



Islamic Fund Management

Ruslena Ramli and Dr. Marjan Muhammad



PART 2: CASE STUDIES & RECOMMENDATIONS



1 SELECTION CRITERIA AND METHODOLOGY



2 DEVELOPMENT STAGE MATRIX



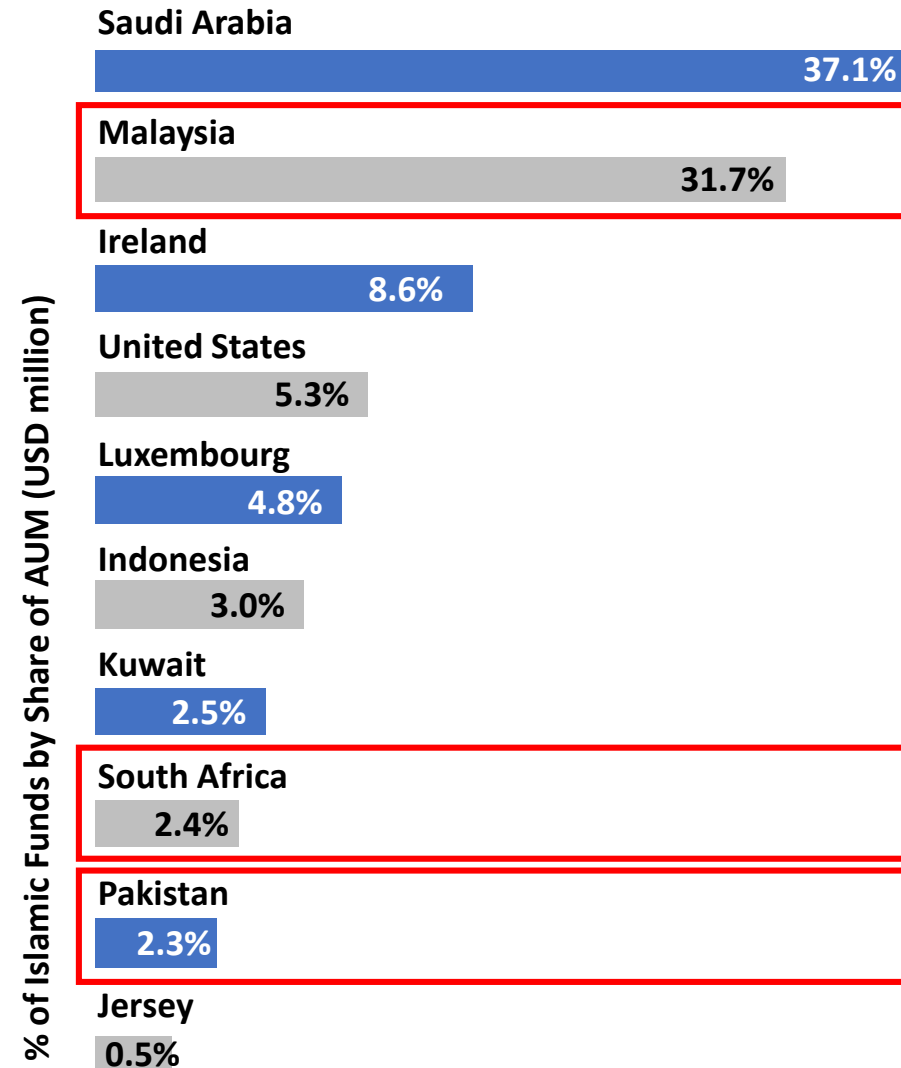
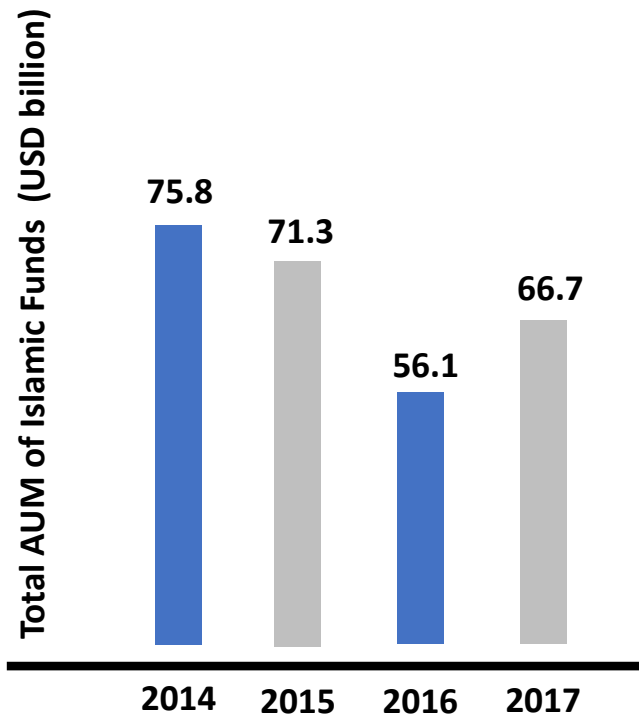
3 KEY FINDINGS, POLICY AND GENERAL RECOMMENDATIONS

In deciding which country to choose the following analysis were undertaken:

1. Country's contribution to global Islamic fund industry in terms of asset size.
2. Number of Islamic funds launched.
3. Development of policies and guidelines.
4. Level of market activity.

Infancy	Developing	Matured
Morocco	Pakistan South Africa	Malaysia

Case study countries – Ranking based on share of AUM



Source: IFSB 2018

Case study countries – Stage of sukuk market development



Malaysia

- End-2017, Malaysia ranked **No. 2** based on percentage of AUM to global Islamic funds.
- Classified as “**matured**” due to:
 1. Strong ICM, which represent 59% share of its total capital market.
 2. Islamic funds’ AuM made up 22.2% of total domestic funds.
 3. Strong portfolio of Shariah-compliant stocks – 76.2% of listed securities end-2017.
 4. Robust sukuk market with outstanding sukuk consisting 59.5% of total outstanding domestic bond issuance end-2017.



Pakistan

- End-2017, Pakistan ranked **No. 9** based on percentage of AUM to global Islamic funds.
- Classified as “**developing (advanced)**” due to:
 1. Listing as top five performers in Islamic finance by IFDI 2017.
 2. Islamic funds being 80.4% of total domestic funds end-2017.
 3. Healthy portfolio of Shariah-compliant stocks – 44.7% of listed securities end-2017.
 4. Marginal growth of its sukuk market with outstanding sukuk representing 9.7% of total outstanding domestic bond issuance end-2017.



