Islamic Wealth Management in Malaysia: The Opportunities and Challenges

Hubbis and co-host Jersey Finance assembled a group of local Islamic finance and wealth management practitioners and other experts to contemplate these important topics. The opinions were forthright, insightful and penetrating, but their findings can be summed up in just a few words – there are many challenges ahead, but a wealth of opportunity awaits.
The key takeaways

**Growth and opportunity**
Islamic finance has been growing rapidly in volume and diversity. Malaysia will remain one of the top Islamic finance hubs and centres of expertise, education, and excellence, especially as this sector is so well supported at the government and central bank levels, as well as through other institutions. Malaysia holds around 70% or more of the global Sukuk market and the biggest issuance of Sukuk emanates from the country.

**But more can be achieved**
Looked at from a global perspective, Malaysia does indeed offer the best infrastructure and framework for Islamic finance, but no Islamic finance jurisdiction yet offers a wide enough range of investment opportunities to satisfy the needs, or expectations of investors, including family offices.

**Too much proprietary product, not enough open architecture**
There is too much focus on selling proprietary Islamic finance product instead of selling the best of class, so whichever bank an investor approaches, they are selling their products first, whereas a shift to more open architecture would be beneficial for the market in the longer-term.

**Conventional finance market is, however, well diversified**
Conventional finance in Malaysia is replete with the depth of choice and a plethora of offerings that the Islamic finance world cannot yet begin to emulate. The conventional banks that own Islamic banks are generally happy with their wealth management products in the conventional space, while independent Islamic banks remain very focused on trying to compete with the conventional financial institutions, but they do not have the scale and resources to expand the product range. In short, the Islamic finance market must do much more.

**A wealth of opportunity beckons**
Private wealth creation throughout most of the economies in Asia is remarkable, often exponential, for example China is reportedly minting a billionaire a week, while Malaysia and Indonesia have their fair share. In short, the market is large, and rapidly growing, for wealth management in every shape and form.

**Onshore winds blow offshore off course**
The global regulatory tsunami is sweeping more and more money onshore across the globe. The Malaysian wealth management market in general will benefit from this and as Malaysia currently offers market-leading expertise and legal infrastructure in both Shariah and Common Law, is well positioned to offer a broader array of Islamic wealth management products and services, not just to home-grown HNWIs and families, but to clients from the world over.

**Returns must be balanced with duty**
When assessing Islamic investment products, some panellists urged investors to think about their social and religious observations, in other words, to balance their obligations to returns on the one hand and to the community and their prophet on the other. One expert advised wealth management creators and advisers to think about the traditional Islamic instructions when it comes to wealth regarding distribution and redistribution, and how a Muslim should behave, in a family, social and religious context.
The legacy endures beyond the mortal coil
An expert also advised that charity extends to the hereafter, so wealth management product creators and service providers must bear that in mind. And on a daily basis in people’s lives, he said, the Zakat, the payment made annually under Islamic law on certain kinds of property and used for charitable and religious purposes, should be incorporated into contracts, so that an investor has comfort that Zakat is appropriately included in wealth management structures and distributions.

Read the ingredients, not just the label
One guest remarked that when wealthy Muslims search for appropriate Islamic finance products, including wealth management products, they must carefully assess which ones offer genuine Islamic/Shariah compliance, not just those products with a Shariah label.

Know your market
It is vital to know which clients have certain needs and expectations, so analysis of market categories is advisable. Clearly, older clients have different needs from the younger generations. Similarly, there is a large worldwide market for Islamic wealth management that can be served through Malaysia, especially for those Muslims that want to live or be domiciled in Malaysia, which has the added attraction of zero inheritance tax.

Conflicts and harmonies in law
The Islamic finance community must work harder and more comprehensively to encourage the regulators, the Federal government and the state governments to understand and resolve the potential conflict of laws between Islamic law as practised in Malaysia at national and state levels and civil English-based or other laws. If this can be sensitively managed, Malaysia should be able to champion wealth management, from the wealth creation to the preservation and downright succession.

Champions required
An attendee contended that there is no real platform or champion within the Malaysian industry to push for private wealth management. Greater efforts should therefore be made to coordinate the various bodies, both private, national and at state levels, to drive the Islamic private wealth management industry forward. With the right levels of activity and coordination between industry associations and other bodies, there is optimism that they can lobby the government and regulators to come up with the right policies and the best framework.

