

# The Roles of Islamic Finance to Support Financial and Social Inclusion



**WORLD BANK GROUP**  
Inclusive Growth & Sustainable Finance  
Hub in Malaysia

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September 22, 2021

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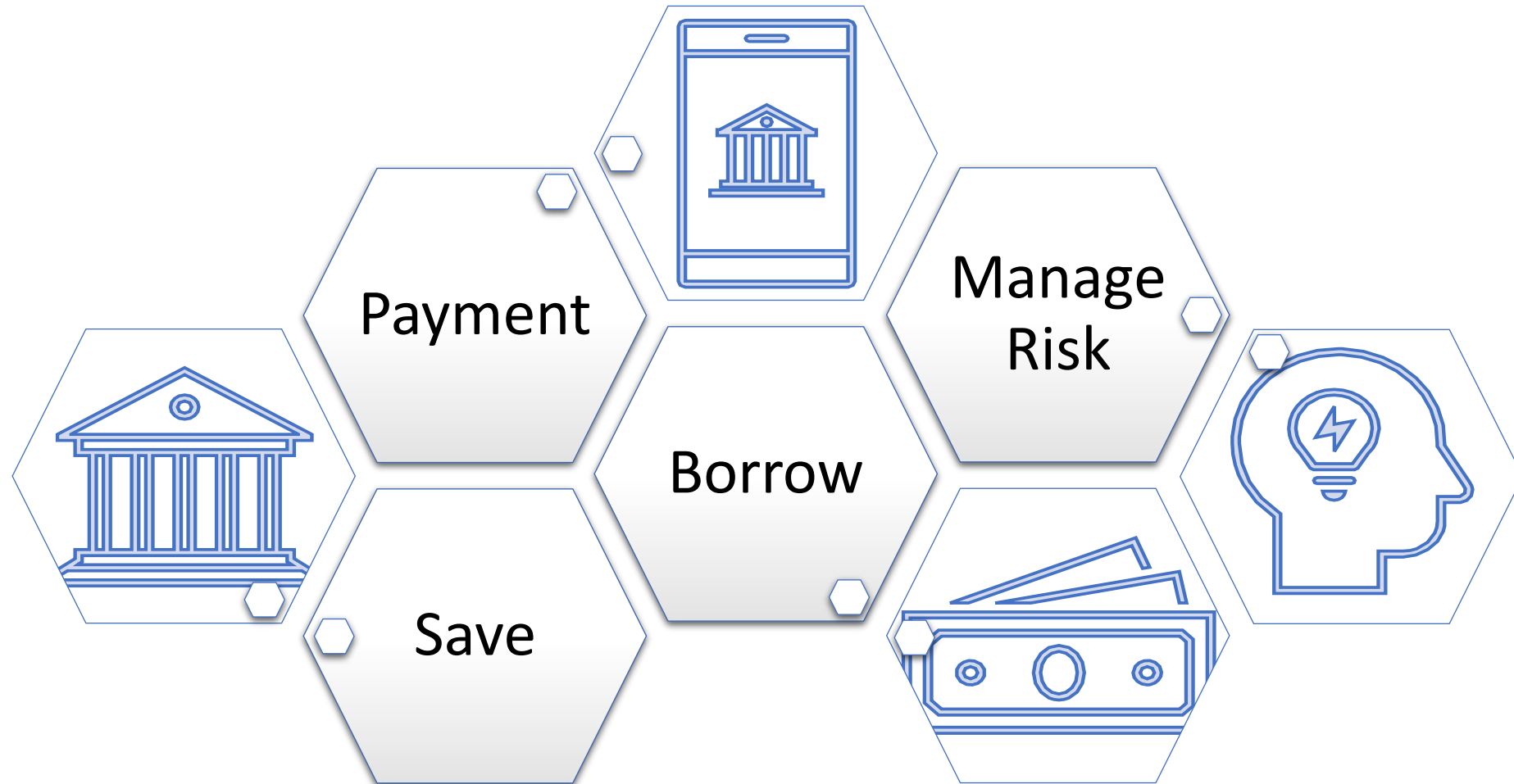
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# Agenda

- 1. What is Financial Inclusion?**
- 2. What is Social Inclusion?**
- 3. Islamic Finance and Financial Inclusion**
- 4. Regulatory Foundations for Islamic Finance Inclusion**
- 5. Institutional Enablers of Islamic Finance Inclusion**
- 6. Fintech's Roles in Global Financial Inclusion**

## What is Financial Inclusion?

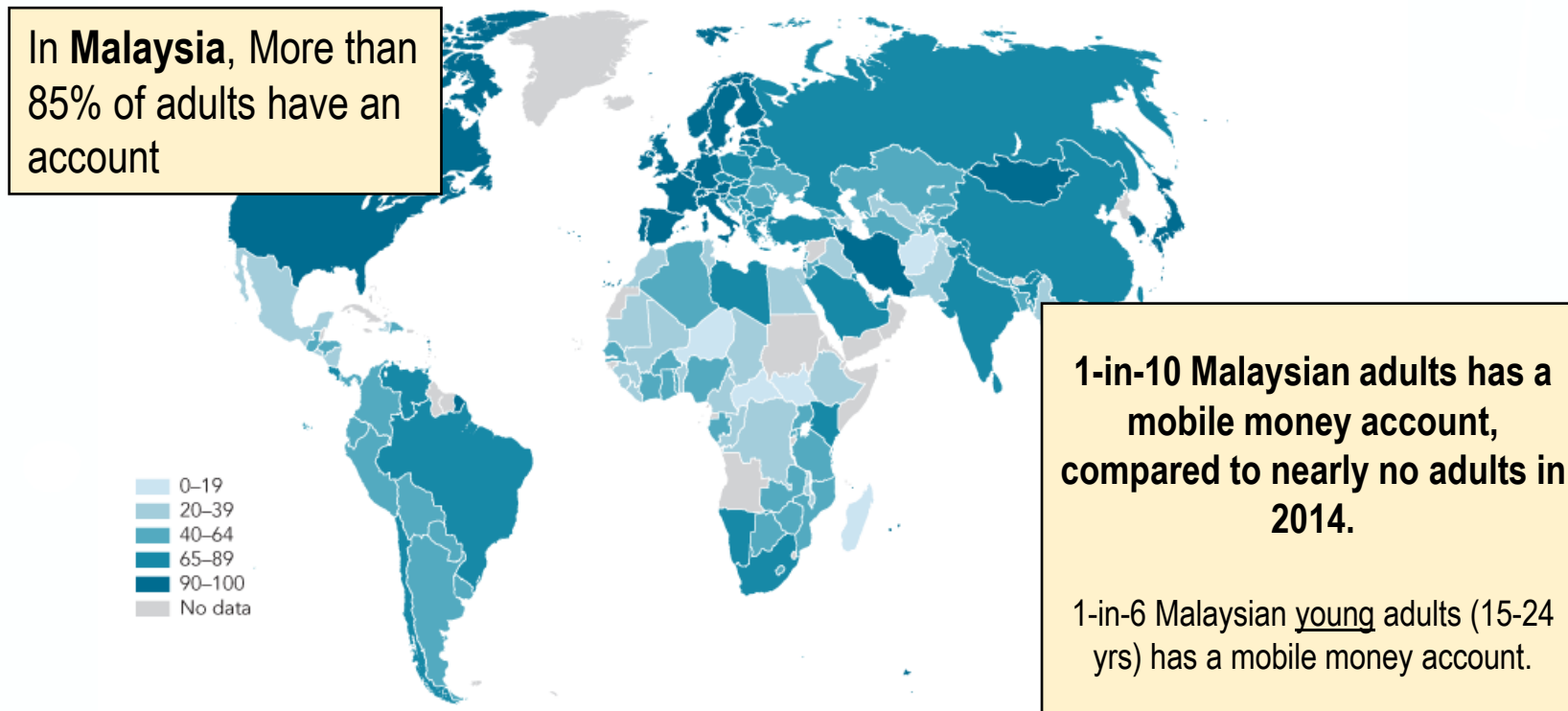
The Findex database defines “financial inclusion” as access to and use of formal financial services, such as bank accounts and digital payments.



## Financial inclusion is on the rise globally

- The third edition of the Global Findex database shows that 1.2 billion adults have gotten an account since 2011, including 515 million since 2014.
- Between 2014 and 2017, account ownership rose globally from 62% to 69%. In developing economies, it went from 55% to 63%.

