



Exploring New Market Frontiers for Islamic Banks in ASEAN

Musa Abdul Malek

Managing Director, Consumer Banking
Group Islamic Banking Division
CIMB Group

Bandung, Indonesia
2 December 2014

ASEAN: A NEW Asset Class

Regional ambition of the ASEAN Economic Community (AEC) is to create a new asset class



The AEC is based on a convergence of interests among ASEAN members to deepen and broaden economic integration efforts

The AEC envisages the end goal of an economic integration as outline in the ASEAN Vision 2020, which is to create a stable, prosperous and highly competitive ASEAN economic region



Among the objectives of the AEC is to establish ASEAN as a single economic region, turning the diversity that characterizes the region into opportunities for investors

ASEAN: Combined Economic Stability

						Total
GDP (USD bn)	312.4	868.3	297.9	387.3	272.0	2137.9
World GDP ranking	35	16	36	29	40	-

ASEAN-5 Total GDP: USD 2137.9 billion

- **making it the 8th biggest economy,**
- above Russian Federation (ranked 9th) and India (ranked 10th)
- or 12.7% of USA's GDP
- from USD 1170 billion (ranked 13th) in 2009

Source: World Bank, GDP Rankings 2013

ASEAN-5: Malaysia, Indonesia, Singapore, Thailand and Philippines

ASEAN: Growing Market Presence

						Total
Stock market cap (USD bn)	500.4	346.7	744.4	354.4	217.3	2163.2
Stock market cap as % of world	0.83%	0.58%	1.24%	0.59%	0.36%	3.6%

ASEAN-5 Stock Market Capitalisation

- USD 2163.2 billion
- 3.6% of world's market capitalisation
- from 2.5% in 2009



Source: www.world-exchanges.org as at 31/12/2013

ASEAN-5: Malaysia, Indonesia, Singapore, Thailand and Philippines

CIMB FTSE ASEAN 40 Exchange Traded Fund

Composite Proxy for ASEAN-5 Stockmarkets

Country Breakdown



Top 10 Constituents

DBS Group Holdings	6.93%
Oversea Chinese Banking	6.52%
Singapore Telecommunications	5.96%
United Overseas Bank	5.87%
Public Bank	4.85%
Bank Central Asia	3.66%
Malayan Banking	3.51%
Telekomunikasi Indonesia	3.17%
Astra International	3.12%
Axiata Group	2.96%

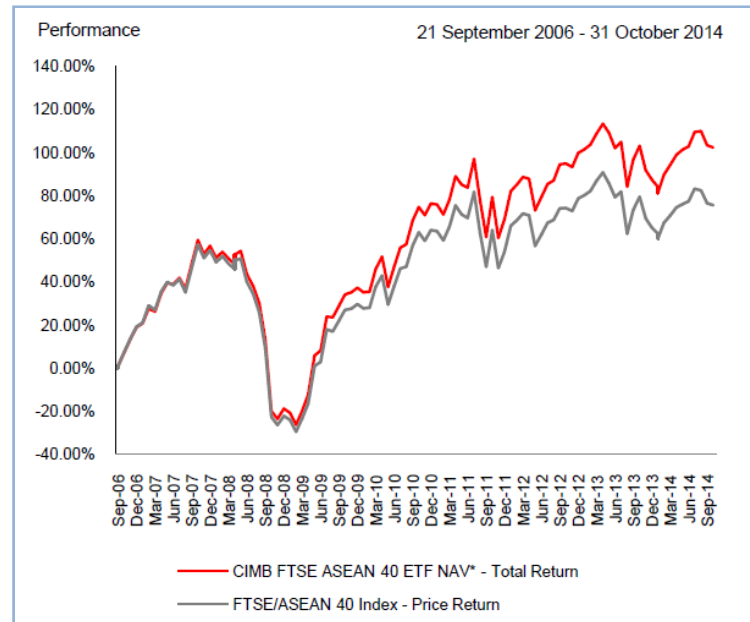
Source: CIMB-Principal Asset Management (S) Pte Ltd as at 31/10/2014