A call to openness
The disciplines of estate planning, wealth accumulation and preservation remain rather private matters, particularly for Malays, and for Muslims in general, that is the culture. These matters should be more openly and comprehensively organised through a better discipline of wills and structures, a wider roll-out of family offices to help manage these matters.

Challenges are opportunities
While there are often difficulties coordinating between the federal and state levels regarding Shariah issue, making the writing and implementation of laws and codes more difficult, market participants should see this as an opportunity as much of a challenge. One expert maintained that the frameworks at the state level are ready to facilitate anything and everything that those professionals in the industry want or need to do in Islamic wealth management.

Singapore has even further to develop
A lawyer from Singapore remarked that Malaysia’s progress, while not fulfilling all expectations thus far, is considerably more advanced than Singapore, although progress is gradually being made.
RICHARD NUNN, HEAD OF BUSINESS DEVELOPMENT at Jersey Finance, opened the discussion with a brief introduction. “We are very active in the GCC,” he reported, “but I must admit this is my first visit to Malaysia. In the GCC we actually operate as a non-profit organisation, which is somewhat unusual in that region, especially in Saudi Arabia. We do not, in fact, have a product or a service to sell, our role is simply to raise awareness of Jersey’s international finance centre (IFC) and marshal business towards it when there are opportunities and good reason to do so.”

He added that this means Jersey is purely focused on relationships and collaboration with those who might enjoy and benefit from such a relationship.

Jersey is a British Crown Dependency located in the English Channel to the south of the UK and 14 miles from the north coast of France. “Unusually,” Nunn noted, “we are not part of the EU, but being so closely connected to the City of London we have a front seat view of everything to do with Brexit, while not being directly affected by it. That means we can provide certainty in these uncertain times.”

He took a step back to comment on what he explained are “unusual times” for IFCs currently. “My view is that if we were to turn the clock forward 10 years and look backwards on some of the changes that happened in 2018, 2019, 2020, the landscape would look very different. In the world of offshore and the world of IFCs there are some fairly dramatic changes and evolution taking place as well.”

Nunn observed that a core driver for these dramatic changes is innovation. “The speed of innovation is accelerating and Islamic finance is a core example of that,” he noted, “as clients evidently want to be more ambitious in where and how they deploy their capital, what they invest in, it is all becoming far more interesting.”

But Nunn also conceded that amidst this world of evolution for the IFCs, there is also growing regulatory pressures. “It is a tough world now,” he remarked, “with an ever changing landscape of regulation. However, with its more than 50-year history as one of the oldest IFCs and with the scale and experience we offer, Jersey will continue to stand out in the future and indeed lead the way forward. And from this position Jersey wishes to use its experience and expertise...”
to work with other centres, like Malaysia, to act as a benchmark for jurisdictions to aspire to.”

And with that he passed the baton to Gavin Wilkins, Senior Director - Corporate Services from JTC, a multijurisdictional, independent provider of institutional and private wealth services with over 30 years of global experience, explaining that JTC is headquartered in Jersey and works closely with Jersey Finance.

“I think the first question we should address,” began Wilkins, “is whether Jersey is an Islamic finance centre. “The answer could be that you will find it difficult to find a single fiduciary firm or law firm in Jersey that has not worked on or does not look after a structure which is Shariah compliant currently. Consequently, in my view it is a centre for Islamic finance.”

He elucidated, noting that a number of those structures are in the public eye, for example Sukuk offerings where there has been a Jersey SPV used, or where the trust certificates are issued on stock exchanges like London. “And in the case of the Islamic Development Bank jointly listed in the London Stock Exchange and the Bursa here in Kuala Lumpur,” he added. “Moreover, London retains its aspirations to become a global Islamic finance centre, and that will help Jersey as we are such a very strong partner and a conduit for capital into the UK and vice versa, as it has always been since we were formed.”

There are also plenty of Islamic structures that are outside of the public eye, such as private corporate structures, or in terms of private wealth work, trust structures and foundations.

“In short,” Gavin said, “Jersey’s core pillars in fund administration, in corporate finance, and in private wealth, all feature an industry expertise and practice in Islamic finance. And in terms of assets, real estate, commodities, Islamic funds, and private equity.”

“What is it that makes Jersey suitable for these structures?” Gavin asked, rhetorically. “One is the immense experience within the service providers in Jersey, for which clients can call upon our expertise.”

