adoption of modern technology-driven operations like SaaS [software-as-a-service] and cloud computing in the region?**

SaaS and cloud adoption in Asia for small-to-medium sized businesses has already been happening over the past 10 years. For challenger banks and incumbents alike, cloud-enabled solutioning has been consistently growing in popularity in recent years. Cloud-enabled technologies are crucial for challenger banks because adopting that method of solution delivery expands possibilities for the digital ecosystem. Cloud-based models effectively improve scalability management and cost effectiveness as well as flexible product and service deployability. Maintenance of a cloud-enabled platform is also much smoother because updates and servicing are centrally applied and automatically deployed to each instance. Our engineers have created a powerful digital banking platform-as-a-service called Digibanc™ SaaS, a highly secure platform which delivers enterprise-grade, cloud-enabled digital banking and financial services operability. Digibanc SaaS is built on a modular open-API framework that drives seamless business agility, rapid scalability, and streamlined operational efficiency for banks and financial institutions.

**What should be the next step for banks to remain digitally relevant?**

Banks and financial institutions need to first understand that the historical approach to technology can no longer work in an environment that's constantly implementing new innovations. They then need to enhance their legacy core systems with technologies that reduce operating times, simplify complex processes, and revitalize the customer journey on deeply penetrated channels. In order for institutions to rapidly deploy the enhancements needed to compete with challenger banks, they need to take on external support. Codebase Technologies transforms client businesses by enhancing their business agility, empowering seamless scalability, and delivering intuitive, customer experiences. We look forward to working with institutions across the region to evolve their technological capabilities, and reshape the landscape of digital financial services.

CODEBASE TECHNOLOGIES | Demystifying Digital Financial Services


# ISLAMIC FINANCE GROWTH TO CONTINUE WITH ADOPTION OF INDEX-BASED INVESTING

**Islamic indices provide market participants with a comprehensive set of benchmarks covering equities and Sukuk, as well as a wide variety of investment themes and strategies. These solutions encompass the diverse benchmarking needs of the Islamic investment community and have continued to gain adoption in today's economic environment.**

## Review of 2020

Global Shariah compliant equity benchmarks performed positively through the 30th October 2020 — gaining 10.4% — as measured by the S&P Global BMI Shariah, even amid the devastating economic effects of the global coronavirus pandemic. As shown in Table 1, Islamic indices enjoyed record outperformances vs. conventional counterparts in 2020. The double-digit outperformance, while illustrative of the continued growth of technology-oriented companies and the near absence of an underperforming finance sector, has now held for some years. This backdrop of historically rising and outperforming Shariah equities may serve as a tailwind for continued development of Shariah-compliant equity solutions.

*The emergence of Islamic ETFs in the US*

One area of renewed interest lies in North America, where just 18 months ago, only a handful of active asset managers offered robust Shariah services and US listed exchange-traded funds (ETFs) were still not available.

Following the recent launch of three new US listed ETFs representing Shariah compliant US equity and global Sukuk, these funds now represent approximately US$110 million in assets (see Table 2). Index-based product availability has increased and usage, while still very small, is growing in the region.

| Table 1: Comparative returns (year-to-date (YTD) through the 30th October 2020) | | | |
|---|---|---|---|
| **Benchmark** | **Shariah (%)** | **Conventional (%)** | **Variance (%)** |
| S&P Global BMI Shariah | 10.4 | -1.4 | 11.8 |
| DJIM World Index | 11.4 | -1.4 | 12.8 |
| S&P 500® Shariah | 8.9 | 2.8 | 6.1 |

*Source: S&P Dow Jones Indices. Data as of the 30th October 2020. Index performance based on total returns in the US dollar. Past performance is no guarantee of future results. Table is provided for illustrative purposes.*

| Table 2: US listed Islamic ETF growth YTD | | | |
|---|---|---|---|
| **ETF** | **Inception date** | **AuM (US$ million) 30th Dec 2019** | **AuM (US$ million) 30th Oct 2020** |
| SP Funds Dow Jones Global Sukuk ETF (SPSK) | 30th Dec 2019 | 19.9 | 29.9 |
| SP Funds S&P 500® Shariah Industry Exclusions ETF (SPUS) | 18th Dec 2019 | 23.6 | 30.2 |
| Wahed FTSE USA Shariah ETF (HLAL) | 15th July 2019 | 26.5 | 49.7 |
| **Total** | - | **69.9** | **109.8** |

*Source: FactSet. Data as of the 30th October 2020. Table is provided for illustrative purposes.*

*Broad-based sustainability push*

Increased interest in values-based, sustainable investing beyond Shariah-specific requirements has likewise exemplified robust growth. ETF products based on the S&P 500 ESG, designed to measure the performance of securities meeting sustainability criteria, while maintaining similar overall industry group weights as the S&P 500, now account for approximately US$1.6 billion, a threefold increase this year alone, indicating broader adoption of values-based investing.

Financial advisors, charged with offering the best solutions for their clients, are looking for turnkey solutions to service Muslim investors. Significant progress has been made in the last year, and we suspect that demand still remains unsatiated.

## Preview of 2021

In our SPIVA (S&P Indices Versus Active Funds) reports, our colleagues demonstrate that through the first half of 2020, 77.97% of US large-cap funds underperformed the S&P 500, while in India 80.43% of Indian large-cap funds underperformed the S&P BSE 100. These and other studies across geographies serve to demonstrate the benefits of lower-cost passive index solutions that have historically outpaced the performance of active managers. Continued awareness of the viability of such offerings will serve to benefit Islamic investors.

*Continued growth of passive*

Passive ETFs have been the fastest-growing financial instrument in the last decade, far outstripping the growth rate of active mutual funds. Total ETF assets under management (AuM) increased by US$600 million this year alone (figures through the third quarter), surging past US$6.8 trillion of AuM globally. In comparison, while Islamic ETF AuM continue to grow, total assets stand at approximately US$530 million.

*Diversified product sets*

The further adoption of such products may lie in the development of additional strategies and asset classes to compete more directly with active strategies. Other asset classes, such as REITs, may also aid. Multifactor strategies, such as the recently launched DJIM Developed Markets Quality & Low Volatility Index, may help to fill gaps to compete more directly with active strategies. This index, for example, measures the performance of developed market Islamic stocks, and targets companies with the highest combination of quality and low volatility multifactor scores, and subsequently weights the components so that the least volatile companies receive the highest weights.

*Fiduciary practice*

One manner for index solutions to really take off in many key Muslim-majority markets is a greater emphasis on education. Active management is deeply entrenched both culturally and within the incentive structures of some regional financial industries. Financial advisors need to adopt fiduciary models and a greater awareness of the benefits of reduced investment costs via passive products in order to drive adoption in these markets.

## Conclusion

Global Islamic indices have continued to outperform conventional counterparts well into 2020 and these robust gains may serve to further promote their adoption. Increased awareness and availability of passive ETF products are likely to drive continued asset flows into this segment. Further developments, including additional product offerings and a shift toward greater fiduciary standards, would lend further benefits.

*John Welling is the director of equity indices at S&P Dow Jones Indices (S&P DJI). He can be contacted at john.welling@spglobal.com.*

# SHARIAH INVESTING ON BURSA MALAYSIA-*i*

**The Islamic capital market is a key constituent of the Malaysian capital market, serving as a sophisticated platform for Shariah compliant products and services in the region.**

**Malaysia's Islamic capital market has recorded robust growth over the past decade. As of October 2020, the size of Malaysia's Islamic capital market increased to RM2.1 trillion (US$513.23 billion) and accounted for 66.3% of the total size of the Malaysian capital market of RM3.2 trillion (US$782.07 billion). Malaysia continues to maintain its leading position with a market share of 46% in global Sukuk issuances.**

The Malaysian equity market has seen an increase of more than 300% in market capitalization since 1997. As of October 2020, Shariah market capitalization stood at RM1.2 trillion (US$293.28 billion), which makes up 71.9% of the total market capitalization of RM1.6 trillion (US$391.03 billion). As at the end of October 2020, the average daily trading value (ADV) of Shariah compliant securities traded on the exchange was RM3.1 billion (US$757.63 million), which is 77.3% of the overall ADV of RM4 billion (US$977.58 million).

Bursa Malaysia, as a leading emerging market exchange, offers a good breadth of Shariah compliant securities that are listed on the Main, ACE and LEAP markets.

As of October 2020, there were 718 Shariah compliant companies (or 76.6%) out of a total of 937 companies listed on Bursa Malaysia.

Bursa Malaysia is committed to the comprehensive development of its Islamic capital market. It invests its resources into the market ecosystem to develop the infrastructure and enablers necessary for its long-term sustainability. The Islamic capital market is an important area of development of the national economy, and the exchange has aligned its Islamic capital market priorities with this national goal. As such, Bursa Malaysia not only acts singly as a stock exchange operator, but also in collaboration with key market players such as market intermediaries including stockbroking firms and fund managers, government agencies and private organizations to move the Islamic capital market agenda forward.

It is worth noting that Bursa Malaysia has made leadership in the Islamic capital market a main strategic aspiration, and the evidence suggests that it is on the right track to building a vibrant market for the future. While the exchange is being recognized as a leader in the Islamic capital market, Bursa Malaysia faces greater competitive pressure from peer exchanges. Against this backdrop, it remains committed to continuous innovation of the market going forward without sacrificing its commitment to uphold Shariah compliance.

## Bursa Malaysia-*i*: The world's first end-to-end Shariah compliant platform

As the leading exchange in the Islamic capital market, Bursa Malaysia continues to evolve and innovate. Launched in September 2016, Bursa Malaysia-*i* is the world's first end-to-end Shariah-compliant investing platform and a significant development by

Bursa Malaysia to ensure that the exchange continues to offer a comprehensive suite of Shariah compliant investing and exchange-related services. It aims to further attract a wider pool of both domestic and foreign investors as well as issuers. Bursa Malaysia-*i* offers a comprehensive suite of Shariah compliant investing and exchange-related services, including listing, trading, clearing, settlement and depository services, creating a more facilitative environment for investors to invest and trade via a Shariah compliant platform.

> "Choosing investment activities anchored on Shariah and characterized by long-term socially responsible perspectives build greater stability and ensures the socioeconomic wellbeing of our nation. We believe this will considerably broaden the appeal for Shariah investing"

The platform supports Shariah compliant products that are listed on Bursa Malaysia, which include stocks (*i*-Stocks), exchange-traded funds (*i*-ETFs), REITs (*i*-REITs) and Exchange Traded Bonds and Sukuk (ETBS). The products allow investors to build a multi-asset Shariah compliant portfolio that can be benchmarked against Shariah compliant indices.

The establishment of Bursa Malaysia-*i* further elevates Bursa Malaysia's status as a leading ASEAN marketplace and emerging-market leader for Shariah compliant trading activities across ASEAN and the world. Since Bursa Malaysia-*i*'s inception in September 2016, it has delivered a positive and sustainable impact on the development of the country's Islamic stockbroking services industry.

There are currently 16 brokers providing Islamic stockbroking services. Having more intermediaries such as these Islamic brokers will facilitate the promotion of Shariah compliant products and Shariah investments on Bursa Malaysia-*i*.

In recent years, the exchange has noted a mounting demand from international and domestic investors who are seeking Shariah compliant offerings as a diversification option to achieve insulation from the volatility of other asset classes. As of October 2020, the exchange's end-to-end Shariah compliant Bursa Malaysia-*i* platform has seen regional interest, reflecting the interest in Shariah compliant responsible investment.

Socially responsible investing within the Islamic proposition brings added advantages to the economy and society as a whole. They include the following:

(i) A reduction in uncertainty and leverage levels in the business community
(ii) Maintains stability by removing businesses based on speculative ends, and
(iii) Promotes sustainable businesses and investment activities that entail positive results with stable prospects and the welfare of society.

As a result, choosing investment activities anchored on Shariah and characterized by long-term socially responsible perspectives build greater stability and ensures the socioeconomic wellbeing of our nation. We believe this will considerably broaden the appeal for Shariah investing.

It is expected that the Bursa Malaysia-*i* platform will grow steadily, complemented by the shift toward value-based investing that appears to track the increasing demand for Shariah compliant financial solutions. This has created a growing appetite for Islamic capital market products and services, and it is no longer just the domain of Muslim investors. Principled investing practices based on Shariah are one part of the equation to living life responsibly through responsible, value-based investing.

We are also honored to win the Best Stock Exchange for Islamic Listings during the 14th IFN Service Providers Poll for the second consecutive year. This global recognition from IFN is yet another milestone that will encourage our ongoing efforts to further advance and strengthen Bursa's capabilities.

*This article was contributed by Bursa Malaysia.*

*Bursa Malaysia is an exchange holding company incorporated in 1976 and listed in 2005, and has grown to be one of the largest bourses in ASEAN today. Bursa Malaysia operates and regulates a fully-integrated exchange offering a comprehensive range of exchange-related facilities, and is committed to Creating Opportunities, Growing Value. Learn more at www.bursamalaysia.com.*

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## Vision

ITFC is the leading provider of trade solutions for OIC Member Countries' needs

## Mission

ITFC is a catalyst for trade development among OIC Member Countries and beyond

The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. Commenced operations in January 2008, ITFC has provided more than US$51 billion of trade financing to OIC Member Countries, making the Corporation the leading provider of trade solutions for OIC Member Countries' needs. With a mission of being a catalyst for trade development among OIC Member Countries and beyond, the Corporation helps entities in Member Countries gain better access to trade finance to support their critical sectors; and provides integrate programs: capacity building and trade development, which would enable them to successfully compete in the global market.

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# VISION OF A FUTURE-MAKER: SUSTAINABLE INVESTING AS A MULTI-DECADE OPPORTUNITY

**During the pandemic-driven market downturn this year, environmental, social and governance (ESG) funds and indices have outperformed traditional funds and indices, highlighting the opportunities and strengths of sustainable investing.**

**According to index provider MSCI, its four global ESG indices outperformed the MSCI ACWI (All Country World Index) in the first quarter of 2020.[1] Financial information provider Morningstar also found that from the 1st January 2020 to the 30th June 2020, based on funds available to US investors, an impressive 72% of sustainable equity funds rank in the top halves of their Morningstar categories and all 26 ESG index funds have outperformed their conventional index-fund counterparts.[2]**

"This can in part be explained by the fact that business resilience is at the core of sustainable or ESG investing practices. A common objective of integrating ESG into fundamental investment practices is to improve how risk can be identified and mitigated. This means considering a broader range of financially material issues that traditional financial analysis may capture," says Jane Ambachtsheer, the global head of sustainability at BNP Paribas Asset Management (BNPP AM).

