ISLAMIC FUND AND WEALTH MANAGEMENT BLUEPRINT

SECURITIES
COMMISSION
MALAYSIA

ISLAMIC FUND AND WEALTH MANAGEMENT BLUEPRINT

SECURITIES
COMMISSION
MALAYSIA

ISLAMIC FUND AND WEALTH MANAGEMENT BLUEPRINT

Suruhanjaya Sekuriti
Securities Commission
Malaysia

Securities Commission Malaysia
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur
Tel: +603–6204 8000 Fax: +603–6201 5078

COPYRIGHT
© 2017 Securities Commission Malaysia

All rights reserved. No part of this publication may be reproduced, stored in or introduced into a retrieval system, or transmitted in any form or by any means (graphical, electronic, mechanical, photocopying, recording, taping or otherwise), without the prior written permission of the Securities Commission Malaysia.

Perpustakaan Negara Malaysia Cataloguing-in-Publication Data

Malaysia, Suruhanjaya Sekuriti
SECURITIES COMMISSION MALAYSIA ISLAMIC FUND AND WEALTH MANAGEMENT BLUEPRINT
ISBN 978-983-9386-81-3
1. Finance--Religious aspects--Islam. 2. Investments--Religious aspects--Islam. 3. Malaysia--Economic conditions. I. Title
332.088297

DISCLAIMER

This book aims to provide a general understanding of the subject and is not an exhaustive write-up. It is not intended to be a substitute for legal advice nor does it diminish any duty (statutory or otherwise) that may be applicable to any person under existing laws.

A vision for Malaysia to be a leading international centre for Islamic fund and wealth management

CONTENTS

MESSAGE BY DATO' SRI MOHD NAJIB TUN ABDUL RAZAK ix
PRIME MINISTER AND MINISTER OF FINANCE, MALAYSIA

FOREWORD BY TAN SRI DATO' SERI RANJIT AJIT SINGH xi
CHAIRMAN, SECURITIES COMMISSION MALAYSIA

ACKNOWLEDGEMENT xiii

CHAPTER 1 1
OVERVIEW OF MALAYSIA'S ISLAMIC CAPITAL MARKET

1.1 Developmental Background 3
1.2 Regulatory Framework and Capacity Building 5
1.3 Market Segments 6

CHAPTER 2 13
CURRENT LANDSCAPE OF ISLAMIC FUND AND WEALTH MANAGEMENT AND SUSTAINABLE AND RESPONSIBLE INVESTMENT

2.1 Global Trends for Islamic Fund and Wealth Management 15
2.2 Islamic Fund and Wealth Management in Malaysia 21
2.3 Global Trends in Sustainable and Responsible Investment 23
2.4 Development of Sustainable and Responsible Investment in Malaysia 26

CHAPTER 3 29
VISION, STRATEGIC THRUSTS AND RECOMMENDATIONS

3.1 Vision 31
3.2 Strategic Thrusts 33
3.3 Recommendations 36
3.4 Conclusion 45

ACRONYMS AND ABBREVIATIONS 49
GLOSSARY OF ARABIC TERMINOLOGIES 50
REFERENCES 52

MESSAGE

BY YAB DATO' SRI MOHD NAJIB TUN ABDUL RAZAK

PRIME MINISTER AND MINISTER OF FINANCE, MALAYSIA

The global Islamic financial services industry has developed and grown steadily over the past two decades, and Malaysia has been at the forefront of many of the industry's pioneering and innovative achievements. These accomplishments were the result of close collaboration among the Government, regulators and various industry stakeholders who have invested substantial resources to develop and position Malaysia as a leading international Islamic financial centre. The *Islamic Fund and Wealth Management Blueprint* (Blueprint) is further demonstration of the country's continuing leadership in Islamic finance as we seek to develop yet another new growth driver for the industry to enhance its value proposition and ensure its sustainability. It is therefore with pride and pleasure that I congratulate the Securities Commission Malaysia on the launch of this Blueprint.

Building on both publicly-driven and privately-led collaborations and initiatives, Malaysia is widely recognised as having the most comprehensive ecosystem for enabling Islamic capital market businesses and transactions in the world. The extensive and facilitative regulatory, Shariah governance, legal and tax frameworks, the wide array of products and services and the diverse participation of international and domestic service providers form the nucleus of this ecosystem. It is this same ecosystem that I believe the Blueprint will leverage and draw upon to drive further development of the Islamic fund and wealth management segment, while identifying strategic focus areas to expedite the realisation of this Blueprint's vision.

The Blueprint is both forward-looking and ambitious. It takes into account the developing global trend that shows the Asia-Pacific and a number of emerging Muslim economies as being among the fastest growing regions for wealth. It also seeks to capitalise on the greater interest in establishing close links between the principles of Islamic finance and those of Sustainable and Responsible Investment (SRI) – where SRI thus far has largely been the domain of the developed markets. The launch of this Blueprint therefore is opportune for a country that is both well-regarded for Islamic finance and centrally-positioned within the region.

I am also pleased to note that the Blueprint's vision will directly and simultaneously address three Entry Point Projects (EPP) under the National Key Economic Area (NKEA) for Financial Services, namely: EPP 7 (Spurring the Growth of the Nascent Wealth Management Industry), EPP 8 (Accelerating and Sustaining a Significant Asset Management Industry), and EPP 10 (Becoming the Indisputable Global Hub for Islamic Finance). Such significant alignment with Malaysia's Economic Transformation Programme signifies the strategic importance of this Blueprint.

Indeed, the successful implementation of the Blueprint recommendations will reinforce Malaysia's wealth and asset management industry and further augment the country's value proposition as an innovative and comprehensive international Islamic financial centre.

DATO' SRI MOHD NAJIB TUN ABDUL RAZAK
12 January 2017

FOREWORD

BY TAN SRI DATO' SERI RANJIT AJIT SINGH

CHAIRMAN, SECURITIES COMMISSION MALAYSIA

The Islamic capital market (ICM) is a significant pillar of Malaysia's well-developed Islamic finance industry and is widely recognised as the leading centre for innovation in Shariah-compliant products and services. This recognition is largely a result of the commitment and close collaboration among the Islamic finance community, its regulators and the Government. It is important that all stakeholders continue to jointly drive further the development of the Islamic markets to ensure that it maintains its relevance in a rapidly evolving international landscape.

The dynamics and growing complexities of the marketplace have brought about new opportunities and challenges to both the domestic and external environment which in turn require strategic responses to ensure that Malaysia's ICM remains internationally competitive. Policymakers and regulators, with the support of industry players, must therefore continue to monitor the rapid pace of change and developments and carefully craft appropriate action plans to enhance Malaysia's value proposition as a leading global Islamic finance marketplace.

In charting the way forward into the next phase of internationalisation for Malaysia's Islamic markets, the Islamic fund and wealth management segment has been clearly identified as having significant potential to drive that transition. In this context, the vision for Malaysia to be a leading international centre for Islamic fund and wealth management will be supported by three mutually-reinforcing strategic thrusts – to strengthen Malaysia's positioning as a global hub for Islamic funds; to establish Malaysia as a regional centre for Shariah-compliant sustainable and responsible investments; and to develop Malaysia as an international provider of Islamic wealth management services.

As an integral part of Malaysia's *Capital Market Masterplan 2*, the *Islamic Fund and Wealth Management Blueprint* is premised on leveraging the country's well-developed ICM ecosystem, further increasing the value add and talent base to enhance Malaysia's product and service offerings, broadening linkages and connectivity, and capitalising on global opportunities. It is imperative that the recommendations of the Blueprint be embraced and driven by the relevant stakeholders in order to ensure the fulfillment of the national agenda.

In the course of formulating the Blueprint, the SC has received substantial feedback from its engagement with numerous domestic and international stakeholders which has been invaluable in the crafting of a cohesive and comprehensive strategy. I wish to take this opportunity to express my sincere appreciation to all stakeholders for their contributions in developing this Blueprint which I am confident will herald the beginning of a new growth era for Malaysia's ICM.

I further express my utmost gratitude to our most honorable Prime Minister, YAB Dato' Sri Mohd Najib Tun Abdul Razak for his leadership and continuing support towards the development efforts in the capital market.

I would also like to thank the many staff that have worked tirelessly on this Blueprint for the extensive research and content preparation.

TAN SRI DATO' SERI RANJIT AJIT SINGH
12 January 2017

ACKNOWLEDGEMENT

In formulating the *Islamic Fund and Wealth Management Blueprint*, extensive research was undertaken including engagements and deliberations with domestic and international stakeholders.

The Securities Commission Malaysia (SC) records its appreciation to the various industry representatives, who contributed their invaluable views and feedback.

This Blueprint has been made possible with the collective efforts as well as extensive input and involvement of the SC's senior management team and staff from the Shariah, ICM Product Evaluation, Markets and Products, Managed Investment Scheme, Digital, General Counsel and Corporate Affairs departments.

Leading the production and co-ordination of this Blueprint was the ICM Development department of the Development and Islamic Markets business group.

> The ultimate objective of Islamic investing is to achieve *al falah*, or success, happiness and well-being in this world and the hereafter through efficiency and effectiveness but also with fair dealing and economic justice.

– HRH Sultan Nazrin Muizzuddin Shah Ibni Almarhum Sultan Azlan Muhibbuddin Shah Al-Maghfur-lah,
HRH Sultan of Perak Darul Ridzuan and
the Royal Patron for Malaysia's Islamic Finance Initiative
Special Address delivered at the Islamic Forum Dubai 2014

CHAPTER

01 OVERVIEW OF MALAYSIA'S ISLAMIC CAPITAL MARKET

1.1 DEVELOPMENTAL BACKGROUND

Malaysia is a pioneer in the development of the Islamic capital market (ICM). The origins can be traced to the 1990s when corporations were interested in opportunities to source for financing in accordance with Shariah principles. The first sukuk issuance in 1990 was made by Shell MDS (Malaysia) Sdn Bhd. This was soon followed by many other issuances as more corporations sought to tap into the latent demand for Islamic assets.