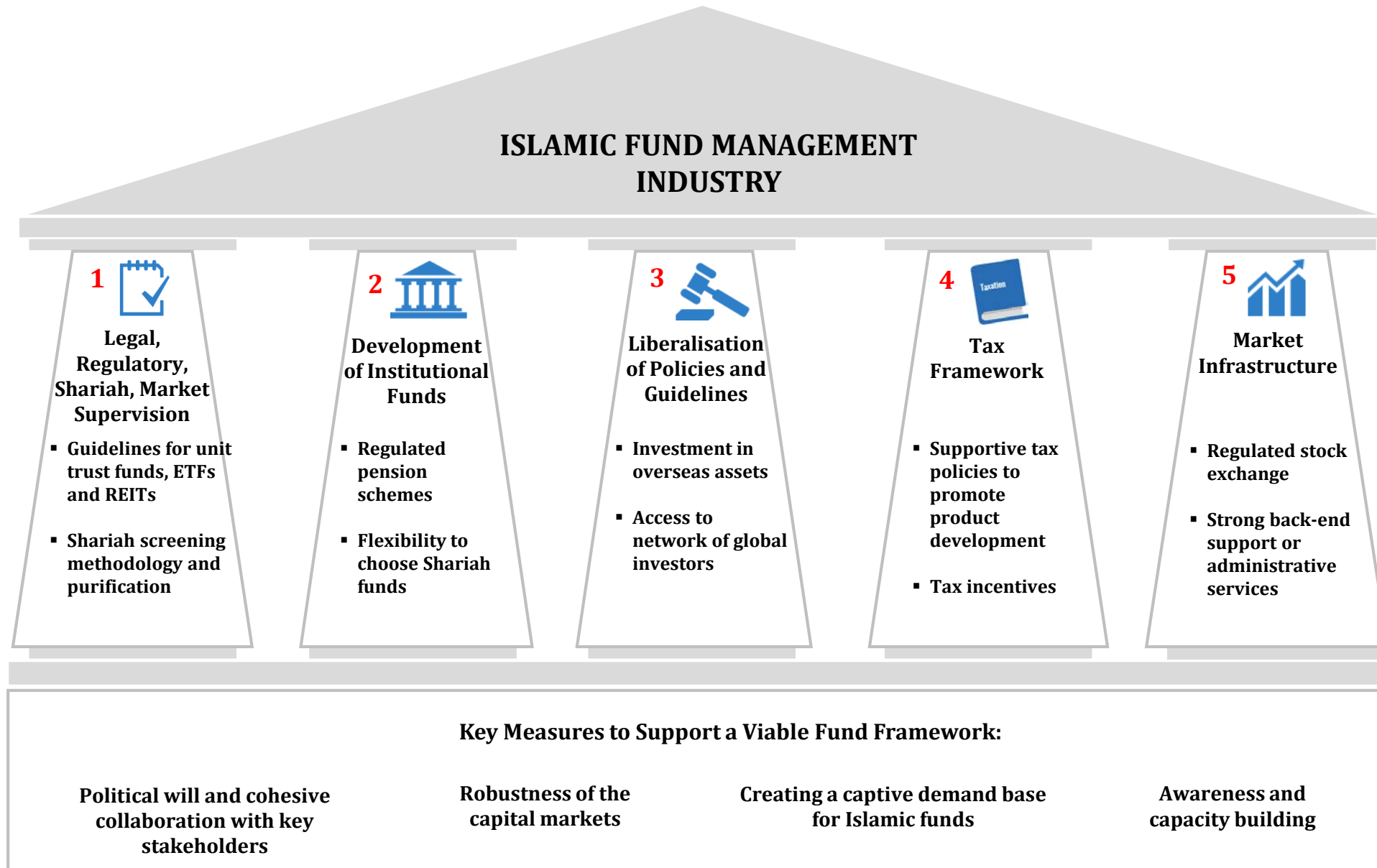
South Africa

- End-2017, South Africa ranked **No. 8** based on percentage of AUM to global Islamic funds.
- Classified as “**developing (intermediate)**” due to:
 1. Budding potential to inculcate Islamic finance into its financial landscape.
 2. Islamic funds’ AuM made up 0.7% of total domestic funds.
 3. Steady increase in shariah-compliant stocks – 40% of listed securities end-2017.
 4. Sovereign sukuk issuance in 2014. The corporate sector has yet to tap the sukuk market.



Morocco

- Islamic finance market in Morocco is still in its nascent stage.
- Classified as “**infancy**” since Islamic banking only commenced operation in 2017 and Shariah-screening methodologies have yet to be developed.