“...and we have the situation where we are now getting a huge influx of capital from the Middle East into the UK which is extremely good.”

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aligned with the flexibility of corporate law, the tax neutrality, and a wealth of regulatory experience.” And with that, he threw the discussion open to the floor.

**Doing well, could do better**

“Islamic finance, Islamic wealth management have been growing tremendously in Malaysia,” came a voice, “and I must say in the seven years I have been here, I have met some of the wisest financiers in this field. Islamic finance offers an outstanding avenue for investors to preserve their wealth and family offices are expanding dramatically fast in this region, and Malaysia will remain one of the top Islamic finance hubs and centres of expertise, education, and excellence. Especially as this sector is so well supported at the government and central bank levels, as well as through other institutions. Malaysia holds around 70% or more of the global Sukuk market and the biggest issuance of Sukuk comes from here.”

Another expert added that Malaysia does indeed offer the best infrastructure and framework for Islamic finance, but that no Islamic finance jurisdiction yet offers a wide enough range of investment opportunities.

**Wider range of products and services required**

“The whole world over, Islamic finance does not yet perhaps produce the breadth of such products as desired by family offices, or investors in general. Even here, there is a shortfall in the number of products, and moreover there is too much focus on selling proprietary product instead of selling the best of class, so whichever bank one goes to they are selling their products first.”

Another panellist remarked that in the conventional finance circles there is the depth of choice, a plethora of offerings, that the Islamic finance world cannot yet begin to emulate. “The conventional banks that own Islamic banks are generally happy with their wealth management products in the conventional space, while independent Islamic banks remain very focused on trying to compete with the conventional financial institutions, but they do not have the scale and resources to expand the product range. In short, we need to do far more.”

**The market is undoubtedly here...and growing fast.**

An expert who has authored books on Islamic finance offered his insights. “Wealth creation in Asia is remarkable, for example China is minting a billionaire a week, Malaysia and Indonesia have their own crop. The regulatory tsunami has meanwhile bowled over many of the IFCs, although some, such as Jersey, have positioned themselves far better. Thirdly, although it is tough for advisers now with all the compliance requirements, it will be better as clients will be cleaner ie: improved compliance and transparency. Malaysia offers the expertise and legal infrastructure in both Shariah and Common Law, and, products aside, advice and service are vital, especially to the growing array of family offices, and families with members dotted around the world.”

An attendee raised the issue that the regulators in Malaysia do not permit investment in as wide a range of opportunities as, for example, the Singapore or Dubai financial centres can offer.

A senior representative from a leading fund management company - ranked in the top five in the country - concurred with the view that products remain limited, while demand keeps rising. “But, at the end of the day, investors are
looking at what the actual returns are,” she observed. “Of course, if they are Shariah compliant it is an additional bonus. We ourselves have recently launched a Shariah dividend fund, as well as a recent Shariah Gold ETF. So, there is innovation taking place, but yes I agree more can and should be done.”

**Observe and be observant**
A representative of a law firm, as well as the Chartered Institute of Islamic Finance, entered the discussion, noting that as Islamic wealth management is based on Shariah principles, none of the products should be profit driven. “Actually, according to the Qur’an and the Sunnah (the body of traditional custom and practice of the Islamic community, both social and legal), it should be driven by the Prophet. Traditional instructions when it comes to wealth are about distribution and redistribution, in other words how a Muslim can distribute and redistribute the wealth that he has obtained as an agent of God.”

**Enduring legacies**
He explained, stating that there are clear Islamic sayings that when a Muslim person passes away, the charity he has done continues in the hereafter, so wealth management product structurers and service providers must bear that in mind.

He added that the Zakat, the payment made annually under Islamic law on certain kinds of property and used for charitable and religious purposes, had been the subject of incorporation into a smart contract, so that as an investor you can have transparency in terms of Zakat and its relationship to wealth management structures and distributions.

**Read the list of ingredients, not just the brand label**
Another perspective came from an investment banker who focuses more on traditional equity brokerage. “My passion however is more related to Islamic and Shariah and I can report that many of my wealthy friends - and I am not one of them - tell me their priority when they look for the products or the adviser or wealth management company is to seek out real Islamic Shariah compliance, not just a product with a Shariah label.”