The discovery of the latent Islamic liquidity through pioneering institutions such as Lembaga Tabung Haji (Malaysia's Pilgrims Fund Board) became the catalyst that triggered a wave of product innovations that were to shape the development of the Shariah-compliant value chain. Key achievements include the issuance of the first Islamic equity unit trust fund in 1993, the establishment of the first Islamic stockbroking company in 1994 and the launch of the first Islamic equity index in 1996. The evolution of ICM was accompanied by rapid progress in the Islamic banking and takaful sectors which in tandem contributed to the development of a comprehensive Islamic finance industry.

The establishment of the SC in 1993 marked a major milestone in the regulation and development of the ICM. The SC with its mandate to regulate and develop the overall capital market committed substantial resources to ensure the orderly growth of ICM. The initial focus was to develop relevant frameworks to facilitate the introduction of Shariah-compliant products and services.

In response to the dynamic development of the ICM, the SC expanded its focus to include the enhancement of the Shariah governance aspects of the market. Initially, this led to the provision of guidance and clarity on capital market-related Shariah issues which resulted in the establishment of SC's Shariah Advisory Council (SAC) in 1996. The establishment of the SAC provided

> "The establishment of the SAC provided authoritative guidance on Shariah matters in the capital market and was a major factor in boosting investors and issuers' confidence in the ICM..."

authoritative guidance on Shariah matters in the capital market and was a major factor in boosting investors and issuers' confidence in the ICM, thereby, giving consistency and certainty in its interpretations.

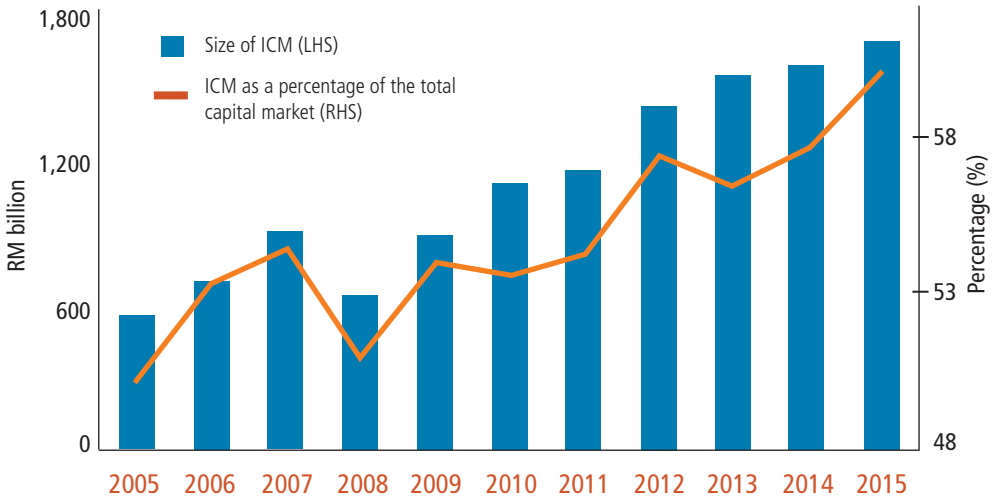
Post Asian financial crisis in 1998, the SC began to establish a blueprint as a means of charting the orderly and healthy growth of the capital market. The developmental path of the ICM was thus guided by the first *Capital Market Masterplan* (CMP) which covered the period between 2001 and 2010, and the *Capital Market Masterplan 2* (CMP2) covering the period between 2011 and 2020.

Malaysia's ICM grew 11.7% annually between 2005 and 2015

CMP focused substantially on strengthening the foundations of the Malaysian capital market through establishing new markets, formulating regulatory frameworks, building domestic intermediation capacity and liberalising market access and participation. CMP2 sets its sights on preparing the Malaysian capital market to address the challenges posed by a highly competitive and uncertain global environment, impact of technology-driven innovations on market structures and intermediation processes, as well as tapping on new growth opportunities in international markets as a means of building scale and achieving critical mass.

The implementation of recommendations of the capital market masterplans has underpinned the healthy growth of ICM. Over the past decade, ICM in Malaysia has more than tripled in size between 2005 and 2015. During this period, it registered a compounded annual growth rate (CAGR) of 11.7% with the market capitalisation of Shariah-compliant equities and the value of sukuk outstanding in Malaysia increasing at a CAGR of 9.5% and 17.6% respectively. By end 2015, Malaysia's ICM reached a size of RM1.7 trillion and accounted for 60.1% of the total size of the Malaysian capital market.

Chart 1
Size of ICM (2005–2015)



Note:
Size of ICM is defined as the sum of total value of sukuk outstanding and the market capitalisation of Shariah-compliant equities.

Source: SC

1.2 REGULATORY FRAMEWORK AND CAPACITY BUILDING

Malaysia's ICM operates within a well-established and facilitative regulatory environment under the umbrella legislation of the *Capital Markets and Services Act 2007* (CMSA). Its capital market regulatory framework is benchmarked to the International Organization of Securities Commissions' (IOSCO) principles of securities regulation which are aimed at ensuring protection of investors, maintaining fair, efficient and transparent markets, and reducing systemic risks.

The regulatory framework is further complemented by Shariah governance and tax frameworks. The SC established a two-tier Shariah governance framework with the setting up of a national-level SAC and the requirement to appoint Shariah advisers who are registered with the SC at the industry level. Various Shariah rulings and scholarly reasonings are compiled and published to provide guidance and assurance to issuers, investors and intermediaries on the consistency of application of Shariah principles.

"Investors in ICM, therefore, receive the same level of legal and regulatory protection as investors in conventional markets."

The issuance and offering of Shariah-compliant products and services are subject to the same requirements for disclosure, transparency, governance and best practices while oversight of intermediaries and their agents carrying out regulated activities are conducted within a single supervisory framework. Investors in ICM, therefore, receive the same level of legal and regulatory protection as investors in conventional markets.

In recognition of the importance of skilled resources in supporting the growth of ICM, there are extensive capacity building programmes. These include the entry-level ICM Graduate Training Scheme, intermediate programmes for industry professionals and Shariah advisers, including specially-designed workshops on Shariah issues which involve the participation of domestic and international regulatory bodies in enhancing skills, knowledge and institutional capacity.

1.3 MARKET SEGMENTS

Over the decades, a combination of developmental initiatives led by the SC and industry-driven innovation have resulted in a comprehensive offering of Islamic investment and financing products for retail and institutional participants.

Malaysia commands
54%
of global sukuk outstanding

Sukuk

The sukuk market is a very important component of the ICM. It has grown rapidly over the past 15 years, expanding at a CAGR of 20.1%. Furthermore, the total Malaysia-domiciled sukuk outstanding valued at US$174.4 billion makes up 54% of global sukuk outstanding as at end 2015.

The sukuk market is an important platform to support Shariah-compliant long-term financing. It also contributes significantly to economic development. A variety of Shariah principles such as *murabahah*, *istisna`*, *ijarah*, *musharakah*, *mudharabah* and *wakalah* is applied in the structuring of sukuk, which provides greater financing flexibility to sukuk issuers and adds depth to the range of Islamic instruments available to investors. A range of tax and other incentives were put in place to ensure tax neutrality between Islamic and conventional instruments and to support growth and product innovation. Sukuk issuers enjoy tax deductions on issuance-related expenses, stamp duty exemptions and the flexibility to swap issuance proceeds into foreign currencies.

The sukuk market has also been able to broaden its appeal to non-Islamic local and international issuers and draw Islamic institutional investors due to its ability to attract the Shariah liquidity pool of Islamic banks, takaful operators and Islamic fund managers, and its competitive pricing. Likewise, the sukuk market is highly liberalised, enabling foreign issuers to tap into the domestic market through currency swap arrangements as well as issue sukuk denominated in foreign currencies.

"The sukuk market is an important platform to support Shariah-compliant long-term financing. It also contributes significantly to economic development."

Shariah-compliant equities

One of the first initiatives in developing this segment was to provide guidance to investors wishing to invest in Shariah-compliant equities. Hence, a screening methodology to determine the Shariah status of securities listed on the stock exchange was introduced in 1995. The screening process enables individual and institutional investors to ensure their portfolios are in line with Shariah requirements.

The values-based methodology introduced at that time involved comparing the contribution of Shariah non-compliant business activities against the permissible benchmarks. In line with the maturity of the domestic Islamic finance industry, the SC's SAC endorsed a revised screening methodology in 2012 which introduced additional benchmarks for financial ratios.

At the end of 2015, there were 667 Shariah-compliant equities listed on Bursa Malaysia with a market capitalisation of about RM1.1 trillion; representing 64.1% of total market capitalisation.

"In line with the maturity of the domestic Islamic finance industry, the SC's SAC endorsed a revised screening methodology in 2012 which introduced additional benchmarks for financial ratios."

2015:

RM100.6 billion

Islamic funds' asset under management

Islamic funds

Malaysia offers a diverse range of Islamic collective investment schemes (CIS) which include unit trust funds, wholesale funds, private retirement schemes (PRS), exchange-traded funds (ETFs) and real estate investment trusts (REITs). As at end 2015, Malaysia's Islamic funds industry[1] has a total of 314 funds, making it the world's largest in terms of number of funds. Malaysia also has the second largest Islamic funds' asset under management (AUM) globally which stood at RM100.6 billion as at end 2015, which grown rapidly; posting 24% growth annually for the period 2009 to 2015.

Initiatives have been put in place to increase cross-border linkages with other jurisdictions in view of the benefits of greater market access. The SC signed pioneering mutual recognition agreements with the Dubai and Hong Kong regulatory authorities in 2007 and 2009 respectively to enable the cross-border offering of Islamic funds. It also entered into arrangements with the regulatory authorities of Ireland in 2011 and Luxembourg in 2012 to facilitate the offering of Malaysia's Islamic Undertakings for Collective Investment in Transferable Securities (UCITS) products.