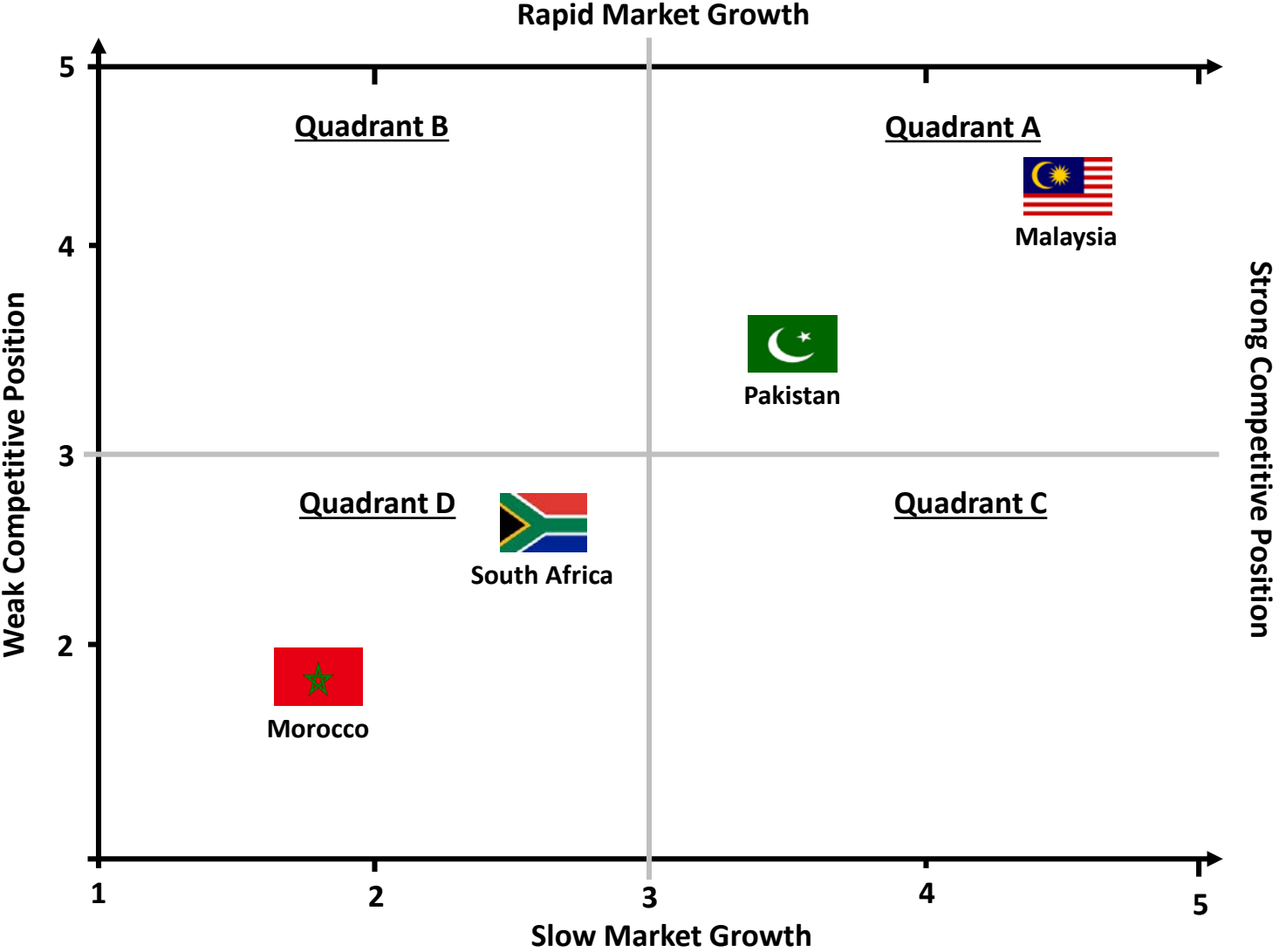
Development Stage Matrix for Islamic Fund Management



Indicators: High Moderate Low

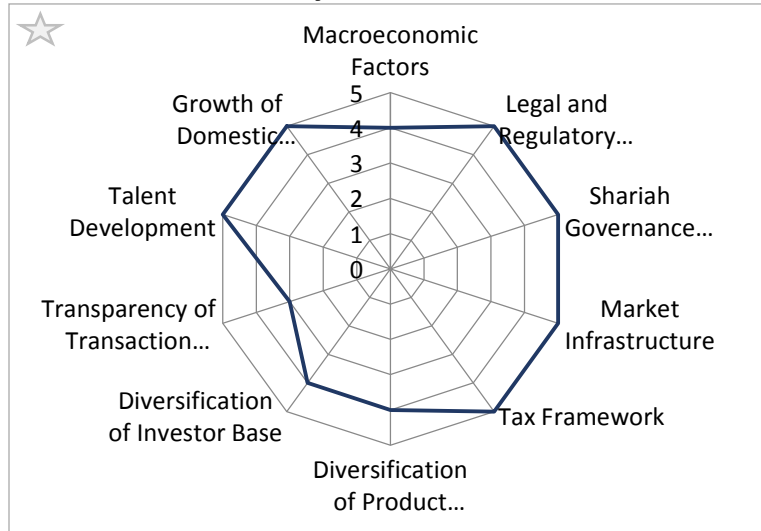
	Matured	Developing		Infancy
	Malaysia	Pakistan - Advanced	South Africa - Intermediate	Morocco
Credit ratings	A- (S&P), A3 (Moody's), A- (Fitch), A ₂ (RAM)	B (S&P), B3 (Moody's), B (Fitch)	BB (S&P), Baa3 (Moody's), BB+ (Fitch)	BBB- (S&P), Ba1 (Moody's), BBB- (Fitch)
% of Muslim population to total	61.3%	96.4%	1.5%	99%
Legal framework				
Regulatory framework - Specific guidelines on Islamic fund mgt				
Shariah governance framework				
Infrastructure				
Tax neutrality and incentives				
Diversification of funds				
Diversification of asset class				
Diversification of investor base				
Transparency of transaction costs				
Capacity/Talent development				

Four Quadrants Chart – Positioning of each case country

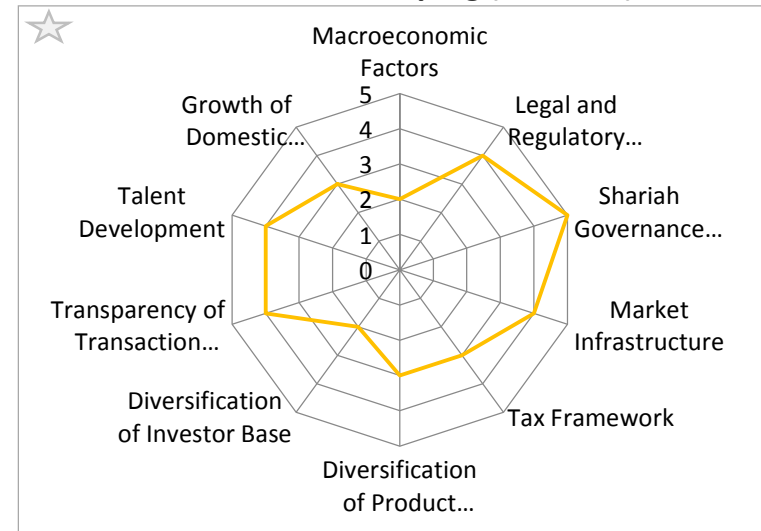


Key building blocks in developing the sukuk market – Spider chart

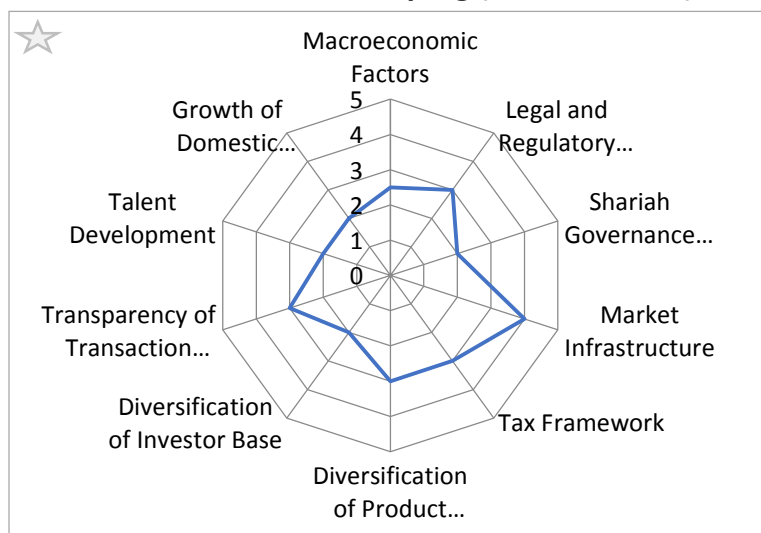
Malaysia - "matured"



