



MIDDLE EAST INSIGHTS

ISLAMIC FINANCE SPECIAL

MIDDLE EAST INSTITUTE, NATIONAL UNIVERSITY OF SINGAPORE

REGIONAL DEVELOPMENTS QUESTIONS AND ANSWERS

- WITH DAUD VICARY (CHAIR, INTERNATIONAL CENTRE FOR EDUCATION IN ISLAMIC FINANCE),
- CECEP MASKANUL HAKIM (BANK INDONESIA),
- ROSANA GULZAR MOHD (INTERNATIONAL CENTRE FOR EDUCATION IN ISLAMIC FINANCE),
- MAKHTAR ABDULLAH (CENTER FOR ISLAMIC BANKING, FINANCE),
- ZUBIR ABDULLAH (FINANCIAL CENTRE DEVELOPMENT DEPARTMENT, MONETARY AUTHORITY, SINGAPORE),
- NIZAM ISMAIL (RHTLAW TAYLOR WESSING),
- RODNEY WILSON (INTERNATIONAL CENTRE FOR EDUCATION IN ISLAMIC FINANCE)

Daud Vicary (chair): The need for greater collaboration. The approach is still insular as Islamic finance seems to be rather country-specific. How do we make this happen? How to prioritize the areas that need attention in terms of global collaboration? Maybe this is the problem as everyone has their own set of priorities or the situation is different in each country.

Daud Vicary: Singapore should look at closer collaboration with Malaysia because Singapore has advantages such as asset management and being a money centre while Malaysia has the expertise and infrastructure of Islamic finance.

Makhtar Abdullah: There are 65.8 percent Malays in Brunei of which 26.8 percent are 15-29 years of age and 42 percent are 30-59 years of age. This big group of people will need greater collaboration and support in terms of development. The ASEAN Economic council in 2018 will ensure countries collaborate whether they like it or not. While Brunei may not have enough people or production, it has the expertise in capacity building. They will go into capital market stock exchange in 2017 or 2018. To have 411,000 people exchanging in stock is not enough, so Brunei needs more people or Foreign Direct Investments (FDIs) to come in.

4 AUGUST 2016

The Centre for Islamic Banking finance and management was asked to look at non-oil and gas industries. The aim is to reduce the influence of oil and gas. The task was to get more people to understand finance and capital markets. They have established some programmes in the two universities in Brunei, which are addressing the issue of financial literacy. His Majesty clearly mentioned in his New Year wishes in December 2015 that the country has to focus on other industries such as tourism and agriculture.

In terms of regulatory matters, the Monetary Authority of Brunei Darussalam (AMBD) started only in 2011 with only 60 staff but now it has over 100 staff. The growth indicates the seriousness of the regulator in addressing these financial issues for Brunei.

Cecep Maskanul Hakim: We have annual discussions with Malaysian scholars. These meetings have become a gauge for other collaborations so with the coming of Southeast Asia economic society, human resources in Indonesia needs to be improved. This is what we need from Singapore and Malaysia in terms of managing assets. Recently Otoritas Jasa Keuangan received assistance from Civil Service College (CSC), Singapore to upgrade our structure in teaching financial management and more. CSC also has a relationship with the Central Planning Development Board. International Centre for Education in Islamic Finance (INCIEF) is already visiting us. The state-owned enterprises need to be able to expand their resources. Indonesia can look to Malaysia and Singapore for help and they can develop their expertise in *sukuk* with us. There is still a vast area to be developed in Indonesia.

The Planning Development board reports to the President. Its members such as the National Shariah Board are responsible for education, development and creating a good investment environment in this industry. This is the first time that there is an element of the government involved in Islamic finance, other than the Ministry of Finance.

Nizam Ismail: One of Singapore's biggest *sukuk* issuance last year was by Cagamas, Malaysia's national mortgage company. It illustrates collaboration with Singapore and Malaysia. Another interesting deal was one seeking to raise funds in China. Sichuan Development Holding Company engaged Silk Routes Financials to advice in setting up a Shariah-compliant fund in China. Given our limited and finite resources, it makes sense for us to look for opportunities outside of Singapore. Being a global financial center with product manufacturers who are familiar with setting up complex fund structures and other wealth management products, that is where we can work with jurisdictions who engage in Islamic finance. The priority is regulatory harmonization. There are different legal frameworks in different jurisdictions. What is doable are small pockets of harmonization of standards of products whether it is *sukuk* or other products as well as broadening the mutual recognition arrangements within ASEAN and also between ASEAN and the Middle East. This is already occurring on a bilateral basis, such as between Malaysia and Hong Kong. A multilateral arrangement will add more value. We should also think about creating some form of international dispute resolution standards for Islamic finance, and how they interweave with conventional financial systems. In the conventional financial systems, there is an explosion of financial technology (fintech) that allows for the emergence of alternative platforms that disrupt the conventional financial services. It is happening in Asia as well. We have seen Shariah-compliant fintech structures. There is a Shariah crowdfunding platform in Singapore, and also a capital-raising platform. This is probably the way forward.

Question: Comment on China's involvement. What does it take to set up Islamic finance in a jurisdiction?