She also asked who the target clients would be in Malaysia, maintaining that each generation might have different needs and interests. “When you structure your wealth management product you have to know your target,” she commented, “and you also need to begin the education of the younger generations, who have a lot of money to spend and invest. Of course, we would love to become the hub of Islamic wealth management but to do so we must look for example at the Organisation of Islamic Cooperation (OIC) countries and the Middle East, many of whom would like to invest in Malaysia.”

She also remarked that it is difficult to convince the Malaysian asset management companies to convert their daily trading into
a Shariah platform. “They are usually very comfortable with the conventional because it offers higher returns that Shariah-compliant products, even though the authorities and the exchanges are working hard to promote Shariah.”

Another guest attempted to define the target categories of clientele. There are those, she said, who want to accept Shariah products wholeheartedly without question. There are those who want to have a non-Shariah product because they are very liberal. And there are those who actually look at it all spiritually.

A guest turned the discussion towards the balance of offshore and onshore wealth management, noting that her efforts were towards bringing more of the private wealth back onshore.

“Wherever a Muslim resides,” he advised, “the Shariah adviser needs to be very mindful of the outreach of Shariah law. I personally do more trusts, a lot of estate planning, we look into the laws on Wasiat [Islamic will and testament] because how it really affects succession and other key issues; this is getting more traction here in Malaysia and we hope to reach out more to Singapore, Brunei, Indonesians, Middle Easterners and even expats who have converted here.”

Another guest expanded on this, noting that there are many issues to be addressed, such as conflict of laws between Islamic law as practiced in Malaysia as opposed to the English or other laws. “We need to create a lot of awareness about succession, inheritance and also estate planning,” she said, “particularly when you talk about wealth management.”

She explained that, as a lawyer by profession, she has been asked, for example, to give opinions on these matters, even for foreigners who want to be domiciled in Malaysia, and for their wills to reflect that.

“Despite the fact that they know that Shariah law will come into play,” she elucidated, “they would want Malaysia to become their law of domicile for various reasons, so Malaysia is growing, it is on the map already and the very fact that we do not have inheritance tax I think is a good thing, as our tax structure is quite palatable, and despite the political issues. I think Malaysia should be able to champion wealth management, from the wealth creation to the preservation and downright succession.”

She also explained that her mission is to boost awareness of all these issues and opportunities outside Malaysia and to thereby increase activity levels in Malaysia.

Champions needed
Another perspective came from an attendee who contended that there is no real platform or champion within the Malaysian industry to push for private wealth manage-
ment. “There are trust companies doing trusts,” he commented, “but nobody is really focusing on Islamic private wealth management as an industry. Maybe it is prioritisation, maybe the banks are happy where they are now. Maybe the regulator should come out with a business plan as so far we do not have milestones and deadline targets.”

“Yes,” another expert agreed, “the Malaysian Muslim market for planning, estate management and such matters, particularly for the family office, is very elusive.” She explained that she had been in the market for the past 20 plus years, but the disciplines of estate planning, wealth accumulation and preservation remain rather private matters, particularly for Malays, for Muslims in general. “That is the culture,” she said.

And for the middle-income group, she noted that it remains very difficult to get them to become clients, even though there are numerous wealth and family matters inextricably intertwined that should be better organised through a better discipline of wills and structures, a wider roll-out of family offices to help manage these matters, and so forth.

**Balance is essential: profit and sustainability**

Turning to some practical considerations, another guest proposed that a new approach is required. “We have not been able to really approach Islamic wealth management in the right way,” he said. “My fellow guest earlier mentioned the distinction between profit and the Prophet, and that certainly is very key to the whole exercise of building a sustainable Islamic wealth management infrastructure, as there must be a 50-50 balance between profit and sustainability, as social responsibility must have a 50-50 weighting with profitability when it comes to doing business in Islam. It is not 60-40, it is not 70-30, it is balance that is essential.”

While he noted that, particularly for the very wealthy Muslims, there are many family offices asking for Islamic finance, there are many families, perhaps not structured via a family office, that do their own thing and refuse to talk to anyone because they just do not trust the way we are approaching the activities. 50-50 works well

“They do not trust us,” he said, “so we need to make sure that when we develop this business, we apply the 50-50 weighting I explained, properly and clearly, and then develop the offerings. This has to be across wealth creation, wealth management, wealth accumulation, wealth...”
preservation and of course succession, meaning the entire suite of activities.”