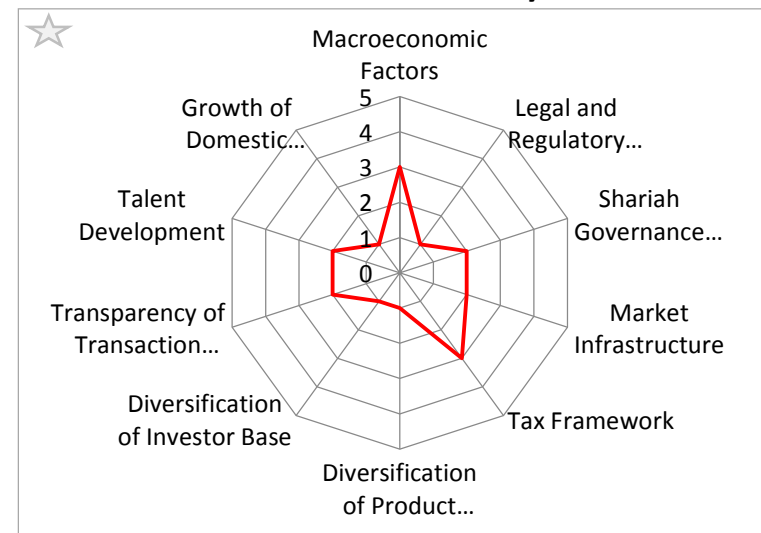
Pakistan - "developing (advance)"



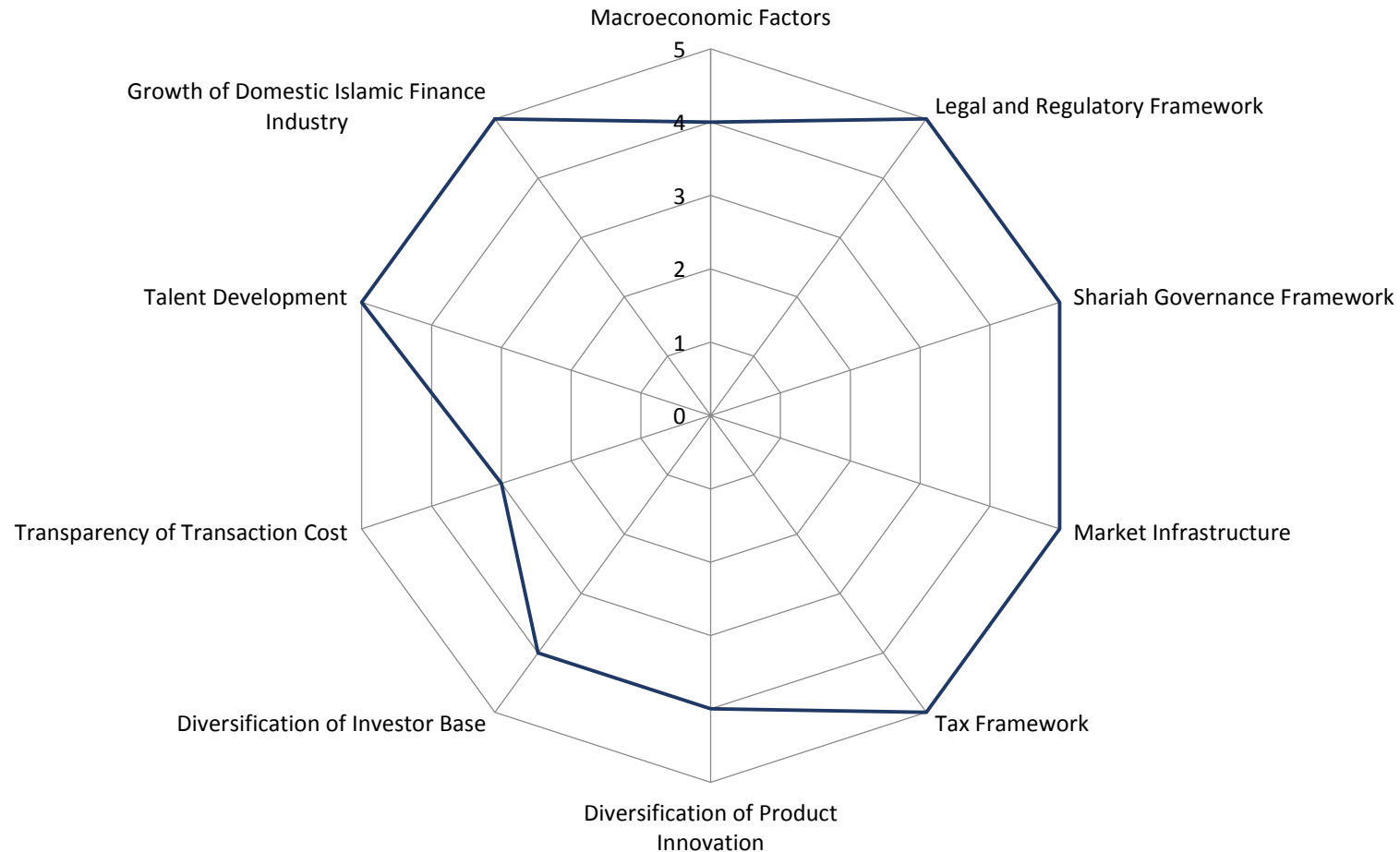
South Africa - "developing (intermediate)"



Morocco - "infancy"



“Malaysia boasts one of the world’s most advanced Islamic financial market hence putting its Islamic fund management at an advantage”



Key findings and policy recommendations – Malaysia



Recommendations to improve demand (buy side)

Issues & Challengers	☆ Policy recommendations
Continuous enhancement of financial literacy, education and retail investor awareness	<input checked="" type="checkbox"/> Promote market education to retail investors to evaluate investment choices and to avoid fraud. Thereby:
	<ol style="list-style-type: none"> 1. Improve financial literacy and investment outcome of retail investors. 2. Help investors to make an informed financial decision that leads to better financial and retirement planning, higher participation in securities market, greater market awareness and wealth accumulation.
Strengthening Malaysia's value proposition as a global hub for SRI funds	<input checked="" type="checkbox"/> Capitalise on Malaysia's profile as the largest SRI market in Asia and position itself to leverage on the growing popularity of SRI.
	<input checked="" type="checkbox"/> Capacity building to create greater market awareness of the similarities between Islamic investing and SRI, especially to conventional SRI investors.
Facilitating new digital business and seamless interaction with retail investors	<input checked="" type="checkbox"/> Creation of seamless platforms and mobile applications will gain greater traction among mass affluent investors and improve financial inclusion for Islamic funds.