Although the resilience of ESG investment strategies and indices has been encouraging to date, the real value of ESG analysis in an investment process should be evaluated over the long term, Ambachtsheer adds, as opportunities identified may be structural and the effect on asset prices takes time to play out. This, however, creates opportunities for investors to participate in the sustainable investing space.

## Sustainability across assets

The overall sustainable investment approach of BNPP AM centers around four pillars which are ESG integration; stewardship — which covers proxy voting, engagement and public policy; responsible business conduct and sector-based exclusions; and a forward-looking perspective on the '3E's' (Energy transition, Environmental sustainability, and Equality and inclusive growth), leading the pathway to economic sustainability.

"We have integrated ESG across our investment strategies, as we believe it enhances risk-adjusted returns and helps us make better-informed investment decisions. We are committed to being a 'future-maker', using our investments, our voice and our leverage to shape a better future," says Ambachtsheer. By September 2019, BNPP AM became the first global asset manager to announce that its flagship fund range is 100% sustainable.

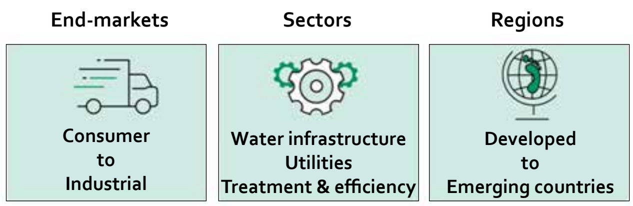
BNPP AM is recognized as a responsible investment leader globally and locally in Malaysia. It is one of only five asset managers to have achieved an 'A' rating for its approach to responsible investment — the highest currently awarded by ShareAction to any asset manager worldwide. The firm is the most-awarded global manager by key Asia Pacific regional trade publications in the sustainable investment space in 2019/2020, clinching accolades such as 'Best ESG Advisor' by Asian Investor and 'Best ESG Manager' at the Asia Asset Management: 2020 Best of the Best Awards. In Malaysia, the firm was named the 'ESG Asset Management Company of the Year' by The Asset Triple A Sustainable Investing Awards for Institutional Investor, ETF, and Asset Servicing Providers in 2020 and also snagged its fourth consecutive win for 'Best International Equity Fund Manager: FTSE Ethical World Developed Manager' at the Employees Provident Fund External Fund Managers Annual awards 2020.

## Water and energy transition: Opportunities in sustainable investing

The call to shape a better future is an urgent one. The growing global population — forecast to grow by two billion to surpass nine billion by 2050, according to the UN's report titled '2019 Revision of World Population Prospects' — will exert further stress on the Earth's resources. According to some estimates, this trend, alongside rising incomes, will increase the demand for energy, food and water by 35% to 50% by 2030, according to Morgan Stanley's 'The Business Case for Sustainable Investing' report.

There is an increasing gap between supply and demand for water globally caused by drivers such as population growth, increasing urbanization and greater affluence in developing countries. At the same time, ageing global water infrastructure is in need of repair, water regulations are tightening, while extreme weather patterns are exacerbating the strains on global fresh water supply. Some of these are also problems for Malaysia, where unusual hot spells and leakage from ageing infrastructure have disrupted water supply to households.

**Figure 1: Water investment opportunities cut across**




*Source: BNPP AM*

[1] *MSCI, MSCI ESG Indexes during the coronavirus crisis, April 2020*
[2] *Morningstar, Sustainable Stock Funds Held Their Own in Second-Quarter Rally, July 2020*

*Jane Ambachtsheer, Global Head of Sustainability at BNP Paribas Asset Management*

However, it is not all doom and gloom as these issues are driving the transformation in environmental markets. Substantial capital investment is being pumped into companies active in the water industry, which is poised for rapid growth. This offers an evergreen, multi-decade opportunity with attractive potential returns for investors.

The global water investment universe is deep and diverse.

Investment opportunities are open along the entire water value chain, from companies providing pipeline and network facilities to cost-efficient desalination technologies. Many are in fact innovative and fast-growing companies that offer solutions relying on advanced technologies, for example, real-time leak detection and meter reading, smart irrigation systems using GPS data and UV-disinfection water treatment.

Energy transition is likewise an area full of opportunities due to increasing energy demand, a changing energy mix and the need for energy-efficient solutions to address climate change.

To prevent global average temperatures from rising more than two degrees Celsius as stipulated by the Paris Agreement, energy-related emissions must be cut by as much as 70% in 35 years. This requires a massive shift in capital and policy change to diversify the energy mix and increase efficiency. About US$29 trillion-worth of investment is expected to support this cause between 2020 and 2050.[3]

"The economics of green and renewable energy solutions have been improving rapidly and could represent an opportunity to direct economic stimulus to enhance the transition toward low or no-carbon alternatives, such as solar and wind energy. In that regard, it is encouraging to note that the European Union's recovery plan earmarked 30% of the package for climate protection, with the requirement for all allocated funds to contribute to the EU's emissions-cutting goals," says Ambachtsheer.

Selecting from a large investment universe of 1,200 companies,

**Figure 2: BNPP AM investment approach encompasses decarbonizing, digitalization and decentralizing the global energy**

| Decarbonizing | Digitalizing | Decentralizing |
|---|---|---|
| ■ Renewable & transitional energy generation<br>■ Wind power generation equipment<br>■ Solar energy generation equipment<br>■ Biofuels production<br>■ Fuel cells & battery production<br>■ Other renewable energy equipment | ■ Industrial energy efficiency<br>■ Green building equipment & materials<br>■ Renewable energy materials<br>■ Advanced & energy efficient materials | ■ Alternative vehicles & transportation<br>■ Alternative transportation materials<br>■ Smart power & networks |

*Source: BNPP AM*

BNPP AM's energy transition strategy seeks to invest in three key areas: decarbonizing, digitalizing and decentralizing of the global energy system.

The diverse opportunities in energy transition and water provide investors with exposure to companies typically not found in a traditional equities portfolio. With BNPP AM's sustainable thematic strategies, investors can focus on specific areas of sustainable action while enjoying the structural growth in areas such as energy transition and water, fueled by the expertise of fund managers who are knowledgeable in environmental markets investing and are able to identify mispriced opportunities to uncover innovative companies.

## Committed to sustainable investing

While sustainable investing has become more popular in recent years, the industry still faces a key challenge around the availability, comparability and quality of ESG data and how it can add insights to the ESG performance of issuers.

To tackle this challenge, BNPP AM developed its own proprietary ESG scoring methodology that focuses on a selection of material and quality ESG metrics for each sector.

Commendable progress has been made in terms of ESG transparency and disclosure as well. "Beginning from the fourth quarter of 2020, we will be disclosing our portfolios' weighted average ESG scores and carbon footprint versus the benchmark on our fund factsheets in order for investors to have the data and confidence to make better-informed investment decisions," shares Ambachtsheer.

*For more info, visit: https://bnpparibas-am.com.my/investment-capabilities/sustainable-investing/.*



[3] *Source: 'Perspectives for the Energy Transition, Investment needs for a Low-Carbon Energy System', March 2017. Net energy transition add up to US$54 trillion with avoided investments on fossil fuels, nuclear electricity generation and upstream E&P [exploration and production] sector adding up to US$25 trillion, hence resulting in net investments of US$29 trillion between 2015 and 2050.*


# EVOLUTION OF SHARIAH FUNCTIONS UNDER SHARIAH GOVERNANCE

**Compliance to Shariah is a fundamental requirement for all Islamic banks. All products, instruments, operations and activities of Islamic banks must comply with the Shariah rules and principles. Bank Negara Malaysia (BNM) has put a great importance on Shariah compliance. In ensuring so, BNM had in 2011 introduced the Shariah Governance Framework (SGF) for adoption by all Islamic banks including Islamic window operations to ensure that the overall Islamic financial system operates in accordance with Shariah principles.**

**The SGF is aimed at enhancing the role of the board of directors, the Shariah committee and the management in relation to Shariah matters through the institutionalization of a Shariah governance structure where Shariah governance is implemented through the key Shariah functions on review, audit, risk management and research. Recently, BNM issued a revised Shariah Governance Policy (SGP). The SGP supersedes the SGF issued in 2011 with the aim of having effective Shariah governance arrangements. The Shariah governance arrangements are expected to be well integrated with business and risk strategies of the respective Islamic banks.**

The SGF focused on the institutionalization of Shariah governance in Islamic banks. It had categorized Shariah review and Shariah audit as Shariah compliance functions supported by Shariah risk management as a control function as well as Shariah research whose function is to perform in-depth research, vet issues and provide advisory based on the decision by the Shariah committee and undertake secretarial roles to the Shariah committee in order to boost the Shariah governance culture of Islamic banks. The SGP, on the other hand, focuses on the effective management of Shariah non-compliant risk where it has categorized Shariah risk management, Shariah review and Shariah audit as control functions under Shariah governance.

## Shariah secretariat

Shariah secretariat and research is one of the key Shariah functions under the SGF. It has two main functions — Shariah research and the Shariah secretariat. However, this function has been excluded from Shariah control functions under the SGP. The provision on the Shariah secretariat, instead, comes after the Shariah committee. The Shariah secretariat plays a pivotal role in the effective functioning of the Shariah committee on Shariah matters. The Shariah secretariat not only serves the Shariah committee in terms of administrative, meeting coordination and compiling papers for deliberation but includes bridging the Shariah committee with the other organs within the banks such as the board of directors and the management through communication and dissemination of information among them.

The Shariah secretariat is also responsible for disseminating resolutions made by the Shariah Advisory Council of BNM as well as decisions made by the Shariah committee to the relevant stakeholders through providing day-to-day advice to business units based on such decisions.

One important change from the earlier SGF is that the Shariah research function has been diluted from the SGP but forms part of the Shariah secretariat. BNM expects individual Islamic banks to structure Shariah research according to their business goals. The Shariah research function is important to assist the Shariah committee to arrive at a decision for Shariah issues brought up by the business units or Shariah control functions by providing in-depth research on Shariah for a particular Shariah issue. Perhaps this is the reason behind the integration between Shariah research and the Shariah secretariat, ie for the smooth functioning of the Shariah committee. In terms of educational background, both the SGF and the SGP require persons with Shariah qualifications to carry out the research function, either in Usul Fiqh or Fiqh Muamalat. The same qualifications are also required for an advisory role under the Shariah secretariat.



## Shariah review

Shariah review refers to a function that provides a regular assessment on the degree of compliance of a bank with Shariah requirements in terms of its operations, business, affairs and activities. Previously under the SGF, the function shall be performed by qualified Shariah officers who possess at least a Bachelor's degree in Shariah which includes study in Usul Fiqh (the origin of Islamic law) and Fiqh Muamalat (Islamic transaction/ commercial law). The SGP does not require such a qualification; however, this function can still be performed by officer(s) with Shariah qualifications. In addition, the officer undertaking such a role shall have a sound understanding of Shariah requirements related to the banking business. The senior officer responsible for compliance is accountable for the Shariah review function.

The SGF and SGP expect the Shariah review function to develop a comprehensive review program which includes, among others, planning and reporting of a review report to the Shariah committee and the board, together with a rectification of instances of non-compliance with Shariah to prevent recurrence.

Under the SGF, Shariah review is required to review the product development process which includes preparing Shariah justifications such as Fiqh literature, evidence and reasoning and Shariah research. This scope is no longer documented under the SGP. Perhaps, this can instead be performed by the Shariah secretariat under an advisory and research role.

Under the SGP, the scope of Shariah review shall include identification, assessment and monitoring of compliance of a bank's operations and activities. The Shariah review function is responsible to report Shariah non-compliance issues and findings to the board and the Shariah committee. It is also accountable for providing the latest updates to the board and the Shariah committee on the latest developments concerning legal and regulatory requirements governing a bank's activities. It also needs to ensure that adequate training is provided to officers undertaking an Islamic banking business, operations and activities.

## Shariah risk management

Shariah risk management refers to a function that systematically identifies, measures, monitors and control Shariah non-compliance risk. Under the SGF, Shariah risk management is required in order to mitigate any possible non-compliance events. Under the SGP, Shariah risk management is required to report Shariah non-compliance risks arising from the business, operations and activities of a bank.

The SGF required the Shariah risk management function to be integrated with the risk management framework of a bank. The SGP, thereafter, requires Shariah risk management to be integrated with enterprise-wide risk management. In doing so, Shariah risk management is expected to report Shariah non-compliance risk exposure to the board, the Shariah committee and the management in relation to the enterprise-wide risk management.

The SGF required the Shariah risk management function to be performed by an officer that has suitable qualifications or experience in Shariah, whereas the SGP requires this function to be performed by a risk officer who has the requisite knowledge on Shariah requirements. In addition, the Shariah risk management function should be able to constructively challenge decisions that may lead to Shariah non-compliance risks. The senior officer responsible for risk management shall be responsible for the Shariah risk management function.

There is not much difference in terms of the scope of Shariah risk management between the SGF and SGP, which includes, among others, identification, measurement, monitoring and control or reporting of Shariah non-compliance risks.

## Shariah audit

Shariah audit refers to a function that performs an independent assessment on the overall compliance of a bank toward Shariah requirements where the Shariah auditor is the party who adds value and improves the degree of compliance of a bank in its business operations through the assessment of the effectiveness of its internal control system. The SGP further adds that the Shariah audit function is required to perform an independent assessment not only on internal control but to include risk management, the governance process and the overall compliance of the business, operations, activities and affairs of a bank with Shariah.

Under the SGF, the Shariah audit function is to be performed by internal auditors who have adequate Shariah knowledge and training. In performing the function, internal auditors may engage internal Shariah expertise provided that it does not compromise the objective of the audit. The requirement is elevated under the SGP where the function shall be performed by qualified internal auditors who have the requisite knowledge on Shariah requirements. Under the SGF, those officers who perform the Shariah audit function shall be able to perform the overall audit function in order to serve other entities within the group; this is not required under the SGP. The senior officer who is responsible for internal audit shall be responsible for the Shariah audit function.

The SGF required at least an annual assessment on the critical areas of Shariah audit while this requirement is not stated in the SGP. Both the SGF and SGP require banks to develop a comprehensive audit program which consists of, at the minimum, an audit methodology, plan and procedure on how an audit shall be conducted and documented and reported to the Shariah committee and the board.