4 AUGUST 2016

Daud Vicary: Came up with acronym-- STARS: Look at the Shariah, tax, accounting and regulating and the standards framework. What can we make common?

Nizam Ismail: Vast potential in China. Between Singapore and China: there have been a lot of initiatives whether at the Government to Government or Business to Business levels on deepening economic ties. The STARS framework is a very succinct way of putting it. Interestingly, Singapore doesn't have a National Shariah Council. Whether it is needed now is debatable. Whilst the Monetary Authority of Singapore (MAS) has created exemptions to facilitate Islamic finance transactions, it is time to think about implementing an Islamic finance framework. This is important to create legal clarity and efficiency.

Zubir Abdullah: Singapore's role in the Islamic financial industry is to complement and not to compete with Malaysia and Indonesia. Singapore's approach is to regulate Islamic finance under one common regulatory framework. After discussions with other jurisdictions, the Monetary Authority of Singapore is of the opinion that apart from Shariah, the prudential and regulatory considerations for regulating Islamic financial entities are the same as conventional entities. Since Singapore is a secular country, it has taken a similar approach to the United Kingdom. Hence it is the onus of financial players involved in Islamic finance to strengthen their corporate governance with respect to Islamic finance transactions.

By utilizing a common framework, we do not have a separate framework to regulate Shariah or provide separate licenses for Islamic banks. Islamic Bank of Asia was regulated under the same framework as any other bank. This also means that once MAS has approved a license, the institutions have the option of conducting conventional and/or Islamic transactions. That is why there seems to be an anomaly, where you don't see Islamic finance institutions in Singapore. However it is actually growing because they are connected by windows.

As for cooperation between countries, Abdullah stated that the preferred method is to leave it to the market. Many funds are in collaboration with Malaysia, Indonesia, Brunei and even the Middle East. He used the presence of Middle Eastern banks offering Islamic banking as part of their activities in Singapore as an indicator of Singapore's interest in Islamic finance. He seemed optimistic about the country's involvement in the industry due to the establishment of the ASEAN Economic Committee and the inclusion of Islamic banking in the FTA between Singapore and the GCC.

Nizam Ismail: Singapore can play an intermediation role for European or Middle Eastern companies to set up a structure here to attract pools of liquidity. Is there space to develop the retail market here? There are retail products in Singapore but they tend to be quiet. If we aspire to be an Islamic financing hub, we need to offer a whole range of products. They are pockets of financial advisors specialising in Shariah-complaint products. For instance, there is a shortage of Shariah-complaint housing loan products and that is a very vast market. Housing loans form a very big part of banks' balance sheets. Those kind of issues need to be reviewed.

Rosana Gulzar Mohd: The hiring practices in different countries may add to its insular nature. For instance, in Malaysia about five years ago the foreigner in a banking industry would have been replaced by a local in two years. The hiring practices in Brunei also reflect this. Such practices impede the industry's ability to grow. Especially so since a lot of human talent development is being done outside of Malaysia.

4 AUGUST 2016

Daud Vicary: Such practices are no longer an issue. Attitudes have changed. The broader issue is that as an industry we have to improve our professional standards, especially making it universally applicable.

Makhtar Abdullah: Hiring in Brunei is open to all. In Brunei, you have the option of having an Islamic license or a conventional license. There is no such thing as windows.

Cecep Maskanul Hakim: We have two Malaysian banks in Indonesia that operate similarly to Indonesian banks. There are some regulations for hiring, but there are no severe restrictions against foreigners. The problem Indonesia has is to develop our natural resources and attract investors to build our infrastructure.

Rodney Wilson: What is the scope of building on each country's local currency in terms of developing Shariah-compliant products?

Nizam Ismail: We have an interchangeable currency with Brunei and more can be done in terms of offering products or other funds.

Question: What are the strategies for the Middle East market when they have one for China? When the Islamic Bank of Asia (IBA) existed, there was no China fund project that was Shariah-compliant. Singapore has a good relationship with China with regards to conventional projects but not for those related to Islamic finance. So now without IBA, who will lead the initiative? There have been no initiatives for infrastructure projects. ASEAN has a lot of infrastructural projects but there has been no effort to create one that is *sukuk* driven.

Daud Vicary: The Asian Development Bank (ADB) is not averse to Shariah-compliant projects.

Nizam Ismail: Responsibility should not solely focus on any one Islamic bank. The likes of Maybank and CIMB are very aggressively promoting Islamic bank options. The challenge is the matter of efficiency. If one can create a conventional structure that is more efficient then there is the belief that there is no need to create an Islamic structure. This is an ongoing challenge. I think a lot of education is needed for issuers. The advantage of being in the early stages of the game for Singapore is that there is plenty of potential. It is incumbent on regulators, professional advisors to nudge people to look at Islamic finance options.

Wrap up:

Nizam Ismail: There should be freer movement of professionals and cross border cooperation and harmonization.

Cecep Maskanul Hakim: Indonesia is ready to have a Nusantara project to be developed in the region.

Makhtar Abdullah: Brunei is clearly focused on mission 2035 that will see an increase in contribution of non-oil and gas sectors to the GDP. Islamic finance will be a major initiative.