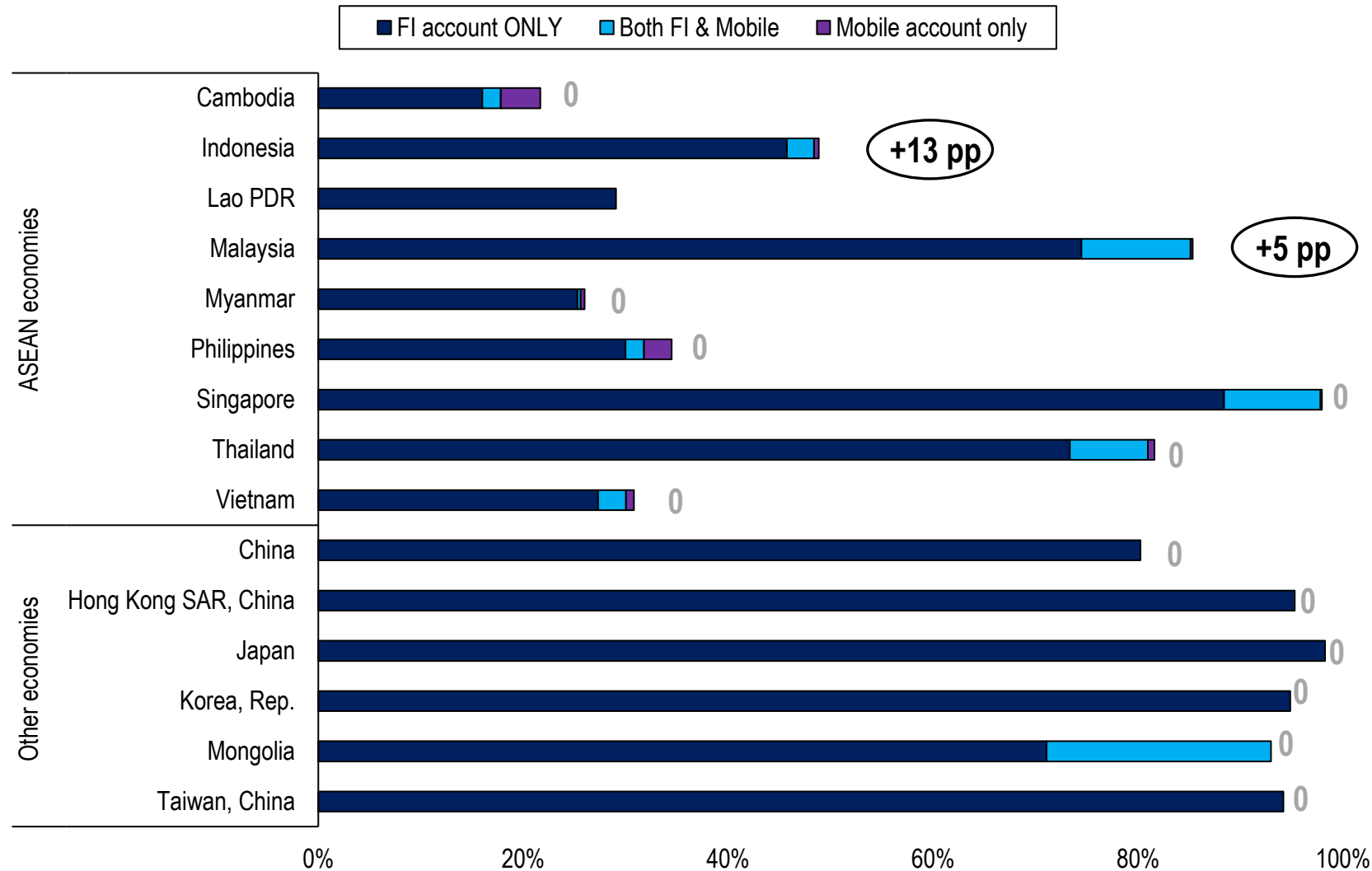
Today, 69 percent of adults around the world have an account  
Adults with an account (%), 2017



Source: Global Findex database.

# Account Ownership

Total Percentage of Adults

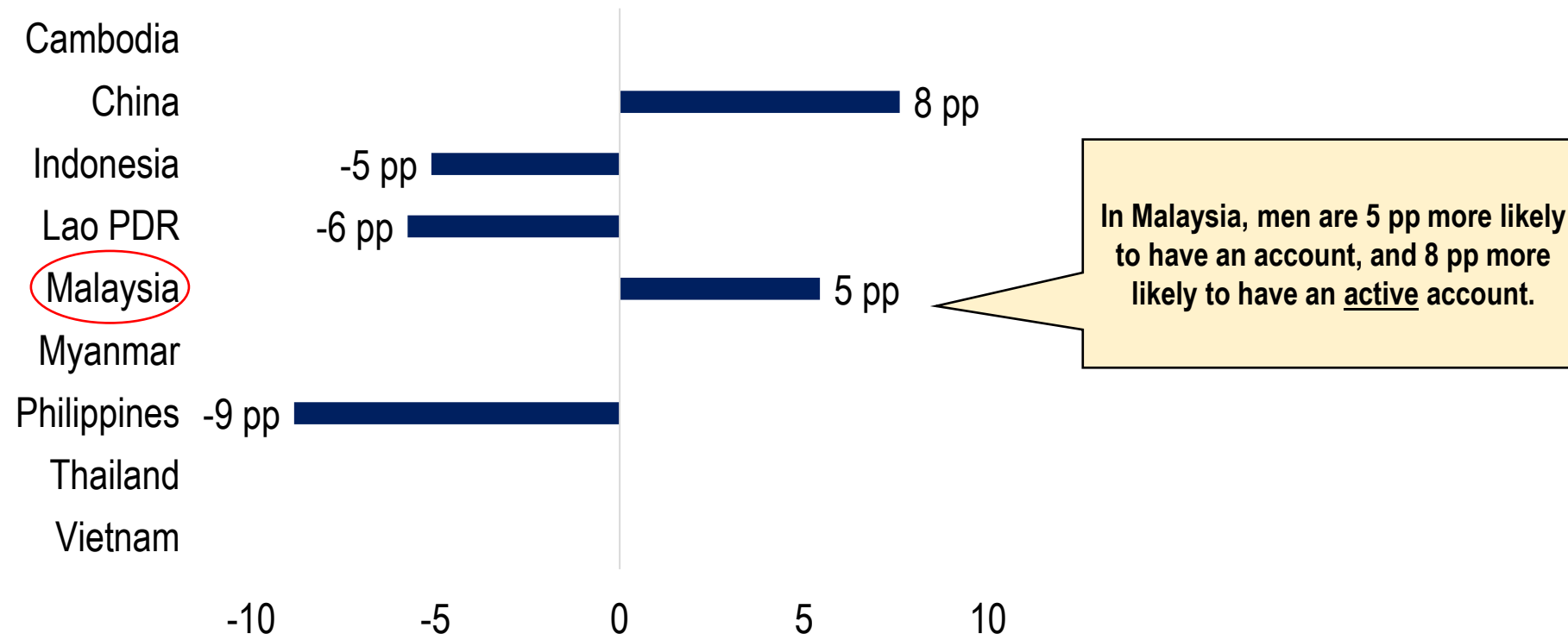


Note: The bolded number at end of the bar indicates the percentage point change in overall account ownership since 2014. "0" indicates no significant change. Lao PDR was not surveyed in 2014.

## Globally, women are less likely than men to have a bank account

- The gender gap in **developing economies** remains unchanged at 9 percentage points since 2011.
- There is a 5 percentage point gender gap in Malaysia, unchanged since 2011.