With the revisions made as incorporated into the SGP, it is envisioned that the Shariah governance structure of Islamic banks including Islamic window operations will be further strengthened with the ultimate aims of complying with Shariah rules and principles and instilling confidence in customers and investors.

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NEW BNM SHARIAH GOVERNANCE POLICY DOCUMENT: SPECIFIC ANALYSIS ON REQUIREMENTS PERTAINING TO THE SHARIAH COMMITTEE

# EVOLUTION OF THE SHARIAH GOVERNANCE FRAMEWORK IN MALAYSIA

**Sound and robust Shariah governance is integral to Islamic financial system stability. This will not only protect the sanctity of Shariah but also instills public confidence in the Islamic financial system. Imagine an Islamic financial system left on its own whim to operate without the need to have Shariah governance in place. Will it comply with Shariah principles without anyone to supervise or oversee it? Which rules of Shariah to comply with? Any check and balance in place? With this in mind, it is fortunate that Malaysia has long been practising and putting in place proper regulations pertaining to Shariah governance.**

**Malaysia has come across a few stages of development in Shariah governance under the jurisdiction of Bank Negara Malaysia (BNM). The development involved can be described as follows:**

1. **Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions**

   The first guideline was issued by BNM in December 2004 and took effect on the 1st April 2005. It established a significant foundation for a Shariah governance framework for Islamic financial institutions in Malaysia. The main objective of the guideline was to set out the rules, regulations and procedures in the establishment of a Shariah committee; to define the role, scope of duties and responsibilities of a Shariah committee; and to define the relationship and working arrangement between a Shariah committee and the Shariah Advisory Council (SAC) of BNM.

   This is considered the first step by BNM in codifying matters pertaining to Shariah governance in the Islamic banking industry, in particular related to the Shariah committee.

2. **Shariah Governance Framework for Islamic Financial Institutions**

   Subsequently, BNM issued the Shariah Governance Framework for Islamic Financial Institutions in 2010 which took effect on the 1st January 2011 (SGF 2010) and it superseded the earlier Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions. The framework led to the institutionalization of governance structures, policies and processes to promote end-to-end Shariah compliance in Islamic finance operations. Moreover, BNM had developed the framework with the primary objective of enhancing the role of the board, the Shariah committee and the management in relation to Shariah matters, including enhancing the relevant key organs having the responsibility to execute the Shariah compliance and research functions aimed at the attainment of a Shariah-based operating environment.

   The issuance is most welcome to the Islamic banking industry which has seen tremendous development and many players entering the field.

3. **Shariah Governance Policy Document and overview**

   After a lapse of seven to eight years, BNM has now seen it apt to appraise the provisions in SGF 2010. This culminated in BNM issuing the new Shariah Governance Policy Document (SGPD) on the 20th September 2019. This new SGPD superseded the earlier SGF 2010. The new SGPD which takes effect on the 1st April 2020 (except paragraph 12.5 which comes into effect on the 1st April 2023) comes with expectations for effective Shariah governance arrangements that are well-integrated with business and risk strategies of an Islamic financial institution.

   Specifically, this SGPD sets out strengthened oversight accountabilities on the board, Shariah committee and other key organs involved in the implementation of Shariah governance. Another area relates to the Shariah committee's objectivity to reinforce a sound decision-making process and robustness of internal control functions for the effective management of Shariah non-compliance risks. Lastly, BNM also expects to see evidence of better alignment in promoting a strong Shariah compliance risk culture within Islamic financial institutions. This is in line with the more active roles expected of the board, Shariah committee and senior management.

## Analysis of Shariah Governance Policy Document (SGPD) 2019 on the Shariah committee

The focus of this article is on the Shariah committee in light of the new SGPD. The requirement to establish a Shariah committee at the respective Islamic financial institutions is not a new prerequisite. The establishment of a Shariah committee is required under Sections 30–36 of the Islamic Financial Services Act (IFSA) 2013 as well as under Guideline 2004 and SGF 2010. These provisions in the IFSA highlight the intention of the lawmaker in matters pertaining to the appointment, duties, cessation and qualification of the Shariah committee members in Islamic financial institutions.

Sound and robust Shariah governance won't be achieved without having a Shariah committee which plays a vital role in ensuring an Islamic financial institution's aims, operations, business, affairs and activities are in compliance with Shariah.

1. *Appointment of a Shariah committee*

The Shariah committee members shall be appointed subject to Section 31 of the IFSA and paragraph 12 of the SGPD. Among the new requirements imposed in the SGPD is the tenure limit for the appointment of Shariah committee members. Effective from the 1st April 2023, a Shariah committee member must not serve the same Islamic financial institution for more than nine years. BNM, in response to feedback received on the SGPD, believes that the renewed composition of the Shariah committee can contribute toward providing fresh perspectives and enrich Shariah deliberation and the overall competence of the Shariah committee. Plus, it is basically consistent with the criteria applied for independent directors in the Corporate Governance Policy Document

The SGPD also provides that a Shariah committee member must be not an active politician. An active politician refers to an individual who is a member of any national or state legislative body, or who is an office bearer of, or holds any similar office or position in a political party. From a good governance perspective, this new requirement is a pragmatic approach in ensuring no political influence or bias in a Shariah committee's resolutions and decisions, as well as ensuring Shariah committee members have ample time to focus on the task at hand.

Furthermore, the timeline of the appointment and reappointment of Shariah committee members and the chairman of the Shariah committee has been revised in the SGPD. The new timeline for Islamic financial institutions to submit an application is at least three months before the proposed candidate is to assume his/her responsibilities. In contrast, in the previous SGF 2010, the application must be submitted at least 60 days before the proposed date of appointment. Hence, with a longer period given, it provides ample time for BNM to carefully assess and consider justifications on every application for appointment submitted by Islamic financial institutions. The important role of the Shariah committee in the industry necessitates scrutiny of the candidates.

2. *Composition of the Shariah committee*

The composition requirement of the Shariah committee in the SGPD is still maintained at a minimum of at least five members. However, for an Islamic financial institution operating as an Islamic window or a foreign branch in Malaysia, the Shariah committee must be of at least three members for every institution. As a result, it may boost the industry with the advancement of the Islamic finance environment.

Moreover, in the earlier Shariah Governance Exposure Draft (SGED) issued in 2017, it was stipulated that the appointment of Shariah committee members in every Islamic financial institution must comprise an Islamic finance practitioner. According to the SGED, an Islamic finance practitioner is defined as a person who is qualified in banking, accounting, finance, Takaful, actuary, risk, legal, treasury, audit or other areas related to Islamic finance, with at least 10 years of experience in his own area of expertise and have reasonable Islamic finance knowledge. Nonetheless, BNM had considered the industry's feedback and removed this requirement in the final SGPD. However, in order not to preclude Islamic financial institutions from appointing any Islamic finance practitioner as Shariah committee members, BNM has revised the final document, whereby the Shariah committee must be made up of Shariah qualified persons or experts who possess skills, knowledge and experience relevant to support the roles and responsibilities of the Shariah committee. It is envisioned that the appointment of related experts into the Shariah committee will add value to the discussions to account for various perspectives.

3. *Roles of the chairman of the Shariah committee*

In the new SGPD, BNM has emplaced greater expectations on the roles of the Shariah committee's chairman compared to the earlier SGF 2010. Among others, the Islamic financial institution must be fully satisfied with the proposed chairman based on the Islamic financial institution's objective assessment. Plus, the proposed candidate must be able to perform his expected roles and responsibilities and be able to meaningfully contribute to the Shariah committee as a whole. Moreover, for any application for the reappointment and termination of the chairman as well as other Shariah committee members, the Islamic financial institution must provide relevant justifications together with performance assessments to BNM.

In addition, the chairman of the Shariah committee is also required to lead the efforts to manage the Shariah committee's developmental plans. Among others, the Shariah committee members must continuously develop a reasonable understanding of the business and operations of the Islamic financial institution and keep abreast with relevant market and regulatory developments.

Lastly, the SGPD has also specifically indicated the roles of the chairman in order for the effective functioning of the Shariah committee. In fulfilling the roles, the chairman of the Shariah committee must:

a) ensure appropriate procedures are in place to govern the Shariah committee's deliberations and proceedings
b) act as a direct liaison between the board and the Shariah committee to foster greater understanding between both organs
c) ensure that Shariah decisions or advice are made on a sound and well-informed basis, including based on a robust decision-making methodology which ensures that all business, operations and risk implications are considered by the Shariah committee
d) encourage healthy discussion, participation and contribution, and ensure that dissenting views can be freely expressed and discussed, and

e) ensure sufficient records of the discussion leading to the formulation of the Shariah committee's decision or advice are maintained.

*4. Frequency of Shariah committee meetings*

The Shariah committee meeting is the main platform of interaction between the Shariah committee and the Islamic financial institution. Currently as a minimum, an Islamic financial institution must hold its Shariah committee meetings at least once every two months. This requirement remains unchanged from the previous SGF 2010. Nevertheless, in the earlier SGED, it was stipulated that the Shariah committee meeting must be held at least once every two months and the meeting must be held within 60 days of the last preceding meeting at all times. Omitting the requirements of "within 60 days of the last preceding meeting at all times" in the SGPD is a relief to Islamic financial institutions. Hence, it provides flexibility to Islamic financial institutions in planning the Shariah committee meetings without any specific timeline constraint which may trigger a regulatory breach.

Furthermore, the SGPD also provides greater flexibility for Islamic financial institutions operating as an Islamic window or a foreign branch in Malaysia in scheduling their Shariah committee meetings, wherein, the respective Islamic financial institution must hold its Shariah committee meetings at least two times a year. Indirectly, such a requirement portrays significant support by BNM to new Islamic financial institutions which are small and less complex in managing and planning Shariah committee meetings.

*5. The decision-making process*

As per SGF 2010, the Shariah committee is allowed to adopt more stringent Shariah decisions than the rulings by the SAC of BNM. In the latest SGPD, BNM has maintained such permissibility but with specific requirements to be observed. In the event the Shariah committee adopts a more stringent Shariah decision than a ruling by the SAC, the Islamic financial institution is required to notify BNM on the decision with documented deliberations and justifications of the Shariah committee decision or advice. This will likely preserve the consistency of the Shariah committee in providing decisions or advice on the application of SAC rulings.

The SGPD also requires establishing a robust methodology to guide the Shariah committee's decision-making process, which should include relevant business and risk practices. By having this methodology, there will be a standard procedure and guidance before any Shariah decision is made. This will ensure decisions by the Shariah committee hold the highest standard while conforming to Shariah.

The same requirement is also applicable when the Shariah committee provides an opinion on the state of an Islamic financial institution's compliance with Shariah in the annual report. The Islamic financial institution must develop a written policy to ensure effective and structured processes are undertaken by the Shariah committee in justifying the state of the Islamic financial institution's compliance with Shariah.

*6. Secretariat to the Shariah committee*

The new SGPD has redefined the roles and responsibility of the Shariah secretariat compared to SGF 2010. The Shariah secretariat has the responsibility to provide operational support for the effective functioning of the Shariah committee, which includes:

a) coordinating communications and disseminating information among the Shariah committee members, the board and senior management
b) performing in-depth research and studies on Shariah issues
c) providing day-to-day advice to relevant parties within the Islamic financial institution on Shariah matters based on the rulings of the SAC and decisions or advice of the Shariah committee
d) ensuring proper dissemination of decisions or advice of the Shariah committee within the Islamic financial institution, and
e) undertaking administrative and secretarial functions to support the Shariah committee.

Previously in SGF 2010, the function of the Shariah secretariat was part of the Shariah research function. However, in the SGPD, the functions of Shariah research, Shariah advisory and Shariah secretariat have been integrated under the Shariah secretariat.

From the SGPD perspective, the Shariah secretariat is now solely under the purview of the Shariah committee, while the other main Shariah functions of Shariah review, Shariah risk management and Shariah audit have been reclassified as Shariah control functions. The control functions refer to the definition as provided in the Corporate Governance Policy Document, whereby they are functions that have a responsibility independent from business lines to provide objective assessment, reporting and assurance on the effectiveness of a financial institution's policies and operations, and its compliance with legal and regulatory obligations. This includes the risk management function, the compliance function and the internal audit function.

## Conclusion

The approach taken by the SGPD demonstrates that BNM puts much emphasis on the overall effectiveness of the Shariah committee functions in Malaysia. This includes key enhancements to reinforce the professionalism and independence of the Shariah committee in discharging the mandate given. Ultimately, the SGPD will strengthen the oversight function and accountabilities in overall Shariah governance and compliance. Therefore, we hope that with sound Shariah governance, it will strengthen the public's confidence in Malaysia in terms of integrity, management and business operations of Islamic financial institutions as a whole.

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AmBank Islamic

# ESG IS ALL THE RAGE

**It appears that environmental, social and governance (ESG) investing is 'all the rage', not only in the Asia Pacific region but right around the world. Here at S&P Dow Jones Indices, we have spent much time and effort in thinking through how best to frame up indices which consider ESG. One of our more recent innovations has been in the launch of ESG-versions of our headline indices, such as the S&P/ASX 200 where we now have an ESG version known as the S&P/ASX 200 ESG Index.**

**By way of a quick summary, this index uses the universe of constituents in the parent S&P/ASX 200, and then we apply a three-step process of screening, sorting and selecting companies to make up the S&P/ASX 200 ESG:**

- The screening process removes any tobacco, controversial weapons and thermal coal companies, as well as the lowest 5% of UN Global Compact scores. We also remove companies with an S&P ESG score that is in the bottom 25% of scores within their Global Industry Classification Standard (GICS) industry group globally.
- We then sort the stocks from best to worst according to their S&P ESG score within each GICS industry group.
- Finally, we select stocks 'top-down' in each GICS industry group seeking to capture, as close as possible, a 75% market capitalization. We repeat this process for each industry group.

