

# Critical success factors for Islamic finance growth in Singapore



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A national study via a public survey (social media) in 2016 and a closed-door survey of industry players in 2017 revealed the public perception of responsible finance and Islamic finance in Singapore. These surveys were conducted by Pergas Investments Holdings.

Based on 575 public responses, there is growing demand for companies to be socially responsible and ecofriendly without violating human and animal rights. Business activities should benefit society without utilizing industries that are prohibited according to Islam such as alcohol, pornography and tobacco. Ethical financial products offered should also be Shariah compliant and unique.

The pressing financial concerns are healthcare costs, paying off loans, keeping up with the standard of living and retirement. Shariah compliant products are consumers' preferred financial products, according to the survey results. The second survey conducted in August 2017 consolidated 100 responses as shown in Chart 1.

Singapore adopted a level-playing field approach toward Islamic finance and accommodated this sector within its existing single regulatory and supervisory framework. This is one of the root causes for the slow growth of Islamic finance as it has been dwarfed by its dominant conventional counterpart.

As Muslims are a minority, the projected demand for Shariah compliant products is low. This is worsened by the lack of religious awareness to adhere to Muamalat due to the secular environment, making the business unsustainable. With no national agenda to proactively coordinate Islamic finance efforts, the industry seems fragmented. The lack of synergy has caused industry players to carry out such Shariah compliant businesses in limited areas, resulting in silo mentalities.

More than 60% of industry players feel that Islamic finance can grow in investment areas including asset management, funds, unit trusts, structured deposits, real estate and asset-backed securities. The reason is obvious: these are underlying tangible assets and have an affinity to the spirit of risk and profit-sharing. Other promising areas include retail such as savings and current accounts, auto financing, credit cards, property financing and capital markets such as Sukuk, commodity trading and gold.

## Review of 2017

There were few noteworthy developments in 2017 and so much more can be done. See Table 2.

## Preview of 2018

For Islamic finance to accelerate in Singapore, the following multidimensional strategies need to be considered:

1. Enhancing the knowledge of local practitioners (both conventional and Islamic finance) and religious scholars on how Islamic finance can contribute to the country's economy – its impact, scale, role and capabilities. Make provision for

Chart 1: Responses to the question on how Islamic finance will perform in Singapore within the next three years

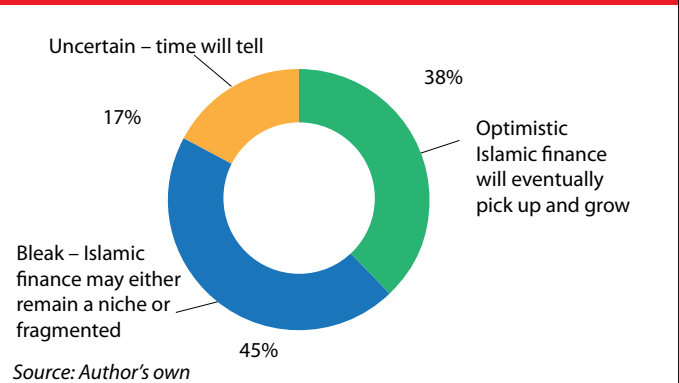


Table 1: Answers of survey respondents to slow growth of Islamic finance in Singapore

Answer choices	Responses
Passive approach by regulator in supporting Islamic finance	69%
Lack of demand and/or supply of Shariah compliant products & services	63%
Societal perception – higher cost of being Shariah compliant and/or low awareness	49%
Market fragmentation and/or players have a silo mentality with no clear market leader	44%
Legislation – Islamic banking and conventional banking are placed at same level playing field	30%
Shortage of local talents	26%
Others ( please specify)	19%
Total respondents: 100	

Source: Author's own

1. tertiary Madrasah students to specialize in Islamic economics and finance.
2. Educating the public on Islamic finance to generate demand for Shariah compliant products and services.
3. Understanding the success stories of countries that have implemented Islamic finance and its effects on the financial stability and resilience of the economy.
4. Working with the international community to humanize financial services and effect a paradigm shift, promote financial inclusion and improve financial platform accessibility through fintech and instill ethical mechanisms of trust through latest technological enablers like blockchain. Embarking on fintech to transform areas of capital markets, banking, Takaful, crowdfunding and microfinance could potentially provide better solutions to customers and the industry.
5. Synergizing with multilateral banks or intergovernmental organizations such as the IDB and the World Bank to promote ethical finance. Singapore can consider collaborating with such multilateral entities to demonstrate that finance goes beyond profit maximization and serves the community through alignment with the UN Sustainability Development Goals.
6. Proposing a change in policy affecting Islamic finance (such as a dual banking system, a Central Provident Fund to allow Islamic residential mortgages and broadening the scope of the Administration of Muslim Law Act, among others).

As the industry players innovate new business ventures to serve the community, sound ethical principles should be cultivated to produce thought leadership for future generations to emulate and draw inspiration from.

