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IFN Asia: A world in focus

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

Adnan Zaylani Mohamad Zahid, an assistant governor of Bank Negara Malaysia, delivered the keynote address on the first day of the event. "A hopeful person sees opportunity in every difficulty," he began, kick-starting the event with an optimistic outlook despite the global financial, social, cultural and political pressures that have accompanied the unprecedented



“ Moving forward, these two ‘C’s’ COVID-19 and climate change, will weigh heavily on us, and striking a better balance will be important in striving for a sustainable recovery ”

coronavirus pandemic as it swept the globe. "Revitalizing the economy is becoming an increasingly pressing imperative," he insisted. "At some point, we need to replenish our buffers and rebuild our resilience." The IMF has estimated that the cost of the pandemic to the global economy will reach US\$28 trillion by 2025, a staggering figure. Nevertheless, global economic activity has in fact shown some improvement, and there is hope ahead, although the road remains challenging. "Coupled with this is the need to address the



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

Islamic finance has much to offer in this ambition. Its moral and ethical values look beyond profits to consider issues of public interest, transparency and good governance, inclusion and sustainability. "Traditional finance, after any crisis, tends to reflect exactly on these issues, which has led to the embracing of aspirations such as stakeholder capitalism, sustainability, or more recently, the proposition of a kind of reset for the global economic system to deal with the current finances. Islamic finance already has much of these embedded," pointed out Adnan. His speech covered the importance of value-based intermediation financing, as promoted by Bank Negara Malaysia, along with insights into the importance of a wide range of innovative Islamic solutions, the growth of fintech in the sector, and the growth of digital supply

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chain finance to help SMEs scale up their business.

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

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

Return to factory settings

The first session of the week brought together a host of Malaysia’s most influential practitioners to discuss the opportunities for a back-to-basics approach: and how Islamic finance as an industry can mobilize and adapt to address the imminent challenges of the real economy, providing not just liquidity but solvency support to the vital SME and corporate sector. How do we change the risk appetite of Shariah compliant investors, asset owners and asset managers for the good of the real

economy, and are Islamic banks and asset managers using this opportunity to adequately address important initiatives such as responsible finance and financial inclusion? The panel discussed in detail these challenging questions, with the goal of hammering out a roadmap to success in these strange times of uncertainty, challenge and change.

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



Mohammad Faiz

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



Eghwan

Ahmad Shahrman Mohd Sharif, CEO of CIMB Islamic, agreed with the back-to-basics approach, and gave a detailed outline of what CIMB Islamic has been doing in this regard. “We are deconstructing the way that we do business,” he explained. “The first element is going small. Banks are often criticized that our appetite for smaller customers is lower.

The second is to review how we approve getting financing to people beyond the traditional credit scoring means. A lot of people are losing their jobs because of COVID-19 and even if they get re-employed again, many will be self-employed — this is a



Ahmad

new economy where we no longer have the ability to rate credit based on payroll. On the SME side, it’s about rebuilding global trade links — the global markets have changed, starting with the trade war between the US and China, but also COVID-19 has destroyed supply chains all over the world.” CIMB has been working on the VBI approach, also using new channels such as Zakat funds and working with credible partners in order to make sure financing is allocated and accessible where it is needed.

Rejina Abdul Rahim, the managing director and country head of Malaysia of Nomura Asset Management

Malaysia, turned the conversation to environmental, social and governance (ESG) and Shariah — and explained that Malaysia had some catching up to do. “On the local side, there is a lot of catching up that we need to do,” she stressed. “The background

of COVID-19 has thrown us into the deep end and shown us what we need to change. We’ve been a bit slow in embracing and dealing with the idea of social financing, especially in Malaysia. But looking at the local asset management industry, what is really interesting is that Waqf and Zakat is now being utilized much more. The Waqf unit trust is a very new concept — the SC [Securities Commission Malaysia] has only just released its guidelines in November, up till now there have been no Waqf features on the unit trust side. This is very different from Indonesia, which came out with a Waqf unit trust back in 2004. This is definitely an area of opportunity, and it is clear that the Malaysian industry needs to catch up. In other markets, the idea of SRI and sustainable investing is a must, and if you don’t have an ESG element to your investment process, you won’t even be considered for any RFP.”



Rejina

Maya Kamdani, the director and head of marketing and product development at BNP Paribas Asset Management in Indonesia, added that



Maya

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the world is changing — investors are now increasingly connecting their emotions and values to their purchases, including where they want to put their money. “This is why we combine both ESG and Shariah into our investment solutions,” she explained. “Shariah principles are not just for the Muslim population. Our challenge is how to make people relate to these principles, and it’s all about awareness and education.”

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

Putting Islamic finance to work

The second keynote was given by Muhamad Umar Swift, CEO of Bursa Malaysia, who highlighted the importance of collaboration. “Only through the collective involvement of industry participants can we refine the Islamic finance agenda for tomorrow. The COVID-19 challenge has



Muhamad

presented an unprecedented challenge. We need to rethink our relationship with the planet, and sustainably rebuild the nation for the benefit of future generations. Around the world, policies are shifting toward ensuring sustainable development in efforts to achieve economic prosperity, hence we are slowly seeing the synergy between Islamic finance, ESG and sustainability gaining

significant traction across the global financial landscape.”

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

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

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



Azleena

Noraizat Shik Ahmad, the general manager of Islamic capital market development at the SC, outlined what the SC is doing within the sustainable and socially responsible investment space, and the numerous initiatives that are underway through the country’s sustainable and responsible investment (SRI) framework. “The framework is a significant milestone in terms of product innovation,” he stressed. Talking about the growth in green and SRI Sukuk, he noted that the regulator was keen for issuers to appoint external reviewers for their deals, in order to



Noraizat

give more credibility to the Sukuk. “We take note that the costs may be high, so to encourage it we have set up a RM6 million [US\$1.47 million] grant to help with the costs of SRI Sukuk.”

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



Chung

Angeline Choo, the head of Southeast Asia and Greater China at S&P Dow Jones Indices, gave a



Choo

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

Fintech focus

The theme of the third and final day centered around Islamic fintech, with

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the theme of: 'Is What We Did Yesterday Sufficient for Tomorrow?'

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

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



Host Elain Lockman, the co-founder and director of ATA PLUS, one of Malaysia's first online equity crowdfunding platforms, was joined by a distinguished panel including Dr Bello Lawal Danbatta, the secretary-general of the IFSB, who stressed the importance of Islamic fintech and highlighted the need for firm regulation to direct the sector. "Many market players used to see fintech as



Dr Bello

disruptive, but the efforts of regulators to harness its potential through initiatives such as accelerators and sandboxes has been really transformative, and this is what has pushed us to where we are today," he pointed out.



Bikesh

The panel drew on the experiences from a wide range of movers, shakers and innovative entrepreneurs in the Islamic fintech space, including Bikesh Lakhmichand, CEO of tech-focused accelerator and venture capital firm 1337 Ventures; Norhizam Kadir, the vice-president of fintech



Norhizam



Norita

and Islamic digital economy at the Malaysia Digital Economy Corporation; Norita Ja'afar, CEO of Malaysia-based fintech firm TFX Islamic, which recently launched an Islamic supply chain finance platform targeting SMEs; and Raheel Iqbal, the managing partner at global open API banking solutions provider Codebase Technologies.



Raheel

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

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