Within the Association of Southeast Asian Nations[2] (ASEAN), there is strong commitment to promote freer movement of capital. The ASEAN Capital Markets Forum (ACMF), representing the securities regulators in the region, launched the ASEAN CIS framework with participation from Malaysia, Singapore and Thailand in 2014 to facilitate cross-border offering of CIS, including Islamic CIS.

"Initiatives have been put in place to increase cross-border linkages with other jurisdictions in view of the benefits of greater market access."

---

1 Malaysia's funds industry refers to unit trust funds, wholesale funds, closed-end funds, PRS, ETFs and REITs. The number of funds and AUM is the summation of the number and value (i.e. NAV for unlisted funds and market capitalisation for listed funds) of all these products.

2 Association of Southeast Asian Nations is a regional organisation comprising Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Islamic fund management

Islamic AUM (funds and private mandates) registered 23.3% CAGR from RM37.6 billion to RM132.4 billion for the period 2009 to 2015. The management of Islamic fund has a significant level of international participation as it is fully liberalised with full foreign ownership allowed and not subject to restrictions on overseas investments. Islamic fund management firms also benefit from various tax incentives. As a result, 20 full-fledged Islamic fund management companies are currently operating in Malaysia, half of which are wholly foreign-owned while two are local-foreign joint ventures.

ISLAMIC ASSET UNDER MANAGEMENT

2009 → 2015

RM37.6billion RM132.4billion

with CAGR of 23.3%

Other capital market services

Malaysia has developed a comprehensive value chain of intermediation, advisory and back-office services which are important to support the ICM including the Islamic fund management industry. Its market infrastructure has been enhanced to support end-to-end Shariah investing solution with the introduction of a fully integrated Islamic securities exchange platform, i.e. Bursa Malaysia-i. Other intermediation services include the presence of a full-fledged Islamic stockbroking company and eight operating Islamic windows to ensure customers have access to trading in a Shariah-compliant manner. There are also venture capital and private equity companies that undertake Islamic mandates. As at end 2015, the total committed funds managed by Islamic venture capital and private equity firms amounted to RM71.75 million.

The introduction of equity crowdfunding (ECF) and peer-to-peer (P2P) financing platforms signifies SC's ongoing effort to provide greater access to market-based financing through the application of technology. This is supported by the development of Recognized Market Operator (RMO) framework for ECF and P2P financing. As at November 2016, there are six registered ECF and another six P2P financing platform operators which are at various stages of operationalising their activities.

The capabilities in the financial planning, Shariah advisory and trustee services are similarly well developed. As at end 2015, there are 28 financial planning companies offering services including Islamic investment planning and estate planning through *hibah* (gifts) and wills. The Shariah advisory services is another significant activity supporting ICM business and transactions. It is governed by the *Registration of Shariah Advisers Guidelines* and as of December 2015, there are 53 individuals and 23 corporations registered as Shariah advisers.

"As at end 2015, there are 28 financial planning companies offering services including Islamic investment planning and estate planning through *hibah* (gifts) and wills."

CHAPTER

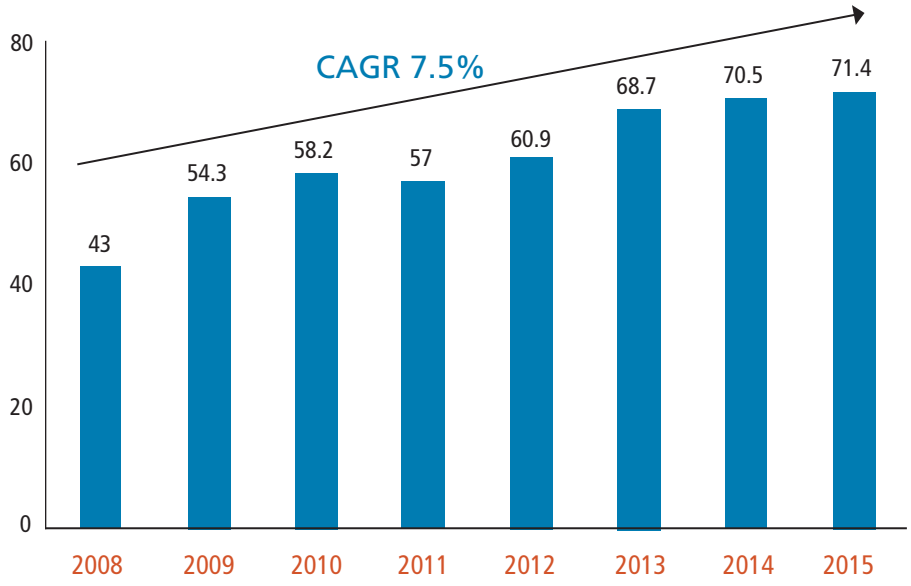
02

CURRENT LANDSCAPE OF ISLAMIC FUND AND WEALTH MANAGEMENT AND SUSTAINABLE AND RESPONSIBLE INVESTMENT

2.1 GLOBAL TRENDS FOR ISLAMIC FUND AND WEALTH MANAGEMENT

Rising global affluence has resulted in a significant increase of global private financial wealth[1] over the past decade to US$168 trillion[2] in 2015. This strong growth has contributed to the expansion of global AUM to US$71 trillion[3] in 2015 at a CAGR of 7.5% from 2008 to 2015. Wealth in North America and Europe accounted for 62% of global private financial wealth in 2015. Nevertheless, economic growth in developing countries has also made major contributions to private wealth with the global high net worth population rising to approximately 34 million in 2015 from 24 million in 2010[4].

Chart 1
Global AUM (US$ trillion from 2008 to 2015)



Sources: Boston Consulting Group, SC

1 Private financial wealth is measured across private households and includes life insurance and pensions. The amounts are expressed in nominal terms and foreign currencies are converted to US dollars at the average 2015 exchange rate.

2 BCG Perspectives, 2016, *Global Wealth 2016: Navigating the New Client Landscape*. www.bcgperspectives.com.

3 BCG Perspectives, 2016, *Global Asset Management 2016: Doubling Down on Data*.

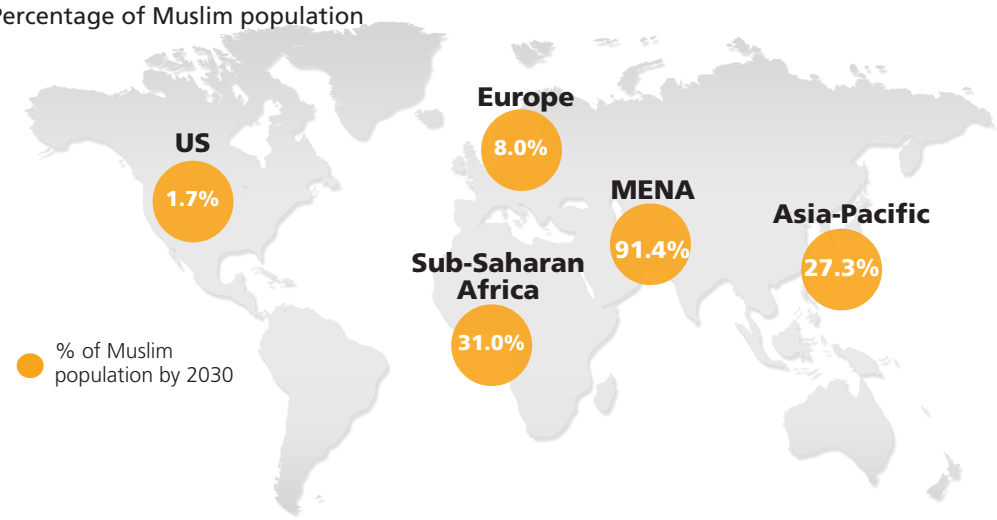
4 *Credit Suisse Global Wealth Data Book* (2010; 2015); financial wealth is calculated as the sum of financial assets, non-financial assets and debt.

In view of current trend for some of the developing economies, there is good prospect that Muslims will emerge as a significant driver of growth in global private financial wealth. This is supported by the projection of above average economic growth in countries with high Muslim population as well as the growth of Muslim population globally.

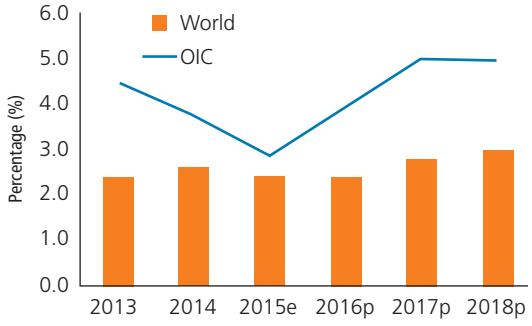
Chart 2

Population and GDP growth

Percentage of Muslim population

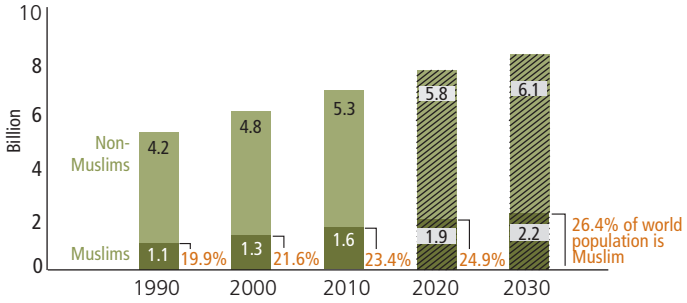


OIC and world GDP growth



e: estimation
p: projection

Profile of world population 1990–2030



Percentages are calculated from unrounded numbers. Cross hatching denotes projected figures.

