



Suruhanjaya Sekuriti
Securities Commission
Malaysia

11th COMCEC Capital Markets Regulators Forum Meeting: Islamic Finance Task Force (Malaysia)

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Part 1: Advancing ICM through Financial Technology

A Brief on Virtual Workshop Report and Recommendations

Advancing the Islamic Capital Market through Financial Technology

The Virtual Workshop was organized under COMCEC Project Funding by Securities Commission Malaysia

Spanned over 3 days, from 6 – 8 September 2021, where the Virtual Workshop served as an avenue for RSAs to share and learn from each other's experiences and establish contact for any potential partnerships.

30 participants and observers from seven member countries namely, Kuwait, Maldives, Pakistan, Egypt, Brunei, Turkey and Malaysia.

The Virtual Workshop was led by experienced experts through presentations, case studies, analysis and panel discussions by industry practitioners

Key Objectives of the Virtual Workshop

1

Present regulatory building blocks and practical policy approaches in creating an enabling fintech ecosystem for the ICM.

2

Elaborate on key risks associated with fintech in ICM offerings, products, and services to optimise investor and issuer protection and to formulate necessary risk mitigation frameworks.

3

Showcase fintech solutions that can be deployed to accelerate the growth of the ICM.

4

Share regulatory experiences and policy approaches adopted by different jurisdictions on advancing fintech for the ICM.

5

Develop key policy recommendations on advancing fintech for the ICM and broader financial markets that serve as a benchmark for OIC countries.

SESSION 1

Key regulatory building blocks for an enabling fintech ecosystem in the Islamic Capital Market (ICM)

Focus: To share Malaysia's experience and digital journey—as one of the leading ICM jurisdictions globally as well as highlighting the SC's regulatory philosophy and Shariah governance in advancing its capital market via fintech. Overall, a conducive and enabling ecosystem that facilitates ICM development in any jurisdiction either traditionally or via fintech should have the following pillars:



**Robust legal
and regulatory
framework**



**Sound Shariah
governance
framework**



**Facilitative
taxation
framework**



**Strong government
support and
political will**

As a result of concerted efforts, Malaysia has successfully established various capital market digital solutions to meet customer and investor demands. Its capital market digital landscape encompasses alternative funding platforms (i.e. ECF and P2P financing), DIM, digital asset exchange (DAX), IEO, digital asset custodians, online distribution platforms, e-services platforms, and digital brokers.

Shariah compliance, which forms part of the corporate governance process, is a fundamental element for any corporation that offers Islamic financial services including ICM offerings and solutions.

Shariah Governance Model

Regulated **Centralised** Framework

Malaysia, adopts the regulated centralised framework via a two-tier approach where the regulator establishes its national Shariah advisory board/council who acts as a reference point for the industry and issues rulings on any matter pertaining to ICM business or transaction.

At the same time, industry players need to appoint their institutional Shariah committees or Shariah advisers to advise, review, and endorse compliance of ICM products and services with Shariah principles in line with the national Shariah advisory board resolutions.

SESSION 2

An enabling fintech ecosystem in ICM: Industry Perspectives



The key building blocks of an enabling fintech ecosystem

Mindset - shifts arising from the misconceptions and naysayers who opposes the development of a truly digitalised Islamic finance ecosystem.

