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Managing Editor

Vineeta Tan
vineeta.tan@REDmoneygroup.com

Contributing Editor

Lauren McAughtry
lauren.mcaughtry@REDmoneygroup.com

Senior Contributions Editor

Sasikala Thiagaraja
sasikala.thiagaraja@REDmoneygroup.com

Senior Copy Editor

Kenny Ng
kenny.ng@REDmoneygroup.com

News Editor

Nessreen Tamano
nessreen.tamano@REDmoneygroup.com

Senior Journalist

Marlena Kareem
marlena.kareem@REDmoneygroup.com

Head of Production

Hasnani Aspari
hasnani.aspari@REDmoneygroup.com

Senior Production Manager

Norzabidi Abdullah
zabidi.abdullah@REDmoneygroup.com

Senior Graphic Designer

Eumir Shazwan Kamal Bahrin
eumir.shazwan@REDmoneygroup.com

Business Development Manager

Sunitapreet Kaur
sunita.kaur@REDmoneygroup.com

Head of Events

Cindy Wong
cindy.wong@REDmoneygroup.com

Finance & Accounts Manager

Aidiazrul Idrus
aidiazrul.idrus@REDmoneygroup.com

Managing Director

Andrew Tebbutt
andrew.tebbutt@REDmoneygroup.com

Managing Director & Publisher

Andrew Morgan
andrew.morgan@REDmoneygroup.com

Published By: 

MALAYSIA

Unit E-12B-2.1, Level 12B,
The Icon (East Wing),
No.1, Jalan 1/68F off Jalan Tun Razak,
50400, Kuala Lumpur, Malaysia

UAE

PO Box 126732, 3rd Floor, X2 Tower,
Jumeirah Lake Tower (JLT), Jumeirah Bay, Dubai,
UAE

IFN ASIA FORUM 2022 REVIEW



New engines of growth to drive Islamic finance in Malaysia

It is often easy to use broad brush strokes to paint the Asian Islamic finance landscape, without accounting for the uniqueness of each market as they develop at varying maturity rates. In two weeks, we traveled to Malaysia and Indonesia for our Southeast Asian leg of events to hear from industry leaders about the most pressing issues they face as an industry and how we can chart a path for further Islamic finance success in the region. We are kicking off our event coverage series with IFN Asia Forum 2022, with an emphasis on the Malaysian market where market experts are pushing for new avenues of growth.

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THE IFN ASIA FORUM 2022 REVIEW

NEW ENGINES OF GROWTH TO DRIVE ISLAMIC FINANCE IN MALAYSIA

It is often easy to use broad brush strokes to paint the Asian Islamic finance landscape, without accounting for the uniqueness of each market as they develop at varying maturity rates. In two weeks, we traveled to Malaysia and Indonesia for our Southeast Asian leg of events to hear from industry leaders about the most pressing issues they face as an industry and how we can chart a path for further Islamic finance success in the region. We are kicking off our event coverage series with IFN Asia Forum 2022, with an emphasis on the Malaysian market where market experts are pushing for new avenues of growth. VINEETA TAN brings you the story.

Carving a new future

There is no disputing Malaysia's global leadership as an Islamic finance capital of the world. With great foresight and a strong political will to lead the Islamic finance narrative over four decades ago, Malaysia now boasts a 41% market share of Islamic financing and is one of the most prolific manufacturers of Sukuk anywhere in the world.

While its success is lauded and seen as a benchmark of excellence by its peers, questions arise as to what the future looks like for the market which has hit maturity.

"The big question for the industry, especially in Malaysia, is: as we reach that 40–50% mark, what is our value proposition? How do we differentiate ourselves from the normal banking system? And if we were to go beyond that 50% mark, what is the real value that we are adding to society?" asks Ahmad Shahrman Mohd Shariff, CEO of CIMB Islamic.

Malaysia's Islamic finance journey began as a financial inclusion play, besides setting itself apart from other financial centers by carving out a niche and this goal has fueled its strategy over the last 40 years. However, market leaders believe the country's next phase of growth cannot solely rely on financial inclusion.

Industry participants believe sustainability is the answer.

Engine I: Sustainability

Sustainability is no longer a matter of choice. It is a matter of value risk management. As consumers and businesses grapple with new sustainability-related threats such as climate risks, the industry needs to rethink how it is to deliver solutions to help sustain customers for the long run, and not merely on a short-term basis.

Bank Negara Malaysia's Value-Based Intermediation initiative has mobilized the Islamic banking industry toward sustainability finance in a cohesive and effective manner.

"We are seeing the same players that were instrumental in Islamic finance growth in Malaysia now embracing and innovating in the Islamic sustainable finance space," according to Dr Ayaz Ismail, CIMB Islamic's director of wholesale banking, citing the capital market and investment accounts as examples.

Amid this push from the central bank, ESG-related Sukuk offerings are also gaining momentum, although not as fast as the industry may hope.



"In 2020, global Sukuk issuance was US\$200 billion and ESG issuance was roughly around US\$8 billion, so less than 5% of the overall issuance was ESG Sukuk issuance," said Nitish Bhojnagarwala, a vice-president and senior credit officer for financial institutions group at Moody's Investors Service. "Having said that, I think we do expect it to have significantly long-term growth potential."

Dr Ayaz agreed. "ESG or green issuances are getting larger and longer, so the scene has been set and we are going to be seeing more of them."

Despite the optimism, there is still a long way to go, with multiple hurdles to come.

"We are still in a situation where we are grappling with terminologies and labeling, and measurement. But this is not a problem which is specific to the Islamic sustainable finance space — it is a challenge for sustainable finance in general," observed Ritesh Agarwal, Emirates NBD Capital's director of debt capital markets. "Even though we can show discernible pricing advantages, what we are seeing is the boards of many companies are now insisting that these companies embark on the sustainability journey, so it is a much larger picture and pricing would be a good bonus," shared Ritesh Agarwal, Emirates NBD Capital's director of debt capital markets.

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Faridah Bakar Ali, CFO of Khazanah Nasional, a Sukuk regular, agreed. “First and foremost, top of the list is whether it is the best deal for us and this takes into account a lot of elements, especially principles of sustainability which is becoming more important.”

As world economies continue to navigate a post-COVID-19 world, Malaysia — like many — are caught in a state of transition on multiple fronts — from climate transition to social transition as the nature of job markets change and social dynamics evolve.

“ There is a lot of transition happening in the economy, not just in Malaysia, but globally — and I think we are struggling to adapt ”

“There is a lot of transition happening in the economy, not just in Malaysia, but globally — and I think we are struggling to adapt,” Ahmad believes. Echoing Agarwal, Ahmad explained when asked about the success (or failure) of Islamic banks in delivering sustainable social impact: “This is not just an Islamic bank problem, it is actually a problem across the financial services industry ... We are no longer looking at just delivering financial solutions, but we must make sure the solutions that we are delivering have the right impact from a social or environmental perspective and to this one, we can’t do this alone because impact assessment or delivering impact beyond financing cannot be delivered by the bank alone. We need to work with partners.”

Mohammed Paracha, the head of Middle East for Norton Rose Fulbright, who thinks the industry cohesiveness is a main challenge, concurred that the delivery of real impact is a collective effort: “One of the things I have been working on as a legal practitioner has been to see how we can mobilize multilateral financing together with local partner banks and I think that’s potentially one of the ways in which we are going to see greater collaboration — through delivering SDG goals around the world.”