Sources: Pew Research Center, World Bank, SC

Gross domestic product (GDP) of the member countries of the Organisation of Islamic Cooperation (OIC) is forecast to grow by 4.1% on average[5], outpacing the world average of 2.6%, while Muslims are projected to represent 26% of global population in 2030 from 23% in 2010[6]. It is also projected that Muslims will represent 27.3% or 1.3 billion[7] population in Asia-Pacific where, by 2030, the majority of the world's middle class will be living in the region.[8]

Table 1

Number of millionaires in 2015 and 2020

	Number (thousand)		Change
	2015	2020	(%)
Selected OIC countries			
Malaysia	31	64	107
United Arab Emirates	59	96	62
Indonesia	98	151	54
Turkey	74	111	50
Saudi Arabia	50	86	72
Selected regions			
Africa	126	217	73
Asia-Pacific	4,931	8,069	64
China	1,333	2,320	74
Europe	10,011	15,514	55
India	185	305	65
Latin America	485	738	52
North America	16,646	22,111	33
World	33,717	49,273	46

Source: Credit Suisse

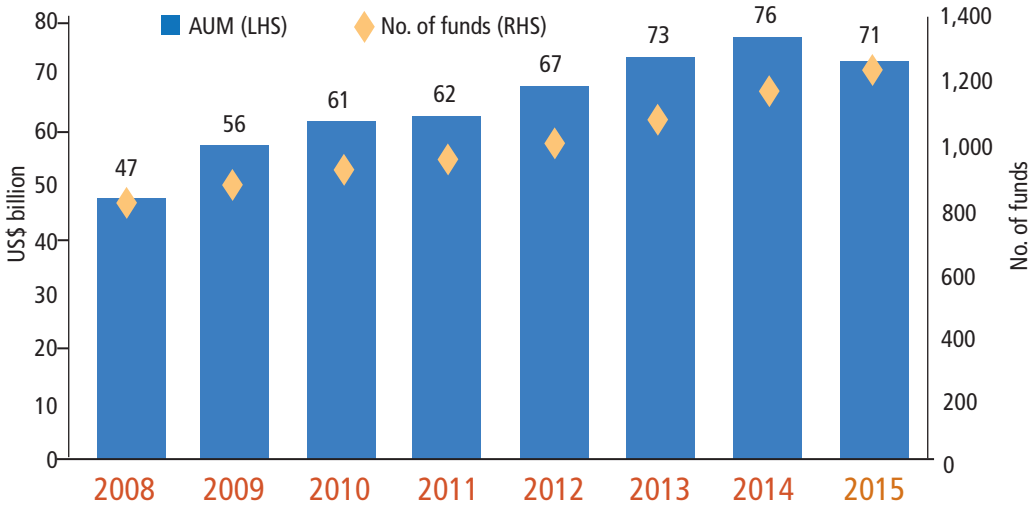
"Gross domestic product (GDP) of the member countries of the Organisation of Islamic Cooperation (OIC) is forecast to grow by 4.1% on average, outpacing the world average of 2.6%..."

[5] Average GDP growth 2013–2018.
[6] Pew Research Center, 2011, *The Future of the Global Muslim Population, Projections for 2010–2030*, www.pewforum.org/
[7] Ibid.
[8] EY, *Hitting the sweet spot, The growth of the middle class in emerging market.*

From a low base, the financial wealth in countries with a large Muslim population registered commendable growth; for example, registering CAGRs of 6% in India, 7% in Malaysia and 14% in Indonesia respectively between the year 2000 and 2015[9]. While currently the base of high net worth individuals (HNWIs) in Muslim countries is still small, estimated at 1.5% of the 34 million HNWIs globally, the number of affluent[10] and HNWI[11] Muslims is expected to rise to approximately 12 million by 2030[12].

Chart 3

Global Islamic funds' AUM trend (US$ billion)



Source: IFSB Islamic Financial Services Industry Stability Report 2016

Note:
1. 2014 data is as at September 2014
2. 2015 data is at October 2015

> "...the number of affluent and HNWI Muslims is expected to rise to approximately 12 million by 2030."

[9] Based on estimate of financial wealth per adult, *Credit Suisse Global Wealth Databook 2015.*
[10] Affluent: Wealth ranges between US$100,000 and US$1 million.
[11] HNWI: Wealth of over US$1 million.
[12] SC's estimation.

The AUM of total global Islamic funds has grown at a rapid pace; registering a CAGR of 8.5% from 2004 to 2015. The number of Islamic funds has also grown rapidly at 14% CAGR from 285 in 2004 to 1,220 in 2015[13]. It is estimated that Saudi Arabia, Malaysia, Jersey, US and Luxembourg are the top five jurisdictions, collectively accounting for 87% of global Islamic funds' AUM by domicile.

There are several important catalysts supporting the future growth of the Islamic fund and wealth management industry:

> "...estimated about US$9.5 trillion of global Muslim wealth is intermediated by conventional financial institutions; with estimated potential annual revenue of about US$180 billion..."

Potential demand for Islamic assets

A recent finding[14] estimated about US$9.5 trillion of global Muslim wealth is intermediated by conventional financial institutions; with estimated potential annual revenue of about US$180 billion if these funds are managed by Islamic fund and wealth managers. Part of the reason for the high leakage has been attributed to the shortage of Shariah-compliant assets and services.

Growth of pension fund assets in Muslim countries

Many Islamic countries are likely to establish multi-pillar pension systems or other forms of savings institutions in the future. This will expand the institutional demand for Shariah-compliant investment assets considerably.

Pension fund assets in countries with majority Muslim population is expected to be worth more than US$1 trillion by 2020. Middle East and Africa pension fund assets are forecast to grow by 8.8% annually to US$1.1 trillion in 2020 from US$0.6 trillion in 2012, outpacing global growth forecast of 6.6% to US$56.5 trillion from US$33.9 trillion[15].

---

[13] IFSB, *Islamic Financial Services Industry Stability Report 2013, 2016.*

[14] Edbiz Consulting, 2016, *US$9.5 trillion of Muslims Wealth Remain Outside the Global Islamic Financial Industry*, http://edbizconsulting.com.

[15] PwC, *Asset Management 2020 Report.*

"Financial analysts forecast that if institutional pension fund investors in the GCC divert just 20% of their current assets under management of US$180 billion to the Islamic asset management sector, it could represent a US$36 billion boost for the industry."

Source: Oxford Business Group

Growth of global takaful

"The growth of the takaful industry will augment institutional demand for Shariah-compliant investment assets."

At present, the global takaful sector is relatively small but nonetheless it is sustaining high growth in key markets such as the Gulf Cooperation Council[16] (GCC) and ASEAN. Globally, the takaful market is estimated to continue its growth momentum to exceed US$42 billion by 2020[17] from US$23.2 billion in 2015[18]. The growth of the takaful industry will augment institutional demand for Shariah-compliant investment assets.

Increased allocation favouring Islamic assets by sovereign wealth funds

It is estimated that sovereign wealth funds (SWFs) in majority Muslims countries manage about 46% of the US$7 trillion in global SWF assets[19]. It is believed several of these SWFs may not yet have specific allocations for Shariah-compliant mandates but the future trend is likely to favour higher allocations in Islamic assets.

---

[16] Gulf Cooperation Council is a political and economic alliance of six Middle Eastern countries namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

[17] MIFC, *Takaful: Growing from Strength to Strength*, Nov 2015.

[18] IFSB, *Islamic Financial Services Industry Stability Report 2016,* data as of 1H2015.

[19] ESADE Business School, KPMG and ICEX-Invest in Spain, *Sovereign Wealth Funds 2015.*

According to *Sovereign Wealth Funds 2015 Report*,

> *"The governance bodies of 77% of Muslim countries' sovereign wealth funds have expressed the wish to increase significantly the number of transactions carried out under Islamic finance".*
>
> *Source: ESADE Business School, KPMG and ICEX-Invest in Spain, Sovereign Wealth Funds 2015*

20
full-fledged Islamic fund managers

2.2 ISLAMIC FUND AND WEALTH MANAGEMENT IN MALAYSIA

The fund and wealth management industry plays an important role in the development of a country's capital market and its financial services sector as a whole. It encompasses participation from a broad range of service providers such as asset management companies, banks, non-bank financial institutions, financial planners and a variety of advisers.

The fund management industry is well-established in Malaysia and comprises 75 licensed fund management companies managing AUM, totaling RM667.9 billion as at end 2015. The industry registered a CAGR of 13.4% over the six-year period of 2009 to 2015. Out of the 75 companies, 20 are full-fledged Islamic fund managers and 27 operate Islamic windows[20] with a combined Islamic AUM of RM132.4 billion. The net asset value (NAV) of unit trusts, amounted to RM346.6 billion as at 2015. The share of Islamic unit trusts against total NAV of the unit trust industry rose from 10.6% in 2010 to 15% in 2015. An important feature of Malaysia's Islamic unit trusts is that the investors extend beyond the traditional base of Muslim investors. Over the past five years, participation of non-Bumiputeras (as proxy for non-Muslim) is in excess of 30%.

"The share of Islamic unit trusts against total NAV of the unit trust industry rose from 10.6% in 2010 to 15% in 2015."

[20] Islamic windows are operated by conventional financial intermediaries which maintain a segregated operation that caters to and is compliant with Shariah requirements with oversight by Shariah advisers.

One fundamental feature of Malaysia's largely private fund management industry is that it operates alongside several government-linked investment companies (GLICs) such as the Employees Provident Fund (EPF), Kumpulan Wang Persaraan (Diperbadankan) (Retirement Fund Incorporated), Lembaga Tabung Haji (Malaysia's Pilgrims Fund Board) and Permodalan Nasional Bhd (PNB). These GLICs manage substantial amount of funds and are major sources of fund mandates for domestic and international fund management firms.

> "For the Islamic wealth management segment in particular, its offerings are currently heavily reliant on the Islamic fund management services."

