

Singapore's Islamic finance: Growing demand and work in progress



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Singapore scored a major economic boost when, despite the gloomy global economic forecast, it hosted the first Formula One car race after three years of COVID-19 pandemic lockdowns. Even though the racing event was important for the economy, the most conspicuous development was that the world's largest hedge fund, Bridgewater Associates, and Asia's second-richest person, Mukesh Ambani, moved to the city-state. Many family offices found Singapore as the best place to seek economic refuge in these uncertain times, with Russia and Ukraine at war; Europe coping with the energy crisis; the UK dealing with political turmoil; the US struggling with inflation; China's economic slowdown; and Hong Kong experiencing an exodus of finance professionals.

These developments secured Singapore's position as the top financial center in Asia and the third best in the world, according to the Global Financial Centres Index for 2022. All in all, the Singaporean government remains cautious and prudent in its economic and trade policies. This is evident in the Monetary Authority of Singapore (MAS)'s fourth tightening of its monetary policy in the last 12 months and the SG\$1.5 billion (US\$1.06 billion) support package to combat the running near 14-year high inflation, as well as its efforts toward supply-chain resilience via bilateral cooperation, such as the Singapore–Australia Green Economy Agreement.

Review of 2022

Singapore may be a major international financial hub, but its Islamic finance industry remains very much a work in progress. Key industry stakeholders have been observing increased interest and demand for Islamic financial products over the last year from both the Muslim and non-Muslim communities. This can be attributed to the population's higher disposable income and personal finance literacy advocacy efforts by the government and private sector. However, the retail market is still missing Shariah compliant mortgage facilities and insurance products, on top of the limited Shariah compliant investment options and vehicles.

The core impediment to the industry's progress is the need to increase Islamic finance awareness at the consumer level in order to organically foster robust retail demand to support the introduction of new products and spur MAS to formulate and integrate Islamic finance into Singapore's Financial Services Transformation Map. Table 1 summarizes the key developments in the Islamic finance industry in Singapore.

Despite the slow progress of its Islamic finance industry, Singapore is performing relatively well in terms of the Halal economy; as it climbed eight positions from 2021 to seventh place in 2022, according to the State of the Global Islamic Economy Report for 2022 by Dinar Standard. This was primarily due to the increase in modest fashion; media and recreation; pharmaceuticals; and

cosmetics exports to OIC nations. Additionally, Singapore scored well on the awareness sub-indicator, as numerous educational courses and events were held across all sectors.

Preview of 2023

The potential for Singapore to promote and support Islamic financial and banking operations is generally recognized for its global financial hub status, despite the country's relatively modest size of the Islamic finance industry. Furthermore, being located between three of the world's foremost centers in Islamic banking and finance (Indonesia, Malaysia and Brunei), the opportunities to serve an estimated 300 million Muslim population are enormous, along with the additional Muslim market from the Middle East, the US and Europe.

Moreover, amid the bleak backdrop of inflation and recession, 2023 is anticipated to be much more exciting than 2022 for Singapore's Islamic finance industry. Among the developments expected are the following:

- A hedge fund entity offering a Shariah compliant alternative to its existing fund
- An updated Shariah-screening methodology for stocks
- The operational commencement of the Singapore community Waqf (Wakaf Masyarakat Singapura),
- The launch of more Shariah compliant products.

While further developments are anticipated in the upcoming year, the details currently remain behind the scenes. However, much of the developments expected are ground-up initiatives and innovations, which appear to address specific needs and opportunities of Singapore's Islamic finance stakeholders. This includes (but is not limited to):

- Structural transformation on the industry level and coordinated efforts by market participants.
- Provision of structured Islamic finance educational programs for the community and professionals.