“The environment we find ourselves in is quite unusual — it is not the same as before hence the financial industry have to devise unusual methods and strategies to assist the country,” Professor Dr Nurdianawati Irvani Abdullah from International Islamic University Malaysia said. “Perhaps it is time for the industry to adopt what we call a down-to-earth mechanism by working on cooperating with the non-banking financial institutions and state administration including religious state bodies.”

Sustaining social impact

While governance from the ESG equation may be trickier to implement in Malaysia, and the environment opportunities for Malaysia are obvious, experts also agree that the country is well positioned to drive the social element using Islamic finance instruments.

“The industry itself is worth about US\$3 trillion but the worth of Zakat is estimated to be over US\$1 trillion, and when you add other Islamic social finance sources, the number is over US\$3.5 trillion, meaning it is even bigger than the mainstream,” highlighted Dr Abideen Adeyemi Adewale, the head of research, publications and statistics at the IFSB.

Zakat raised throughout Malaysia in 2021 alone exceeded RM8.6 billion (US\$1.85 billion), with the state of Selangor contributing RM900 million (US\$193.64 million), according to Mohamed Hamza Ghaori, a consultant from Fineopolis of Al Maali Consulting.

“If we combine the amount collected through Zakat with other amounts collected through Waqf, these funds have the potential to address many of the environmental as well as social issues faced by the Muslim world,” Mohamed Hamza believes, who also admitted that despite their potential, these instruments are far from reaching their collection and distribution potential.

Dr Mohamed Eskandar Shah, the associate dean of academic and associate professor of Islamic finance at the College of Islamic Studies of HBKU, Qatar Foundation, agreed. Despite the many successes and deep knowledge the industry has accumulated over decades, the industry has yet to find suitable solutions.

“The reason why we are not able to do this is because we are not seeing this problem as a structural problem. We are not creating enough incentives and we are not creating enough reforms required to alter the behavior of market players toward addressing these issues,” according to Dr Mohamed Eskandar. “We need regulation reform, we need agency reform, which means that we need to alter the behavior of the economic agent. More importantly, we need to address institutional reform.”



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So what form could Islamic finance for social projects take?

“We could potentially see something along the lines of blended finance, a combination of private and public sector financing, or it could be some form of blurring between purely for-profit financing and some social financing,” thinks Rozani Osman, a senior financial sector specialist with the World Bank. “We have already seen earlier this year in the environmental side when the World Bank issued what we call a ‘wildlife conservation bond’ in South Africa. That was a rather interesting structure where there was a donor involved and yet there were also for-profit investors involved. So, there’s a blurring of the lines between for-profit and non-profit types of financing.”

Ruslena Ramli, the director of the Islamic digital economy at Malaysia Digital Economy Corporation, confirmed that there are ongoing public-private initiatives.

“So the local Islamic banks are already funneling some of the Zakat payments to support enterprising devotees. A lot more is currently happening in terms of the initiatives by the government working with regulators as well as Islamic banks in support of social finance.”

Engine II: Digital

The other engine for Malaysia’s Islamic finance growth is digital avenues. Dr Aznan Hasan, a professor of Shariah and Islamic banking with International Islamic University Malaysia, who also sits on multiple Shariah boards of Islamic financial institutions and regulating bodies, noted that a significant amount of liquidity and financial assistance are inaccessible to many Muslims, which could be unlocked via technology. Concurrently, while still a fraction of the total Islamic finance industry, more Malaysians are gravitating toward digital platforms to meet their Shariah funding needs.

“We have long recognized that there is no single marketplace where one size fits all, and this is where the digitally enabled marketplaces have come into the picture. Within our Capital Market Masterplan Three we launched last year, we talked about the need for multi marketplaces catering to businesses at different stages of growth,” explained Dr Wong Huei Ching, the executive director of digital strategy and innovation at Securities Commission Malaysia (SC).

The SC was one of the first in the region to put in place rules for equity crowdfunding (ECF) and peer-to-peer (P2P) finance. As of the end of June 2022, at least 5,000 MSMEs raised over RM3 billion (US\$645.46 million) through ECF and P2P platforms, with Islamic disbursements accounting for about 10%.

“What’s interesting is that we are seeing a lot more demand from institutional investors looking for Shariah compliant asset classes, alternative asset classes, for that matter and we see a lot more collaboration between banks.”

This demand is driving many conventional fintech platforms to tap the Islamic market either via a window or fully compliant basis.

“We are a conventional ECF platform, but we are undergoing the regime to be Shariah compliant. Why? Because I don’t want to lose access to deals. We have seen really good commercial-driven companies but they are within the Halal or Shariah compliant realm and they want to fundraise in that same light,” revealed Bikesh Lakhmichand, CEO of 1337 Ventures.

Joann Enriquez, CEO of Investment Account Platform, added: “What we need to do for those who are proponents of Islamic finance is to be able to utilize not just simply the stand-alone Islamic products, but mix the other facets such as Waqf and other tools of social finance because it is an untapped market. Yes, there are some who are very focused on returns but there are also a lot who are looking to put their money that will benefit them in their afterlife as well.

“ We could potentially see something along the lines of blended finance, a combination of private and public sector financing, or it could be some form of blurring between purely for-profit financing and some social financing ”

“We have a long way to go — we have started the first steps, but we also have to be realistic and acknowledge our wins.”

Collaborate and compete healthily

It would be remiss not to discuss the potential impact of digital banks on the Islamic banking and finance sphere in Malaysia. The central bank this year awarded five digital bank licenses, two of which will operate in compliance with Shariah. The persisting question is how the inclusion of neobanks will alter the course for incumbents — would the two sides compete or collaborate?

Understanding all of the elements that make up the industry...

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For more information please contact

Neill Gibson

London

d +44 (0)20 7423 8467

e ngibson@trowers.com

Nick Edmondson

Malaysia

d +60 3 2717 3803

e nedmondson@trowers.com

Salman Ahmed

Oman

d +968 9654 2862

e sahmed@trowers.com

Elias Moubarak

Malaysia

d +60 3 2717 3816

e emoubarak@trowers.com

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“We don’t see ourselves as competitors because I think we all have our niche ecosystems that we need to work on and I think working collectively together is far better for the industry,” said Rafiza Ghazali, the director of digital banking for KAF Investment Bank, one of the two consortiums which received an Islamic digital bank license.

Traditional Islamic banks such as Bank Islam and Al Rajhi Bank Malaysia (ARBM) which are also spinning off stand-alone digital outfits, also see tremendous opportunity for synergy between incumbents and the challenger banks.

“ If we can succeed as an ecosystem, it will benefit everybody ”

“When I talk about curating products, the interesting thing is we can bring in products from other arenas and industries, into our application as well, and serve those to customers. But actually it works the other way too — we can serve some of our products into other financial institutions and financial organizations as well. This comes back to the ecosystem concept — if we can succeed as an ecosystem, it will benefit everybody,” shared Ikram Khaliq, ARBM’s head of digital bank, who also confirmed that its cloud-native digital bank proposition is nearing launch.

Zahrain Zulkifli, the head of commercial of the Centre of Digital Experience at Bank Islam Malaysia, concurred. “The banking fraternity has always been a collaborative one and I do not see how it differs with digital banks as well ... There are certain concessions that have been made for digital banks and there are also areas that certain incumbent banks have played well in. There are certain gaps that we [are] promoting for the digital banks to come in and serve. The industry has funding issues, we still have a gap in capital and the introduction of digital banks is to address those gaps with new alternative scorecards and new assessment tools among others.”

Rather than cannibalizing the market, the regulator has had the foresight to establish an environment to close certain market gaps and to enhance the existing system.