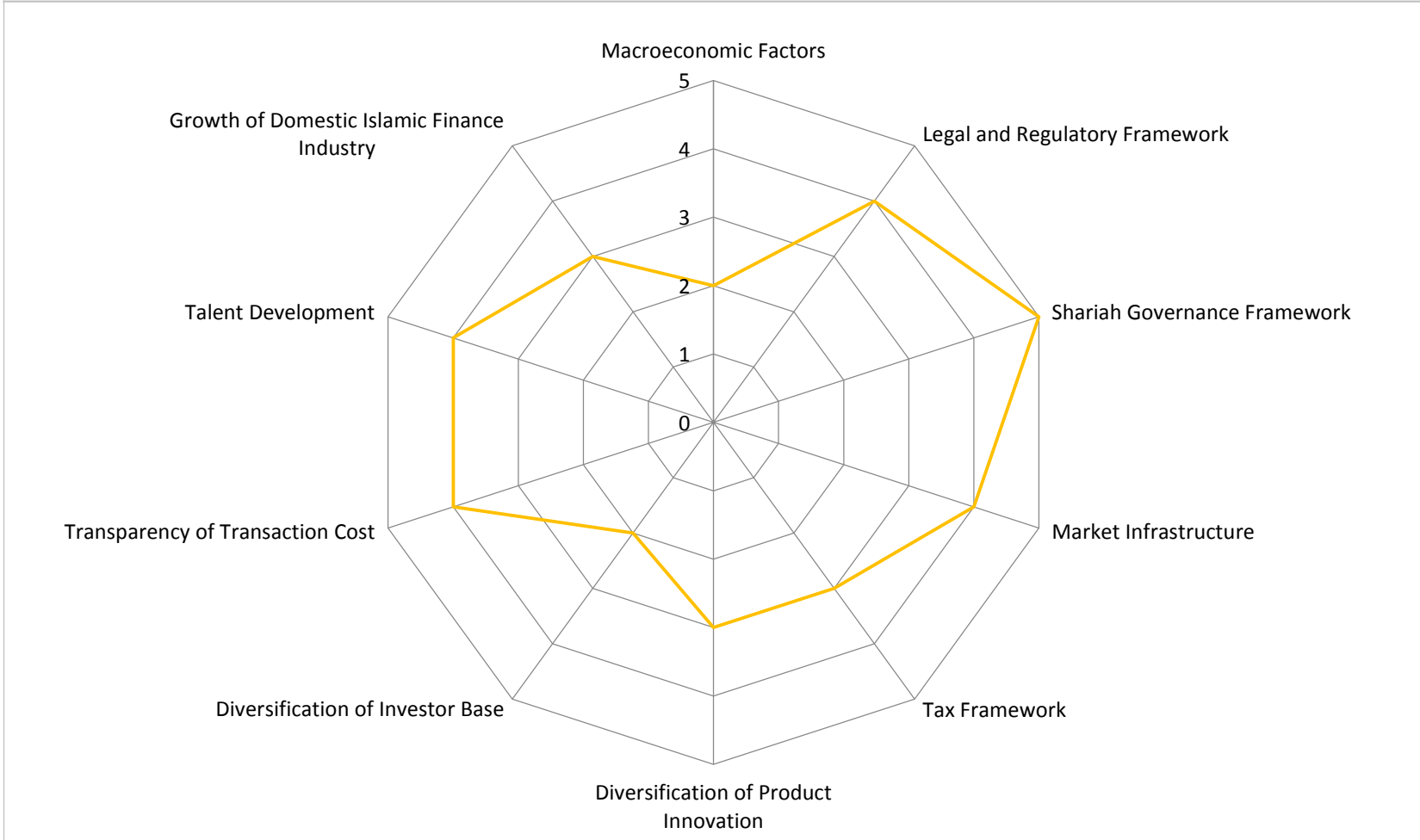


Recommendations to improve supply (sell side)

Issues & Challengers	☆ Policy recommendations
Enhance regional collaboration for cross border offerings	<input checked="" type="checkbox"/> Create regional bilateral and multilateral agreements to enhance cross border access and greater global connectivity e.g. Luxembourg's profile as a global funds center.
Earmarking institutional funds for Shariah-compliant investment or SRI investing	<input checked="" type="checkbox"/> Earmarking of funds for Islamic investing will have a tremendous effect to Islamic funds' AuM e.g. EPF's RM100 billion Shariah Fund that was announced in 2016 and potentially influence other investors to follow suit.
Advance Malaysia's position as a hub for investment support services	<input checked="" type="checkbox"/> Promote Malaysia's shared services and outsourcing activities which have been successful in attracting international players.
	<input checked="" type="checkbox"/> Viability of operational, tax and human capital development can be further leveraged to attract more international fund administration service providers to establish regional/international base in Malaysia.

