Pent-up Demand for Islamic Finance

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After slightly more than five decades of embracing Islamic banking through the establishment of the Pilgrims Fund (Tabung Haji) in 1963 and Bank Islam Malaysia Berhad in 1983, Malaysia today is an icon of Islamic banking and finance, surpassing many other financial centres in the world. The most striking achievements for Malaysia include the rapid growth of Islamic financial assets, the global leader status in the issuance of sukuk or Islamic bond and the robust legal and regulatory infrastructure that has been put in place. These achievements are not accidental but the results of meticulous strategic planning over a substantive period. It should be noted that Islamic finance has been given formal prominence in the Financial Sector Masterplan 2001–2010\(^1\), the Financial Sector Blueprint 2011–2020\(^2\) of Bank Negara Malaysia (BNM), the Capital Market Masterplan Malaysia \(1^3\) and the Capital Market Masterplan 2\(^4\) of Securities Commission Malaysia (SC). These efforts are highly commendable, reflecting the strong commitment and support of the regulators towards the development of Islamic finance in Malaysia.

With such strong support, it was not surprising that the total share of Islamic financial assets in total financial assets reached RM689.4 billion or 24.7 percent by the first quarter of 2015. Deposits of Islamic banks (including that of development financial institutions or DFIs) in 1Q 2015 were RM523.5 billion or 29.5 percent of the total banking deposits (including that of DFIs) while the takaful or Islamic insurance contribution of RM1.8 billion in 1Q 2015 constituted 14.9 percent of the RM13.94 billion total insurance premiums. Such achievements would also not have been possible without the committed efforts of 17 local banks and 4 international banks offering Islamic products, 5 of which are full-fledged Islamic banks, 11 takaful companies, 4 retakaful companies and 3 registered takaful brokers.\(^5\)

The remarkable increase in Islamic financial assets and deposits has been due to the rapid rate of growth of Islamic banking and takaful which form the two major activities of the Islamic financial sector. The Islamic banking sector recorded annual growth rates of 18 to 20 percent from 2003 to 2007\(^6\), while the takaful industry recorded growth in assets and contributions of 27 percent and 19 percent, respectively, per annum between 2003 and 2007\(^7\).