“Bank Negara Malaysia (BNM) has been really smart with this initiative because if you look at the key mandates, it is driving financial inclusion but the second thing here is using the latest technology to build better bank technology stacks — this was a really key part of the mandate. BNM introduced these digital bank licenses so that there’ll be these new entities with a blank sheet of paper that can build their technology stack from scratch with new technology that then will feed into the established banks because they’ll see the design blueprint for how it’s done right,” observed William Dale, the regional vice-president of Mambu. “What Bank Negara has facilitated here is that there’s now an ecosystem of companies being established — banks, neobanks and fintechs — that are all working together to make the consumer experience much better than it was.”

“ The industry has funding issues, we still have a gap in capital and the introduction of digital banks is to address those gaps with new alternative scorecards and new assessment tools among others ”

“What we are seeing is this inflection point where the world is looking for better products and we are in a very good position to actually produce some of the products locally,” believes Saify Akhtar, Pertama Digital’s director of strategy. ⁽⁹⁾



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LEADERS' QUESTION TIME: THE STATE OF THE INDUSTRY

We pose a series of high-level strategic questions to senior representatives of the Islamic financial services industry. How can Islamic finance and investment create a genuinely competitive advantage in key areas such as retail, commercial, corporate banking and wealth management? Are there inhibitions and limitations the industry needs to acknowledge and overcome? Does Islamic finance want to become mainstream, or are we content with the plausible alternative label? What's really working in financial technology, and who ultimately benefits: financial institutions, consumers or both? Is the success of neobanks inevitable, and how will they change the market? Having witnessed the remarkable growth of ESG and sustainable finance, on reflection, are there things Islamic finance could have done differently?



Moderator:
PROFESSOR DR MOHD AZMI OMAR
 President and CEO, International Centre for Education in Islamic Finance (INCEIF)



AHMAD SHAHRIMAN MOHD SHARIFF
 CEO
 CIMB Islamic



MICHAEL ORZANO
 Global Head of Equity Indices
 S&P Dow Jones Indices



MOHAMMED PARACHA
 Head of Middle East
 Norton Rose Fulbright



MOHD SUHAIMI ABDUL HAMID
 CEO
 Standard Chartered Saadiq



PROFESSOR DR NURDIANAWATI IRWANI ABDULLAH
 Department of Finance, Kuliyyah of Economics and Management Sciences (KENMS)
 International Islamic University Malaysia (IIUM)

KEY TAKEAWAY

Islamic banks can create a competitive advantage through technology, innovation and sustainability:

- a. It is a necessity to embrace the next generation of technologies and transform the way they do business to attract tech-savvy customers.
- b. To expand the Halal ecosystem and facilitate cross-border trades and global supply chain.
- c. SMEs to embrace a digital transformation and rethink their business models to overcome any crisis situations or grow their business beyond Malaysia.
- d. Accelerating value-based intermediation and sustainability is critical since Asia is one of the most vulnerable regions to natural disasters. The impact of climate change on Asia's economic growth will be substantial if this goes unchecked.
- e. The UN SDGs were set out with the objective to "end poverty, protect the planet and ensure prosperity for all". In promoting risk-sharing and ethical investment, as well as charitable giving through Zakat and Waqf, Islamic finance can play a major role to achieve these aims.

Mohd Suhaimi Abdul Hamid is CEO of Standard Chartered Saadiq.

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THE NEW PARADIGM OF MARKETPLACE FINANCING AND ALTERNATIVE FUNDING CHANNELS

How has the evolution of regional equity crowdfunding and peer-to-peer lending platforms created opportunities for the joint ownership of Shariah compliant assets and investment projects? How is technology increasing SMEs' access to Shariah compliant capital, while also widening the investor base? What does the growth of digital investment management (DIM) platforms and robo-advisory mean for investment managers, and what new opportunities are available for Shariah compliant savers and investors? What are the potential uses and applications of digital assets in Southeast Asia's financial markets today? What are the key risks and issues surrounding digital assets, P2P and ECF and what is the role of regulators in the development of an efficient digital marketplace in the region? We ask an expert panel.



Moderator:
MATTHEW MARTIN
Founder and CEO
Blossom Finance



DR WONG HUEI CHING
Executive Director, Digital Strategy & Innovation
Securities Commission Malaysia



DR AZNAN HASAN
Professor in Shariah and Islamic Banking, Institute of
Islamic Banking and Finance
International Islamic University Malaysia

KEY TAKEAWAY
Digital applications will be the future and will to strive within the Islamic market as there is a small portion of individuals and SMEs that have limited access to bank accounts and financing. While awareness is growing, basic technology can be the enabler to give these users better access.



BIKESH LAKHMICHAND
CEO
1337 Ventures

In Malaysia, under an accommodative framework by Securities Commission Malaysia, ECF and P2P platforms have been demonstrating evidently that technology can support the underserved and unserved market. While awareness has been growing, there is a lot of opportunity for growth which includes more public-private partnerships, for example investment managers or government agencies co-investing to spur specific sectors, and more accommodative policies, for example some tax exemption for these participants.



JOANN ENRIQUEZ
Chief Executive Officer, Investment Account Platform

From an Islamic financing perspective, the interpretation of Shariah should not be over-interpreted as it will make it more challenging to roll out new products and technology.



JUN JIE YOON
CEO, Partnerships
Capsphere SME Financing

Jun Jie Yoon is the founder and CEO of Capsphere SME Financing.



NICLAS NILSSON
Founder and CEO
Capnovum

Sukuk Transactions

 Republic of Turkey USD 2.5bn Senior Unsecured Sukuk 9.758% due 2025 B3/-/B Joint Bookrunner <hr/> Turkey October 2022	 Dar Al Arkan USD 400m Senior Unsecured Sukuk 7.750% due 2026 B1/-/- Joint Bookrunner <hr/> KSA June 2022	 Saudi National Bank USD 750m Senior Unsecured Sustainable Sukuk 2.342% due 2027 -/A-/A- Joint Bookrunner <hr/> KSA January 2022	 United Kingdom GBP 500m Senior Unsecured Sukuk 0.333% due 2026 Unrated Joint Bookrunner <hr/> UK March 2021	 Republic of Maldives USD 500m (incl. Taps) Senior Unsecured Sukuk 9.875% due 2026 B3/-/- Joint Bookrunner <hr/> Maldives 2021
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Loans and Murabaha Transactions

 EMPOWER ENERGY SOLUTIONS AED 5.5bn Sole Coordinator, Mandated Lead Arranger and Bookrunner Conventional and Shariah Compliant Facilities <hr/> September 2022	 Salik AED 4.2bn Mandated Lead Arranger, Bookrunner, and Underwriter Syndicated Term Financing <hr/> June 2022	 aramco USD 12bn equiv. Coordinator, Bookrunner and Mandated Lead Arranger RCF Facilities <hr/> April 2022	 هيئة كهرباء ومياه دبي AED 10bn Sole Coordinator, Mandated Lead Arranger, Sole Bookrunner and Underwriter Term Murabaha Facility <hr/> January 2022	 USD 3bn Joint Coordinator, Initial Mandated Lead Arranger and Bookrunner Term Financing Facilities <hr/> November 2021
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Equity Transactions