Key findings and policy recommendations – Pakistan

“Backed by a Muslim dominated population, Pakistan has the potential to emerge as a strong contender in the development of Islamic fund management”



Key findings and policy recommendations – Pakistan



Recommendations to improve demand (buy side)

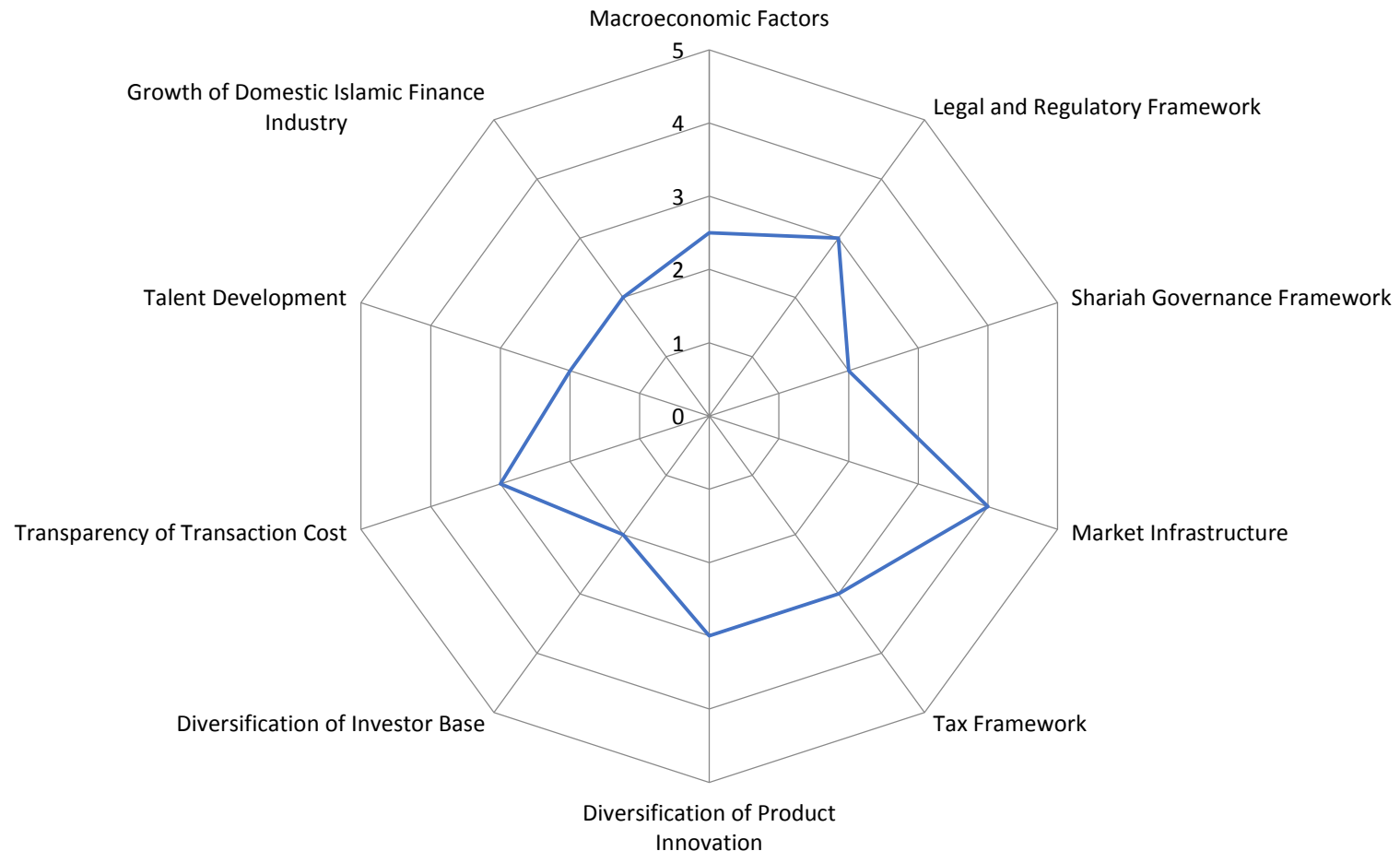
Issues & Challengers	☆ Policy recommendations
Lack of awareness among retail investors on the benefits of investing in Islamic funds	<input checked="" type="checkbox"/> Concerted efforts by market players in collaboration with regulators to provide greater market awareness.
	<input checked="" type="checkbox"/> Establishment of a long-term Capital Market Masterplan in setting overall targets including greater participation from retail investors.
	<input checked="" type="checkbox"/> Create seamless platforms and mobile application to tap into the masses and improve financial inclusion.
Limitation of 3 rd party distributions	<input checked="" type="checkbox"/> Provide more incentives to 3 rd party sellers/distributors of mutual funds to promote Islamic funds.
Taxation issues	<input checked="" type="checkbox"/> Abolish/reduce the 4-year holding period for CGT to attract more investors into the funds industry.
	<input checked="" type="checkbox"/> Grant more tax incentives to investors to promote long-term savings and investments.



Recommendations to improve supply (sell side)

Issues & Challengers	☆ Policy recommendations
Limited Shariah-compliant investment avenues and product innovation	<input checked="" type="checkbox"/> Expand product range to include short-term Islamic money market instruments.
	<input checked="" type="checkbox"/> Improve transparency and corporate governance of Modarabas companies, as well as promote mergers between the companies.
	<input checked="" type="checkbox"/> Sovereign to issue long-term sukuk papers and create benchmark yield curves for corporate sukuk.
Limited foreign investors	<input checked="" type="checkbox"/> Structured plan to attract more foreign investors and liberalise policies of AMCs.
Capacity building in Islamic fund management	<input checked="" type="checkbox"/> Development programs supported by the government and regulators to enhance local talent in developing a pool of Islamic finance experts.
Taxation issues	<input checked="" type="checkbox"/> Reduction in withholding tax as proposed by MUFAP from 8% to 2%.
	<input checked="" type="checkbox"/> Granting of tax incentives for companies to list on PSX as this could facilitate build-up of companies for listing.

“South Africa’s robust banking system and healthy capital markets depict its budding potential to inculcate Islamic finance into its financial landscape” ★



Key findings and policy recommendations – South Africa



Recommendations to improve demand (buy side)