**Gender Gaps**  
In Percentage Points



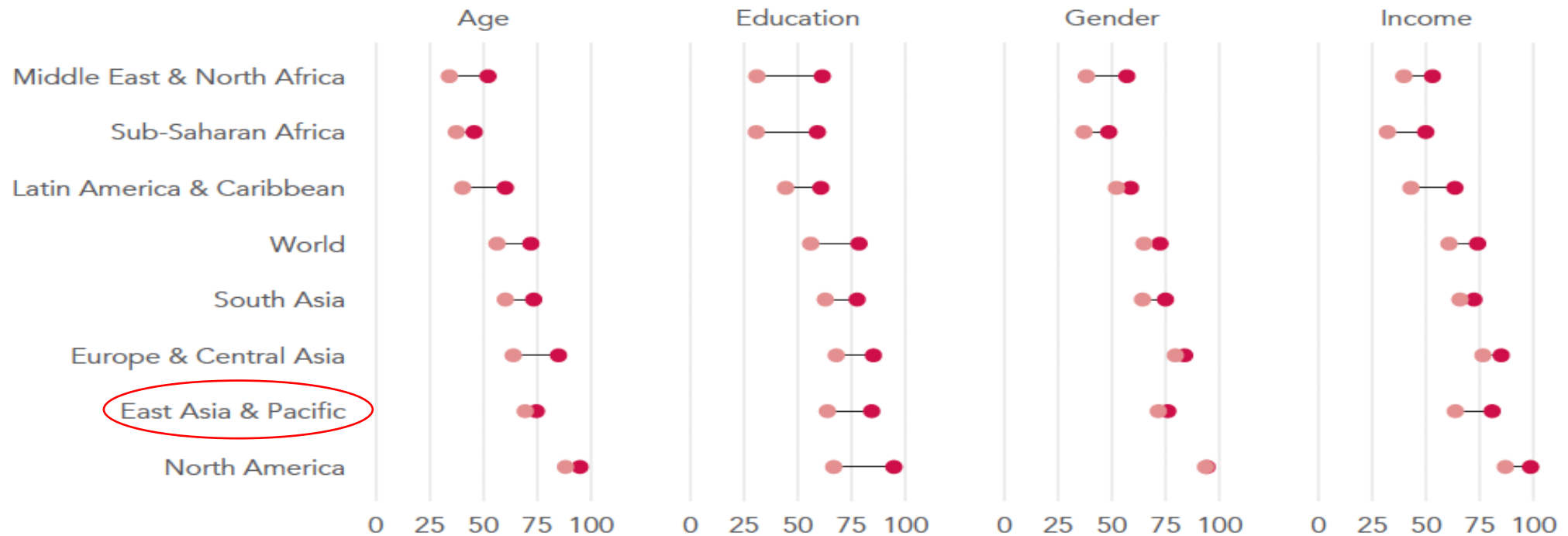
# Countries cannot reach universal financial access without inclusive growth

**Financial account ownership is lower among younger adults, those with less education, women, and poorer adults.**

Account ownership, 2017 (% of population ages 15 and older)

**SDG 8.10**

- Ages 25 and older
- Secondary or more
- Male
- Richest 60 percent
- Ages 15–24
- Primary or less
- Female
- Poorest 40 percent



Note: Data refer to the richest 60 percent and poorest 40 percent within individual economies rather than the region as a whole.

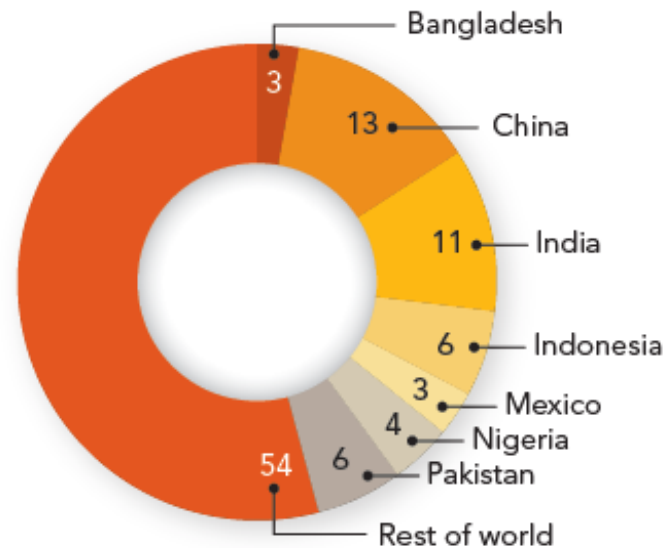
Source: Global Findex Database. World Development Indicators (FX.OWN.TOTL.MA.ZS; FX.OWN.TOTL.FE.ZS; FX.OWN.TOTL.YG.ZS; FX.OWN.TOTL.OL.ZS; FX.OWN.TOTL.PL.ZS; FX.OWN.TOTL.SO.ZS; FX.OWN.TOTL.40.ZS; FX.OWN.TOTL.60.ZS).



## Who are the unbanked?

Nearly half of all unbanked adults live in just seven economies

Adults without an account by economy (%), 2017



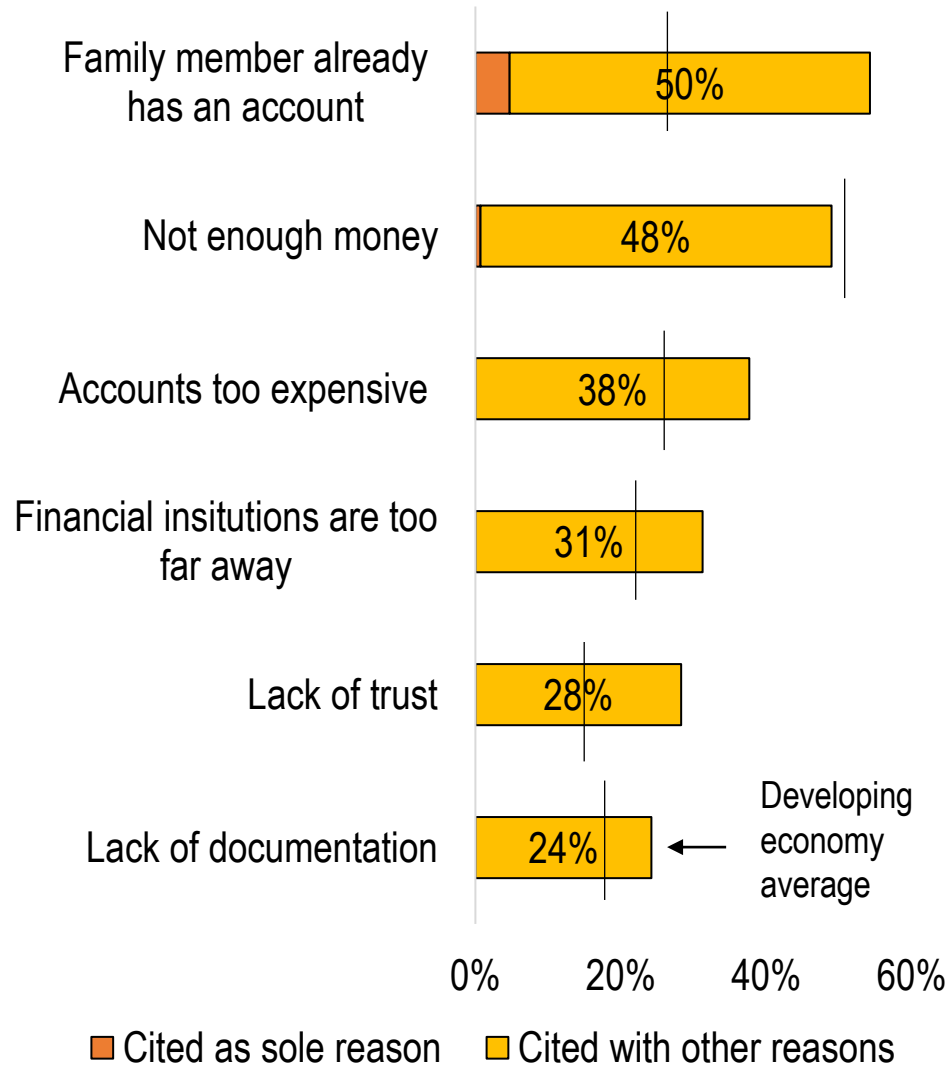
Source: Global Findex database.

3.5 million adults in Malaysia  
are unbanked

## Globally, of the 1.7 billion unbanked adults...

- 56 percent are women
  - Malaysia: **57 percent**
- 50 percent live in the poorest 40 percent of households within economies
  - Malaysia: **53 percent**
- 62 percent have a primary education or less
  - Malaysia: **11 percent**
- 53 percent are in the labor force
  - Malaysia: **54 percent**

## Why do 3.5 m adults in Malaysia not have a financial institution account?



- **Not enough money:** While half of unbanked Malaysian adults cited not having enough money as a barrier—nearly no one cited this as their only barrier, compared to the developing world average of 20%.
- **Family member already has an account:** 54% cited this barrier, nearly twice the ASEAN and developing world averages.
- **Distance:** A third of Malaysian unbanked adults said distance was a barrier— *70% of these adults have a mobile.*
- **Cost:** 38% reported the cost to open and maintain an account; **Trust in Banks:** 28%; **Missing Documentation:** 24%.
- Only 3% of unbanked Malaysian adults report not needing an account!