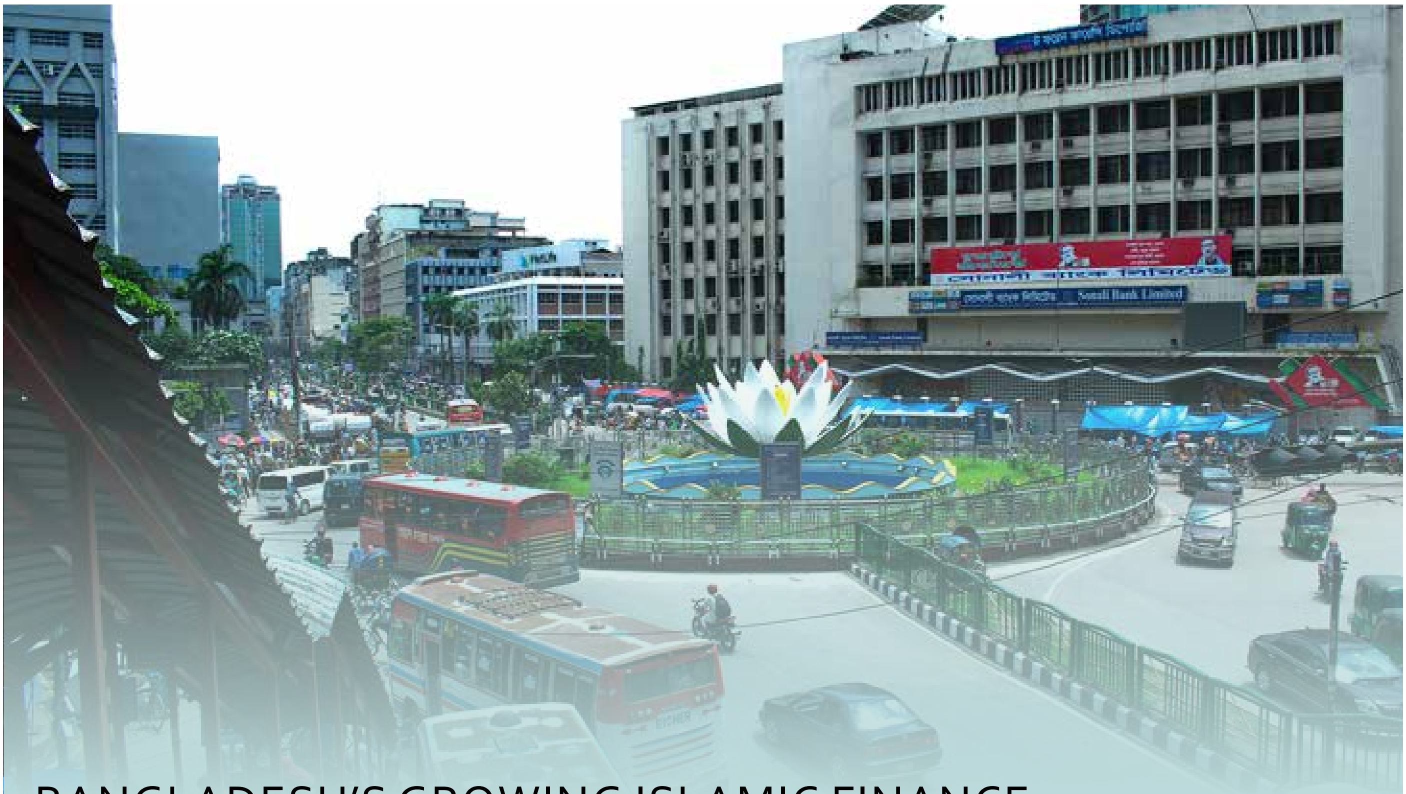
Currently, the S&P/ASX 200 ESG has 119 constituents with 81 having been removed by the screen, sort and select process.

In late September 2020, S&P Dow Jones Indices hosted a webinar with State Street Global Advisors; the Australian Securities Exchange (ASX) and a local financial advisor. We explored how the S&P/ASX 200 ESG Index was designed to be core to investors' portfolios, and that the methodology adopted is not 'puritanical', but rather seeks to achieve a broadly similar risk and return profile to the parent index while providing investors with an index that also removes the worst-performing companies from an ESG perspective. This way, investors can know that they are not increasing risk, or foregoing returns, while also investing in a way that aligns with their values.

Tim Mackay, the director and owner of Quantum Financial, provided some valuable insights from a practitioner's perspective. Tim shared the path he has trodden to the point where he is now advising clients to have ESG, or sustainable, investing solutions at the core of the clients' portfolios. From a position of initial skepticism, where clients were not prepared to give up returns for an investing 'feel-good', and where there were difficult trade-offs between the E, S and G components (ie airlines pollute but employ lots of people, whereas clean industries do not employ so many people), fee compression was the catalyst to take a second look at sustainable investment solutions.

Tim also suggested that the uptake of ESG investing solutions has been turbo-charged by the COVID-19 pandemic and after this summer's bushfires in Australia, with a slew of new investment products hitting the market in short order. While advisors may initially use these products as 'satellite' investments, solutions that can sit at the core of a client's portfolio are also emerging; exchange-traded products such as those that track the S&P/ASX 200 ESG Index can provide a diversified, transparent, flexible and cost-efficient way to incorporate ESG into investment.

The **'ESG Goes Mainstream in the Wake of 2020 Upheavals'** webinar is available on demand.



# BANGLADESH'S GROWING ISLAMIC FINANCE COMMUNITY WELCOMES FIRST NON-BANKING SHARIAH FINANCE WINDOW

**In a first for the country, Bangladesh Bank (BB) has given its greenlight to a conventional non-bank financial institution to provide Shariah services, growing the country's community of Islamic banking and finance service providers which has expanded significantly over the last 12 months. VINEETA TAN has the story.**

**Subject to certain conditions, the in-principle approval by the central bank paves the way for Bangladesh Finance and Investment (BD Finance) to begin offering Islamic financial and investment services through a dedicated Shariah unit. The firm, which claims to be the first licensed capital market service firm to receive such an approval, will be authorized to collect and disburse Shariah compliant deposits in addition to its existing business activities, it said in a statement.**

The in-principle approval comes after almost a year since BD Finance began seeking regulatory permission to establish an Islamic window: the firm submitted an official application in August 2019.

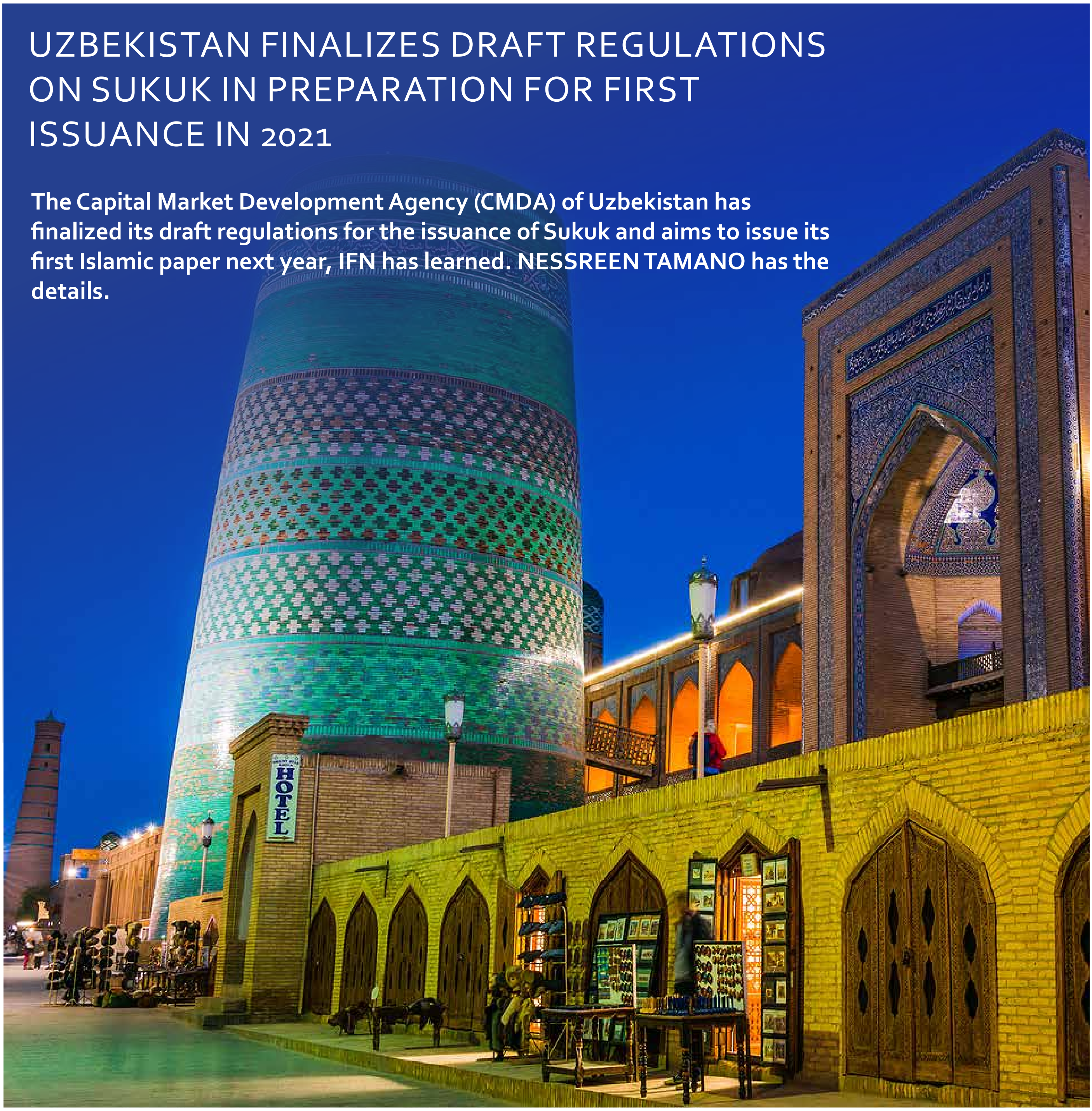
BD Finance joins Bangladesh's expanding Islamic finance fray following in the footsteps of a number of banks over the last 12 months, giving the Republic's Islamic finance narrative a stronger voice as the South Asian nation amplifies efforts to diversify its financial resources. Despite the absence of a comprehensive Islamic banking regulatory infrastructure, Bangladesh has done relatively well in advancing the Muslim-friendly financial proposition: total Islamic banking deposits grew 15.11% year-on-year to reach BDT2.91 trillion (US$33.75 billion) as at the end of June 2020, according to latest BB figures.

This year alone, at least six conventional lenders have been authorized to offer Shariah compliant financial products: Standard Bank, Jamuna Bank and NRB Global Bank (to be known as Global Islami Bank) received approval to convert their operations to become fully-fledged Islamic banks while Mercantile Bank, Midland Bank Salaam and United Commercial Bank are servicing the market on an Islamic banking window basis.

Latest data from the central bank show that as at the end of June 2020, there are eight fully-fledged Islamic banks and 21 conventional banks offering Islamic banking services on a window or branch basis serving the country's 156 million-strong Muslim population. As at the end of 2019, Bangladesh has 57 banks. Apart from this wave of new Islamic banking players, the entry of BD Finance into the Islamic finance space is against the backdrop of stronger Shariah capital market activities: the Bangladeshi government last month issued its long-awaited sovereign Sukuk guidelines, preparing the country for its government Sukuk 2020 debut.

# UZBEKISTAN FINALIZES DRAFT REGULATIONS ON SUKUK IN PREPARATION FOR FIRST ISSUANCE IN 2021

**The Capital Market Development Agency (CMDA) of Uzbekistan has finalized its draft regulations for the issuance of Sukuk and aims to issue its first Islamic paper next year, IFN has learned. NESSREEN TAMANO has the details.**




**The draft outlines detailed information on Sukuk issuances, including different structures and concepts, legal procedures and requirements and tax treatments.**

Hondamir Nusrathujaev, who has a special focus on Uzbekistan as the manager of financial control at the IsDB, confirmed with IFN that the draft regulations, which have been in the works for a while but were slightly delayed by the coronavirus crisis, have been published for discussion and feedback from industry players. The document is also signed by President Shavkat Mirziyoyev.

The draft regulations, once approved, could be the nudge the CMDA needs to finally tap the Islamic capital market with a green Sukuk facility, as well as allow corporates to issue their own Sukuk, as per its plan in 2019.

The Sukuk regulations are also a much-needed boost to kick-start Islamic finance in the Central Asian nation in earnest. IFN **previously reported** on the IsDB working with the CMDA and the United Nations Development Programme on the development of a legal and institutional framework for Islamic financial instruments.

In the banking sector, eight commercial banks are in the process of launching their Islamic banking windows and units, with hopes of accelerating the issuance of a dedicated Islamic finance network.

# MALAYSIA'S SUKUK PRIHATIN: A DIGITAL FIRST

**The Malaysian Ministry of Finance (MoF), on behalf of the government, has announced the issuance of Sukuk Prihatin — an opportunity for Malaysian citizens to contribute toward rebuilding the country's economy in the wake of the coronavirus crisis. NESSREEN TAMANO writes.**

**A government initiative under the National Economic Recovery Plan (PENJANA) launched in June 2020, the Sukuk facility — originally planned to amount to RM500 million (US$119.79 million) — was oversubscribed, reaching a total subscription of over RM666 million (US$159.56 million).**

> "The Sukuk issuance is the first of its kind to only be available for subscription online via the digital banking platforms of 27 banks"

"Given the overwhelming response from eligible applicants, the government decided to issue an additional subscription of RM166 million [US$39.77 million]," the MoF said. The subscription period began on the 18th August 2020 and closed on the 17th September 2020.