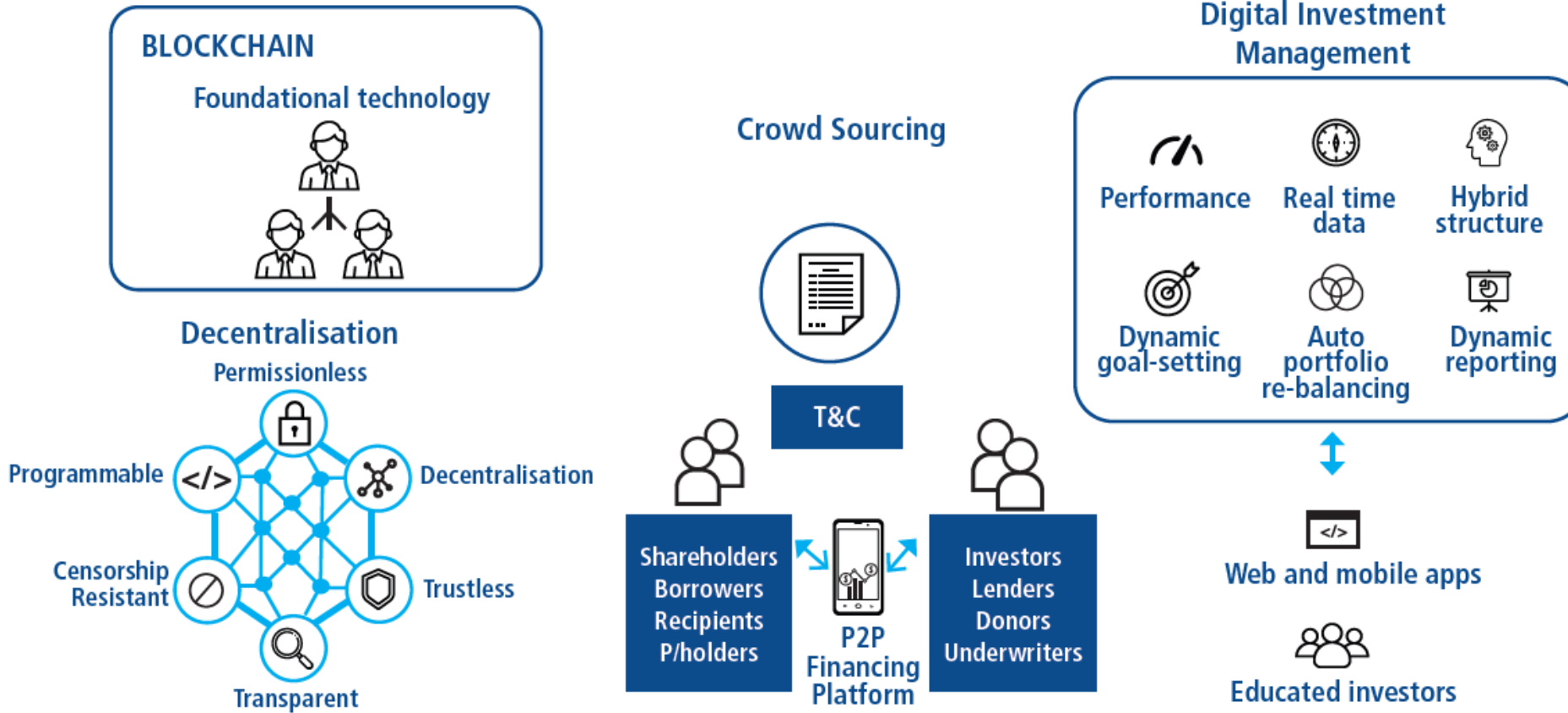
Talent - as one of the key areas where catalytic investments need to be massively made to acquire, retain, and develop the required talents.

Narrative - to address the existing misconceptions It is one of the weak links of Islamic finance as the current industry movers are not savvy in creating the right and relevant narrative strategy.

Structure - must include a format that would encourage growth at entity, consortium, platform, and ecosystem levels and are aligned with other building blocks.

Goal - must be about customer-centricity (i.e. the ummah) and the ability to be steadfastly consistent in it.

MAIN USE CASES OF FINTECH IN THE ICM



These use cases of fintech can be mobilised by ICM industry players to offer more financial and investment solutions which can be conveniently accessible at lower costs. In addition, these digital technologies can spur financial inclusion as they can cater to the financing needs of small businesses and start-ups, enabling connectivity between businesses and investors. Fintech can also promote greater transparency of information in ICM, attracting more investor participation.