## Financial Inclusion Metrics for 2017, Selected OIC Members

Country	Have an Account	Wages Paid into Account or Card	Wages Paid into Account or Card, Among Wage Earners	Saved at a Financial Institution	Have a Debit Card	Have a Credit Card	Used a Debit or Credit Card	Borrowed from a Financial Institution	Have an Account and Made no Deposits or Withdrawals in the Past Year
Bahrain	83%	50%	75%	31%	80%	30%	61%	36%	5%
Iran	94%	20%	80%	26%	79%	9%	65%	28%	9%
Kuwait	80%	50%	82%	27%	78%	22%	58%	28%	5%
<b>Malaysia</b>	<b>85%</b>	<b>28%</b>	<b>72%</b>	<b>38%</b>	<b>74%</b>	<b>21%</b>	<b>39%</b>	<b>23%</b>	<b>16%</b>
Turkey	69%	30%	76%	23%	63%	42%	48%	43%	8%
UAE	88%	66%	90%	29%	83%	45%	71%	46%	6%
Afghanistan	15%	6%	34%	4%	3%	1%		4%	5%
Chad	22%	3%	23%	3%	3%	3%		4%	3%
Cote d'Ivoire	41%	3%	20%	6%	7%	1%		3%	2%
Guinea	23%	3%	23%	6%	7%	3%		6%	4%
Iraq	23%	3%	15%	2%	6%	2%		3%	4%
Niger	16%	2%	24%	2%	3%	2%		4%	2%
Pakistan	21%	3%	23%	6%	8%	1%		3%	3%
Sierra Leone	20%	3%	23%	5%	2%	1%		5%	4%

# Malaysia has largely eliminated religious barriers to financial participation

Malaysia compares favorably to other OIC countries

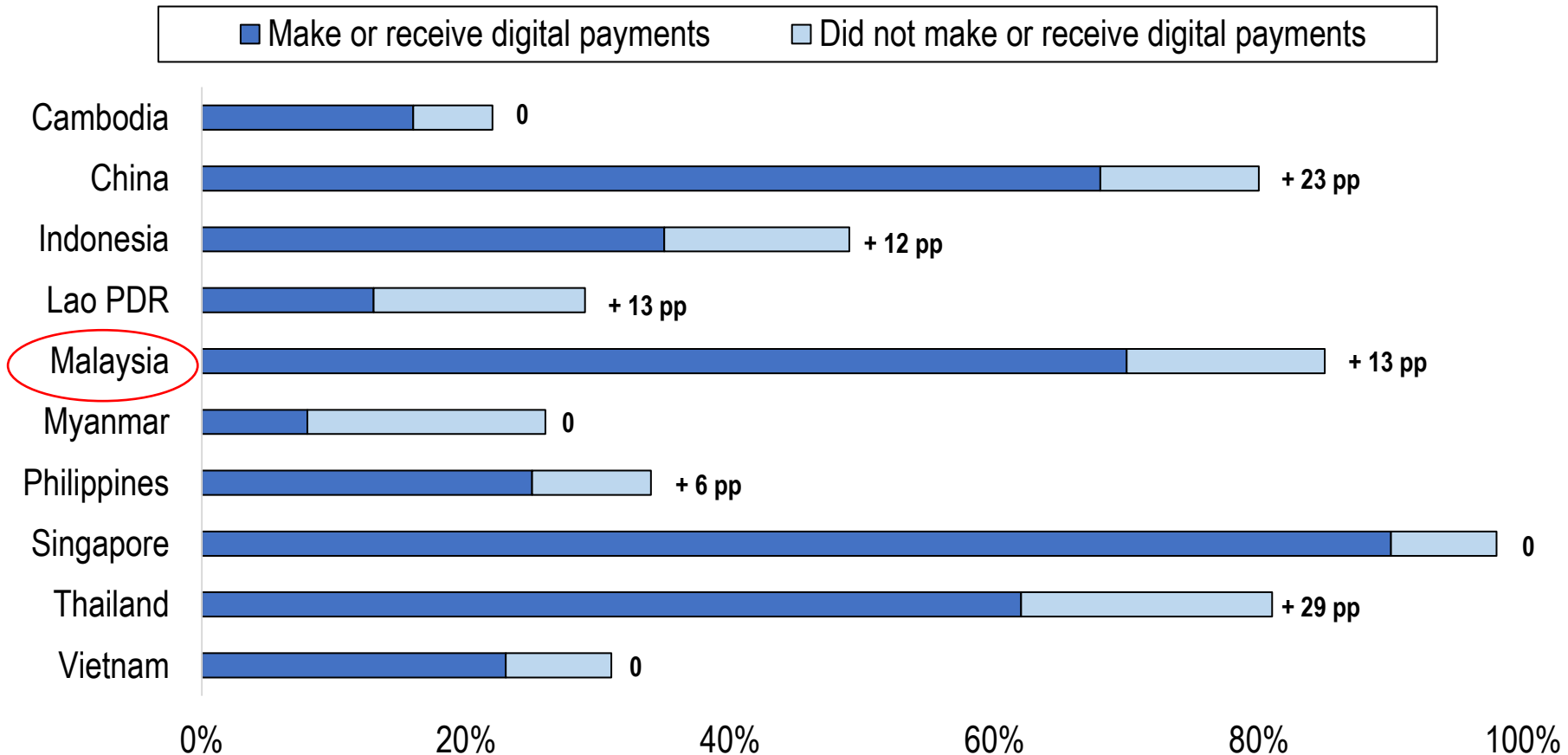
**Table 5: No Financial Account Due to Religious Reasons, Selected OIC Members**

Country	No Financial Institution Account Due to Religious Reasons	OIC Rank (out of 42)	Estimated Number of Adults Without Financial Institution Account Due to Religious Reasons
Niger	17.9%	42	1.5 million
Afghanistan	13.9%	41	2.0 million
Pakistan	10.3%	39	13.9 million
Turkey	6.1%	30	3.5 million
Egypt	3.1%	18	1.8 million
Indonesia	2.7%	15	4.9 million
Bangladesh	2.5%	14	2.9 million
Saudi Arabia	2.0%	10	0.5 million
<b>Malaysia</b>	<b>1.6%</b>	<b>9</b>	<b>0.4 million</b>
Nigeria	1.5%	6	1.5 million
UAE	0.7%	2	< 0.1 million
Kuwait	0.5%	1	< 0.1 million

- Non-participation for religious reasons is highly limited in Malaysia
  - 1.6% of respondents cite religious barriers, corresponding to 0.4 million adults
- Pakistan, Turkey, Egypt, and Indonesia have significantly higher percentages of non-participation for religious reasons

## Digital payments use in Malaysia is high and steadily growing...

- 70% of Malaysian adults (83% of *account owners*) send or receive digital payments, a **13 pp** increase from 2014.