Malaysia's Sukuk Prihatin

RM666 million

22nd September 2020

| | |
|---|---|
| Issuer | Government of Malaysia |
| Issue size | RM666 million (US$159.56 million) |
| Structure | Commodity Murabahah (Tawarruq) |
| Tenor | Two years |
| Maturity date | 21st September 2022 |
| Profit rate | 2% per annum (tax-exempt) |
| Payment | Quarterly from the first issue date |
| Primary distribution bank | Maybank |
| Minimum subscription | RM500 (US$119.79) |
| First profit payment date | 22nd December 2020 |
| Alteration period (for waiver of principal amount) | 22nd June – 5th August 2022 |
| Tradability | Non-tradable, non-transferable and non-assignable |
| Governing law | Malaysian law |
| Listing | None |

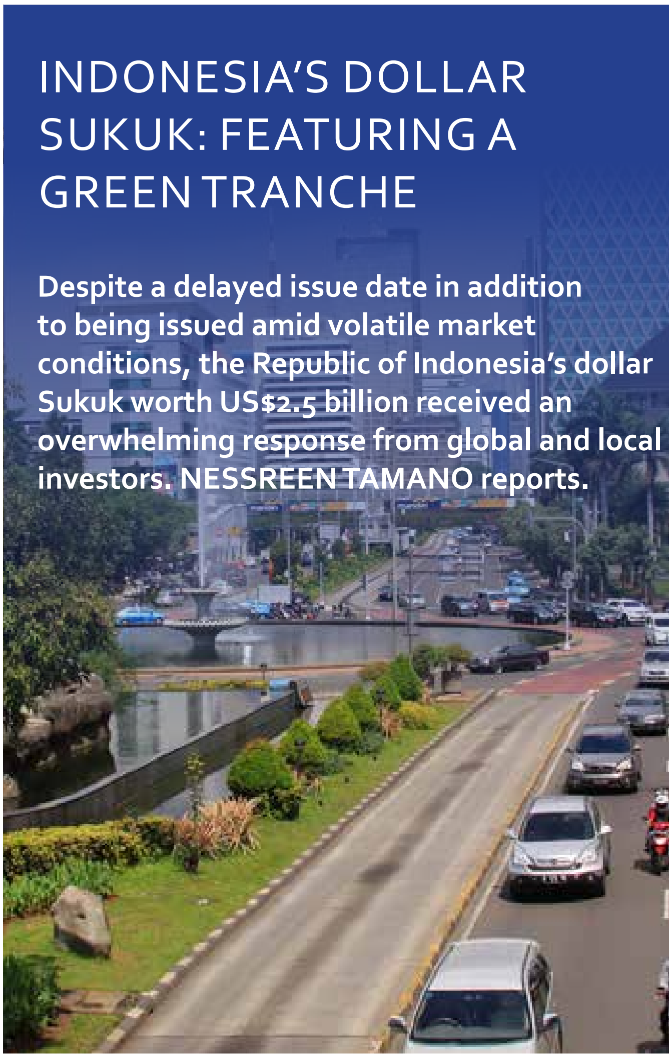
Making history, the Sukuk issuance is the first of its kind to only be available for subscription online via the digital banking platforms of 27 banks in Malaysia, through the JomPAY and DuitNow e-payment channels.

Proceeds from the issuance will be channeled to Kumpulan Wang COVID-19, also known as the COVID-19 Fund, which focuses on implementing economic recovery measures including supporting infectious disease research efforts, financing MSMEs and improving connectivity in rural schools.

Upon maturity, Sukukholders are given the option to donate all or part of the principal amount of the subscription back to the COVID-19 Fund.

"The oversubscription and successful issuance of Sukuk Prihatin is a testament to the spirit of unity and cooperation of Malaysians in the face of this challenging period."

The Sukuk issuance was initiated in response to the public's request to participate and contribute to the rebuilding of the nation, the MoF had previously stated.



# INDONESIA'S DOLLAR SUKUK: FEATURING A GREEN TRANCHE

**Despite a delayed issue date in addition to being issued amid volatile market conditions, the Republic of Indonesia's dollar Sukuk worth US$2.5 billion received an overwhelming response from global and local investors. NESSREEN TAMANO reports.**

**Issued through the government's SPV, Perusahaan Penerbit SBSSN Indonesia III (PPSI-III) established specifically to issue Islamic certificates, the green Sukuk generated an orderbook of US$16.66 billion, nearly 6.7 times above its target.**

The issuance is a series of three tranches: two trust certificates with five-year and 10-year tenors worth US$750 million and US$1 billion respectively, and a 30-year tranche worth US$750 million structured under the Wakalah concept. The Sukuk issuance will be listed on both the Singapore Stock Exchange and NASDAQ Dubai, and is rated 'Baa2' by Moody's Investors Service, 'BBB' by S&P Global Ratings and 'BBB' by Fitch Ratings.

The Sukuk issuance achieved the lowest coupon rate for international Sukuk coming out of Indonesia and is also touted as the largest global Sukuk with a 30-year tenor in the region.

"This transaction received extraordinary demand from qualified and diverse global investors, strengthened the Sukuk market and showed strong investor confidence in Indonesia," said the government. It saw orders from investors from the Middle East, Malaysia, the US and Europe.

The first tranche in the series — the five-year Sukuk — is a green issuance dedicated by the government to sustainable financing to support its commitment to tackle climate change. The green Sukuk facility is Indonesia's third issuance in the international market, with the most recent one being a green retail Sukuk facility issued at the end of 2019.

The series is in line with Indonesia's 2020 financing plan, which includes provisions to handle the impact of the COVID-19 pandemic as well as efforts to further strengthen the country's position in the international Islamic financial market and also to support the development of Islamic finance in Asia, the government noted.

Indonesia's dollar Sukuk

US$2.5 billion

KEMENTERIAN KEUANGAN
REPUBLIK INDONESIA

17th June 2020

| | |
|---|---|
| Issuer | Perusahaan Penerbit SBSSN Indonesia III |
| Tranches & structure | Tranche 1: US$750 million; Tranche 2: US$1 billion; Tranche 3: US$750 million (Wakalah) |
| Purpose | Sustainable financing and handling the impact of COVID-19 |
| Tenor | Tranche 1: Five years<br>Tranche 2: 10 years<br>Tranche 3: 30 years |
| Profit rate | Tranche 1: 2.3%<br>Tranche 2: 2.8%<br>Tranche 3: 3.8% |
| Joint lead managers/ bookrunners | BNP Paribas; Dubai Islamic Bank; HSBC; Maybank; Standard Chartered |
| Joint green structuring advisors | BNP Paribas, HSBC |
| Co-managers | Danareksa Sekuritas, Trimegah Sekuritas Indonesia |
| Underlying assets | State property including land and buildings (51%) and government projects in 2020 (49%) |
| Listing | Singapore Stock Exchange, NASDAQ Dubai |
| Rating | 'Baa2' by Moody's, 'BBB' by S&P, 'BBB' by Fitch |
| Investors | Tranche 1: Asia (40%), Middle East and Malaysia (32%), US (12%), Europe (11%), Indonesia (5%)<br><br>Tranche 2: Asia (34%), Middle East and Malaysia (31%), US (18%), Europe (12%), Indonesia (5%)<br><br>Tranche 3: Asia (44%), Europe (33%), Middle East and Malaysia (10%), US (8%), Indonesia (5%) |

# AXIATA GROUP'S SUKUK: A LANDMARK MALAYSIAN CORPORATE ISSUE

**Malaysia-based telecommunications conglomerate Axiata Group has issued a Sukuk tranche worth US$500 million in a dual-tranche issuance that also has a conventional component worth US$1 billion, to mark its return to the international capital market since its last issue in 2016. NESSREEN TAMANO looks at the unique characteristics of the Islamic paper.**

Axiata Group's Sukuk

US$500 million

19th August 2020

| | |
|---|---|
| Issuer | Axiata SPV2 (for the Sukuk) |
| Obligor | Axiata Group |
| Aggregate issue size | US$1.5 billion |
| Tranches | Sukuk: US$500 million<br>Conventional bonds: US$1 billion |
| Issue price | Issued at par |
| Profit rate | 2.16% per annum, payable semi-annually |
| Tenor | 10 years |
| Structure | Wakalah |
| Underlying assets | Airtime vouchers |
| Rating | 'Baa2(s)' by Moody's Investors Service;<br>'BBB+(s)' by S&P Ratings |
| Currency | US dollar |
| Purpose | To refinance existing indebtedness, capital expenditure and general corporate purposes |
| Joint arrangers and bookrunners | Citigroup Global Markets; CIMB Investment Bank; Standard Chartered Bank; UBS AG Singapore |
| Legal advisor | Clifford Chance |
| Listing | Bursa Malaysia; Singapore Exchange |

**The benchmark-sized Sukuk, issued via Axiata SPV2 — the company's SPV — has a tenor of 10 years and is said to feature the lowest yield ever achieved for a US dollar-denominated offering by a Malaysian corporate.**

The company employed a strategy of issuing both Islamic and conventional notes to appeal to the broadest possible investor base, which paid off: final orderbooks in aggregate amounted to US$6.8 billion, peaking at approximately US$11.8 billion across both tranches — easily one of the most oversubscribed papers in Asia over the past year.

The Sukuk issuance was finally priced at US Treasuries 10-year + 1.48% with a final orderbook size of US$3 billion or bid-to-cover ratio of three times. "The issuances attracted interest from a diverse group of Islamic as well as conventional investors, comprising asset management companies, financial institutions, insurance companies and sovereign wealth funds, with participation from 245 accounts across key financial markets," Axiata said.

Izzaddin Idris, deputy group CEO of Axiata, added: "We are very encouraged by the strong support evidenced by the oversubscription of the issuances which peaked at nearly 12 times across the two tranches, as well as the tightening of the credit spread by 52 and 50 basis points respectively for the Sukuk and (conventional) notes, from our initial price guidance."

Parked under Axiata's multicurrency Sukuk program of US$1.5 billion established on the 17th July 2012, the Sukuk will be listed but not quoted for trading on Bursa Malaysia, and will be both listed and quoted on the Singapore Exchange. The Wakalah-structured facility has underlying assets comprising 100% airtime vouchers, which represent airtime minutes on the mobile telecommunications network of Axiata's subsidiaries for on-net calls.

Axiata has telecommunications operations in other countries in Asia, including Indonesia, Sri Lanka, Bangladesh, Cambodia and Nepal.

## Prasarana prints Sukuk

Prasarana Malaysia has raised RM600 million (US$145.11 million) through two Ijarah Islamic medium-term notes of equal amount, according to separate filings on the Bond and Sukuk Information Exchange. One of the tranches is a four-year facility with a 2.23% profit rate while the other is a five-year paper with a 2.47% profit rate. Both are guaranteed by the government and arranged by CIMB Investment Bank.

## AMBD-I Bills issued

Autoriti Monetari Brunei Darussalam (AMBD) has priced its fourth issuance of AMBD-I Bills. The 14-day BN$10 million (US$7.41 million) Islamic facility, which will mature on the 26th November 2020, carries a rental rate of 0.08%, according to a statement. Since its maiden offering on the 22nd October 2020, BN$150 million (US$111.16 million)-worth of AMBD I-Bills have been issued; total outstanding as at the 12th November stood at BN$60 million (US$44.47 million).

## SC releases new framework

Securities Commission Malaysia (SC) has introduced the Waqf-Featured Fund Framework to facilitate the offering of Islamic funds with Waqf features effective the 12th November 2020. The regulator said in a statement that the framework is applicable to existing and newly launched unit trust and wholesale funds.

## CIMB grows online products

CIMB Islamic Bank and CIMB Bank have widened the range of their products available online, including unit trust investments, motor insurance and credit cards among others, the banks said in a statement. Collectively, the group has seen online sales of e-Gold surge almost 1,200% while digital sales of investment products grew by over 571% year-on-year as of September 2020.

## Public Islamic to provide solar financing

Public Islamic Bank has signed a memorandum of collaboration with Helios Photovoltaic through which customers of Public Islamic Bank and Public Bank will have access to exclusive solar photovoltaic financing packages and installation for private properties.

## Brite-Tech Corporation obtains financing

Hong Leong Islamic Bank has granted additional term financing facilities worth RM16.4 million (US$3.97 million) to Brite-Tech Corporation, according to a bourse filing.

The facilities will part-finance the construction of two units of single-storey factories with a three-storey office building to be erected on two pieces of industrial land at Mukim Kapar, Klang in Selangor and also to part-finance the purchase of the two said industrial lands.

## Budget 2021 for Islamic affairs

Malaysia's Finance Minister Tengku Zafrul Aziz has on the 6th November 2020 tabled Budget 2021 amounting to RM322.5 billion (US$78.01 billion).

According to his speech, RM1.4 billion (US$338.67 million) will be allocated for Islamic affairs and development under the Prime Minister's Department while the government will also allocate RM50 million (US$12.1 million) to the Islamic Economic Development Foundation to support Islamic pawnbroking through Ar-Rahnu BizNita.

Furthermore, RM29 million (US$7.02 million) will be allocated to implement technical and vocational education and training programs under the Ministry of Higher Education which includes Islamic education.

The existing income tax exemption for sustainable and responsible investment (SRI) green Sukuk grant will be extended to all types of Sukuk and bonds until 2025 while the government looks to continue the Green Technology Finance Scheme 3.0 with a fund size of RM2 billion (US$483.81 million) for two years until 2022 which will be guaranteed by Danajamin to encourage the issuance of SRI Sukuk.

Proceeds from Sukuk Prihatin amounting to RM100 million (US$24.19 million) will be channeled for research relating to infectious diseases covering vaccine development as well as treatment research and diagnostics.

Meanwhile, the government plans to expand social protection for the B40 (bottom 40% or low-income earners) group by providing B40 recipients with a RM50 (US$12.1) voucher as financial aid to purchase Perlindungan Tenang products such as life Takaful and personal accident.

## Trinity Asia Ventures's IMTN maintains 'AA3/Stable' rating

RAM has reaffirmed the 'AA3/Stable' rating on the RM52 million (US$12.62 million) Tranche 1 Islamic medium-term note (IMTN) of Trinity Asia Ventures, the rating agency said in a statement. The IMTN, which is backed by sale and purchase agreements signed with buyers relating to the Trinity Lemanja high-rise residential development, was issued under the company's RM1.5 billion (US$363.94 million) Sukuk Musharakah program.

"The reaffirmation reflects the sturdy projected cash flow, underpinned by the profile of the underlying largely end-financed receivables, and the considerable time buffer available to mitigate the risk of construction delays and any liquidity risks arising from cash flow mismatches," RAM said.

Malaysian Islamic bank assets grow

The Malaysian Islamic banking industry's assets have expanded to a value of RM1.04 trillion (US$251.58 billion) and a market share of 33% as at the end of July 2020, according to a report by the Ministry of Finance.

The total Islamic financing outstanding has also increased by 10% to RM787.8 billion (US$190.57 billion), attributed to an increase in household sector financing mainly for the purchase of residential properties.

## AMBD prices 187th Sukuk Ijarah

Autoriti Monetari Brunei Darussalam (AMBD) has announced the successful pricing of its 187th short-term Sukuk Ijarah at BN$100 million (US$74.35 million), according to a press release. The Sukuk facility will mature on the 4th February 2021 and carries a rental rate of 0.13%.

With this issuance, the Brunei government has thus far issued over BN$14.22 billion (US$10.57 billion)-worth of short-term Sukuk Ijarah securities since the first offering on the 6th April 2006. The total holdings of the Brunei government Sukuk outstanding as at the 5th November 2020 stood at BN$373.5 million (US$277.69 million).