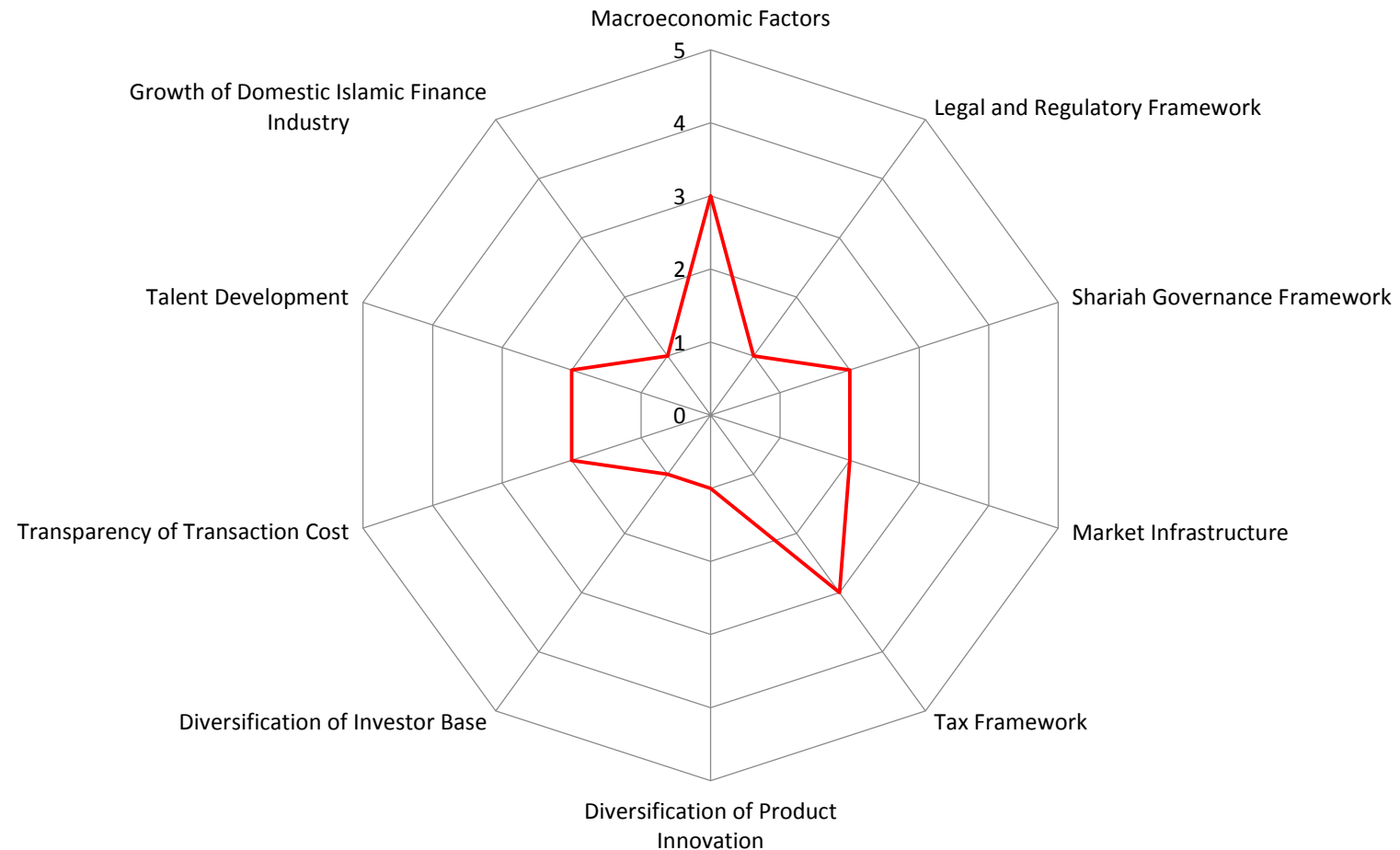
Issues & Challenges	☆ Policy recommendations
Lack of market awareness and understanding of Islamic finance	<input checked="" type="checkbox"/> Concerted efforts by the Islamic finance community to build market understanding and awareness to the public.
	<input checked="" type="checkbox"/> Set-up a viable proposition to attract corporate sector sponsorship and host Islamic finance conferences/ seminars/ training.
Government and private sector employees are not given the flexibility to choose type of pension	<input checked="" type="checkbox"/> Allow government and private sector employees to decide which type of funds to invest in. This will facilitate opportunities for Muslims or ethically-inclined employees the option of investing in Shariah-based funds.
Lack of incentives to encourage Shariah-complaint savings and investment	<input checked="" type="checkbox"/> Attract global Muslim investors to invest in South Africa by providing tax incentives and encourage domestic/foreign AMCs to establish Shariah-compliant funds.
	<input checked="" type="checkbox"/> Create inherent demand for Islamic funds by tapping <i>awqaf</i> funds, high-net-worth Muslims, etc.



Recommendations to improve supply (sell side)

Issues & Challenges	☆ Policy recommendations
Lack of Shariah-compliant listed companies	<input checked="" type="checkbox"/> Similarities between Islamic finance and ESG/green finance should be highlighted in line with regulators' efforts to develop SRI investing. Compliance to both Islamic and green finance criteria will enhance the appeal of the listed companies in expanding its pool of investors (i.e. Muslim and SRI investors).
Absence of harmonized approach among the Shariah advisor committee	<input checked="" type="checkbox"/> Create a task force that comprises industry players and regulators, with representatives from key sectors to develop a harmonized Shariah governance framework. This will help address disputes and promote transparency in Shariah rulings.
Shortage of experts in Islamic finance industry	<input checked="" type="checkbox"/> Establish accredited Islamic finance education centers that offers Islamic finance training/professional courses, which will create a sustainable pool of Islamic finance talent.
	<input checked="" type="checkbox"/> Encourage local Islamic finance practitioners to share market knowledge and experience.

“Concerted efforts by regulators to introduce Islamic finance into Morocco’s financial landscape is slowly being realized.” ★