 Salik USD 1bn Joint Global Coordinator and Lead Receiving Bank Initial Public Offering <hr/> September 2022	 TECOM GROUP USD 455m Joint Global Coordinator and Lead Receiving Bank Initial Public Offering <hr/> June 2022	 هيئة كهرباء ومياه دبي USD 6.1bn Financial Advisor, Joint Global Coordinator and Lead Receiving Bank Initial Public Offering <hr/> April 2022	 ADNOC USD 1.1bn Joint Bookrunner and Receiving Bank Initial Public Offering <hr/> October 2021	 ACWA POWER USD 1.2bn Joint Bookrunner Initial Public Offering <hr/> October 2021
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CONTEMPORARY ISLAMIC CAPITAL MARKETS: FIT FOR PURPOSE

What represents innovation in the contemporary Sukuk market: pioneering structures, sourcing underliers and the transition from ESG to impact? What options do hybrid or combination Sukuk offer issuers, particularly in asset-heavy industries such as oil and gas, and aviation, and why have such structures been so successful in the Gulf? How do Tier 1 and Tier 2 Sukuk offer financial institutions a flexible, efficient and user-friendly way of satisfying regulatory capital requirements, and what do perpetual Sukuk structures offer such issuers? How has innovation been incorporated into project and infrastructure finance, particularly regarding concession agreements, cash contributions and investor protection? With ESG and sustainability continuing to grow in Islamic capital markets issuance, when will we see the measurement of impact? Are sufficient issuers engaging with independent, third parties to measure green, sustainable and social credentials? With the demise of LIBOR, is SOFR a good alternative for the Islamic capital market? We seek the views of an expert panel.



Moderator:
ELIAS MOUBARAK
Partner
Trowers & Hamblins



DR MOHAMAD ZABIDI AHMAD
Regional Chief Representative
DDCAP Group



DR AYAZ ISMAIL
Director – Wholesale Banking
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NITISH BHOJNAGARWALA
Vice-President – Senior Credit Officer, Financial Institutions Group
Moody's Investors Service



FARIDAH BAKAR ALI
CFO
Khazanah Nasional



RITESH AGARWAL
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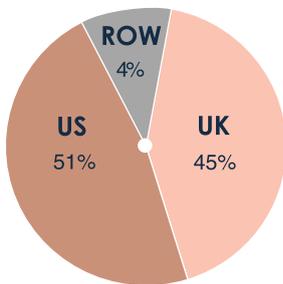
US \$3,5 Bn

Total Assets Under Management

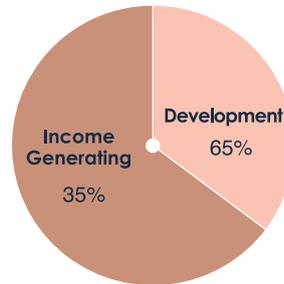


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Sidra Capital's real estate strategy is focused on income generating assets in mature global markets. We offer our clients and investors access to shariah compliant strategies with a *Sidra.com* core and core-plus opportunities.



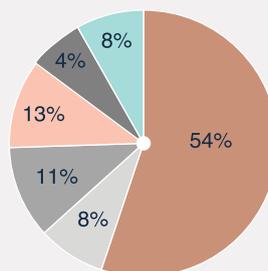
Geographical Breakdown



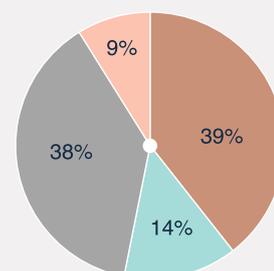
Investment Type

Private Finance

Our transactions are structured around the supply chain and commercial terms of customers, involving not only large bilateral strategic relationships but also small and medium enterprises.



Investments by Geography



Private Finance Funds





TECHNOLOGY ROUNDTABLE: DIGITALIZATION AND THE EVOLUTION OF SOUTHEAST ASIAN ISLAMIC FINANCIAL SERVICES

The digitalization of Islamic financial services: what is working, what is viable and what is not? What do the answers to these questions mean for the evolution of Islamic financial services in Southeast Asia? With new neobanking licenses in Malaysia, how will the development, provision and distribution of digital Islamic financial services evolve in the near term, and what models will be deemed successful? What further measures would assist domestic Islamic financial institutions in the modernization and digital transformation of Islamic retail, commercial, Takaful and pension offerings? What are notable milestones and achievements in the development of systems and software for Islamic banks and financial institutions? What technology is available to help Islamic financial institutions drive scale, integrity, efficiency and ultimately profitability? Finally, is technology being fully utilized to address key customer concerns surrounding authenticity and the minimization of uncertainty? We ask an expert panel.



Moderator:
VINEETA TAN
Managing Editor
Islamic Finance news



ZAHRAIN ZULKIFLI
Head of Commercial, CDX
Bank Islam Malaysia



DEAN GILLESPIE
CEO
Islamic Bank of Australia



IKRAM KHALIQ
Head of Digital Bank
Al-Rajhi Bank Malaysia



RAFIZA GHAZALI
Director, Digital Banking
KAF Investment Bank



SAIFY AKHTAR
Director of Strategy
Pertama Digital



WILLIAM DALE
Regional Vice-President
Mambu APAC

KEY TAKEAWAY
With a Muslim population in excess of 17 million people, high rates of financial literacy and inclusion, and increased fintech activity due to the new digital banking licenses, Malaysia is primed for a period of exciting Islamic fintech innovation.

With digital transformation accelerating across the banking and financial services sector since the announcement of the new licensing framework and competition intensifying, it is a crucial time for Islamic banks to proactively embrace digital transformation.

With consumer demands evolving and customers now expecting a greater level of personalization alongside crucial factors such as convenience and speed, Islamic banks and financial service providers need to learn from the experiences of the conventional banking industry and leverage the opportunities that next-generation financial technologies can offer.

By capitalizing on API-first, cloud-native and composable technology, Islamic banks and financial service providers can attract new customers with hyper-personalized, Shariah compliant products and services delivered where, when and how consumers want them.

William Dale is the regional vice-president of APAC at Mambu.



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ISLAMIC SOCIAL FINANCE: OFFERING RELIEF, CREATING OPPORTUNITIES AND IMPROVING LIVES

What is social finance, why is it important and how can Islamic financial institutions play a significant role in its growth and development? In a post-pandemic world, what does social finance offer in terms of relief and renewal, and what real-life examples are there of this in practice? How can social Sukuk be used to support enterprise, entrepreneurship, homeownership and job creation, as well as healthcare and education? What has worked toward these goals in other countries and what can be learnt from these achievements? How can Islamic social finance be deployed to assist with liquidity and funding for the vital SME sector? Can Islamic social finance play a role in the evermore consequential issue of food security, simultaneously helping the underprivileged and microenterprises? With such goals in mind, how do we design effective models and strategies, offer innovative products and measure the impact of these important initiatives?