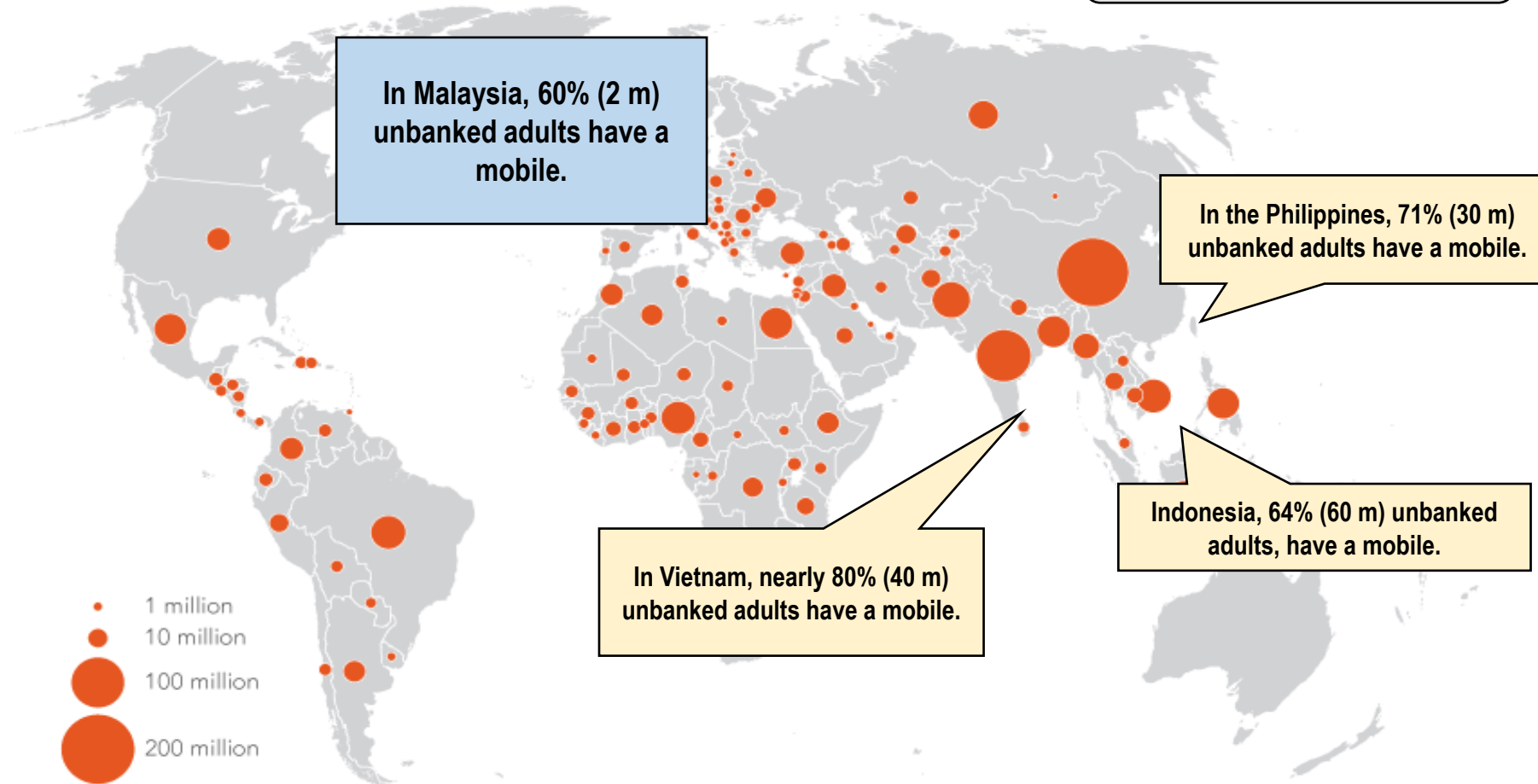


Note: The length of the bar is the share of adults who own an account. The boldest number at the end of the bar shows the percentage point increase in the share of adults using digital payments since 2014. "0" means no significant change. Developing ASEAN excludes Singapore.

# Advances in fintech hold the key to expanding access to financial services

**Two-thirds of unbanked adults have a mobile phone**  
Adults without an account owning a mobile phone, 2017

Globally, 1.1 billion unbanked adults have a mobile.



Sources: Global Findex database; Gallup World Poll 2017.

Note: Data are not displayed for economies where the share of adults without an account is 5 percent or less.

## Malaysia Highlights:

- *Financial inclusion is on the rise globally*
- *Digital technology, and especially widespread access to cell phones and the internet, is driving access to and use of financial services*
  - **In Malaysia, 80% of adults have a mobile.**
  - **1-in-10 adults has a mobile money account in addition to their FI account.**
  - **Use of digital payments among account owners rose by 11 pp, driven by digital utility bill and debit card payments.**
- *Advances in digital financial services, starting with digital payments and including savings, credit and insurance products delivered through digital platforms, are key to achieving inclusive financial inclusion*
  - ***In Malaysia, 70% of adults send or receive digital payments, but more can be done by the public and private sectors.***
    - **5 million banked adults save semi-formally or by other means—and nearly 1 million of these accounts are inactive.**
    - **3 million banked adults pay utility bills in cash, 89% of whom have a mobile.**
    - **1 million banked adults receive private wages in cash, 88% of whom have a mobile.**

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## What is Social Inclusion?

- The process of improving the terms for individuals and groups to take part in society
- The process of improving the ability, opportunity and dignity of people disadvantaged on the basis of their identity to take part in society

Social inclusion is...

- Specific to time, place and identities
- Multidimensional
- Related to poverty and inequality, but goes beyond these
- Both an outcome and a process

## Identity Drives Exclusion?

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Ethnicity: Indigenous people

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Caste: in India and Nepal

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Race

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Religion

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Gender and Age: women, older people

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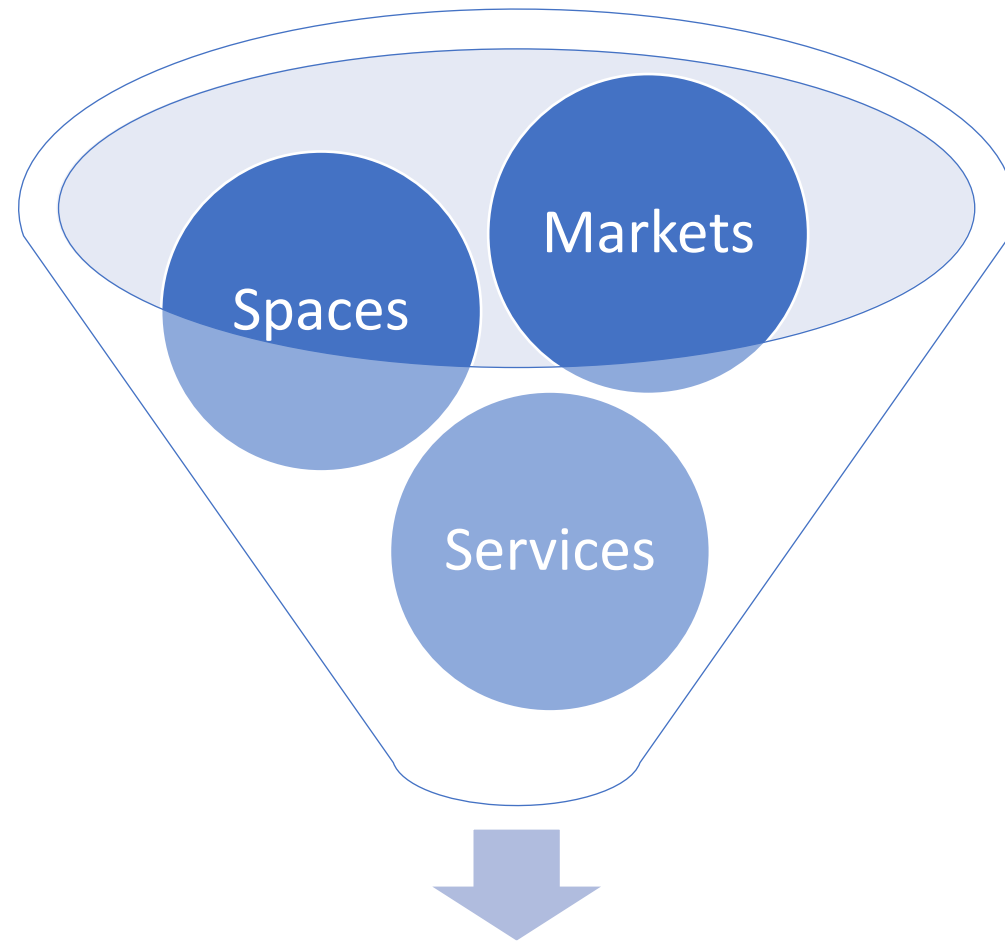
Nationality and Migrant Status: Refugees, Undocumented persons

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Disability

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Social and Economic Status



Inclusion in what?

# Sustainable Finance Framework

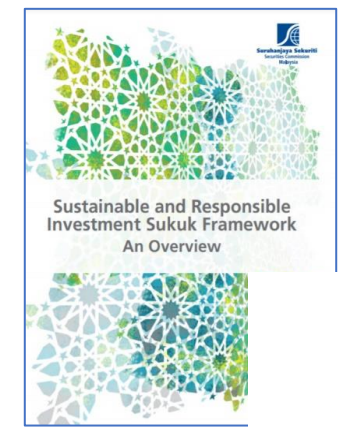
## Global



## Regional



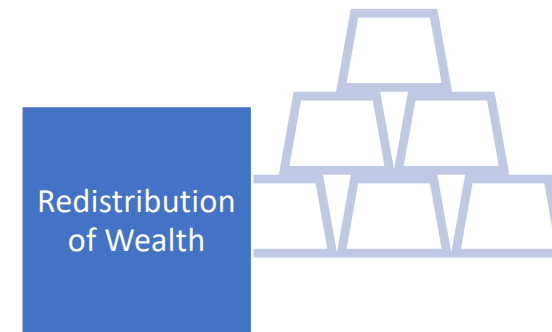
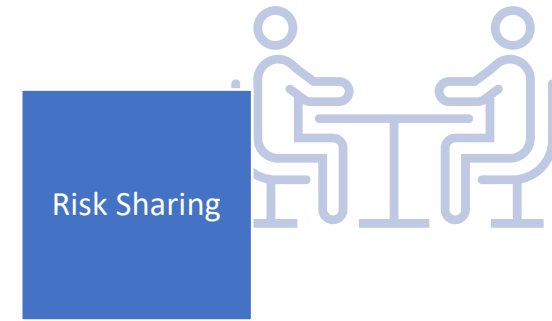
## National



