

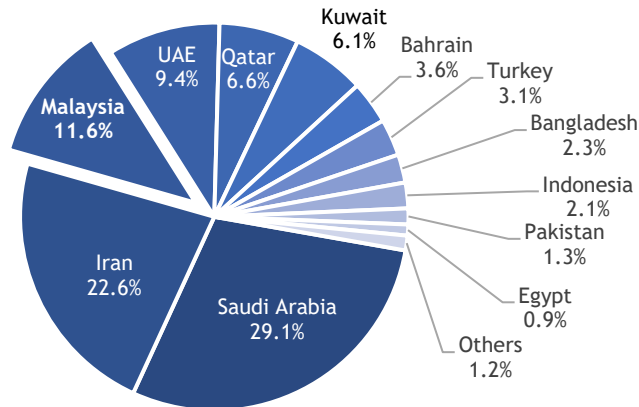
ISLAMIC CAPITAL MARKET IN MALAYSIA

26 JULY 2022



Malaysia is one of the prominent global Islamic Capital Market (ICM) hub. Based on the statistics from the Islamic Financial Services Board (IFSB), Malaysia has the largest Islamic banking assets outside of Middle East in the third quarter of 2020 (3Q2020). IFSB also pointed out that Malaysia remained as one of the concentrations of Islamic Fund Assets, constituting 28.3% of total asset under management (AUM) in 2020.

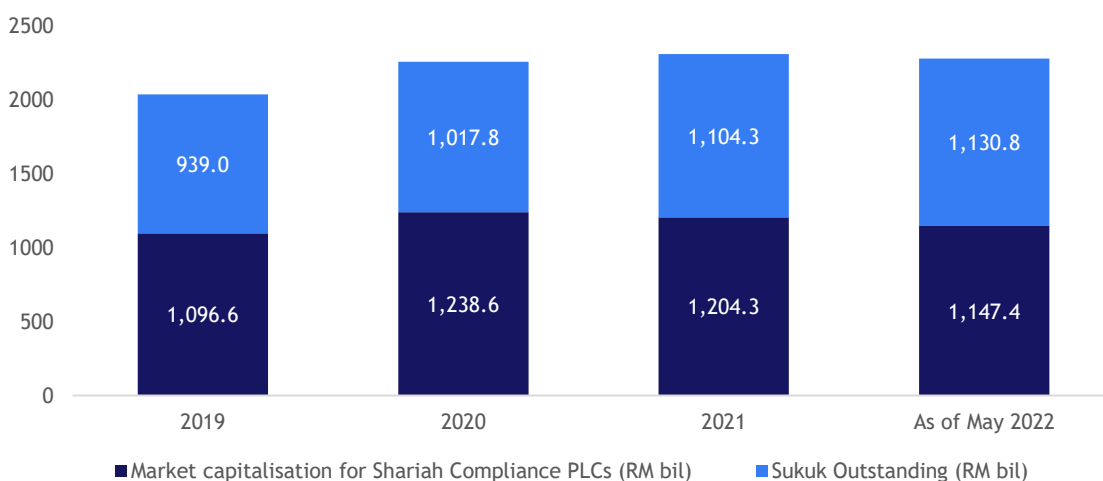
Figure 1: Jurisdiction Share of Global Islamic Banking Assets (%), 3Q2020



Source: Islamic Financial Services Industry Stability Report 2021

Malaysia's ICM have doubled in size over a decade with shariah-compliant assets amounted to RM 2.3 trillion as of the end of 2020, having grown from RM 1.1 trillion in 2010. The ICM in Malaysia, represented by the market capitalisation for shariah compliance public listed companies (PLCs) and outstanding Sukuk, has shown healthy growth during COVID years, having expanded from a total market size of RM2.04 trillion in 2019 to RM2.31 trillion in 2021, representing a compound annual growth rate (CAGR) of 6.5% for the period. Presently, ICM accounts for more than 60% of the Malaysian capital market.

Figure 2: Malaysia Islamic Capital Market Size, 2019 - May 2022



Source: Securities Commission Malaysia

Technology as an Enabler

Technology has indeed escalated the progress of the Islamic Finance Industry. At this front, Bursa Malaysia continues to forge collaborations with various partners to enhance our capabilities and widen our pool of market participants. Our technology-based collaborations include the Digital Gold Dinar proof-of-concept (PoC) as part of our efforts to make Shariah-compliant gold investments more accessible for investors. So far, we have completed three PoCs related to the distributed ledger technology (DLT) that enabled sustainability-linked bonds on a DLT lifecycle management, dematerialisation of security certificates and the issuance and trading of digital gold dinar.

Technology has also allowed us to further improve our offerings. One example is the longer trading hours of the Bursa Suq Al-Sila' (BSAS) platform, which is a commodity *Murabahah* trading platform that facilitates Islamic finance transactions and liquidity management for Islamic financial institutions. Trading hours has been increased to 23.5 hours from 22 hours previously, thus enabling our members who are located in different time zone around the world to trade more efficiently. As at the end of 2021, BSAS had 299 registered participants, which is 13% higher than the previous year.

In Malaysia, growth of the Islamic banking sector was driven by the well-established infrastructure, deep customer penetration and commencement of digital Islamic banking, according to the IFSB. On the national level, our central bank has issued five digital banking licenses, to which two are Islamic digital banking licenses. We can expect the issuance of these licenses to further accelerate Islamic digital banking that is aimed at servicing the underserved group. According to Global Islamic Fintech Report 2021, Islamic Fintechs are projected to grow to USD 128 million by 2025 at 21% CAGR, which is higher than the conventional Fintechs, which are estimated at 15% CAGR for the same period.

Bursa Malaysia will proactively build new markets to serve as fresh growth avenues or solutions for our stakeholders. Examples include new products such as asset-backed securities and tokenised assets. Exciting initiatives in the pipeline include our work on establishing a Voluntary Carbon Market with the first Shariah-compliant carbon credit product as well as the commercialisation of a Digital Gold Dinar solution. Both new offerings are being developed and designed to fulfil the needs of the real market and drive the sustainability agenda in the capital market.

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