ASEAN-5: Malaysia, Indonesia, Singapore, Thailand and Philippines

CIMB FTSE ASEAN 40 Exchange Traded Fund

Performance Proxy for ASEAN-5 Stockmarkets

Return	1 Yr	3 Yr	5 Yr	Since Inception
CIMB FTSE ASEAN 40 ETF NAV* - Total Return	0.96%	14.79%	56.92%	102.37%
FTSE/ASEAN 40 Index - Price Return	-0.78%	9.05%	43.76%	75.64%
Annualised Return	1 Yr	3 Yr	5 Yr	Since Inception
CIMB FTSE ASEAN 40 ETF NAV* - Total Return	0.96%	4.71%	9.43%	9.08%
FTSE/ASEAN 40 Index - Price Return	-0.78%	2.93%	7.53%	7.19%



Source: CIMB-Principal Asset Management (S) Pte Ltd as at 31/10/2014

ASEAN-5: Malaysia, Indonesia, Singapore, Thailand and Philippines

Enablers for Islamic Banks in ASEAN

- Products and Distribution
- Regulatory and Governance Frameworks
- Human Capital Development
- Shariah Governance and Standardisation

Products and Distribution

- Enlarged Universe of Shariah Securities (Equity and Fixed Income) and Islamic Financial Products
 - With exception of Malaysia, most other ASEAN markets do not currently have sufficient breadth, depth and liquidity
 - Necessary to structure compelling products and investment solutions
- Use existing infrastructure, bank branches, networks to immediately extend distribution and channel capabilities cost-effectively
 - ASEAN Collective Investment Scheme (CIS) Framework to “passport” and enable distribution of Islamic funds across the region (currently only Malaysia, Singapore and Thailand have signed the MoU)
 - ASEAN Trading Link, an electronic order routing system which is a gateway for brokers to connect directly with other ASEAN exchanges (currently only Malaysia, Singapore and Thailand are members)
 - If part of a conventional banking group either as an Islamic window or subsidiary, leverage on existing salesforce, sales channels, and bank branches to distribute Islamic financial products and investment solutions cost-efficiently and reach more people

Regulatory and Governance Frameworks

- Key Islamic Finance Success Components for Any Country:
(1) Cost Neutrality, (2) Tax Neutrality, (3) Licensing to ensure cost effectiveness of doing Islamic finance business
 - Islamic finance operates on a level playing field with conventional finance in Malaysia.
 - Tax and cost neutrality achieved with all-encompassing and permanent change to legislation as opposed to consideration given on a case-by-case basis or only for identified products.
 - Tax issues that may impede product development & innovation process continually reviewed and addressed thus providing neutrality in the tax regime, which leads to cost effectiveness.
- As various ASEAN jurisdictions have different “laws of the land”, pursuing cost and tax neutrality has to be tackled separately in each market
 - Example: Malaysia, Singapore – English common law
 - Example: Indonesia – Roman Dutch law, customary law and modern Indonesian law

Human Capital Development

- To address a shortage and accelerate the Islamic finance business
 - Allow Islamic finance talent to work freely throughout ASEAN
 - E.g. Malaysia: Income tax exemption given to income received by non-resident experts in Islamic finance
 - E.g. Malaysia: Facilitative immigration policy: fast and easy immigration approval through the "Green Lane" established for expatriates in Islamic finance and their family members
 - Send talent from within ASEAN abroad for exposure

Shariah Governance and Standardisation

- To attract traditionally conventional issuers and fund managers to Islamic finance offerings, in addition to being a sound security or investment opportunity with the potential for returns:
 - It is important to drive the use of a few key structures, where there is a bit of informal industry standardisation, so that there is a level of familiarity and education with conventional issuers.
 - From there once they are comfortable with these, they can consider more innovative solutions.
 - As much as possible, there should be standardisation of the documentation as well as efforts made to ensure the documentation does not increase significantly in volume.
- Remove inconsistency in the Shariah Compliance Approval Process to provide certainty and clarity to those in the organisation.
 - When combined with regulation on par with global standards to produce clarity on regulations, harmonised industry standards and sound governance principles, there will be a truly sound base from which to drive the success of the global Islamic finance industry

Contact Details

Please direct all queries to:

**Musa Abdul Malek
Managing Director, Consumer Banking
Group Islamic Banking Division
CIMB Group**

Website : www.cimbislamic.com

Email : musa.abdulmalek@cimb.com

Thank You