# Agenda

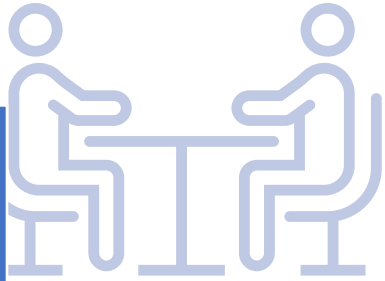
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# Islamic Finance and Financial Inclusion



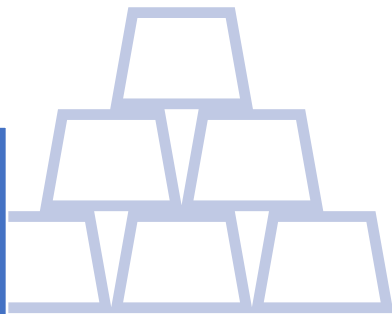
## Islamic Finance and Financial Inclusion

Risk Sharing



*Shari'ah* compliant microfinance, SME financing and micro-insurance (*takaful*)

Redistribution  
of Wealth



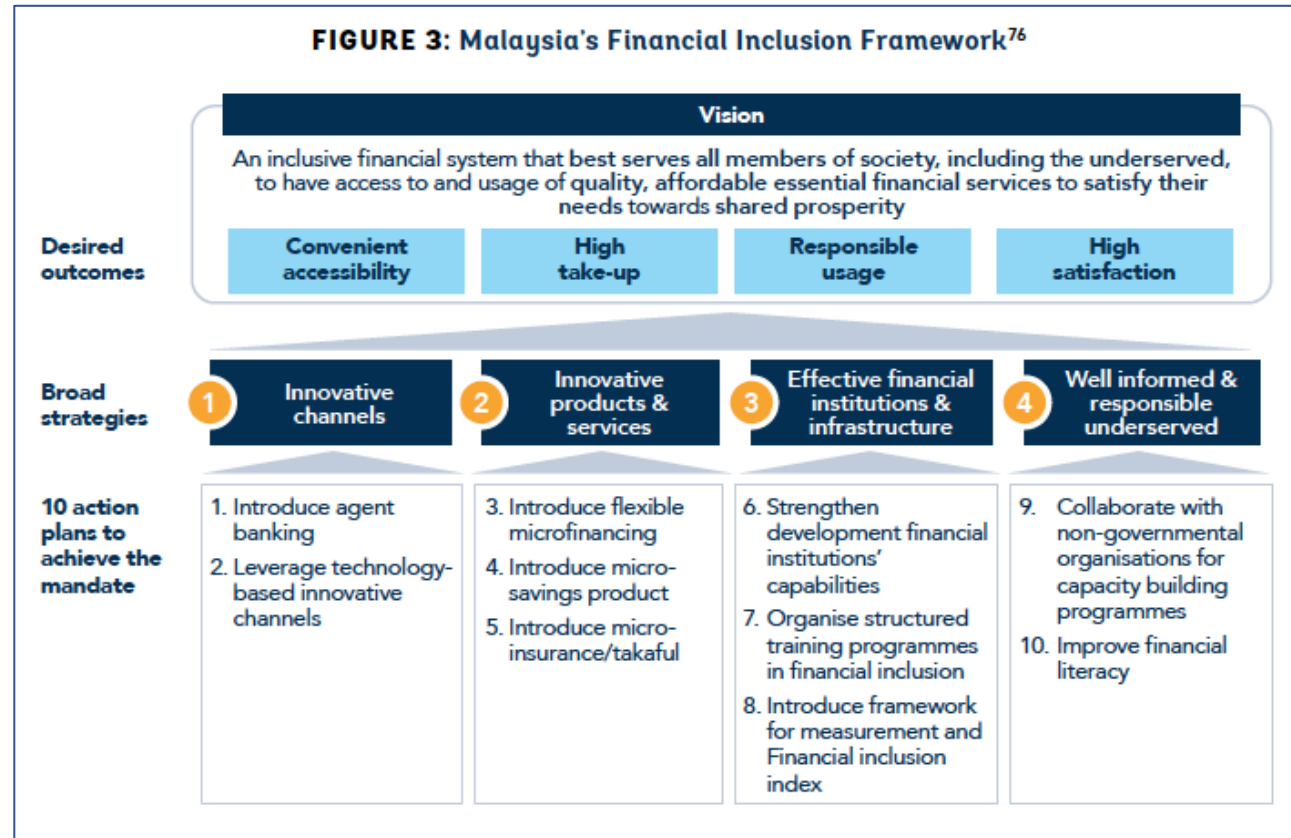
**“Islamic social finance”** refers to financing methods that are intended for social benefit. Examples include *zakat* (alms), *sadaqah* (charity), *qard al-hasan* (interest-free loans), and *waqf* (plural *awqaf*, endowments).

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# Malaysia has a comprehensive policy framework for financial inclusion



- Financial Sector Blueprint (FSBP) 2011-20 included a Financial Inclusion Framework
  - 4 desired outcomes
  - 4 broad strategies
  - 10 action plans to achieve the mandate
- Key metrics are tracked and reported by Bank Negara Malaysia (BNM)

Source: Bank Negara Malaysia

# Malaysia likewise has an integrated policy framework for Islamic finance

**Malaysia's approach to the regulation of Islamic finance is an integrated one.** While the Islamic financial system is governed by its own specific legal structures, it is also subject to many regulations similar to those of the conventional system with which it exists in parallel.

**The regulation and supervision of Islamic banking institutions and *takaful* operators in Malaysia are governed by the IFSA 2013.** The latter replaced the Islamic Banking Act, 1983 and the *Takaful* Act, 1984. These acts fall under the purview of BNM, which regulates and supervises the Islamic banking and *takaful* sectors. IFSA aims to strengthen the regulation of IFIs, Islamic money markets, foreign exchange markets, and payment system and includes specific regulations for consumer protection.<sup>72</sup>

**In the Islamic capital market, the SC under the CMSA is responsible for issuing licenses to market intermediaries and guidelines on the offering of Islamic securities.** Matters related to the offshore finance industry in Labuan are regulated by the Labuan FSA.

**IFSA emphasizes a total shari'ah compliance effort of the Islamic finance industry through 4 dimensions,** namely: (i) *shari'ah* governance framework; (ii) *shari'ah* standards for each contract used in Islamic financial transactions; (iii) pre-emptive measures to address issues of concern within IFIs that may affect the interests of depositors and policyholders; and (iv) the effective and efficient functioning of Islamic financial intermediation.<sup>73</sup>

- Islamic Financial Services Act 2013 (IFSA) provides a comprehensive set of policies
- Regulators adopt a coordinated approach



# Islamic social finance is regulated and supported

**The 13 states in Malaysia govern their *zakat* and *waqf* institutions independently under their respective state enactments while in the 3 federal territories they are governed by one federal law.**

Out of the 13 states, 5 have enacted specific *waqf* laws: Johor, Selangor, Negeri Sembilan, Terengganu and Malacca. The remaining states and the federal territories have enacted *waqf* provisions in their general administrative laws.<sup>102</sup>

**The Malaysian government had established the JAWHAR in 2004 to coordinate the *zakat* and *waqf* development in every state.** A government backed *waqf* foundation was formed in July 2008 known as YWM. It was set up under the Trustees Incorporation Act 1952 as the national *waqf* entity. YWM's functions include the collection of *waqf* funds, development of existing and new *waqf* assets, implementation of welfare and social programs honoring the intentions of *Waqf* donors, undertaking investment programs to sustain disbursements to *waqf* beneficiaries, and promotion of YWM's activities.