## Pengurusan Air Selangor to establish IMTN and ICP programs

Pengurusan Air Selangor is planning to establish a RM10 billion (US$2.43 billion) Islamic medium-term note (IMTN) program and an Islamic commercial paper (ICP) program of the same value structured under the Murabahah concept, according to RAM Ratings. Both programs have a combined limit of RM10 billion in nominal value. The rating agency has assigned the long- and short-term preliminary ratings of 'AAA/Stable' and 'P1' to the respective programs. The company's Sustainable Development Sukuk Kelestarian Framework has also been reviewed by the rating agency.

IFN's flagship event, IFN Asia Forum, returned to Kuala Lumpur with a three-day virtual format from the 24th – 26th November 2020. The IFN Asia OnAir Forum 2020 hosted the industry's leading minds tackling a variety of themes including capital raising, banking and finance, sustainable finance and fintech.

## IFN ASIA FORUM 2020 REPORT/SESSION ONE

### DISCUSSION INTRODUCTION

# RETURN TO FACTORY SETTINGS: THE OPPORTUNITIES FOR A BACK-TO-BASICS APPROACH AND HOW ISLAMIC FINANCE CAN AND WILL FLOURISH

The world has changed. How our industry - Islamic banking, finance and asset management - chooses to respond to these changes may be a generation-defining moment. How are we as an industry mobilizing and adapting to address the imminent challenges of the real economy, and provide not just liquidity support but solvency support to the vital SME and corporate sector? How do we change the risk appetite of Shariah compliant investors, asset owners and asset managers for the good of the real economy? Are Islamic banks and asset managers using this opportunity to adequately address important initiatives such as responsible finance and financial inclusion? How can the core values of Islamic finance be further applied to sustainable and socially responsible finance and investment strategies? We ask a respected panel for a roadmap to success in times of uncertainty, challenge and change.

## YOUR PANEL

**MOHAMMAD FAIZ AZMI**
*Executive Chairman, PwC, Malaysia*

**AHMAD SHAHRIMAN MOHD SHARIF**
*CEO, CIMB Islamic*

**EQHWAN MOKHZANEE**
*CEO, AmBank Islamic*

**MAYA KAMDANI**
*Director, Head of Marketing and Product Development, BNP Paribas Asset Management*

**REJINA ABDUL RAHIM**
*Managing Director and Country Head Malaysia, Nomura Asset Management Malaysia*

# IFN ASIA: A WORLD IN FOCUS

**Anchoring major players such as Malaysia and Indonesia, the Asian Islamic capital market has long led the global industry, not only in size, but also in innovation and diversification. Home to numerous other ambitious regional players such as Pakistan, Bangladesh, Singapore, the Maldives and Sri Lanka, the Asian continent is riding high in the field of Islamic finance and attracting the interest of a multitude of global investors. On the 24th–26th November 2020, the legendary IFN Asia Forum took to the stage in a unique new format, bringing together some of the most illustrious names across the industry in a three-day online event that explored some of the most exciting opportunities — and biggest challenges — facing the industry today. LAUREN MCAUGHTRY writes.**

**Adnan Zaylani Mohamad Zahid, an assistant governor of Bank Negara Malaysia, delivered the keynote address on the first day of the event. "A hopeful person sees opportunity in every difficulty," he began, kick-starting the event with an optimistic outlook despite the global financial, social, cultural and political pressures that have accompanied the unprecedented coronavirus pandemic as it swept the globe. "Revitalizing the economy is becoming an increasingly pressing imperative," he insisted. "At some point, we need to replenish our buffers and rebuild our resilience." The IMF has estimated that the cost of the pandemic to the global economy will reach US$28 trillion by 2025, a staggering figure.**

Nevertheless, global economic activity has in fact shown some improvement, and there is hope ahead, although the road remains challenging. "Coupled with this is the need to address the environmental challenge," warned Adnan. "Moving forward, these two 'C's', COVID-19 and climate change, will weigh heavily on us, and striking a better balance will be important in striving for a sustainable recovery."

Islamic finance has much to offer in this ambition. Its moral and ethical values look beyond profits to consider issues of public interest, transparency and good governance, inclusion and sustainability. "Traditional finance, after any crisis, tends to reflect exactly on these

*"Moving forward, these two 'C's' COVID-19 and climate change, will weigh heavily on us, and striking a better balance will be important in striving for a sustainable recovery"*
*– Adnan*

issues, which has led to the embracing of aspirations such as stakeholder capitalism, sustainability, or more recently, the proposition of a kind of reset for the global economic system to deal with the current finances. Islamic finance already has much of these embedded," pointed out Adnan. His speech covered the importance of value-based intermediation financing, as promoted by Bank Negara Malaysia, along with insights into the importance of a wide range of innovative Islamic solutions, the growth of fintech in the sector, and the growth of digital supply chain finance to help SMEs scale up their business.

"The theme of this gathering could not be more apt," Adnan stressed. "A revisit to the fundamental values of Islamic finance could be a renewed opportunity for Islamic finance to be more inclusive, responsible, ethical and impactful. To achieve a sustainable economic recovery amid extraordinary uncertainty will require sound thinking and resolve. This gathering of minds will surface new ideas to take forward."

## Return to factory settings

The first session of the week brought together a host of Malaysia's most influential practitioners to discuss the opportunities for a back-to-basics approach: and how Islamic finance as an industry can mobilize and adapt to address the imminent challenges of the real economy, providing not just liquidity but solvency support to the vital SME and corporate sector. How do we change the risk appetite of Shariah compliant investors, asset owners and asset managers for the good of the real economy, and are Islamic banks and asset managers using this opportunity to adequately address important initiatives such as responsible finance and financial inclusion? The panel discussed in detail these challenging questions, with the goal of hammering out a roadmap to success in these strange times of uncertainty, challenge and change.


Mohammad Faiz

"There is clearly a call for a resetting of sorts," confirmed host Mohammad Faiz Azmi, the executive chairman of PwC in Malaysia. "So what can Islamic finance do to help achieve that?"

Eqhwan Mokhzanee, CEO of AmBank Islamic, shared his thoughts on what


Eqhwan

a back-to-basics approach might actually entail. He pointed out the traditional roles of banks, which are threefold: conserving value (when you deposit money with them), the deployment of excess capital (providing liquidity, loans and financing) and facilitating transactions. "Of course financial institutions have evolved, and a number of sophisticated instruments have come about," he noted. "It begs the question now whether banks actually serve the needs of their consumers and of society, or whether they really serve the needs of bankers themselves. Do banks need to go back to basics? In a single world: yes. We have seen extreme poverty taking shape through the COVID-19 crisis, and this is where banks, and especially Islamic banks, really need to come to the fore and mobilize liquidity and solvency support."

*"The background of COVID-19 has thrown us into the deep end and shown us what we need to change. We've been a bit slow in embracing and dealing with the idea of social financing, especially in Malaysia"*
*– Rejina*

Ahmad Shahriman Mohd Sharif, CEO of CIMB Islamic, agreed with the back-to-basics approach, and gave a detailed outline of what CIMB Islamic has been doing in this regard. "We are deconstructing the way that we do business," he explained. "The first element is going small. Banks are often criticized that our appetite for smaller customers is lower. The second is to review how we approve getting financing to people beyond the traditional credit scoring means. A lot of people are losing their jobs because of COVID-19 and even if they get re-employed again, many will be self-employed — this is a new economy where we no longer have the ability to


Ahmad

rate credit based on payroll. On the SME side, it's about rebuilding global trade links — the global markets have changed, starting with the trade war between the US and China, but also COVID-19 has destroyed supply chains all over the world." CIMB has been working on the VBI approach, also using new channels such as Zakat funds and working with credible partners in order to make sure financing is allocated and accessible where it is needed.

Rejina Abdul Rahim, the managing director and country head of Malaysia of Nomura Asset Management Malaysia, turned the conversation to environmental, social and governance (ESG) and Shariah — and explained that Malaysia had some catching up to do. "On the local side, there is a lot of catching up that we need to do," she stressed. "The background of COVID-19 has thrown us into the deep end and shown us what we need to change. We've been a bit slow in embracing and dealing with the idea of social financing, especially in Malaysia. But looking at the local asset management industry, what is really interesting is that Waqf and Zakat is now being utilized much more. The Waqf unit trust is a very new concept — the SC [Securities Commission Malaysia] has only just released its guidelines in November, up till now there have been no Waqf features on the unit trust side. This is very different from Indonesia, which came out with a Waqf unit trust back in 2004. This is definitely an area of opportunity, and it is clear that the Malaysian industry needs to catch up. In other markets, the idea of SRI and sustainable investing is a must, and if you don't have an ESG element to your investment process, you won't even be considered for any RFP."


Maya

Maya Kamdani, the director and head of marketing and product development at BNP Paribas Asset Management in Indonesia, added that the world is changing — investors are now increasingly connecting their emotions and values to their purchases, including where they want to put their money. "This is why we combine both ESG and Shariah into our investment solutions," she explained. "Shariah principles are not just for the Muslim population. Our challenge is how to make people relate to these principles, and it's all about awareness and education."

## KEY TAKEAWAYS

Back to basics means going back to the core values. It is a timely conversation as COVID-19 has given a chance to reset the industry. The industry in Malaysia is lagging in innovation. Waqf unit trust guidelines were issued in early November, providing an opportunity with the need to leverage on tech more. The performance of Shariah funds is better than conventional for equities year-to-date but may not be the case in the longer time frame. Opportunity abounds but fund managers' ability to innovate is also bound by regulations, thus affecting the time to market which is something e-commerce players are not subject to.

*Rejina Abdul Rahim is the managing director and country head of Malaysia at Nomura Asset Management Malaysia.*

**PRE-EVENT CONTACT**

**30%** Excellent

**44%** Good | **26%** Average

**OVERALL EVALUATION OF THE EVENT**

**19%** Excellent

**43%** Good | **38%** Average

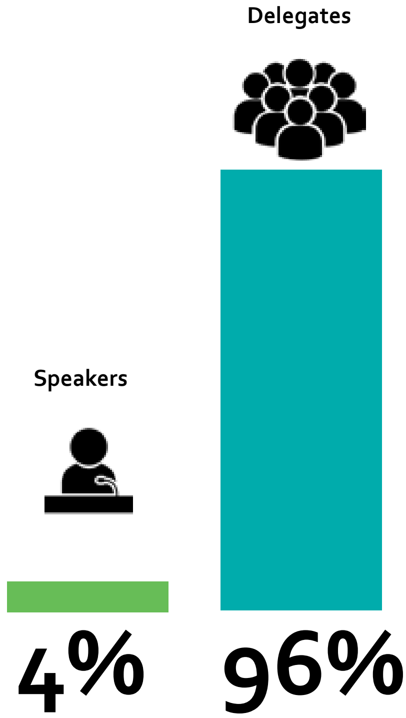
**OVERALL EVALUATION OF THE SPEAKERS**

**33%** Excellent

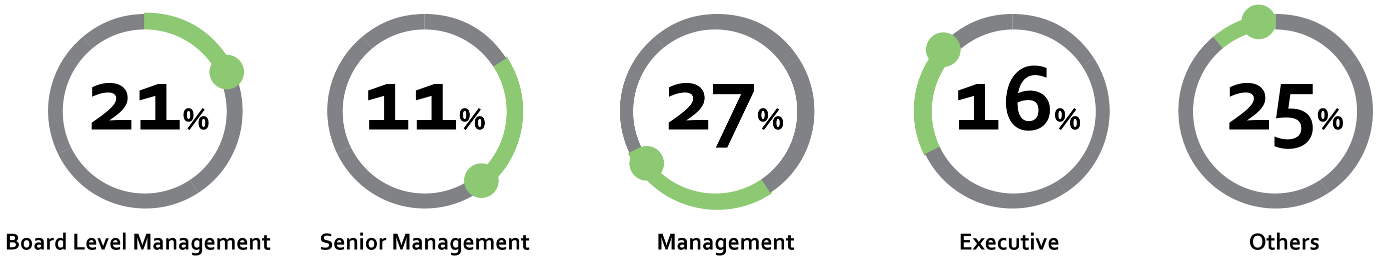
**48%** Good | **19%** Average

**DELEGATES WHO WOULD LIKE TO ATTEND IFN ASIA FORUM 2021**


**DELEGATE BREAKDOWN**




**DELEGATE JOB TITLE BREAKDOWN**



## DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)

**78%**

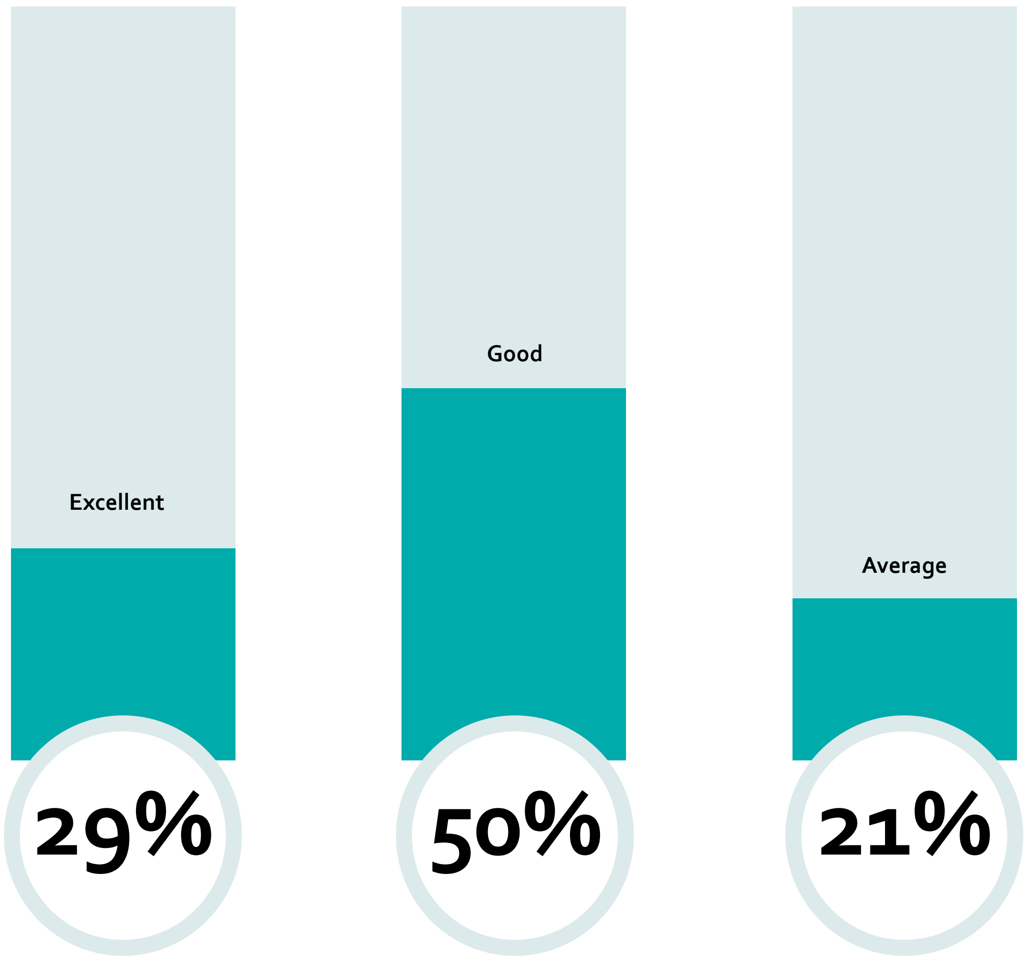
Local

**22%**

International

## SESSION EVALUATION

# RETURN TO FACTORY SETTINGS: THE OPPORTUNITIES FOR A BACK-TO-BASICS APPROACH AND HOW ISLAMIC FINANCE CAN AND WILL FLOURISH



