News Release

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The Islamic Finance Story in ASEAN

The story of Islamic finance as understood by many people has Malaysia, Indonesia and the Middle East as its main characters. But a closer reading reveals a more nuanced narrative, one that parallels the evolving economic story of a multi-faith region made up of countries with differing legal structures and at different stages of economic development: ASEAN.

"Sukuk is the Islamic finance's blue-eyed boy having largely delivered what was expected and certainly drawn attention for the industry. As the product gains mainstream awareness in the debt capital markets and as Sukuk structures evolve, the feasibility for new issuers improves," Arsalaan (Oz) Ahmed, Chief Executive Officer (CEO) of HSBC Amanah Malaysia Berhad. "The scale of the Sukuk market, though dwarfed by the conventional bond market, still remains relevant largely driven by a growing pool of investors for Sukuk."

Access to a new pool of investors is always of strategic benefit for an issuer. Since the financial crisis this has been even more pronounced but not just because of the access to investors and liquidity. The Sukuk market has shown it can be counter-cyclical or resilient at a time the bond market is struggling. One only has to look back at the successful Government of Indonesia Sukuk in 2009 that bucked the trend in the wake of the Lehman's crash or the Government of Malaysia 2010 and 2011 that shrugged off the European debt crises. Both deals were materially oversubscribed and priced well.

"For those involved in the transaction, such as HSBC, a conventional bond would have had difficulty at those times. For ASEAN countries, particularly sovereigns, the Sukuk market cannot be ignored. It is a strategic tool to access capital. Malaysia uses it as a primary tool and Indonesia as a secondary tool. Both recent and regular issuers, both seeing success. As the ASEAN credit story builds and as usage of capital market grows, Sukuk will be a natural part of the funding tool evolution of issuers led by sovereigns and eventually by others," said Oz.

Moving to the opposite end of the spectrum from wholesale markets we move to the retail market. Financial inclusion is becoming important in prudent policy making for regulators. It is more broadly important for countries in terms of navigating uncertain times by increasing the number and amount of savings within the financial system.

Within the ASEAN region there are Muslim majority and Muslim minority countries. The Muslim majority countries naturally have to address the financial inclusion topic earlier. For Muslim minority countries, when it comes to how one banks, faith related considerations are a matter of values and not preference to a material number of Muslims. Islamic finance is a vehicle for non-Muslim countries to promote financial inclusion and thus greater integration within a country's systems and institutions.

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“The leading example is the UK for supporting their Muslim minority population; Singapore also has a good framework. Through a period of recovering from a global economic downturn, giving people an ability to access the financial system and see their prospects change is undoubtedly desirable. Exclusions based on faith however, will undoubtedly cause friction and discontent. Although, thus far the rationale has been focused on Muslim minority countries adopting Islamic finance, there is still more to do in Muslim majority countries. Particularly for Malaysia and Indonesia, a need to invest more into Islamic finance to ensure its offerings is on par with conventional offerings but within the industry’s values is also important. This growth also supports the financial inclusion and societal integration benefits Islamic finance can help in,” added Oz.

“All of this sounds quite relevant but how easy is it really? Let us take an example in the Philippines. A country that has a Muslim minority, a very active issuer in the conventional bond market and one Islamic bank, Al Amanah, which has had challenges in being able to grow. How appealing would the time to build out Islamic finance locally be? That is for the country to decide. Part of that decision will be based on how easy it will be to implement. This is the third thread in regional examples to follow.”

Between Malaysia, Indonesia and Singapore there is a common law, civil law, developed, developing, Muslim-majority, Muslim-minority, island, mainland and archipelago countries. There are models and frameworks to follow. A lot of collective learning to share, adopt or build upon. Within Malaysia specifically there are a raft of institutions, public, professional and academic set ups to support countries develop Islamic finance.

The long story short, using examples of those who went first, the Philippines can short cut their route to Islamic finance and likely have examples on how to address issues that will be faced along the way. This is true for the Philippines as much as it is true for other ASEAN countries.

“Given all that context, the story is clear - Islamic finance gives ASEAN nations access to more capital in uncertain times and helps its citizens chart a better future without compromising their values. It’s a story that deserves to be told,” concluded Oz.

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About HSBC Amanah Malaysia Berhad

In 2007, HSBC Bank Malaysia was the first locally incorporated foreign bank to be awarded an Islamic banking subsidiary licence in Malaysia, and HSBC Amanah Malaysia Berhad, a full fledged Islamic bank wholly owned by HSBC Bank Malaysia, commenced operations in August 2008.HSBC in Malaysia has a network of 68 branches nationwide, of which 26 are HSBC Amanah Malaysia Berhad branches. All HSBC branches are offering HSBC Amanah products. For more information on HSBC Amanah Malaysia, its latest products, services