Moderator:
RAJA SHAHRIMAN RAJA HARUN AL RASHID
Senior Vice-President, Risk Management and Compliance, Cagamas



MOHAMED HAMZA GHAOURI
Consultant
Fineopolis Al Maali Consulting



DR ABIDEEN ADEYEMI ADEWALE
Head of Research, Publications, and Statistics
Islamic Financial Services Board (IFSB)



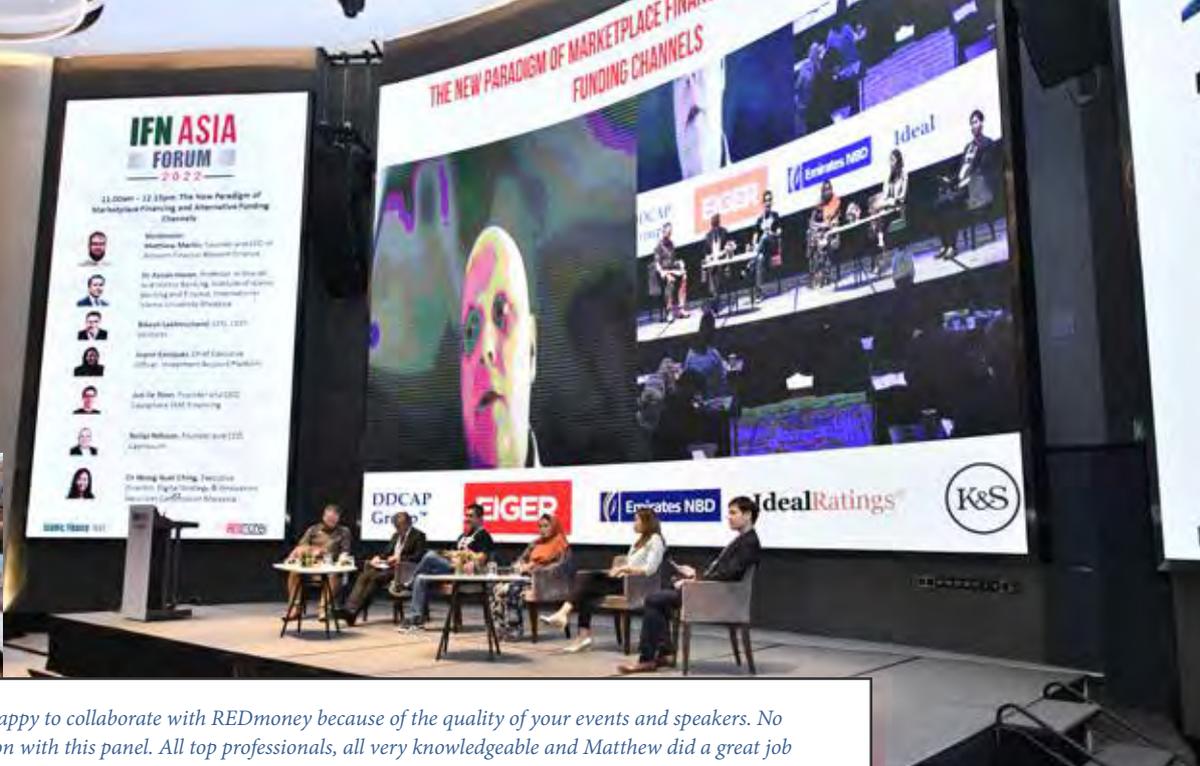
ROZANI OSMAN
Senior Financial Sector Specialist
The World Bank



DR MOHAMED ESKANDAR SHAH
Associate Dean Academic, Associate Professor, Islamic Finance, College of Islamic Studies
HBKU, Qatar Foundation



RUSLENA RAMLI
Director, Islamic Digital Economy
MDEC



"I am happy to collaborate with REDmoney because of the quality of your events and speakers. No exception with this panel. All top professionals, all very knowledgeable and Matthew did a great job moderating."

Niclas Nilsson is the founder and CEO of Capnovum.



"Thanks for organizing a great event and thanks for all the preparation that was done to ensure the panel was a success. The event was well attended and gave Mambu some valuable exposure."

William Dale is the regional vice-president of Mambu APAC.





"Thank you for having me, it was a great experience and a pleasure meeting you and the team in person. Truly enjoyed the event and discussions with the rest of the speakers which has enabled us to not only share our insights on P2P but get a broader view on the whole Islamic market."

Jun Jie Yoon is the founder and CEO of Capsphere SME Financing.





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FEATURE

ISLAMIC SUSTAINABLE FINANCING: THE CASE OF STANDARD CHARTERED SAADIQ

Background

The UN's 17 Sustainable Development Goals (SDGs) are not only ambitious but extremely significant in addressing the challenges faced currently by humanity and the environment. The achievement of these goals requires unprecedented mobilization of resources and collaboration across the globe among the governments and the private sector. The financial sector has to play a pivotal role as an intermediary in funding projects that are aligned with the SDGs.

The aspirations for human dignity, public interest, a sustainable world and 'to leave no one behind' inherently resonate with the intended outcomes of Islamic finance (the objectives of Shariah). The objective of Shariah takes into consideration the various dimensions of human needs, ie protection of religion, life, lineage, intellect and property. The Islamic financial system strives for a just, fair and balanced society where the wealth is earned and distributed in a sustainable manner. Therefore, the Islamic financial industry, with an expected US\$3.5 trillion in assets in 2021, has the potential to be a meaningful source of financing to advance SDG implementation.

SCB's sustainability vision

As a signatory of the UN SDGs, Standard Chartered (SC) is also supporting the agenda

of sustainable finance. SC is committed to sustainable, social and economic development through business, operations and communities. For over 150 years, SC has provided banking services that help people and companies to succeed, creating wealth, jobs and growth across some of the world's most dynamic regions — Asia, Africa and the Middle East. The bank does so sustainably and equitably in line with its core purpose and three-valued behaviors: 'Never settle', 'Better together' and 'Do the right thing'. In 2018, the bank released its 'Sustainability Philosophy', which sets out how the bank integrates sustainability into its organizational decision-making.

SC's vision is to become **the world's most sustainable and responsible bank**, committing to sustainable, social and economic development through its **three pillars of business, operations and communities**. In alignment with its stakeholders' priorities, in 2021, the bank formally elevated sustainability to be a pillar of the bank's strategy. In the same year, the bank also announced its net-zero pathway to reach net zero in its operations by 2025, and in its financing by 2050.

SCB Saadiq

Inspired by the Arabic word for 'truthful', Saadiq is SC's global Islamic banking network, spanning Asia, Africa and the Middle East. With

our dedicated Islamic banking team working alongside a renowned advisory committee of scholars — as well as local Shariah supervisory committees for Pakistan, the UAE and Malaysia — we combine deep Shariah expertise with strong business acumen.

As part of SC's policy, at Saadiq, we aspire to make the world a better, cleaner and safer place and minimize the negative impact of our financing, balanced by our mission of enabling a just transition.

Sustainable financing through Saadiq

According to the SC Group's strategy, Saadiq aims to support the following SDGs through Islamic finance:

- Goal 1: No Poverty.
- Goal 3: Good Health and Well-being.
- Goal 4: Quality Education.
- Goal 6: Clean Water and Sanitation.
- Goal 7: Affordable and Clean Energy.
- Goal 9: Industry, Innovation and Infrastructure.

Figure 1: A summary of the SCB 2021 Sustainable Finance Impact Report

9.2 billion

Sustainable assets in our sustainable finance portfolio - 138% increase year on year

Over

70%

of our sustainable finance assets are located in emerging and developing economies

Over

885,000

Sustainable assets in our sustainable finance portfolio - 138% increase year on year