## DISCUSSION INTRODUCTION

# PUTTING ISLAMIC FINANCE TO WORK: CAPITAL MARKETS, SUSTAINABLE & GREEN INITIATIVES

**In the shadow of 2020 events, what role can social, pandemic and disaster recovery bonds play and how can Islamic finance solutions feature? In times of stress do Sovereign and corporate Sukuk offer some semblance of stability? What performance measurement tools and techniques are available to investors, and what do these tools tell us about current and imminent market conditions? What Shariah compliant funding options do Malaysian Islamic financial institutions have for satisfying regulatory capital and liquidity requirements, particularly in a stressed environment? How can Sustainable Development Goal 3 – promoting health and wellbeing – be made an achievable priority and what do SDG bonds, and potentially SDG Sukuk, offer? Beyond credit, what types of new vehicles will feature in the financing of sustainable, social, humanitarian projects and what do Islamic finance structures offer? Are ratings, disclosure, reporting, regulatory frameworks and screening among the most significant changes facing sustainable finance and investment today, and how has the sector responded? Finally, where will we see examples of overlap and cooperation between Islamic finance and green and sustainable finance initiatives? We seek the views of an expert panel.**

## YOUR PANEL

**AZLEENA IDRIS**
*Director, Corporate Services, PayNet*

**ANGELINE CHOO**
*Head of Southeast Asia and Greater China, S&P Dow Jones Indices*

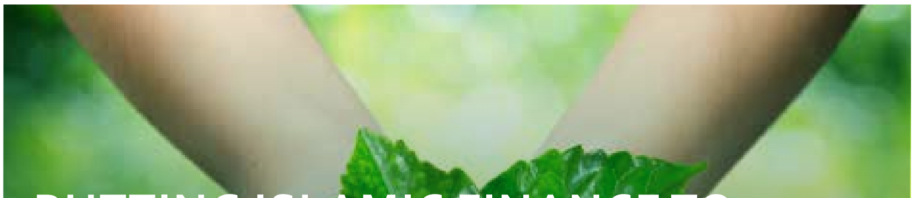
**BILAL PARVAIZ**
*Director, Islamic Business and Head Product Management, Standard Chartered Saadiq*

**CHUNG CHEE LEONG**
*President/CEO, Cagamas*

**KATHERINE LIM**
*Manager, Sustainable Finance Engagement, WWF-Malaysia*

**NORAIZAT SHIK AHMAD**
*General Manager, Islamic Capital Market Development, Securities Commission Malaysia*

**ROSLAN AHMAD**
*Chief Representative, DDGI*



# PUTTING ISLAMIC FINANCE TO WORK

**The second keynote was given by Muhamad Umar Swift, CEO of Bursa Malaysia, who highlighted the importance of collaboration. "Only through the collective involvement of industry participants can we refine the Islamic finance agenda for tomorrow. The COVID-19 challenge has presented an unprecedented challenge. We need to rethink our relationship with the planet, and sustainably rebuild the nation for the benefit of future generations. Around the world, policies are shifting toward ensuring sustainable development in efforts to achieve economic prosperity, hence we are slowly seeing the synergy between Islamic finance, ESG and sustainability gaining significant traction across the global financial landscape."**

**Bursa Malaysia has pledged its commitment to the UN Sustainable Stock Exchange Initiative, which aims to integrate global best practice in the marketplace, and it continues to engage with other international exchanges, investors, regulators and policymakers to shape the sustainability agenda for the Malaysian capital markets. "To connect Islamic finance with the sustainability agenda, a strategic approach is needed to raise awareness, set out opportunities it presents and identify barriers that prevent its further development," Muhamad stressed. "As we transition into a new normal, the role of Islamic finance as providers of socially responsible capital needs to be harnessed to contribute to the overall sustainability agenda."**

*Muhamad*

The second day focused on Malaysia's capital markets, especially around green and sustainable initiatives. It explored the role that could be played by social, pandemic and disaster recovery bonds and how Islamic finance solutions could feature. It explored the landscape for Sukuk, and looked at what performance measurement tools and techniques are currently available to investors, and what new vehicles might feature in the financing of sustainable, social and humanitarian projects.

"We are living in unprecedented times," said moderator Azleena Idris, the director of corporate services at PayNet. "How can we put Islamic finance to work?"

Noraizat Shik Ahmad, the general manager of Islamic capital market development at the SC, outlined what the SC is doing within the sustainable and socially responsible investment space, and the numerous initiatives that are underway through the country's sustainable and responsible investment (SRI) framework. "The framework is a significant milestone in terms of product innovation," he stressed. Talking about the growth in green and SRI Sukuk, he noted that the regulator was keen for issuers to appoint external reviewers for their deals, in order to give more credibility to the Sukuk. "We take note that the costs may be high, so to encourage it we have set up a RM6 million [US$1.47 million] grant to help with the costs of SRI Sukuk."

*Noraizat*

*Azleena*

Chung Chee Leong, the president and CEO of Malaysia's mortgage corporation Cagamas, the largest cumulative issuer of Sukuk in the country, noted that when he talks to investors in Europe and across the world, they are increasingly interested in sustainability and ESG. The firm came up with a sustainable bond and Sukuk framework, formalized in 2019, to reaffirm its mission to support affordable home ownership through sustainable development and to promote the UN Sustainable Development Goals, particular No 11 around sustainable city building. Chung explained the importance of green and sustainable bond standards in providing a robust foundation for issuers to feel confident moving into sustainable debt issuance. He also pointed out that in some countries, green bonds achieve lower yields than ordinary issuances, which can translate into a lower cost of borrowing for the end house buyer, offering a commercial as well as a moral benefit.

*Chung*

*Bilal*

*Lim*

> *"Malaysia continues to be at the forefront of green Sukuk issuance, and we are glad to see that on top of the issuers, there is also strong demand coming from the marketplace itself"*
> *– Choo*

Angeline Choo, the head of Southeast Asia and Greater China at S&P Dow Jones Indices, gave a broad perspective from a ratings angle, and explained that the trend for sustainable capital markets is growing. "Malaysia continues to be at the forefront of green Sukuk issuance, and we are glad to see that on top of the issuers, there is also strong demand coming from the marketplace itself. This will definitely develop further." Most green deals have not yet reached a big enough size to be included in the US dollar Dow Jones Sukuk Index. "But given the success and the rapid growth, we do expect larger deals to start emerging, especially from Malaysia and Indonesia." she noted.

*Roslan*

## KEY TAKEAWAYS

Islamic finance is proving to be a viable option amid this global health crisis. Cagamas raised RM450 million (US$110.26 million)-worth of ASEAN Sustainability SRI [sustainable and responsible investment] Sukuk (SRI Sukuk) and Islamic medium-term notes (IMTNs) that were oversubscribed 3.5 times and priced 2bps tighter than the IMTN. The SRI Sukuk focused on financing affordable housing, an SDG [sustainable development goal] No 11 target. Solid, facilitative regulatory foundations developed by the Securities Commission Malaysia (SC) with tax incentives and grants facilitated 11 SRI issuances since.

The SC's SRI roadmap developed last year provides insights on the future direction of the Malaysian capital market. The rebound after market disruption in March was seen to be favoring the Shariah compliant asset classes. As at October, global Shariah equity indices had an over 11% positive variance compared to conventional and Dow Jones Islamic Market had a larger variance at over 12%.

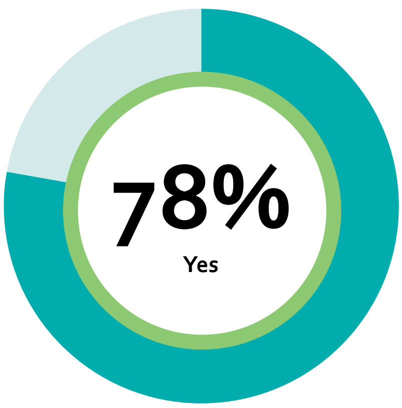
The Dow Jones Sukuk indices had tripled in value and constituents, surpassing the US$100 billion mark in July with 92 issuances. Infusing sustainability with finance, WWF worked with 48 banks in 11 countries on sustainable banking and noted that Malaysian banks occupy the top five positions and a Malaysian bank was also the most improved bank.

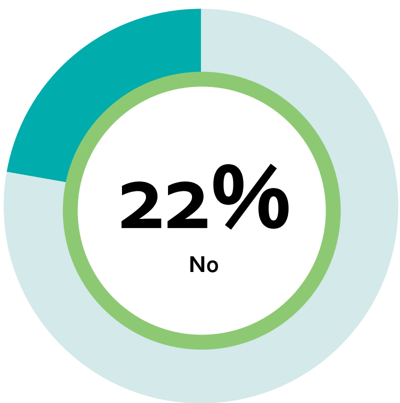
Studies by Standard Chartered (which started the journey in 1997) reveal increasing interest in going green and sustainable investing/financing. Traceability to sustainable sources in the supply chain is among the focus, which was a chief reason for DDCAP Group embarking on a journey to realize sustainable responsible actions. As more businesses transition to become sustainable, transition financing or Sukuk financing are expected to gain momentum in the near future.

*Azleena Idris is the director of corporate services at PayNet.*

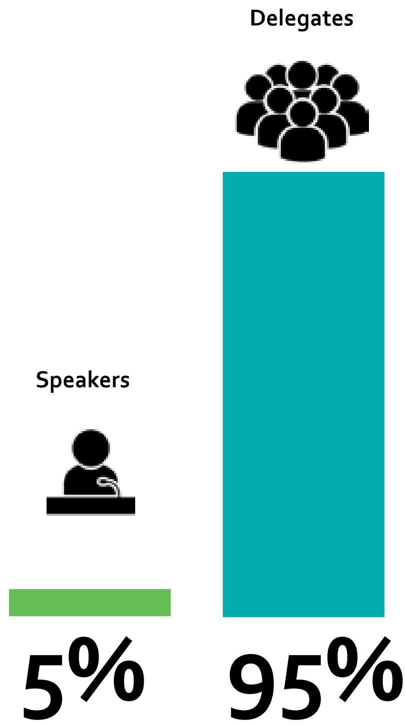
| PRE-EVENT CONTACT | OVERALL EVALUATION OF THE EVENT | OVERALL EVALUATION OF THE SPEAKERS |
|---|---|---|
| 24% Excellent | 23% Excellent | 39% Excellent |
| 48% Good \| 28% Average | 41% Good \| 36% Average | 44% Good \| 17% Average |

**DELEGATES WHO WOULD LIKE TO ATTEND IFN ASIA FORUM 2021**




**DELEGATE BREAKDOWN**



## DELEGATE JOB TITLE BREAKDOWN

| 26% | 11% | 25% | 16% | 22% |
|---|---|---|---|---|
| Board Level Management | Senior Management | Management | Executive | Others |

## DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)

79%
Local

21%
International

## SESSION EVALUATION

# PUTTING ISLAMIC FINANCE TO WORK: CAPITAL MARKETS, SUSTAINABLE & GREEN INITIATIVES

| Excellent | Good | Average |
|---|---|---|
| 22% | 65% | 13% |

## DISCUSSION INTRODUCTION

# ISLAMIC FINTECH: IS WHAT WE DID YESTERDAY SUFFICIENT FOR TOMORROW?

**Given its unique service proposition, has Shariah compliant financial technology fulfilled its undoubted potential? Has Islamic FinTech successfully leveraged on its significant and genuine comparative advantage, and if not, why not? What of Islamic FinTech's readiness, suitability and agility to address and offer solutions to market-driven problem statements? Can Islamic FinTech build on its strengths in alternative funding channels such as P2P, as well as other initiatives designed to foster financial inclusion? If so, what does the next generation Islamic FinTech look like, how is it funded, managed and regulated, and how does it scale? What of activities such as Islamic WealthTech, PropTech and InsurTech? Will they ever reach scalability and be accessible by the masses? Times of significant volatility and change offer us a rare opportunity for such self-examination, which we do through an expert panel.**

## YOUR PANEL

**ELAIN LOCKMAN**
*Co-Founder and Director, ATA PLUS*

**DR BELLO LAWAL DANBATTA**
*Secretary-General, Islamic Financial Services Board (IFSB)*

**BIKESH LAKHMICHAND**
*CEO, 1337 Ventures*

**NORHIZAM KADIR**
*Vice-President, Fintech and Islamic Digital Economy Malaysia Digital Economy Corporation (MDEC)*

**NORITA JA'AFAR**
*CEO, TFX Islamic*

**RAHEEL IQBAL**
*Managing Partner, Codebase Technologies*


# FINTECH FOCUS

**The theme of the third and final day centered around Islamic fintech, with the theme of: 'Is What We Did Yesterday Sufficient for Tomorrow?'**

**The conversation asked whether Shariah compliant financial technology had yet fulfilled its undoubted potential, and looked at whether Islamic fintech was ready, suitable and agile enough to address and offer solutions to market-driven problems, building on its strengths in alternative funding channels such as peer-to-peer, as well as other initiatives designed to foster financial inclusion. It explored what the next generation of Islamic fintech might look like, how it might be funded, managed and regulated, and how it should scale.**


Elain

Host Elain Lockman, the co-founder and director of ATA PLUS, one of Malaysia's first online equity crowdfunding platforms, was joined by a distinguished panel including Dr Bello Lawal Danbatta, the secretary-general of the IFSB, who stressed the importance of Islamic fintech and highlighted the need for firm regulation to direct the sector. "Many market players used to see fintech as disruptive, but the efforts of regulators to harness its potential through initiatives such as accelerators and sandboxes has been really transformative, and this is what has pushed us to where we are today," he pointed out.