Table 1: Islamic finance industry developments in Singapore

Statutory board	Monetary Authority of Singapore (MAS)	<ul style="list-style-type: none"> MAS updated its guidelines on the application of banking regulations to Islamic banking in July 2022. The updated guidelines apply to all Singaporean financial organizations that offer Islamic banking. The guidelines aim to clarify MAS policy on Islamic banking by describing the regulatory treatment of specific Islamic structures. It also outlines MAS's general approach to regulating Islamic banking, including the admission framework for financial institutions intending to offer Islamic financial services and the regulatory treatment for Islamic banking products, including the capital treatment for such products.
	Islamic Religious Council of Singapore (MUIS)	<ul style="list-style-type: none"> MUIS has grown its Waqf (Islamic endowment) assets from SG\$150 million (US\$106.27 million) in 2000 to more than SG\$900 million (US\$637.6 million) in 2022, distributing more than SG\$4 million (US\$2.83 million) in Waqf income in 2021. Also among the council's significant initiatives is the Singapore Community Waqf (Wakaf Masyarakat Singapura), announced in 2020 and meant to fund Singapore's Muslim community's long-term needs sustainably. These needs are areas of religious teachers' development, religious institutions and community initiatives. The fund's advisory committee, formed last year, presented critical areas for the fund to succeed, including building an ecosystem for inclusive community participation.
Islamic asset management	Maybank Islamic Singapore	<ul style="list-style-type: none"> Maybank provided the Royal Group of Companies the world's first Islamic green finance in the hospitality sector worth SG\$250 million (US\$177.11 million), which has yielded it the following honors from The Asset Triple A Islamic Finance Awards 2022 and ABF Corporate & Investment Banking Awards 2022: <ol style="list-style-type: none"> Best Green Loan Award in the Category of Best in Sustainable Finance Best Green Loan Award in the Category for Best Deals by Country-Singapore, and The Green Islamic Deal of the Year. Maybank launched Singapore's first Shariah compliant balanced fund, named Maybank Asian Growth and Income – Islamic Fund. The fund offers investors a diverse portfolio of Shariah compliant Asian equities, worldwide Sukuk and gold exchange-traded funds (ETFs).
	FAIWA	<ul style="list-style-type: none"> The Montreux Healthcare Fund (MHF), registered under the MAS's restricted scheme and is available for accredited investors, has performed well relative to the broader market. The fund reported a return of +3% year-to-date to September 2022 despite a challenging investment environment where stocks and bonds have lost considerable ground this year.
	Walton	<ul style="list-style-type: none"> Since the pandemic, Walton has had a potential distribution of US\$2.8 billion to its global investors. One of them is Turner Meadows in Austin, Texas, where its investors received a distribution of 1.8 times their returns through its Shariah compliant pre-development land investment product in the third quarter of 2022.
	Franklin Templeton	<ul style="list-style-type: none"> Franklin Templeton added a third Shariah fund for retail investors to its suite of Islamic fund offerings, named the Franklin Templeton Shariah Technology fund.
	IdealRatings	<ul style="list-style-type: none"> FTSE launched a co-branded FTSE-IdealRatings Islamic Index series in July 2022. The Index series encompasses global, regional and single-country indices, and is available for licensed fund managers for benchmarking and investment purposes.
	CGS-CIMB	<ul style="list-style-type: none"> Launched the first Shariah compliant trading account in Singapore (iCash) designed for Islamic socially responsible investors in mind. Awarded 'Best Broker' by The Asset, FinanceAsia, Alpha SEA and Securities Investors Association Singapore.
	Kapital Boost	<ul style="list-style-type: none"> In line with its focus of "Funding Community Growth", Kapital Boost partnered with Indonesian crowdfunding platform Pedooli.id to help raise donations for social projects in Indonesia. Plan to launch a mobile app in early-2023 to simplify investing-on-the go and monitoring of investment portfolio.
	Muslim-friendly financial consultant	TAQWA
Ascent Islamic		<ul style="list-style-type: none"> Ascent Islamic has assisted more than 3,000 Muslim families on their financial planning, started an in-house 'Wasiat' (Islamic will) writing service, and conducted Islamic estate planning classes at local mosques.
Islamic finance community	Islamic Finance Singapore Ltd (IFSG)	<ul style="list-style-type: none"> IFSG, a community-focused organization, has received its company registration status, allowing it to perform more Islamic finance initiatives. Since then, it has delivered three core foundations to Islamic finance, became the AAOIFI examination center in Singapore and published an Islamic finance Singapore directory.

Source: Author's own.

- Utilization of the CPF (Central Provident Fund – the local pension scheme) funds for Islamic home financing and Islamic investment products.
- The offering of Shariah compliant green, ESG or SDG financial products and investment portfolios.
- Re-introduction of robust Takaful products.

Conclusion

2022 has been a fascinating development for the Singaporean economy, not just as the preferred destination for conventional

funds but also for its promising progress in the overall Islamic economy (Halal-driven growth).

Despite the grim global outlook, opportunities abound for Islamic finance, especially in the fintech and ESG space. However, more coordinated efforts must be made for Singapore's Islamic finance industry to stand as tall as its neighbors. The salient key to spurring much-needed progress and unlocking its potential is a structural transformation at the industry level, aided by MAS regulation support and coordinated efforts to increase consumer awareness of Islamic finance. (2)