1.4 million

tonnes of CO2 emissions avoided operational assets

Over

540,000

tonnes of CO2 emissions avoided from assets in construction



Nearly

20,000

SME loans disbursed

Source: Standard Chartered Bank Sustainable Finance Impact Report 2021

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Ask us about the changing
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Table 1: Some key sustainable financing projects led by Saadiq globally	
Transactions	Sustainable impacts
<p>1. On the 18th June 2020, SC Saadiq, acting as a joint lead manager and joint bookrunner, successfully priced a US\$1.5 billion five-year COVID-19 response Sukuk facility at a profit rate of 0.91% per annum. The issuance was a drawdown under the IsDB's US\$25 billion Trust Certificate Issuance and Sustainable Finance Framework. It represents the IsDB's second sustainable issuance in the public markets.</p> <p>It is a trademark transaction as being the first-ever COVID-19 response Sukuk and the lowest-ever profit rate achieved on a US dollar public Sukuk issuance by the IsDB. The deal further cements our leadership in the green and sustainable finance space and reinforces SC's relationship with the IsDB after winning 18 consecutive mandates from the bank. In the broader region, SCB is ranked No 1 in MENA Sukuk and MENA Government and Agencies League tables. The success of this transaction in terms of pricing, size and strong investor interest reflects the great development in the Islamic sustainable market which has seen a boom in the issuance of social Sukuk since the start of COVID-19.</p>	<p>Proceeds from the debut sustainability issuance are exclusively deployed by the IsDB for its 57 member countries, to assist them in tackling the aftermath of the COVID-19 pandemic. The targeted SDGs are Goal 3: Good Health and Well-Being and Goal 8: Decent Work and Economic Growth.</p>
<p>2. In 2019, SC Saadiq as a joint global coordinator and joint sustainability structuring agent arranged US\$600 million-worth of Sukuk for Etihad Airways, the national airline of the UAE. It is the world's first transition Sukuk and the first sustainability-linked financing in global aviation, under the Transition Finance Framework.</p>	<p>The transaction will support Etihad's drive for sustainable aviation by linking the Sukuk proceeds to Etihad's carbon reduction targets: a commitment to net-zero carbon emissions by 2050, a 50% reduction in net emissions by 2035 and a 20% reduction in emissions intensity in the airline's passenger fleet by 2025.</p>
<p>3. This year, SC Saadiq helped the government of Indonesia as a bookrunner and structuring advisor to raise US\$3.25 billion through US dollar-denominated Sukuk with 5-year and 10-year tenors. The 10-year green Sukuk tranche is the country's biggest global Sukuk issuance and the largest green Sukuk tranche ever issued globally. Despite ongoing market volatility surrounding rates, the transaction was very well received and was oversubscribed by more than three times, enabling the government of Indonesia to tighten aggressively by 35–40bps across both tranches.</p>	<p>The proceeds will be used for general financing requirements and to finance or refinance "eligible SDGs expenditures with green and blue focus" as defined in the obligor's SDGs Government Securities Framework.</p>
<p>4. In February 2022, SC Saadiq supported Riyad Bank to successfully issue the world's first US\$750 million Tier 1 sustainability Sukuk. The profit rate of 4% per annum is equivalent to the lowest credit spread ever achieved by a GCC bank for an additional Tier 1 Sukuk. The orderbook was 4.3 times oversubscribed with demand peaking at US\$3.2 billion, most of which was allocated to banks and fund managers.</p>	<p>The proceeds will be used as per the issuer's Sustainable Finance Framework in line with the International Capital Market Association's green, social and sustainability principles and Saudi Arabia's Vision 2030. The framework covers a diverse range of eligible sustainable activities.</p>
<p>5. In 2020, SC Saadiq also helped Saudi Electricity Company as a joint lead manager and bookrunner to raise US\$13 billion through international green Sukuk. The dual-tranche five-year and 10-year Sukuk, listed on the Irish Stock Exchange, were oversubscribed four times with total orders for both tranches exceeding US\$5.2 billion. High interest was received from investors in the Middle East, Asia and Europe.</p>	<p>The proceeds from the Sukuk will be used to finance eligible green projects that will help contribute to climate change mitigation. This includes procuring and installing smart meters, a method of creating potential energy consumption savings and potentially reducing or avoiding carbon emissions, according to the company.</p>
<p>6. Recently, CIMB Islamic Bank Bhd has entered into a RM1 billion (US\$216.8 million) landmark sustainable collateralized commodity murabahah (CCM) transaction with Standard Chartered Saadiq Malaysia.</p>	<p>The proceeds of the CCM will be earmarked for eligible Shariah compliant assets that fall within the boundaries of CIMB Group's Sustainable Development Goals Bond and Sukuk Framework. This kind of facility is also crucial for most central banks with open market operations to adjust liquidity in the financial system.</p>

Flagship deals like these are a testament of SC Saadiq's devotion to providing innovative and commercially viable solutions for the business sector with a blend of Shariah compliant and environment-friendly features. This also demonstrates investors' and issuers' trust and confidence in the SC Islamic banking franchise for its rich and diversified experience in structuring expertise and effective deal execution.



Dr Ehsanullah Agha is the associate director of the Internal Shariah Control Division at SCB UAE and Sheikh Muhammad Abdul Mubeen is the SCB Group Shariah head.

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ANALYSIS

MALAYSIA: DRIVEN BY STRONG INFRASTRUCTURE

Malaysia, one of the top Islamic finance jurisdictions in the world, boasts a well-established regulatory framework that supports the Shariah finance industry and its subsectors. **NESSREEN TAMANO** writes an overview of the country's Islamic finance and banking industry, which is also a key enabler of the Malaysian Halal economy.

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. In 1996, the SC formed its Shariah Advisory Council to supervise the compliance of Islamic capital market businesses and transactions, and a year later, the central bank established its own Shariah Advisory Council as the authority on compliance for Islamic financial businesses regulated by BNM.

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.

In March 2022, BNM launched what is touted as the first global transaction-based Islamic benchmark rate to utilize Shariah compliant unsecured overnight ringgit interbank placements: the Malaysia Islamic Overnight Rate, or MYOR-i. It replaces the Kuala Lumpur Islamic Reference Rate and introduces a near-risk-free rate.

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 2021, the country continues to rank third in the world's top jurisdictions for Islamic banking assets, accounting for 11.4% of the global industry — a slight increase to the previous year's 11.1%.

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.



This year, Malaysia Building Society, widely known as MBSB, started discussions with Permodalan Nasional to acquire Malaysian Industrial Development Finance and form a universal Islamic banking group.

In the Islamic fintech sector, the central bank granted five digital banking licenses to as many entities, two of them Islamic. One licensee is a consortium led by AEON Financial Service Co and another one led by KAF Investment Bank. Both are expected to be operational by 2023.

Malaysia ranks first globally in the number of Islamic fintech providers at 49, according to the IFN Islamic Fintech Landscape as at the 1st November 2022.

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, the country has taken steps to boost green and ESG-linked Sukuk issuances with tax incentives. It also issued in 2020 its landmark Sukuk Prihatin facility, which was exclusively available for subscription online and the proceeds were channeled to the country's COVID-19 Fund to implement economic recovery measures.

As at the end of June 2022, Malaysia continued to record the largest share of global Sukuk outstanding at 41.6%, according to the Ministry of Finance's Economic Outlook 2023 report. The size of the Islamic capital market in Malaysia declined marginally, however, by 1.2% as at the end of July 2022, due to a reduction in the total market capitalization of Shariah compliant securities, the report noted.

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. As at 2020, there are 23 fully-fledged Islamic fund management companies in Malaysia. There are five Islamic REITs listed on Bursa Malaysia, accounting for 42.21% of total REIT market capitalization as at the end of June 2022, according to data from the SC.

The Guidelines on Islamic Fund Management were introduced in 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.

In 2020, the SC launched the Waqf-Featured Fund Framework, which focuses on offering unit trust funds and wholesale funds with Waqf features as a way to expand Islamic social and impact investing in the country. This year, Bursa Malaysia drafted amendments to the main market listing requirements for REITs and exchange-traded funds with Waqf features, to enhance certain aspects of listing, such as disclosure practices and the availability of value-added information.

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 2020, Malaysia's Takaful sector grew 8.5%.