As the country's biggest private pension fund, EPF introduced its Simpanan Shariah (Shariah savings) scheme in August 2016 to provide an option for members to convert their conventional EPF account to one that is invested in accordance with Shariah principles. The EPF expects to invest an average of RM25 billion in Shariah assets annually and to allocate a minimum of 45% of its funds to be invested in Shariah assets[21].

On the other hand, Malaysia's private wealth management industry is relatively nascent. Today, private wealth management services are generally offered by the wealth services units of banking institutions and by financial planners and advisers. While wealth management clients gained access to diverse financial products and services across the wealth management value chain, the core offerings remain basic wealth management solutions.

There is a need for the industry to develop and offer a more comprehensive package of wealth management services and solutions to meet the diverse needs of clients. For the Islamic wealth management segment in particular, its offerings are currently heavily reliant on the Islamic fund management services. The industry's future therefore lies in the ability to develop and offer more sophisticated fund solutions and to complement this with other Islamic wealth management services including strategies for wealth preservation and distribution.

[21] EPF, *Registration For Simpanan Shariah Starts 8 August 2016*, www.kwsp.gov.my

One significant challenge is that Malaysia's Islamic fund and wealth management industry is still largely domestic-centric with mandates predominantly sourced from domestic investors and clients. As a result, many domestic fund and wealth managers have not been able to build sufficient scale; which disadvantages the development of the overall ICM from the context of vibrancy, liquidity and diversity. To strengthen its international competitiveness, the industry must be able to offer a full spectrum of Shariah-compliant wealth investment products and services, including international legal and tax advice, while the market infrastructure must facilitate cost-efficient international distribution.

Overall, the growth prospects for the Islamic fund and wealth management industry in Malaysia will be driven primarily by greater demand for Shariah-compliant products and services. This can be attributed to the rising affluence of the expanding global Muslim population, growing preferences among Muslims to invest in Shariah-compliant products and services, and the broadening of the appeal of products based on Shariah principles to non-Muslims. Deepening and broadening products and services across the Islamic wealth management value chain to tap the latent demand would require specific initiatives and this include addressing impediments, identifying opportunities and introducing new catalysts.

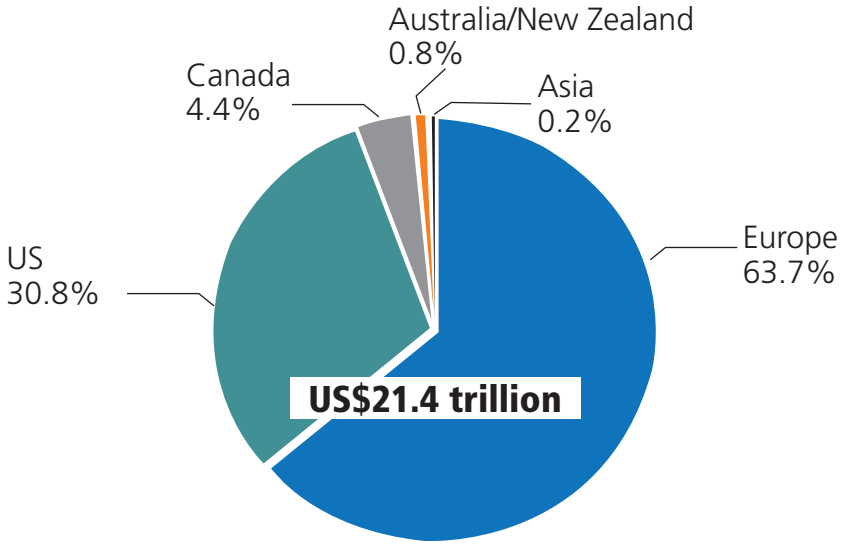
"Overall, the growth prospects for the Islamic fund and wealth management industry in Malaysia will be driven primarily by greater demand for Shariah-compliant products and services."

2.3 GLOBAL TRENDS IN SUSTAINABLE AND RESPONSIBLE INVESTMENT

SRI has gained substantial momentum in developed markets as a growing number of major institutional funds and investors increasingly subscribe to the value proposition of investing based on sustainable and responsible objectives or principles. These investments are based on categories such as climate change, environment, ethical, governance, social impact, responsible and sustainable and use different acronyms. For the purposes of this blueprint, the acronym 'SRI' will be used to represent this market segment irrespective of the categories.

Chart 4

Proportion of global SRI assets by region

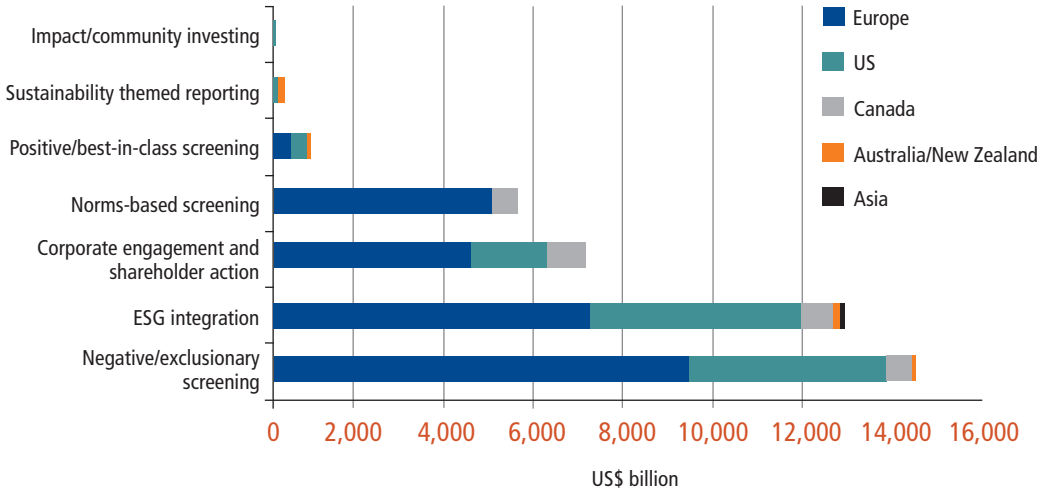


Note:
The figure is based on the aggregation of all SRI strategies reported in the European SRI Study 2014.

Source: Global Sustainable Investment Review 2014

Chart 5

SRI assets by strategy and region



Source: Global Sustainable Investment Review 2014

According to the report by Global Sustainable Investment Alliance (GSIA) 2014, the global sustainable investment market rose by 61% from US$13.3 trillion at the start of 2012 to US$21.4 trillion at the start of 2014. The US, Canada and Europe account for almost all of the global sustainable investing assets.

The GSIA report highlights the largest SRI strategy is based on negative screening or exclusions with an estimated AUM of US$14.4 trillion. Negative/exclusionary screening excludes stocks that do not meet the specified criteria and is the most popular strategy in Europe.

The second most sizeable strategy is Environmental, Social and Governance (ESG) integration with an estimated AUM of US$12.9 trillion. ESG integration involves the systematic inclusion of environmental, social and governance factors into the financial analysis used to select investments, and its practice is dominant in the US, Australia/New Zealand and Asia.

Corporate engagement and shareholder action has an estimated AUM of US$7 trillion. The use of shareholder power to influence corporate behaviour includes direct engagement with senior management or boards, filing or co-filing shareholder proposals and proxy voting guided by ESG guidelines. Corporate engagement and shareholder action is the dominant strategy in Canada.

Asia has an insignificant share of only 0.2% of global SRI assets. However, Asia's SRI market had grown by 32% from US$40 billion at the start of 2012 to US$53 billion at the start of 2014. Owing to the strength of its Islamic funds industry, Malaysia is the largest SRI market in Asia with an AUM of US$15 billion and accounts for 34%[22] of the total Asian AUM. The most commonly adopted strategies in Asia are ESG integration at US$23.4 billion and exclusion/negative screening at US$16.6 billion[23].

"...the global sustainable investment market rose by 61% from US$13.3 trillion at the start of 2012 to US$21.4 trillion at the start of 2014."

[22] Association for Sustainable and Responsible Investment in Asia, 2014. Data as of 31 Dec 2013.
[23] *Ibid.*

The global prospects for SRI are positive. The key drivers of future growth are the changing demographic trends and behaviours. The millennial generation has greater awareness of SRI issues. A 2014 Deloitte Millennial survey reports about 50% of millennials surveyed want to work for a business with ethical practices. They believe business can do more to address the challenges of resource scarcity (68%), climate change (65%) and income inequality (64%)[24] facing society. In addition, a study by Capgemini and RBC Wealth Management in 2014[25] found that 97% of HNWIs in Asia-Pacific excluding Japan believe social impact is important. Hence, there is increasing demand for greater transparency for companies to provide information on SRI issues.

2.4 DEVELOPMENT OF SUSTAINABLE AND RESPONSIBLE INVESTMENT IN MALAYSIA

The initial development of the Islamic funds industry also marked the start of the Malaysian capital market's involvement in SRI as the Shariah principles underlying Islamic investing have significant commonalities with the principles underlying SRI. Islamic funds are also recognised as sustainable investments as Shariah principles promote the pursuit of positive social outcomes alongside commercial returns. In addition, Islamic investing is often associated with ethical practices and require the application of screening.

Recently, the Government propagated sustainability as a national agenda. Within the capital market, the development of an ecosystem to promote SRI is also being undertaken in recognition of the potential benefits of SRI practices on businesses, the economy and society as well as the opportunity to leverage Malaysia's comprehensive Islamic finance

Table 2

SRI assets by strategy in Malaysia (in US$ million)

Strategy	AUM as at 31 Dec 2013
Negative/exclusionary screening	14,575
Positive/best-in-class screening	111
Sustainability-themed investing	–
Integration on ESG issues	401
Corporate engagement and shareholder action	–
TOTAL	**15,087**

Source: Association for Sustainable and Responsible Investment in Asia, 2014

[24] Deloitte, 2014, *The Millennial Survey 2014.* www2.deloitte.com.
[25] Capgemini and RBC Wealth Management, 2014, *Asia-Pacific Wealth Report.*

industry to venture into the SRI segment. Several initiatives have been launched to promote the development of SRI in the country.