***Waqf* appeared in the Islamic capital market regulatory framework in 2015 when the SC issued Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.** Chapter 7 of these Guidelines incorporates provisions, including tax incentives, pertaining to SRI *sukuk*. *Waqf* properties and assets as well as any projects that undertake the development of *waqf* assets are deemed to be part

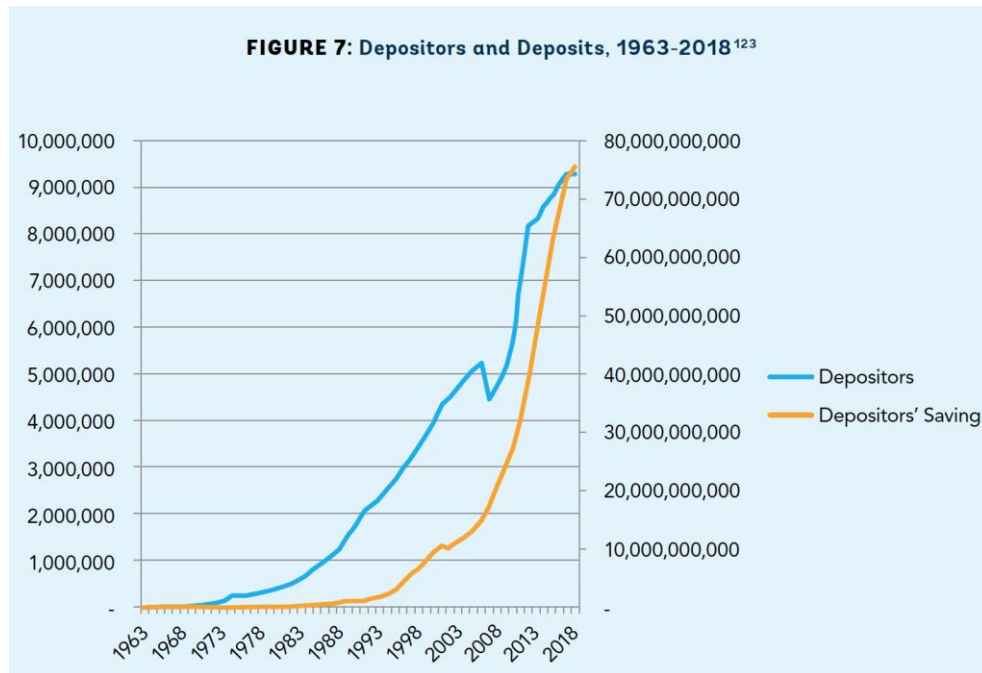
- Zakat and Waqf institutions are governed at the state level
- Federal institutions support coordination and Islamic social finance development
- SC Malaysia has included Waqf assets in its SRI regulatory framework

# Agenda

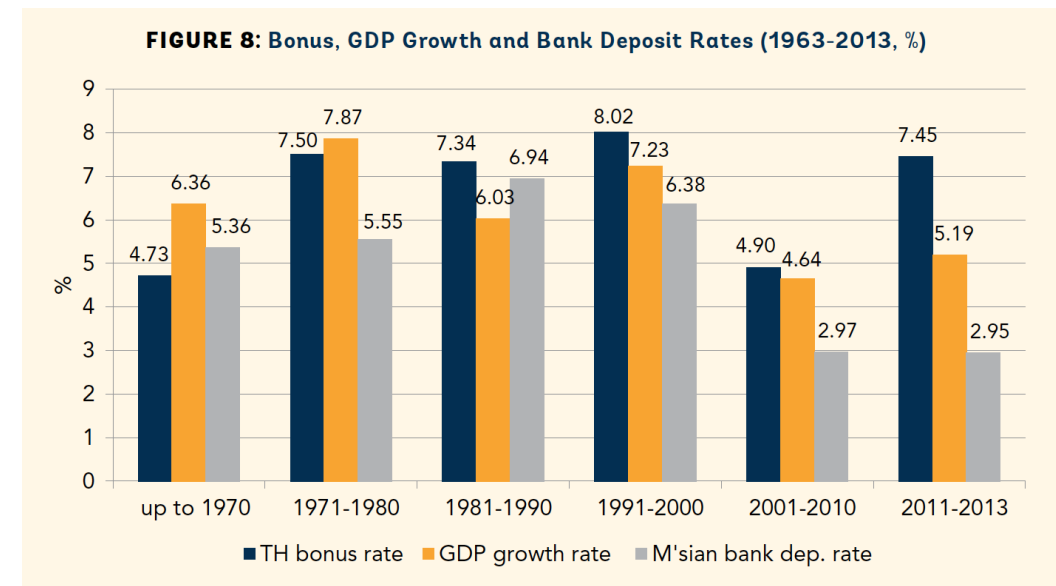
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# Tabung Haji has fostered inclusion and encouraged savings

TH's assets have grown exponentially...



... through providing attractive returns to savers

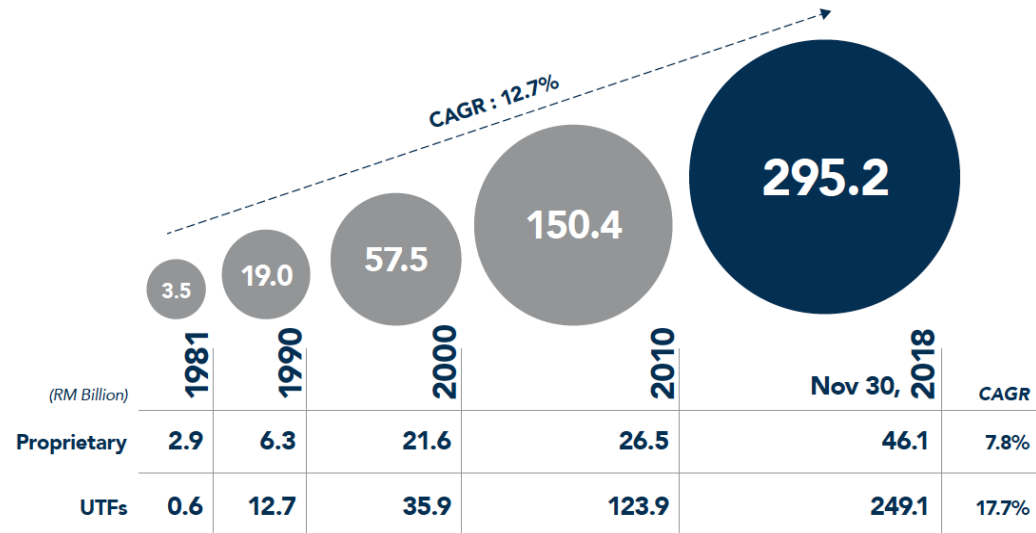


TH was established in 1963 to promote savings for the pilgrimage and promote savings amongst under-privileged segments of Malaysia's society

# PNB was established in 1978 to increase economic participation

Islamic finance structure removed religious barriers to ownership and investment participation

**FIGURE 9: PNB's Assets under Management as of 2018**



Source: PNB A Model for Creation & Redistribution of Wealth-PNB, 2019

- Creation of PNB was part of the National Economic Plan (NEP) to reduce inequality and share prosperity
- First unit trusts were offered in 1981, as a vehicle for transferring corporate assets to financially under-represented segment of society
- Initiative sought to promote long-term savings and investments without religious barriers

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# We identified 9 major fintech trends in 2019:



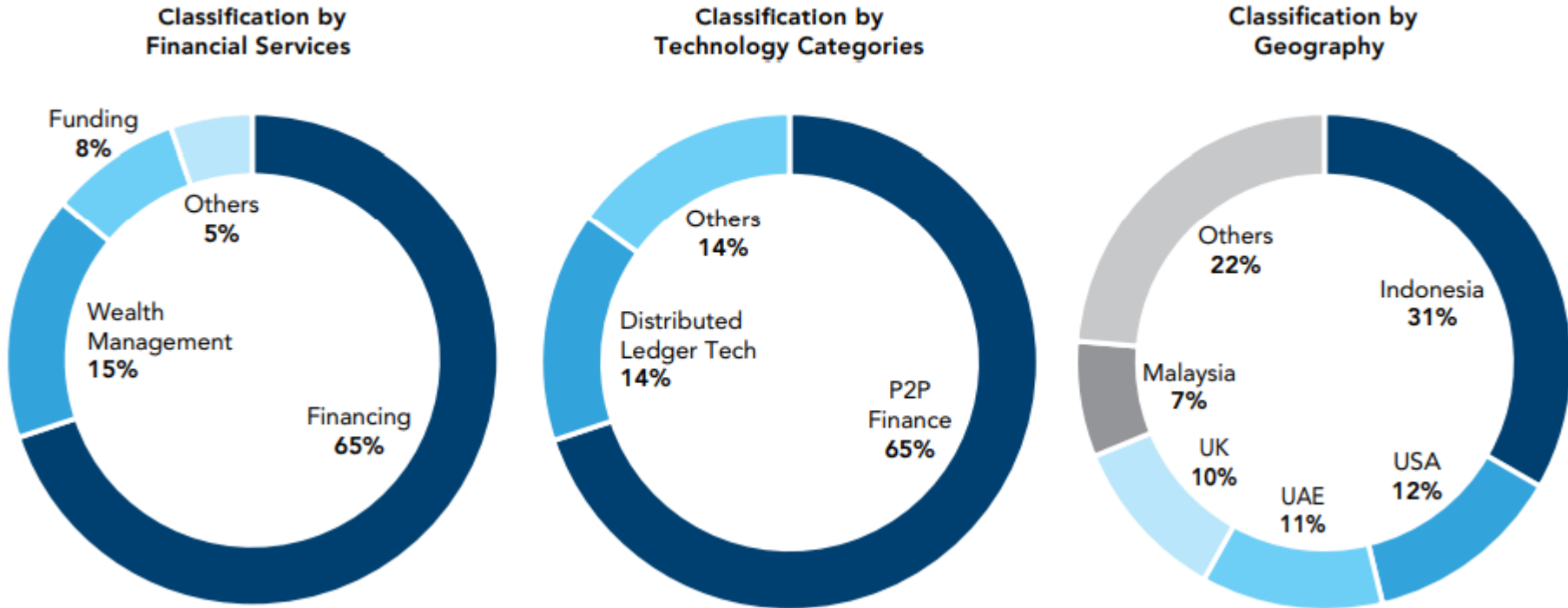


**Table 3. Islamic fintech examples per type of financial service**

Financial Services	Islamic Financial Services	Islamic Fintech Examples
Funding	<p><b>Includes:</b></p> <ul style="list-style-type: none"> <li>• Custody-based deposits (can also be based on <i>Qard</i>)</li> <li>• Investment accounts</li> <li>• <i>Shari'a</i>-compliant payment, collection, and liquidity management</li> </ul>	<ul style="list-style-type: none"> <li>• PayHalal (Souqa Fintech Sdn Bhd, Malaysia)</li> <li>• AmalPay (Malaysia)</li> <li>• Investment Accounts Platform (IAP - Malaysia)</li> </ul>
Trade Finance	<p><b>Includes:</b></p> <ul style="list-style-type: none"> <li>• <i>Murabaha</i> working capital</li> <li>• <i>Murabaha/Wakala/Mudaraba/Letter of Credit</i></li> </ul>	<ul style="list-style-type: none"> <li>• Waqfe - Bahrain (Digital banking platform provider)</li> </ul>
Financing	<p><b>Includes:</b></p> <ul style="list-style-type: none"> <li>• <i>Murabahah/Mudaraba/Musharaka/Salam/Istisn'a/Ijara</i> Financing</li> <li>• Islamic Microfinance</li> </ul>	<ul style="list-style-type: none"> <li>• Ethis Crowd - Singapore, Indonesia, Malaysia, Australia</li> <li>• Blossom Finance</li> </ul>
Capital Market	<p><b>Includes:</b></p> <ul style="list-style-type: none"> <li>• Islamic Bank Treasury</li> <li>• <i>Sukuk</i> (Islamic Bonds)</li> </ul>	<ul style="list-style-type: none"> <li>• Adab Solution (Crypto exchange)</li> </ul>
Wealth Management	<p><b>Includes:</b></p> <ul style="list-style-type: none"> <li>• <i>Shari'a</i>-compliant wealth management for retail and HNWIs</li> </ul>	<ul style="list-style-type: none"> <li>• Wahed - US (Robo-advisory investment platform)</li> <li>• HelloGold (blockchain-based gold investment)</li> </ul>
Insurance	<p><b>Includes:</b></p> <ul style="list-style-type: none"> <li>• <i>Takaful</i></li> <li>• <i>Re-Takaful</i></li> </ul>	<ul style="list-style-type: none"> <li>• Uplift Mutuals</li> <li>• Insure Halal</li> </ul>

# Islamic Fintech Landscape

Figure 5. Classification of Islamic fintech by financial services, technology and geography



Source: (DinarStandard, 2018)

# Fintech's Role in Global Financial Inclusion

## Unbanked population dominated by developing countries, especially Muslim populated

Out of the world's population of 7.6 billion, the World Bank estimates that there are 1.7 billion unbanked retail customers and more than 200 million potential micro, small, and medium enterprises (MSME).

The unbanked population is dominated by Muslim populated countries that comprise almost 50% of the world's unbanked population. The potential revenue in tapping this unbanked retail and MSME market is estimated to be USD 200 billion.



# Fintech's Role in Global Financial Inclusion

**SDG**



**No Poverty**



**Quality Education**



**Zero Hunger**



**Gender Equality**

Dominican Republic  
A revised credit-scoring model



**Good Health and Wellbeing**



**Clean Water and Sanitation**



# Fintech's Role in Global Financial Inclusion

SDG



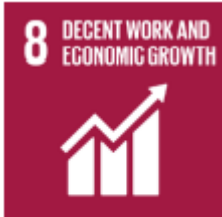
Affordable and Clean Energy

Kenya



Industry, Innovation, and Infrastructure

Africa



Decent Work and Economic Growth

Indonesia



Sustainable Cities and Communities

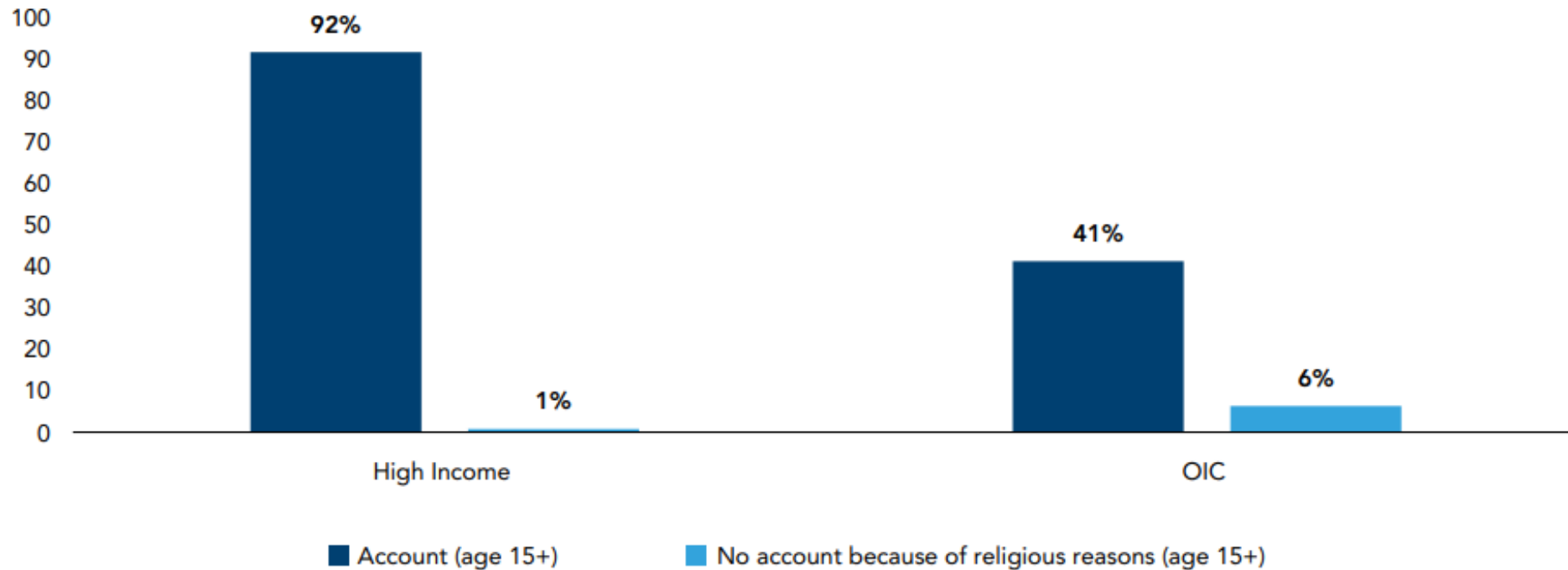
Indonesia



# Fintech's Role in Global Financial Inclusion

**Figure 4. Comparing financial inclusion in high income and OIC countries**

Financial Inclusion: High Income versus OIC Countries (%)



Source: The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. World Bank: Washington, DC. Author analysis. OIC countries data of 30 member countries out of 57 as available from source.

# Fintech's Role in Global Financial Inclusion

**Table 7. Islamic fintech and financial exclusion**

<b>Reasons for being unbanked</b>	<b>Involuntarily unbanked?</b>	<b>Islamic fintech potentially able to resolve?</b>
Lack of money	✓	✓
Lack of proper documentation	✓	✓
Distance to nearest financial institution	✓	✓
Other family member already has a bank account		✓
Lack of trust in the financial system		✓
Religious reasons		✓

# Potential Opportunities

## 1. Leap-frog Islamic financial services reach and impact

- Catering to the digital-demographic
- Leveraging AI/data analytics
- P2P lending/trade financing
- Insure-tech
- Incumbent/Startup/Tech collaboration
- Open banking architectures:

## Address significant financial inclusion gaps within core markets

- SME and unbanked retail solutions
- Payment solution innovations

## Deliver Islamic social financing to support global SDGs and needs

- Islamic social fintech to deliver on wider global social needs/SDGs







# THANK YOU



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