Outlook

Malaysia remains an important Islamic finance jurisdiction, not just regionally but globally, and the numbers support it: the size of the country's Islamic capital market was valued at RM2.23 trillion (US\$476.74 billion), or 63.4% of the total market, at the end of June 2022. Meanwhile, total Islamic banking assets grew by 5.7% to RM1.2 trillion (US\$256.23 billion), constituting 35.7% of total banking assets as at the end of July 2022. Industry experts note that substantial public demand for Islamic products and strong backing from the government will continue to support the industry in the coming year. ⁽²⁾



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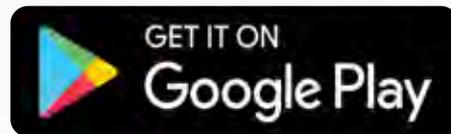
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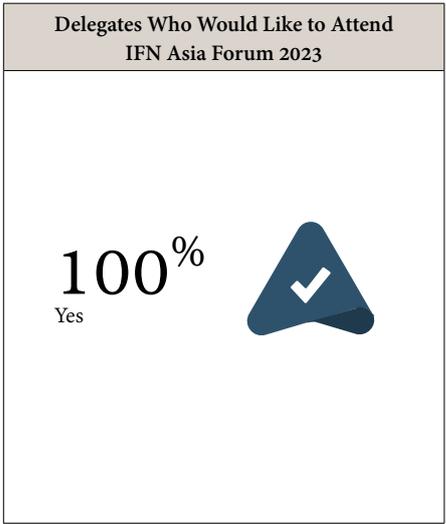
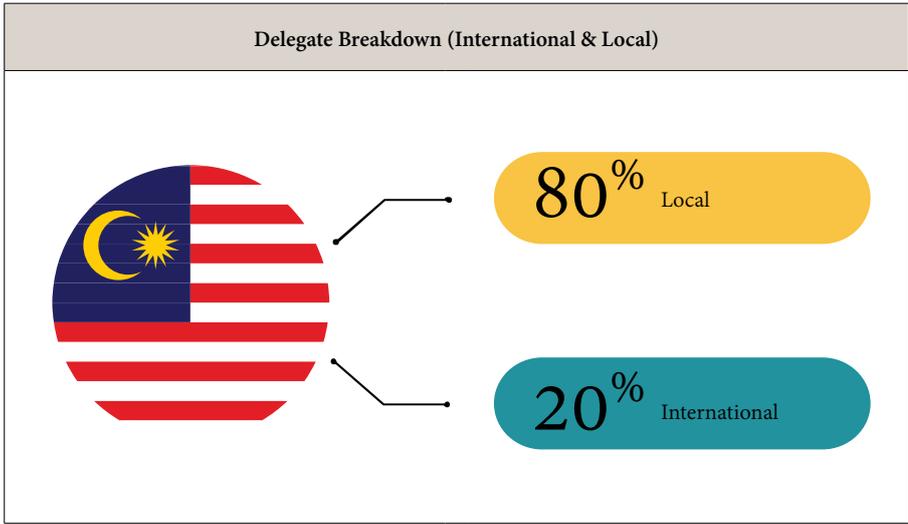
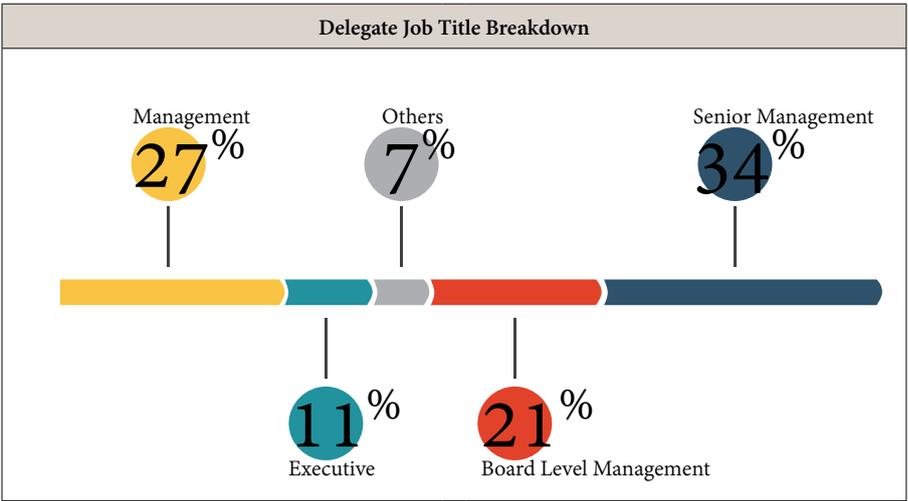
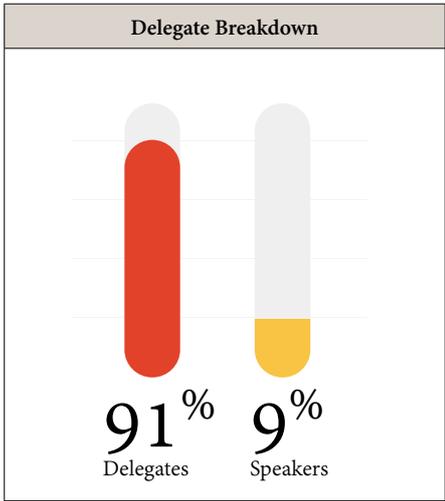
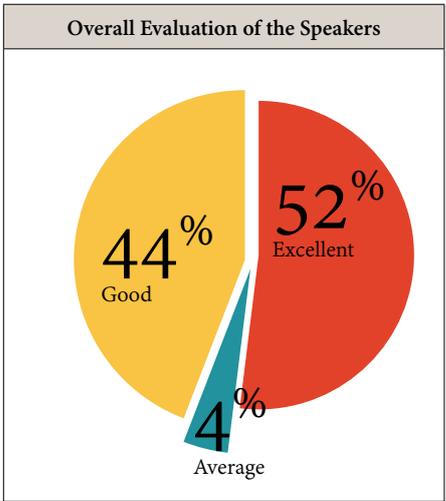
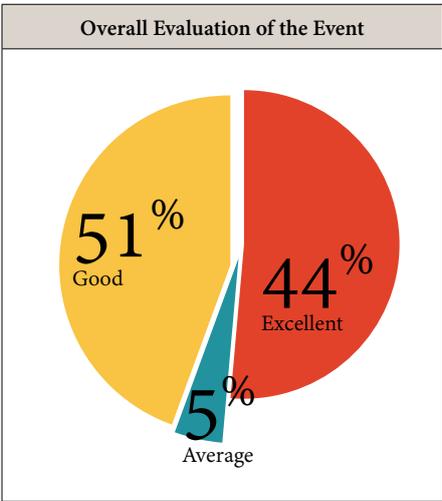
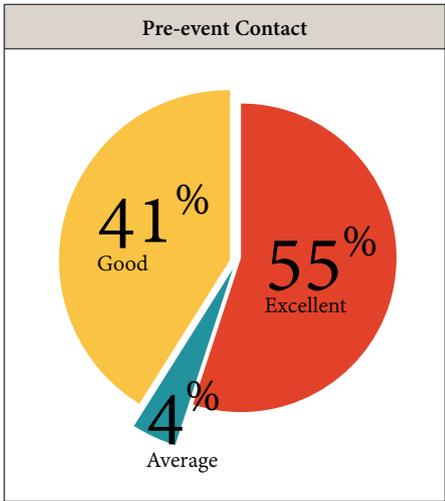