Key findings and policy recommendations – Morocco



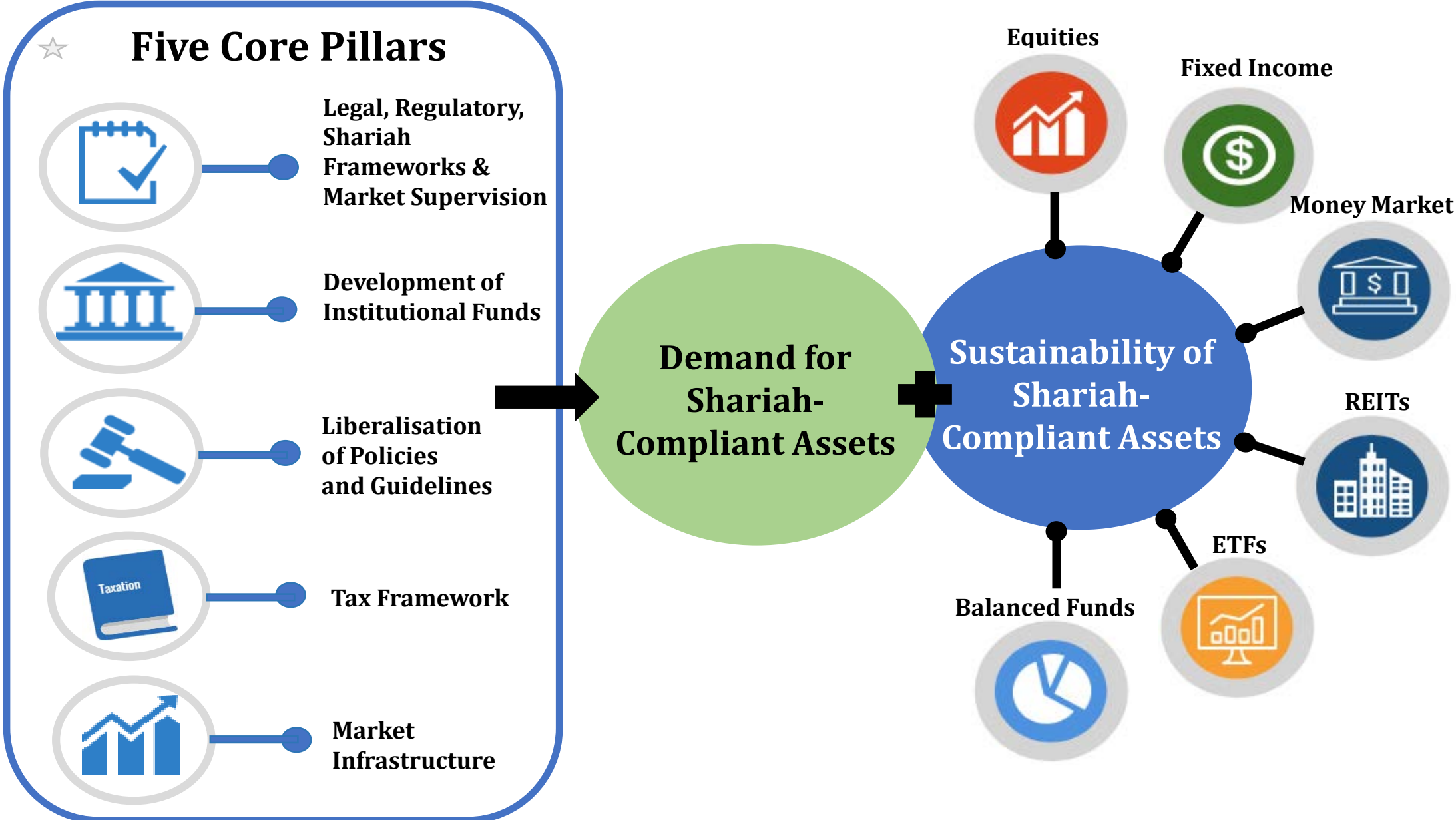
Recommendations to improve demand (buy side)

Issues & Challengers	☆ Policy recommendations
Market education and awareness	<input checked="" type="checkbox"/> Build market awareness to increase customer buy-in and successful implementation of participation finance.
	<input checked="" type="checkbox"/> Regulators and market practitioners collaborate to set the initial phase of industry development and build market confidence.
Fintech solutions	<input checked="" type="checkbox"/> Introduce digital solutions via fintech to facilitate faster penetration and reach to the masses.
	<input checked="" type="checkbox"/> Attractive online application can be used to leverage marketability of Islamic funds and other types of Islamic retail products and enhance financial penetration to the unbank.
Develop a national savings strategy	<input checked="" type="checkbox"/> Top down initiatives via the launch of a government national savings will set the pace to encourage the public to invest and create market education on wealth savings and wealth planning for children's education, retirement, etc.
	<input checked="" type="checkbox"/> Promote Islamic funds as an alternative avenue of investment, with better risk-adjusted returns than bank accounts.



Recommendations to improve supply (sell side)

Issues & Challengers	☆ Policy recommendations
Shariah governance framework	<input checked="" type="checkbox"/> Create two levels of Shariah committees to cater to the Islamic banking industry and capital markets.
Develop masterplan and include standards on Shariah screening approaches, income purification and zakah processes	<input checked="" type="checkbox"/> Develop a masterplan to provide clear guidelines and methodologies for Shariah screening, income purification, zakah payment, etc.
Shortage of experts in Islamic finance industry	<input checked="" type="checkbox"/> Establish accredited Islamic finance education centers that offers Islamic finance training/professional courses, which will create a sustainable pool of Islamic finance talent.
	<input checked="" type="checkbox"/> Encourage local Islamic finance practitioners to share market knowledge and experience.



Summary of policy recommendations – Five core pillars



Legal, Regulatory, Shariah Frameworks & Market Supervision



Development of Institutional Funds



Liberalisation of Policies and Guidelines



Tax Framework



Market Infrastructure

MATURED

- Adoption of an open architecture will facilitate business activities.
- Proactive engagements with mkt players.
- Realign values with beneficiaries and manage perception of market performance.
- Regulators to proactively engage with domestic/foreign AMCs to find practical solutions to close the gaps.
- Tax incentives to attract buy and sell side.
- Gov to match retail investments to spur growth.
- Leverage on digital platforms.
- Engage with other mature markets.

DEVELOPING

- Stakeholders work together to improve mkt awareness.
- Review of existing policies & guidelines to address gaps.
- Regulators and institutional investors provide seed investment to spur development of Islamic funds.
- Gov or quasi-gov sector to allocate funds as an incentive while foreign AMCs must bring a min. level of FDI onshore.
- Tax incentives to attract buy and sell side.
- Gov to match retail investments to spur growth.
- Development of human capital via gov support to improve talent base.

INFANCY

- Enforcement of regulations to speed market development incl. launch of guidelines for Islamic fund.
- Identify institutions as catalysts in promoting investments in Shariah assets.
- Institute adoption of policy liberalization in the roadmap for the establishment of Islamic fund management.
- Amend tax regime to create a level playing field.
- Tax rebates quickest route to attract investors.
- Develop enabling infrastructure to support buy and sell side.

Thank you



RAM

RATINGS

Suite 20.01, Level 20, The Gardens
South Tower, Mid Valley City,
Lingkaran Syed Putra, 59200 Kuala
Lumpur, Malaysia
Tel: +603-7628 1010
Fax: +603-7620 8251
www.ram.com.my

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الأكاديمية العالمية للبحوث الشرعية في المالية الإسلامية

Lorong Universiti A,
59100 Kuala Lumpur, Malaysia
Tel: +603-7651 4200
Fax: +603-7651 4242
ISRA: www.isra.my
I-FIKR: www.ifikr.isra.my