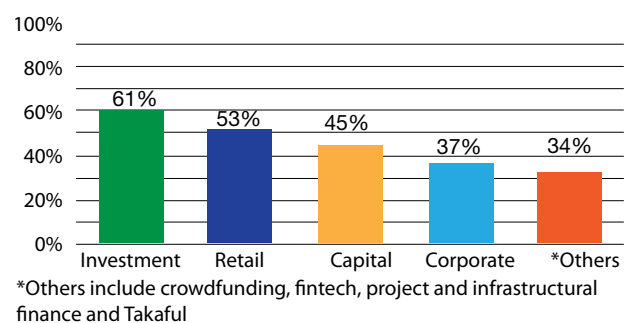
## Conclusion

While the industry players must work hard to generate market demand, such fragmented efforts offer little without a governing coordinator from financial regulators or grassroots leaders. Hence, the aforementioned strategies and wishlists can be part of the national agenda to achieve a true global financial hub status.

The journey toward becoming a global financial hub cannot be achieved without having deep, lasting and genuine aspirations for Islamic finance as a key contributor to the nation's overarching strategic plans. The IMF has endorsed Islamic finance whose principles of risk-sharing and asset-backed financing promote macroeconomic and financial stability through better risk management by both financial institutions and customers.

RAM Ratings has reaffirmed Singapore's respective global scale and ASEAN scale sovereign ratings with a stable outlook backed by the

Chart 2: Promising areas for Islamic finance growth



Source: Author's own

country's solid external strength, robust financial profile and strong institutional framework and fundamentals which support and drive Singapore's economic resiliency. Nevertheless, critical structural changes and concerted efforts are required to accelerate and invigorate Shariah compliant products and services to enable them to flourish. Only then will the country be able to withstand financial instabilities from unethical consequences and the inherent cyclical nature of the interest-based conventional financial system. (F)

Table 2: Islamic finance-related activities in Singapore

Entities	Activities
Monetary Authority of Singapore	Collaborated with Abu Dhabi Global Market (ADGM) to foster cooperation to nurture fintech entrepreneurship and support innovation in financial services in both Singapore and Abu Dhabi. ADGM also works with Responsible Finance and Investment Foundation (RFI) to promote Shariah compliant fintech services and Islamic finance. Issued a trust license to Hawsford which offers Shariah compliant trust services to private and corporate clients in the country for their wealth needs.
Singapore Exchange	Announced that its Singapore Kilobar Gold Contract has become the world's first Shariah-compliant gold futures.
Pergas Investment Holdings (affiliated to Singapore Islamic Scholars and Religious Teachers Association)	Represented Singapore in the Brunei Darussalam Islamic Investment Seminar. Became a participant and signatory of the United Nations Global Impact.
Maybank Singapore	Awarded the Islamic Bank of the Year and Best Retail Bank in Singapore.
RHB Singapore	Hired its Islamic banking team to operate in Singapore, with plans to look at asset management.
Qatar National Bank	Announced its plans to turn Singapore into an Asian hub and expand Islamic operations to other countries including Indonesia, Vietnam, India, etc.
Farringdon	Planned to launch Shariah compliant robo-advisor in Asia, including Singapore.
Arab Banking Corporation	Offers Shariah compliant solutions and has appointed a new general manager for its Singapore branch and head of Asia.
MercyCrowd	A UK-based Shariah compliant real estate equity crowdfunding platform which announced plans to open a branch in Singapore.
EthisCrowd	Launching <a href="http://GicbalSadaqah.com">http://GicbalSadaqah.com</a> , under a Malaysian partnership with Luxembourg's ConexCap, focused on Islamic social finance. Planned launch of a regulated peer-to-peer financing platform in Malaysia in fourth quarter of 2017. Formed a partnership in Indonesia with seasoned Islamic finance leaders from Jakarta and Singapore. Expanded the focus of the flagship EthisCrowd.com to become an investment marketplace that serves the retail crowd, larger private investors and Islamic banks.
Halal Universe	Continues to market IdealRatings equities screening solution to retail investors and Ethica Institute of Islamic Finance's CIFE program. Plans to focus on training and education in Shariah compliant investments and business contracts in 2018.
Ascent Islamic	Conducted a free seminar, open to the public, which addressed the importance of understanding the fundamentals of Riba and Gharar, and that being a debt-free Muslim is not impossible in Singapore. Collaborated with local events management company to create awareness of the importance of children education planning for young families.
Kapital Boost	Set up a representative office in Jakarta in the first half of 2017. Looking to aggressively grow business in Indonesia. Completed its first Islamic invoice financing deal for an Indonesian contractor awaiting invoice payments from PT Telkom, the largest telecom company in Indonesia. Expect to reach 50 crowdfunding deals by the end of 2017. Seeking seed financing to fund regional expansion, after two years of bootstrapping.
Vantisco Global	Planned to launch a Sukuk Fund 18 for retail investors near the end of 2017.
Athenaeum	Updated its product performance for global Sukuk in July 2017 for both institutional and retail investors.
(Company name not disclosed)	An aviation company is considering to issue Sukuk out of Singapore and in early discussions with various industry players to look at feasibility.

Source: Author's own