The SC in 2014 introduced a framework[26] for the issuance of SRI Sukuk to facilitate the financing of SRI activities. Following this, Khazanah Nasional Bhd in 2015 issued the inaugural SRI sukuk of RM100 million (first tranche of a RM1 billion programme) where the proceeds are being channelled to 20 public schools to raise the quality of education through a Trust School programme via a public-private partnership arrangement.

In 2014, Bursa Malaysia and FTSE introduced the first exchange-driven ESG Index in Asia, i.e. the FTSE4Good Bursa Malaysia (F4GBM) Index. This was followed by the launch of the Malaysian ESG Opportunity Fund which is an equity growth fund benchmarked against the F4GBM Index. The fund is managed by a Malaysian fund manager and caters to qualified investors. In addition, Malaysia's large institutional funds have been encouraged to allocate 5% of their respective investment assets into SRI[27].

The Malaysian Global Innovation and Creativity Centre (MaGIC) also launched the *Malaysian Social Enterprise Blueprint 2015–2018*, a strategic roadmap for developing a social enterprise ecosystem which includes supporting Islamic sustainable investments.

There has also been a revival of interest in *waqf*, an Islamic perpetual endowment typically with social development and public good objectives. In 2014, the SC published a book, *Waqf Assets: Development, Governance and Role of Islamic Capital Market* to promote the development of *waqf* assets through the capital market. In 2015, the Labuan Financial Services Authority issued guidelines on the establishment of Labuan International Waqf Foundation as a vehicle to hold and manage *waqf* assets for identified beneficiaries and purposes based on the Shariah principles on *waqf*.

These developments and experiences provide Malaysia a solid position from which to explore and strengthen the linkages between Islamic investing and SRI, and capitalise on domestic as well as regional opportunities.

"There has also been a revival of interest in *waqf*, an Islamic perpetual endowment typically with social development and public good objectives."

[26] The SRI sukuk framework sets out specific requirements for the issuance of sukuk covering the utilisation of proceeds, eligible SRI projects, disclosures and the appointment of independent party and reporting requirements.

[27] Prime Minister of Malaysia's keynote address at Invest Malaysia 2015 on 23 April 2015.

CHAPTER

03 VISION, STRATEGIC THRUSTS AND RECOMMENDATIONS

3.1 VISION

> "To establish Malaysia as a leading international centre for Islamic fund and wealth management"

The vision was developed through a comprehensive assessment of the current state of Malaysia's Islamic finance sector and detailed analysis of relevant global developments and trends. It draws on the country's capabilities and strengths, and includes identification of niche regional and global opportunities. Findings from these assessments and analyses were further supported by extensive engagements with domestic and international stakeholders.

The vision represents the unequivocal commitment of stakeholders to fulfill key growth strategies to widen the international base of Malaysia's ICM and enhance its competitiveness. As a key component of CMP2, greater internationalisation of the capital market is a critical aspect of the strategy to strengthen Malaysia's positioning as a global ICM hub.

In this context, Malaysia's capital market is distinctively positioned as a majority of its assets are Shariah compliant. Furthermore, it is regulated based on internationally-benchmarked securities laws and practices. Hence, investors in Malaysia's ICM benefit from the advantages of a robust investor protection framework as well as from the additional assurance of consistency and clarity in Shariah governance.

> "The seamless regulatory regime attracts the participation of both Shariah and conventional investors and facilitates the broadening of investor demand and liquidity."

The seamless regulatory regime attracts the participation of both Shariah and conventional investors and facilitates the broadening of investor demand and liquidity. These strengths are positively reinforced by the attractive value proposition provided by Malaysia's diverse range of ICM products and services.

Indeed, Malaysia already offers comprehensive ICM capabilities with its Islamic funds and sukuk markets ranked as the largest in the world and supported by a sizeable Islamic equity market. Malaysia's ICM is complemented further by vibrant Islamic banking and takaful segments.

The Islamic capital market nevertheless requires significant new drivers globally to build greater scale and elevate it to the next phase of growth. In this regard, the growing demand and preference for Islamic wealth management services represents a new growth opportunity for the ICM in particular and the Islamic finance industry in general. Malaysia is uniquely positioned to develop the necessary capabilities to offer comprehensive Islamic wealth management solutions by fomulating appropriate strategies to enhance the Islamic wealth management ecosystem.

The vision to establish Malaysia as a leading international centre for Islamic fund and wealth management and the Blueprint strategic thrusts therefore are driven primarily by the aims of meeting a growing demand in the marketplace, of spurring development of new market segments and of ensuring sustained expansion of the industry.

3.2 STRATEGIC THRUSTS

The strategies to establish Malaysia as a leading international centre for Islamic fund and wealth management will leverage Malaysia's well-developed Islamic finance industry in general and the ICM ecosystem in particular. Furthermore, the strategic thrusts are mutually reinforcing and supportive with emphasis on capitalising growth opportunities, improving connectivity and market access to broaden geographical presence and deepening the talent base to provide the means of increasing value add and operational scale. The Blueprint sets out three strategic thrusts with recommendations to be implemented over a five-year period:

> "The growth of Muslim communities and affluence around the world has fuelled greater demand for Shariah-compliant investment products."

Strategic thrust 1

Strengthen Malaysia's positioning as a global hub for Islamic funds

The growth of Muslim communities and affluence around the world has fuelled greater demand for Shariah-compliant investment products. However, a substantial amount of Islamic savings and liquidity continues to be diverted into non-compliant investments. This is due to the undeveloped market infrastructure for Islamic wealth management and insufficient supply of Shariah-compliant investment instruments to match the needs of global Islamic investors.

Given its status as one of the leading centres in terms of the number, diversity and size of Islamic funds, Malaysia is well-positioned to tap into the opportunities offered by the latent global demand for Shariah-compliant investment products. Supporting its leadership is a robust market infrastructure with well-established legal, regulatory and Shariah governance frameworks. Malaysia can draw upon the experience of service providers and advisers both domestically and internationally for product innovation and structuring. Malaysia's ICM is also supported by sufficiently deep primary and secondary markets, and wide distribution channels particularly within the sizeable domestic market.

The emphasis of this strategic thrust is to widen the international base of the Islamic fund management industry by accelerating efforts to scale up the size of operations and offerings, and strengthening international distribution capabilities.

Strategic thrust 2

Establish Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment

In view of the commonalities in their underlying principles, there are opportunities for greater alignment between Islamic investing and SRI. However, both are at comparatively early stages of development and considerable effort will be required to unlock the substantial synergies between these two disciplines.

Malaysia has competitive strengths in both the ICM and SRI and is also an early advocate among emerging markets to promote SRI.

Critically, this strategic thrust will focus on enhancing and strengthening the SRI ecosystem. Furthermore, it will mutually reinforce other strategies to promote Malaysia as a regional centre for sustainable investments. Many initiatives are already ongoing such as the establishment of dedicated SRI products, indices and funds while Malaysian institutional funds have been encouraged to further increase their participation and incorporate these philosophies in managing their assets. In addition, the Government's *Malaysian Social Enterprise Blueprint* and *Social Finance Roadmap* with the objectives of creating a vibrant social enterprise ecosystem and mobilising social capital will dovetail with the capital market initiatives.

The development of the Shariah-compliant SRI market segment will therefore have the potential to attract greater domestic and international participation. In view of the strong growth trend of the SRI market globally which is expected to sustain, this will be a key driver to further expand the relevance and reach of the Islamic fund and wealth management industry.

"Many initiatives are already ongoing such as the establishment of dedicated SRI products, indices and funds while Malaysian institutional funds have been encouraged to further increase their participation and incorporate these philosophies in managing their assets."

Strategic thrust 3

Develop Malaysia as an international provider of Islamic wealth management services

The Islamic wealth management industry is still at a nascent stage of development as compared with other segments of the Islamic capital market. Malaysia, with its comprehensive Islamic finance ecosystem and track record in innovation, is in an advantageous position to play a lead role in shaping the concept and driving the development of Islamic wealth management services. Hence, this strategic thrust will focus on efforts to deepen and broaden the suite of Shariah-compliant wealth management solutions while enhancing the supporting market infrastructure and creating a more conducive and enabling environment. In tandem with the second strategic thrust, the provision of the Islamic wealth management services will also aim to attract investors seeking SRI solutions.

At the same time, efforts will be directed towards promoting and differentiating aspects of Islamic wealth management – relative to conventional wealth management – across the value chain of wealth generation, accumulation, preservation and distribution, including product and service innovation aligned to the tenets of the *maqasid al Shariah* and utilisation of *waqf* assets and structures. In the medium to long-term, the primary goal of Islamic wealth management in ensuring that wealth is harnessed to serve the needs of a broad spectrum of society will be pursued.

"...this strategic thrust will focus on efforts to deepen and broaden the suite of Shariah-compliant wealth management solutions while enhancing the supporting market infrastructure and creating a more conducive and enabling environment."

3.3 RECOMMENDATIONS

In charting the way forward, the Blueprint recommendations are focused on addressing impediments to growth and innovation, identifying potential opportunities for collaboration and partnership as well as accelerating the process of building scale. They will seek to exploit synergies between the internationalisation of the Islamic fund management industry, the scaling up of the international operations of Malaysian intermediaries and the strength of Malaysia's robust and facilitative market frameworks.

The Blueprint recommendations towards achieving the vision to establish Malaysia as a leading international centre for Islamic fund and wealth management are as follows:

> "It has been Malaysia's experience that a robust regulatory framework provides the foundation for innovation and sustained growth."