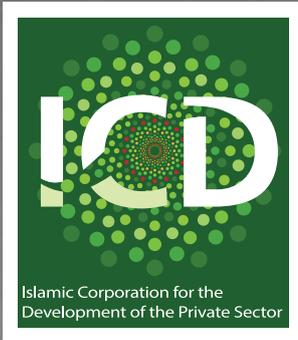
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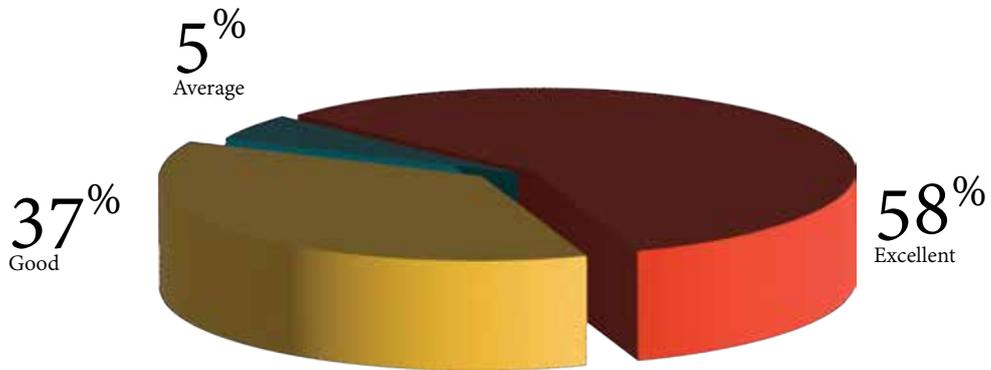


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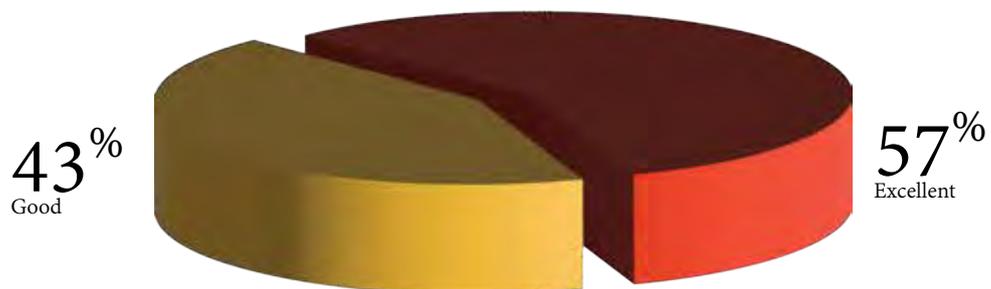
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SESSIONS OVERVIEW

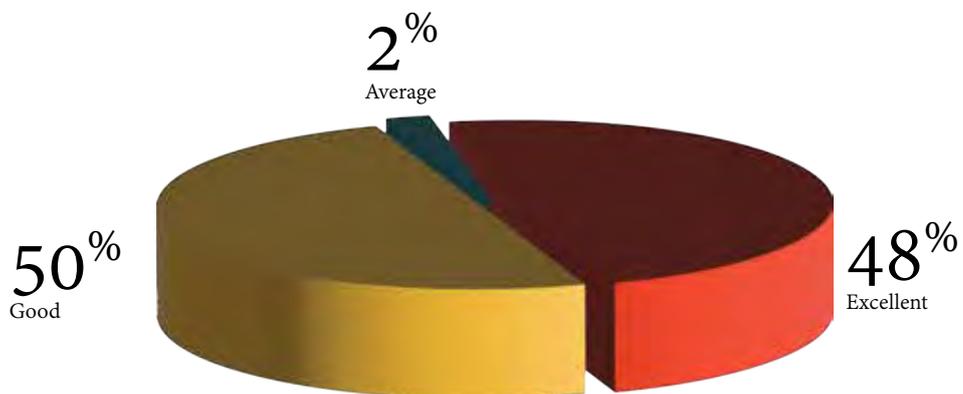
Leaders' Question Time: The State of the Industry



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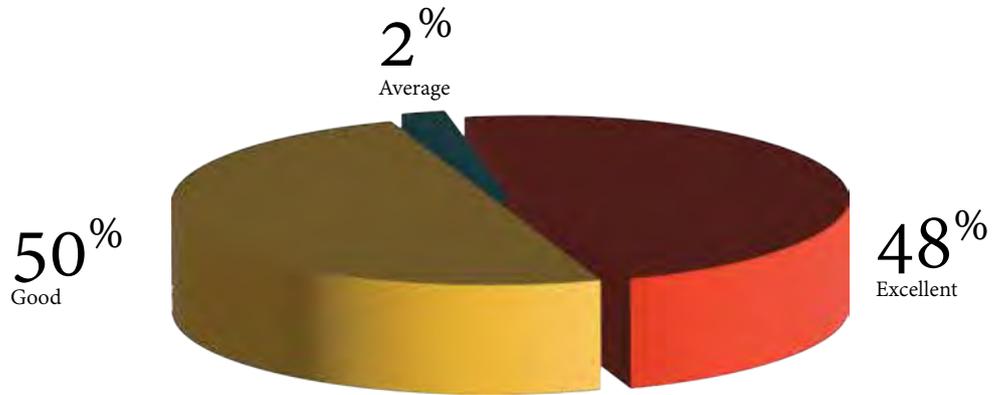
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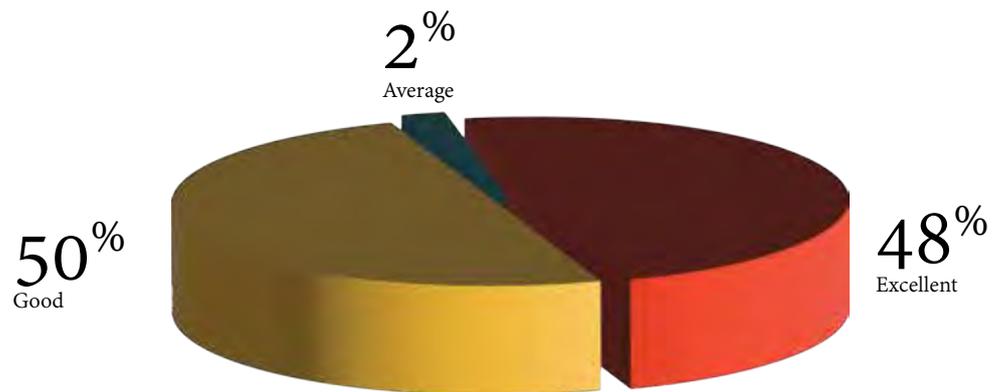
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SESSIONS OVERVIEW

Technology Roundtable: Digitalization and the Evolution of Southeast Asian Islamic Financial Services



Islamic Social Finance: Offering Relief, Creating Opportunities and Improving Lives



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"Forum was knowledgeable with credible players."

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Meritus University*

"Informative forum with credible moderators and panelists."

*Mohd Al Amin, Student,
Meritus University*

"Overall good forum, good choices of subject matter experts, good choices of place for a forum but more issues and solutions should be addressed and should reach a wider audience for awareness purposes."

*Nurrul Elyani Kahirul Anuar, Assistant
Manager, Due Diligence, HSBC*

"Keep it up."

*Isnaliyah Sawadi, Director, Business
Development, PMB Analytics*

"Excellent. Able to discuss Islamic finance across the continents."

*Aminuddin Ismail, General Manager,
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"Fair to see and hear the updates on the banking sector."

*A Joseph, Principal,
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"Speakers provide unique insights from different issues based on their area of expertise. IFN has done a good job on the selection of speakers."

*Hartinah Annuar, CIIF,
Learning Specialist*

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