*"Many market players used to see fintech as disruptive, but the efforts of regulators to harness its potential through initiatives such as accelerators and sandboxes has been really transformative"*
*– Dr Bello*


Norhizam

The panel drew on the experiences from a wide range of movers, shakers and innovative entrepreneurs in the Islamic fintech space, including Bikesh Lakhmichand, CEO of tech-focused accelerator and venture capital firm 1337 Ventures; Norhizam Kadir, the vice-president of fintech and Islamic digital economy at the Malaysia Digital Economy Corporation; Norita Ja'afar, CEO of Malaysia-based fintech firm TFX Islamic, which recently launched an Islamic supply chain finance platform targeting SMEs; and Raheel Iqbal, the managing partner at global open API banking solutions provider Codebase Technologies.


Norita

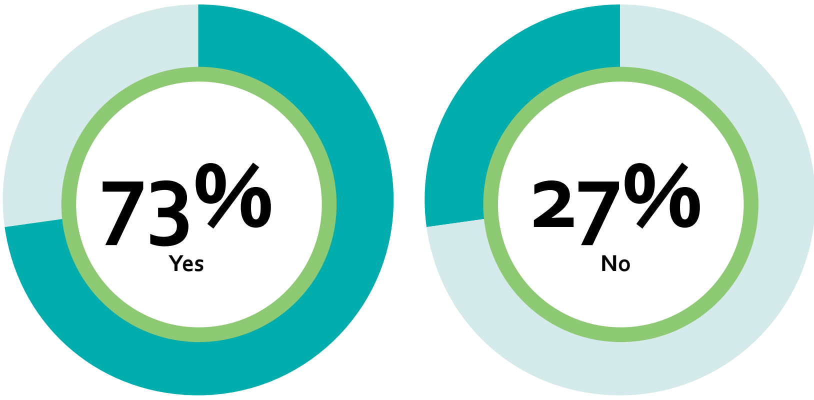

Raheel

*To hear their insights, to dive further into these detailed discussions and to access the full complimentary content from this unique and market-leading event, listen to the event recordings at www.redmoneyevents.com.*

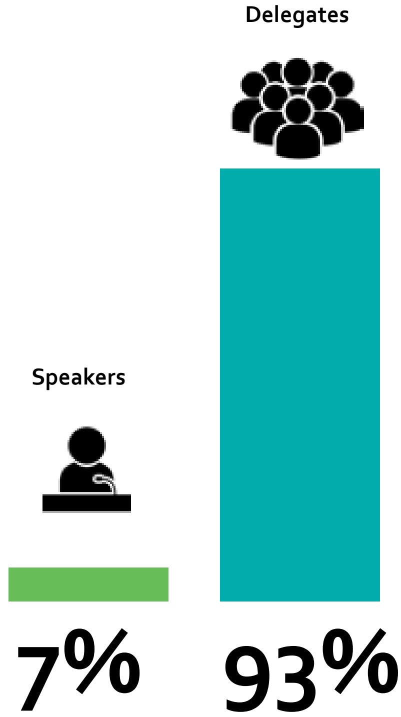

Bikesh

| PRE-EVENT CONTACT | OVERALL EVALUATION OF THE EVENT | OVERALL EVALUATION OF THE SPEAKERS |
|---|---|---|
| 24% Excellent | 20% Excellent | 24% Excellent |
| 48% Good \| 28% Average | 45% Good \| 35% Average | 52% Good \| 24% Average |

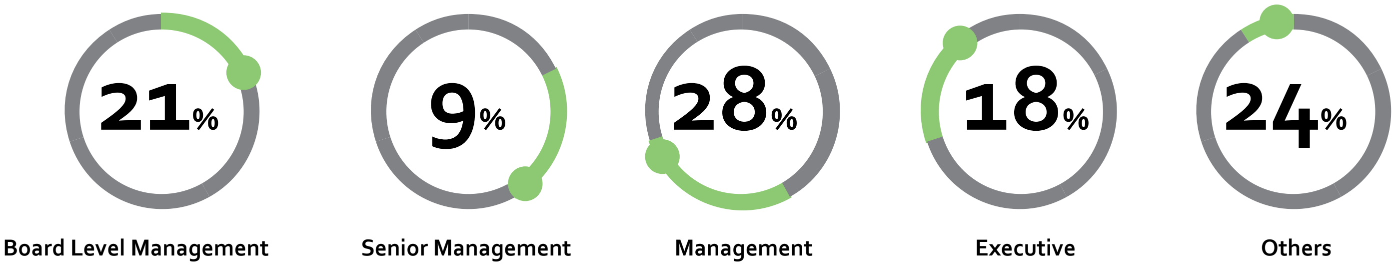
## DELEGATES WHO WOULD LIKE TO ATTEND IFN ASIA FORUM 2021




## DELEGATE BREAKDOWN




## DELEGATE JOB TITLE BREAKDOWN



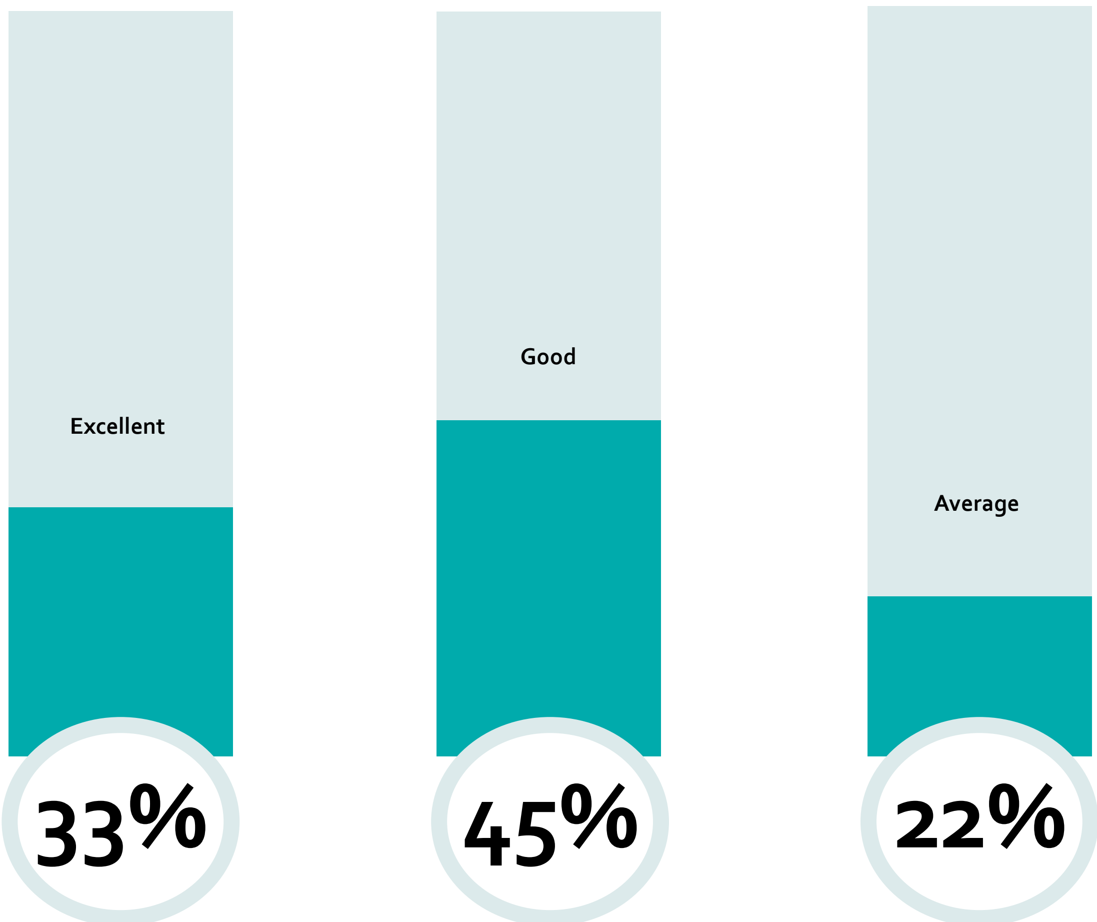
## DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)

**75%**
Local

**25%**
International

## SESSION EVALUATION

# ISLAMIC FINTECH: IS WHAT WE DID YESTERDAY SUFFICIENT FOR TOMORROW?



90 North Real Estate Partners
Ableace Raakin
Abrar Consult
Ace Holdings
Adnan Sundra & Low
Affin Bank
Affin Islamic Bank
Agrobank
AI Future Asia
Aimee & Zaim Arif
Airestec
Airtel Nigeria
Al Qasimia University
Al Rajhi Bank Malaysia
Alliance Islamic Bank
Amanah Islamic Bank
Ambank
AmFunds Management
Amundi Aalam
Apping Technology
AR Consultancy
AS - Salihin Trustee
Asap Wealth Consultancy
Association of Commercial Diplomats
Ata Plus
Attorney General's Chambers
Ausscar Financial Group
Bagau Construction
Bait Al_Mashura
Bakertilly
Bank Islam
Bank Muamalat Malaysia
Bank Negara Malaysia
Bank Rakyat
Bank Syariah Mandiri
Bath University
Big Venture Capital
BIMB Investment Management
Bioeconomy Corporation
Bllida University
BNP Paribas
BNP Paribas AM Indonesia
BNP Paribas Asset Management Malaysia
BNP Paribas Malaysia
Bond Pricing Agency Malaysia
BTI Tech
Bursa Malaysia
Cagamas
Camfil Malaysia
Capital Markets Malaysia
Cathect
CDP Hong Kong
Central Bank of Tunisia
Christopher Joseph & Associates
CIMB Islamic
Citibank
City University
Codebase Technologies
Community & Social Development
Community Marketplace Technology
Coway Malaysia
Darulfunun Foundation
DDCAP Group
Dubai Islamic Bank
Eastspring Al-Wara Investments
Eastspring Investments
Eiger Trading Advisors
ELC Data
Ericsson
Ethis Ventures
Etiqa Family Takaful
Fariz Halim & Co
Ferrier Hodgson
Finance Accreditation Agency
Financial Planning Association
FINEOPOLIS Consulting
Fintech Capital Group
FLOTRIM
FTI Consulting
Geneva School of Business & Economic
Global Compact Network Malaysia
GMX Capital Group
Habib Bank
Herbert Smith Freehills
Hifdzi Salmiah Kee Hanisah
Hong Leong Investment Bank
HSBC Amanah
HSBC Amanah Malaysia
IAID Ciamis
IBC Assets
ICD IDB Group
ICE Systems
IIB Ventures
IIUM IIBF
IJM Corporation
INCEIF
Initiative for Governance
INTEC Education College
Intel Aspire Minds
Internal Auditor
International Islamic Liquidity
International Islamic University (IIUM)
International Shariah Research
International University of Malaya-Wales
Intersoft
Iran Fara Bourse
Iris Mustashar Consultancy
Islamic Development Bank ICIEC
Islamic Financial Services Board
IslamicMarkets.com
ISMS
ISRA Consulting
ITFC - IsDB Group
Japan Research Institute
Jezzelton Enterprise
Joseph & Co
K B Ung Services
Kanzun Ventures Management
Kenanga Investment Bank
Khazanah Nasional
KIC Resource
KSK Group
Kumpulan Wang Persaraan
Kuwait Finance House
Lee Hishammuddin
Lohasow Enterprise
London Met
M M Enterprise
Madugu Help Foundations
Malaysia Digital Economy Corporation (MDEC)
Malaysian Institution of Accountants
Management & Science University
Manulife Holdings
Manulife Insurance
Marteology Hub
Masrab Trading
Masryef Management House
Maybank Islamic
MBSB Bank
MBT Consulting
Mediagate Technology
Metco Trans
Midas Capital Alliance
MIDF
MIGHT
Millennium Information Solutions
MSC Cyberport
MUFG Bank (Malaysia)
Muslims School Proprietors Association
Naliv Capital
Newbury Consulting
Nomura Islamic
NRG Wireless
Olivestouch Technologies
Opus Asset Management
Paritet
PayNet Malaysia
PB Trustee Services
Pemandu
Permodalan Nasional (PNB)
Pertubuhan Peladang Kebangsaan
Phillip Capital
Phillip Mutual
Phillip Wealth Planners
PMB Investment
PMCC Corporation
PNM Investment Management
Prasarana Malaysia
Principal Asset Management
Profinch solution
Prokhas
PT IIF
Pubali Bank
Putra Business School
PwC Consulting
QFC Regulatory Authority
Rahmat Lim & Partners
Rakuten Trade
RHB Investment Bank
RHB Islamic Bank
S&P Dow Jones Indices
SAL Group
Sarawak Energy
SBI Islamic Fund II
SBI Ventures Malaysia
SC Malaysia
SCB Malaysia
Securities Commission Malaysia
Self Empolyed
Selim Megatama Group
Serba Dinamik Holdings
SHAPE Knowledge Services
Sharia Law
SIDREC
Silver Ridge
SKVE Holdings
Social Islami Bank
Socially Responsible Investing
Squire Patton Boggs
STAIN Bengkalis
Standard Chartered Bank
Starterpod
Sumitomo Mitsui Bank, Malaysia
SunTrust Bank
TA Securities Holdings
Tael
Teguh Konsult S
Tenaga Nasional (TNB)
Thandinvest Malaysia
Thye & Associates
TM Malaysiia
TriAset
Twin Pavillion Properties
UGL
Umison Construction
Universal Abrasivindo Indonesia
Universiti Brunei Darussalam
Universiti Teknologi Mara
Universiti Tenaga Nasional
University College Sedaya International
University Malaysia Perliis
University of Malaya
University of Science Malaysia
University of Warwick
University Sultan ZainalAbidin
UOB Islamic Asset Management
Vision4ward Ventures
W&Y Enterprise
Wahed Invest
Warba Bank KSCP
WM & Co
Yong Agency
Zamzam Bank
Zaryah Investment Company