1. Provide enabling frameworks to support innovation in Islamic markets

Malaysia is among the few jurisdictions with a comprehensive ICM regulatory framework. It has been Malaysia's experience that a robust regulatory framework provides the foundation for innovation and sustained growth. The SC will apply its regulatory philosophy of proportionality to ensure the regulatory framework facilitates innovation and fosters the emergence of new market segments, products and services.

In this context, consideration will be given to ensure proportionate oversight over market conduct as healthy growth can only be driven by investors' trust and confidence in the products and services. There is a need to provide assurance that these products and services meet with required standards and are in compliance with Shariah principles.

The design of effective legal, regulatory and Shariah governance frameworks to underpin innovation and developmental efforts in new market segments will also require sharing experience and

knowledge with the global community of Islamic scholars and market regulators as well as undertaking appropriate market research.

2. Enhance market access and international connectivity

Enhancing Malaysia's positioning as an international funds centre needs to be prefaced by regulatory co-operation to enable access and to facilitate greater cross-border flows. In this regard, Malaysia has in place both bilateral and multilateral regulatory co-operation arrangements with international jurisdictions.

These existing cross-border arrangements will be periodically reviewed to ensure they remain facilitative and relevant, including types of products and use of digital technologies. At the same time, efforts to establish similar co-operation with other jurisdictions on the bilateral and multilateral front will be pursued to further expand market linkages and connectivity.

Malaysia will also continue to play an active role in the development of international standards and best practices governing the offering of Shariah-compliant products and services to promote a compatible and robust regime of investor protection across jurisdictions particularly in terms of disclosure and conduct and thus facilitate greater harmonisation and cross-border recognition.

It is also recognised that investment and liquidity flows are becoming more global in nature. Therefore, Malaysia will continue to enhance international connectivity through appropriate regulatory facilitation for domestic and international intermediaries to operate across borders. Malaysia has been successful in attracting reputable global fund management firms to complement the capabilities of strong domestic entities. It is therefore strategically positioned to work closely with local and international intermediaries to tap regional and global opportunities, and accelerate the scaling up of operations.

"It is therefore strategically positioned to work closely with local and international intermediaries to tap regional and global opportunities, and accelerate the scaling up of operations."

3. Develop a vibrant ecosystem to accelerate growth of Shariah-compliant sustainable and responsible investment

Given Malaysia's global leadership in Islamic funds segment and regional leadership in SRI, the next stage in the developmental process is to generate sufficient critical mass by tapping into the substantial synergies between Islamic investing and SRI.

> "...the next stage in the developmental process is to generate sufficient critical mass by tapping into the substantial synergies between Islamic investing and SRI."

Initiatives will be undertaken therefore to strengthen collaboration between domestic and international intermediaries, market participants and regulators with a view to expand demand for SRI assets and accelerate the innovation of SRI products based on Shariah principles.

Measures will also be introduced to expand the incorporation of the elements of public good, within the realm of the *maqasid al Shariah,* into product development. In relation to this, collaborative efforts will be carried out to elevate the level of awareness on SRI and its significant linkages with the underlying principles of Shariah.

One area of significant potential is the development of *waqf*, an Islamic philanthropic-based vehicle for social development, public good and wealth distribution. Pioneering efforts have begun with the Labuan International Waqf Foundation framework to support the distribution aspects of Islamic wealth management. There will be efforts to increase the level of sustainable *waqf* assets, through fund management or capital raising, in sectors such as healthcare, education and community development. This will become an integral component of the Islamic wealth management value chain.

4. Promote the growth of private equity

Further development of the private equity market, both conventional and Islamic, will contribute substantially to the broadening of product and service offering of the fund and wealth management industry in Malaysia. It will also increase the diversity of investment strategies available in the capital market. Private equity typically attracts investors with an appetite for higher risk-return profile and longer gestation or holding period. Therefore, opportunities to participate in private equity ventures will be a real value proposition to attract these investors, some of whom tend to be high net worth or affluent individuals.

Priority will be placed on enhancing the ecosystem for the private equity market. The areas to be addressed will include, but are not limited to, greater mobilisation of risk capital for investments in private equity, enhancing efficiency of exit mechanism and strengthening of skill sets of private equity firms. In addition, steps will be taken towards expanding the choice of legal structures to accommodate private equity activities.

> "Further development of the private equity market, both conventional and Islamic, will contribute substantially to the broadening of product and service offering of the fund and wealth management industry in Malaysia."

5. Facilitate new digital business models, products and services for Islamic fund and wealth management

New digital business models such as robo-advisors, micro-investment avenues, and social investing/trade-mimicking are making significant impact on the fund and wealth management industry globally. These digital investment services facilitate connectivity by allowing issuers, investors and intermediaries to access existing and new markets in a more efficient and cost-effective manner, thus spurring further growth of the industry.

Leveraging digital technology will be of particular significance for the Islamic fund and wealth management industry as the ease of access will enable greater penetration of Shariah-compliant solutions into the broader market, which may not be as conveniently facilitated through more conventional platforms. Use of technology also enhances efficiency in managing Shariah and SRI compliant portfolios as it enables Shariah and SRI–related processes to be integrated into the management system.

In alignment with the digital finance agenda, efforts will be directed towards facilitating the introduction of new digital business models, products and services through appropriate regulatory initiatives underpinned by principles of proportionality and transparency. These will include enabling digital investment management, undertaking information-sharing, and distribution of Islamic products and service offerings on cross-border basis.

"Leveraging digital technology will be of particular significance for the Islamic fund and wealth management industry as the ease of access will enable greater penetration of Shariah-compliant solutions into the broader market..."

6. Advance Malaysia's positioning as a hub for investment support services

Malaysia actively promotes shared services and outsourcing activities under the segment of the Business Services industry, which is part of the National Key Economic Area (NKEA) under the country's Economic Transformation Programme. This segment has been successfully built and has to-date hosted many international providers. There are opportunities to leverage these competitive strengths in operational, tax and human capital infrastructure to attract more international fund administration service providers to establish their regional and international base in Malaysia. At the same time, further development of domestic firms operating in this market segment will be facilitated.

The presence of a broad range of international and domestic firms will position Malaysia as an efficient and integrated provider of fund administration services including custody, trustee, clearing, fund accounting and transfer agency services. Malaysia will be

a recognised international hub for fund administration, thereby enhancing its competitiveness in attracting a wide array of international funds, especially Islamic and SRI funds, to be domiciled in the country.

7. Spur institutional participation in Islamic funds

Malaysian fund managers have embarked on strategies to broaden their product offerings and geographical reach. However, a major challenge for them is attracting significant foreign participation into their global and regional funds. One of the reasons cited is the limited publicly-available performance track record in respect of their diverse investment mandates. Foreign investors also often seek the comfort of having large domestic institutions as anchors to any Malaysian investment funds that are offered globally or regionally. However, these domestic institutions typically do not invest in such funds. These challenges are further amplified where Shariah-compliant investment funds are concerned.

> "The CMP2 recommends that a strategy be implemented to increase the diversity of Islamic investment strategies and styles."

The CMP2 recommends that a strategy be implemented to increase the diversity of Islamic investment strategies and styles. In tandem with this, **an investment fund will be established to enhance and broaden the global capability of Malaysia's Islamic fund managers and attract the participation of institutional and global investors.**

The fund will invest primarily in multi-currency Shariah-compliant investment products. This will assist fund managers to build performance track record, promote cross-border transactions and achieve economies of scale. It will also help to develop the different segments of the fund and asset management industry, for example private equity, and help nurture growth and diversification of different investment strategies. The fund is aimed at accelerating efforts to build the critical mass, establishing channels for international distribution, and supporting innovation and developing market infrastructure for alternative strategies.

8. Develop facilitative market infrastructure for Islamic wealth management

Market infrastructure is a key component of a vibrant and effective fund and wealth management industry ecosystem. Availability of an enabling infrastructure will ensure efficient delivery of service to the clients and a cost-effective platform for service providers which in turn will further strengthen the competitiveness of the industry and attract broader participation.

> "Availability of an enabling infrastructure will ensure efficient delivery of service to the clients and a cost-effective platform for service providers..."

To achieve this, initiatives will be launched to develop and enhance market infrastructure and platforms that will enable efficient provision of Islamic wealth management services. Close collaboration and co-ordination among relevant stakeholders will also be undertaken to identify opportunities in this area.

The holistic infrastructure will facilitate the various aspects of wealth creation, accumulation, preservation and distribution. In this context, necessary measures will be implemented to promote and enable the use of various legal structures and vehicles, including faith-based structures such as *waqf*, as effective platforms for Islamic wealth management services catering to both domestic and international clients.

9. Strengthen intermediation capabilities to support greater internationalisation

Greater internationalisation should be accompanied by the existence of diverse and capable service providers. The strengthening of domestic institutions and the presence of a myriad of established international service providers combined, will bring the best talent, know-how and technology to the Islamic wealth management and SRI industry and thus enhance its attractiveness and competitiveness.

In this context, Malaysia will continue to provide an enabling environment for the intermediaries to operate. Relevant factors including but not limited to rules and regulations, talent, taxes and infrastructure, will be regularly reviewed and where necessary enhanced to support the country's ability to sustain its value proposition as a place to conduct Islamic wealth management and SRI business. Intermediaries and service providers in new areas within the industry's value chain, such as technopreneurs, will also be encouraged to set up operations in the country in order to ensure a comprehensive ecosystem.

Investors will have access to these institutions and be able to select intermediaries or service providers that best suit their risk-return profile, and other needs and preferences.

"Intermediaries and service providers in new areas within the industry's value chain, such as technopreneurs, will also be encouraged to set up operations in the country in order to ensure a comprehensive ecosystem."