He then observed that Malaysia today does not have a good enough policy for Islamic financial planning or Islamic wealth management. “We have great policies for unit trusts, Sukuk issuances, equity, and so forth, but to be very frank, none for Islamic wealth management. Accordingly, any other jurisdiction now has the opportunity to be one up on Malaysia. Jersey, for example, you may want to think about it because we have not got our act right when it comes to Islamic wealth management.”

“Actually,” he observed, “Malaysia has always been private sector driven in terms of Islamic finance, so we need to come up with the right policies and the best framework. “Actually,” he observed, “Malaysia has always been private sector driven in terms of Islamic finance, so we need to come up with the blueprint. I, for example, wrote the blueprint for Sukuk when there was no law for it, so I changed the tax law, wrote the guidelines on Sukuk for the

Securities Commission. The same thing that needs to be done, we need to write the blueprint for Islamic wealth management, not wait for somebody else to do it.”

A guest however remarked that there are federal and state levels regarding Shariah, making the writing and implementation of laws more difficult.

For every challenge, there is an opportunity

“I can tell you this,” came another opinion. “I am at the state level, I sit in the Majlis Agama Islam, the state religious body, and we have control of Shariah, we have the control of everything and anything about Islam. The federal government has control of finance. The framework at the state level is very ready to facilitate anything and everything that we want or need to do in Islamic wealth management. We must do our homework, we must be sensitive, and I think that the moment Malaysia can do this and get it right the rest of the world will follow.”

“We also need each and every state level to also assist,” said another participant. “We have had different states in Malaysia having different issues, but my point here

Working together

He then recommended that this must be addressed through industry associations and other bodies, who would then lobby the government and regulators to come up with the right policies and the best framework.

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is where we could have the private and public sector working together.”

“Yes,” agreed another guest, “and actually a single standard for the whole of Malaysia for doing Islamic wealth management will result in more less business. You can actually have a desk for Perlis, a desk for Selangor, a desk for Perak, each different state within Malaysia. When there are complexities you can make more money, so from a market player’s perspective, we must look at it as an opportunity rather than as a hindrance. We can make a lot of money, but of course balance it with social responsibility.”

Singapore lags
A guest from Singapore, a lawyer, then remarked that he felt somewhat humbled in listening to the discussion, hearing the learned Malaysian experts at the table speaking critically of the general state of development of this market in Malaysia. “Imagine then how to describe the situation in Singapore, which is even further behind,” he remarked. “There have been a number of Sukuk issuances in the past 20 years, and the Muslim Religious Council of Singapore is still looking at developing other ‘wakaf’ properties, for example, in the last couple of years the acceptance of hospitality assets, such as hotels, as being Shariah compliant, providing accommodation as opposed to the non-halal aspects like provision of alcohol and entertainment and so on. In short, it really expands the scope of Shariah-compliant assets.”

He observed that the past decade has seen private wealth management blossom in Singapore. “In my own legal practice, we have seen a lot of people who wish to be Shariah-compliant coming from overseas to Singapore and they would like to see Shariah-compliant wealth management and estate planning products, or vice versa, Singapore Muslims going abroad. Accordingly, the cross-border nature of these transactions provides new opportunities because we find that Muslim law is applied differently in different countries. These challenges again provide opportunities.”

He expanded on this, by explaining that in Singapore the application of Islamic law is quite limited. “So, for instance, the law states that a Muslim who is domiciled in Singapore, if he dies, then his estate must be divided according to Muslim law. Or if he makes a will, then his will must be in accordance with Muslim law. That means that if a Muslim comes to Singapore but is not domiciled in Singapore, Muslim law does not apply. Or if a Muslim in Singapore wants to do estate planning elsewhere, say in Australia, it may mean that his assets in Australia or his planning in Australia may not be subject to Muslim law; he may still want it to be subject to Muslim law but the law there may not require it. So, we must be able to understand how Muslim law applies to different jurisdictions, which all represent important challenges, but at the same time great opportunity for all of us.”

A word of thanks
The final word went to Richard Nunn, who expressed his sincere thanks to the participants for their insights. “We learned far more today than we offered,” he concluded, “which is exactly the way these discussions should go, and we do many similar discussions on many topics around the globe. It has been fascinating, thank you all for offering your insights and for investing the time today.”