

Upping the Islamic finance ante in Malaysia

Sandeep Singh of Franklin Templeton Investments has faith in Malaysia to evolve and increase its role as a leading Islamic financial centre globally.

With a strong Muslim influence in Malaysia, it seems natural that the government has been working hard on developing the country's Islamic finance sector.

Recent trends in client appetite support these efforts too. The depreciation of the Malaysian ringgit combined with the market uncertainties have dented

investing, something closer to home and more familiar has greater appeal. At the same time, a broader offering of Islamic financial products gives Malaysia an edge over other markets.

STRONG FUNDAMENTALS

The total value of the global Islamic finance industry reached USD1.88 tril-

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investor confidence, driving a search for diversification.

But since domestic investors are quite home-country biased when it comes to

lion in 2015, according to the Islamic Financial Services Industry Stability Report 2016. From Malaysia's perspective, it contributed 9.3%, with Islamic banking assets growing by over 16%.



SANDEEP SINGH

Franklin Templeton Investments

Yet local Sukuk sales fell 27% in 2015 to RM40.1 billion (USD9.9 billion) from a year earlier, the least since 2011, according to Bloomberg data.

Despite this sentiment, Sandeep Singh, country head for Franklin Templeton Investments in Malaysia, and head of the firm's Islamic business, sees a solid base from which the industry can develop – and it was one which various asset managers are looking to build on.

Further, the Islamic banks can use their branch network to beef up their wealth management distribution arms with a greater variety of Shariah products.

“The Shariah platform is a key initiative for us, and Malaysia continues to be a very important market to grow this, both on the institutional and on the retail sides, courtesy of the initial growth coming in from Malaysia,” explains Singh.

Among other things, the Act can provide greater regulatory clarity by distinguishing deposits made for savings and those made for investment.

More recently, there has been further encouragement from the Employees Provident Fund (EPF), which will launch its Islamic platform in 2017.

“It will certainly be path-breaking because we have never seen a pension fund of that size doing this,” says Singh.

He believes this will encourage other players, whether pension funds or other government entities, to take a closer look at Shariah assets, with a greater commitment to allocate to them.

Capitalising on the search for diversification, Franklin Templeton launched its first Shariah-compliant sukuk fund in Malaysia towards the end of 2015.

The Franklin Malaysia Sukuk Fund became the firm's first retail fund in Malaysia, managed by its local fixed income investment team, based in Kuala Lumpur. The fund can invest a minimum of 70% of its assets in ringgit-denominated Sukuk and up to 20% in non-ringgit denominated Islamic instruments such as those issued outside of Malaysia.

A SHARIAH EDGE

As more investors start to get on board the diversification bandwagon, there is a need for better education and greater awareness.

Further, there is a need to make it clear that such products are not just for Muslim investors. Deeper penetration will come hand-in-hand with better explanations of the structures, returns and risk profile.

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“More time and effort needs to be spent on educating the market [about Shariah-compliant products and strategies]. If fund managers are expecting a quick success story, they need to have more realistic expectations.”

Franklin Templeton already manages USD4 billion-plus of Islamic and conventional assets in Malaysia on behalf of institutions and HNW investors.

PROACTIVE FRAMEWORK

The efforts of the local regulators are aligned with this.

For example, the Islamic Financial Services Act 2013 was enacted in 2014 to provide the foundation for the Islamic banking system to sit within a robust regulatory framework.

MUCH-NEEDED DIVERSIFICATION

A wide choice of investments is always going to be important for clients in the current market environment.

While Malaysian investors used to look to fixed income or equities, the impact of the ringgit's fall in value has made it a different story.

“This makes distributing funds more challenging because investors are taking a cautious approach,” says Singh.

The ASEAN Collective Investment Scheme framework, put in place two years ago to facilitate the cross-border distribution of fund products between Singapore, Malaysia and Thailand, also offers some scope to spread the Shariah message – albeit this is a slow and steady process.

“Where Malaysian fund managers have the potential to stand out is in terms of their Shariah capabilities,” explains Singh, “because those are less common in Singapore.” ■