10. Fortify talent pipeline for Islamic wealth management

The sustained growth of the global Islamic finance industry has generated significant demand for individuals with the relevant skill sets. As a result, shortage of such talent has often been cited as a critical bottleneck for the industry's development in many jurisdictions. This constraint is especially acute for new market segments including Islamic wealth management and needs to be addressed at two broad levels. The first level is at the early and middle stages of the talent pipeline which requires young professionals and those who are entering the industry from the conventional market to acquire the necessary skills and accreditations specific to Islamic finance. The second level is at the advanced stage of the talent pipeline where specialists with strong product knowledge, industry-specific capabilities in assessing, structuring and distributing deals and products, and in-depth Shariah knowledge are required.

Malaysia will continue to enhance and broaden its capacity building initiatives for developing talent in Islamic finance including the Islamic wealth management segment. These initiatives will include

collaborations among regulators, industry players, training and academic institutions and other stakeholders to achieve wider reach and ensure relevance of programme content as well as encourage sharing of costs. Among others, the initiatives will involve enhancing the competency framework and introduce accreditation in the Islamic wealth management industry to complement existing programmes within the fund management market.

> "Malaysia will also pursue and enhance initiatives that promote cross-border technical transfer and knowledge sharing in order to accelerate the acquisition of relevant skill sets..."

Malaysia will also pursue and enhance initiatives that promote cross-border technical transfer and knowledge sharing in order to accelerate the acquisition of relevant skill sets that will in turn drive further development and internationalisation of the Islamic wealth management market. To further reinforce this, Malaysia will undertake cross-border capacity building initiatives through partnership with relevant multilateral institutions.

11. Provide targeted incentives to strengthen international competitiveness

It is imperative to ensure that the overall environment for Malaysia's financial and capital market is internationally competitive. This may require measures to minimise friction costs while incentives will be considered on a selective basis to reinforce targeted strategies.

Towards this end, various strategies will be explored to build up demand, attract the necessary talent and facilitate the transfer of technology to elevate capabilities in Islamic fund and wealth management services. Regular benchmarking reviews of regulations, the operational infrastructure and incentive system will be undertaken and changes made where it is necessary to ensure the overall environment is enabling, conducive and internationally competitive.

The significant role of incentives in contributing towards the positioning of the Malaysian Islamic capital market has been widely recognised. To further support development, growth and internationalisation of the existing and new segments of Islamic

fund and wealth management, a combination of targeted financial and non-financial incentives for market participants will continue to be introduced, extended or revised. This will attract higher levels of activities within the Islamic fund and wealth management industry, thus providing the vibrancy and innovation necessary to ensure its competitiveness and sustainable development.

3.4 CONCLUSION

This Blueprint charts the medium and long-term strategic direction for Malaysia's Islamic fund and wealth management industry in order to create a conducive ecosystem that meets the growing needs of the global market.

In formulating the Blueprint, thorough assessment on the dynamics of the global and domestic marketplace relevant to the Islamic fund and wealth management industry was integral in identifying the strategic thrusts and recommendations. Nevertheless, it is recognised that there may be further shifts that will influence these dynamics, including emergence of new factors, in the course of operationalising the Blueprint. The recommendations therefore have been designed to provide sufficient flexibility within the overall objective of the Blueprint to enable appropriate adjustments and realignment in such situations.

As Malaysia operationalises the Blueprint, utmost attention will be given to the phased implementation of initiatives under the respective recommendations. It is therefore imperative that cohesive participation from all stakeholders is garnered efficiently. This will require direct and deep engagements among stakeholders to ensure consistency and alignments in messaging and delivery. In all cases, effective and timely execution will be vital to ensure that each strategic thrust achieves its objectives and contributes constructively towards the realisation of the vision to establish Malaysia as a leading international centre for Islamic fund and wealth management.

"As Malaysia operationalises the Blueprint, utmost attention will be given to the phased implementation of initiatives under the respective recommendations. It is therefore imperative that cohesive participation from all stakeholders is garnered efficiently."

ACRONYMS AND ABBREVIATIONS

GLOSSARY OF ARABIC TERMINOLOGIES

REFERENCES

ACRONYMS AND ABBREVIATIONS

ACMF	ASEAN Capital Markets Forum
ASEAN	Association of Southeast Asian Nations
AUM	Asset under management
CAGR	Compounded annual growth rate
CIS	Collective investment scheme
CMP	*Capital Market Masterplan*
CMSA	*Capital Markets and Services Act 2007*
ECF	Equity crowdfunding
EPF	Employees Provident Fund
EPP	Entry Point Project
ESG	Environmental, Social and Governance
ETF	Exchange-traded fund
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GLIC	Government-linked investment company
GSIA	Global Sustainable Investment Alliance
HNWI	High net worth individual
ICM	Islamic capital market
IFSB	Islamic Financial Services Board
IOSCO	International Organization of Securities Commissions
KWAP	Kumpulan Wang Persaraan (Diperbadankan) – Retirement Fund Incorporated
MENA	Middle East and North Africa
MIFC	Malaysia International Islamic Financial Centre
NAV	Net asset value
NKEA	National Key Economic Area
OIC	Organisation of Islamic Cooperation
P2P	Peer-to-peer
PE	Private equity
PRS	Private retirement scheme
REIT	Real estate investment trust
RMO	Recognised market operator
SAC	Shariah Advisory Council of the SC
SC	Securities Commission Malaysia
SRI	Sustainable and responsible investment
SWF	Sovereign wealth fund
UCITS	Undertakings for Collective Investment in Transferable Securities
VC	Venture capital

GLOSSARY OF ARABIC TERMINOLOGIES

Hibah	A gift awarded to a person on voluntary basis.
Ijarah	A contract whereby a lessor (owner) leases out an asset to a lessee at an agreed lease rental for a predetermined lease period. The ownership of the leased asset shall always remain with the lessor.
Istisna`	A purchase order contract where a buyer requires a seller or a contractor to deliver or construct the asset to be completed in the future according to the specifications given in the sale and purchase contract. The payment term can be as agreed by both parties in the contract.
Mudharabah	A contract made between two parties to enter into a business venture. The parties consist of the *rabb al-mal* (capital provider) who shall contribute capital to finance the venture, and the *mudharib* (entrepreneur) who will manage the venture. If the venture is profitable, the profit will be distributed based on a pre-agreed ratio. In the event of a business loss, the loss shall be borne solely by the *rabb al-mal*, unless the loss is due to the negligence or mismanagement of the *mudharib* in managing the venture.
Murabahah	A contract that refers to the sale and purchase of an asset whereby the cost and profit margin (mark-up) are made known.
Musharakah	A partnership arrangement between two or more parties to finance a business venture whereby all parties contribute capital either in the form of cash or in kind for the purpose of financing the said venture. Any profit derived from the venture will be distributed based on a pre-agreed profit-sharing ratio, but a loss will be shared on the basis of capital contribution.
Sukuk	Certificates of equal value which evidence undivided ownership or investment in the assets in accordance with Shariah principles and concepts.

Takaful	A scheme which is based on the spirit of co-operation and helping each other by providing financial assistance to participants when needed and all participants mutually agree to give contribution for the said purpose.
Wakalah	A contract where a party authorises another party to act on behalf of the former based on the agreed terms and conditions as long as he/she is alive.
Waqf	Islamic endowment – a voluntary and irrevocable endowment of Shariah-compliant assets for Shariah-compliant purposes.

REFERENCES

Association for Sustainable and Responsible Investment in Asia, 2014, *2014 Asia Sustainable Investment Review.*

BCG Perspectives, 2016, *Global Asset Management 2016: Doubling Down on Data.*

BCG Perspectives, 2016, *Global Wealth 2016: Navigating the New Client Landscape.*

Capgemini and RBC Wealth Management, *Asia-Pacific Wealth Report 2014*.

Credit Suisse, 2015, *Global Wealth Data Book 2015*.

Credit Suisse, 2015, *Global Wealth Report 2015*.

Deloitte, 2014, *The Millennial Survey 2014*.

Edbiz Consulting, 2016, *US$9.5 trillion of Muslims Wealth Remain Outside the Global Islamic Financial Industry.*

EPF, *Registration For Simpanan Shariah Starts 8 August 2016.*

Ernst and Young (EY), 2014, *Global Takaful Insights 2014, Market Updates*.

Ernst and Young (EY), 2014, *Hitting the sweet spot, The growth of the middle class in emerging market.*

ESADE Business School, KPMG and ICEX-Invest in Spain, 2015, *Sovereign Wealth Funds 2015.*

Global Sustainable Investment Alliance (GSIA), 2014, *2014 Global Sustainable Investment Review*.

Islamic Financial Services Board (IFSB), 2013, *Islamic Financial Services Industry Stability Report 2013*.

Islamic Financial Services Board (IFSB), 2016, *Islamic Financial Services Industry Stability Report 2016*.

Knight Frank, 2014, *Knight Frank Wealth Report 2014.*

Lembaga Tabung Haji, 2014, *Lembaga Tabung Haji Annual Report 2014*.

Malaysia International Islamic Financial Centre, 2015, *Asia: Future Prospect for Islamic Finance*.

Mohd Najib Tun Razak, 2015, *Keynote Address* (Invest Malaysia 2015, Mandarin Oriental, Kuala Lumpur, April 23, 2015).

Oxford Business Group, *Growth in pension funds bodes well for Bahrain's Islamic finance sector.*

Pew Research Center, *The Future of Global Muslim Population, Projections for 2010-2030* .

Preqin, 2015, *2015 Preqin Sovereign Wealth Fund Review: Exclusive Extract.*

PwC, *Asset Management 2020 report.*

Securities Commission Malaysia Annual Report.

The Boston Consulting Group, 2006, *Playing the Long Game, Global Asset Management 2006.*

World Bank Database.

Securities Commission Malaysia
3 Persiaran Bukit Kiara, Bukit Kiara
50490 Kuala Lumpur, Malaysia
Tel: +603 6204 8000 Fax: +603 6201 5078
Website: www.sc.com.my

ISBN 978-983-9386-81-3