Issues and policy recommendations among various jurisdictions

Aspect	Issues	Recommendations
Legal and Regulatory Framework	<p>Lack of facilitative regulatory framework for new business models that can–</p> <ul style="list-style-type: none"> • protect investors; • ensure fair, efficient, and transparent markets; and • reduce risks. 	<ul style="list-style-type: none"> • To establish a clear roadmap at the national level and introduce a robust regulatory framework at the RSA level. For example, specific frameworks are needed to govern different fintech-based solutions such as ECF, P2P financing, robo-advisory, digital assets, etc. • To establish a close co-ordination and synergy among regulatory authorities (capital market and banking) and other relevant stakeholders including fintech service providers, trustee services, rating agencies, government agencies, investors, etc.
Infrastructure and Technology	<ul style="list-style-type: none"> • Low interoperability and acceptance for fintech • Lack of enabling infrastructure such as payment gateway and eKYC; and • Resistance in data sharing. 	<ul style="list-style-type: none"> • To deliver services to different stakeholders based on their needs. • To overcome structural barriers by improving delivery of solutions – digitising customer experience and traditional distribution channels; and • To embrace digital innovation in fundraising and investment for financial inclusion.
Talent	<ul style="list-style-type: none"> • Low mindset shift; • Lack of new talents to embrace digital change; and • Lack of succession planning. 	<ul style="list-style-type: none"> • To nurture a new generation of Shariah advisers and capital market supervisors who are tech-savvy through various capital development and leadership programmes; and • To intensify training and industry exposure via secondment and exchange programmes among RSAs.

Issues and policy recommendations among various jurisdictions (continued)

<p>Governance, Risks and Compliance (GRC)</p>	<ul style="list-style-type: none"> • Potential emerging risks to investor protection • Divergence of Shariah opinions on compliance of fintech products 	<ul style="list-style-type: none"> • To enhance IT governance such as data protection and IT security to increase consumer confidence in fintech-based products and services; • To explore self-regulation via blockchain; and • To promote greater harmonisation pertaining to Shariah opinions.
<p>Literacy and Awareness</p>	<ul style="list-style-type: none"> • Irrelevant general programmes due to misunderstanding of customers' mindset; • Lack of narratives on Shariah compliance; and • Lack of industry engagement. 	<ul style="list-style-type: none"> • To increase awareness and understanding on fintech innovation and emerging technologies to different stakeholders via continuous engagement and correct narratives; • To replicate similar virtual workshops or physical workshops in other COMCEC member countries; and • To include more complex discussions involving jurisdictions which are at the advanced level in terms of digitalisation and fintech adoption in the ICM.

Overall Fintech Ecosystem (Country Level)

1. To establish a fintech association that acts as a one-stop centre to connect industry players, regulators, and relevant stakeholders
2. To adopt the integration of 3i-Ecosystem (Integrate, Initiate, Infra)
3. To focus on accelerating and building larger customer/investor base

Overall Fintech Ecosystem (Global Level)

1. To establish a Fintech Working Group for Islamic Capital Market Authorities (e.g., under COMCEC) that serves as a platform for knowledge sharing and formulating strategies among member countries
2. To align digital investment with *maqasid* and universal principles (e.g. ESGs, SDGs)

Part 2: FIKRA

FIKRA Islamic Fintech Accelerator Programme

Stock Market Report

233.89	341.94	154.72	292.90	346.57
652.28	311.91	190.00	365.68	
553.73	186.70	652.28	484.92	631.73
398.54	54.59	397.51	196.00	165.11
391.51	116.19	44.59	55.73	748.51
391.01	203.91	910.31	392.32	724.98
221.72	815.98	344.01	486.68	489.89
016.52	659.70	016.44	361.00	71.21
712.92	161.12	536.73	352.34	18.98
471.56	394.01	281.53	653.61	717.44
126.25		152.02	719.99	365.68

FIKRA Islamic Fintech Accelerator Program

FIKRA



The FIKRA Islamic Fintech Accelerator Programme (FIKRA) was a joint initiative by the SC and the UN Capital Development Fund (UNCDF). FIKRA's three key challenge areas are as below:

New ICM Offerings

New ideas, products or services uniquely developed for ICM. Tech-based fintech ideas and solutions that can deliver the value propositions of Islamic finance in its offerings.

Access to ICM

Fintech ideas and solutions that can democratize the market with innovative products or services that will enhance accessibility and provide greater inclusivity into the ICM. Tech-based ideas or solutions that can strengthen the role of ICM in funding sustainable development needs, advancing the financial inclusion agenda and accelerating the growth of sustainable and responsible investing (SRI) segment.

ICM- Social Finance Integration

Fintech solutions to integrate Islamic social finance instruments into ICM. With the rapidly evolving ICM landscape, there is potential to explore and build avenues to integrate traditional social finance instruments rooted in Islamic values and intended for social benefit, such as waqf, zakat and qard hassan.

The Program received over 66 applications including 23 from outside Malaysia with interest in creating solutions for Malaysia's ICM, with 7 applicants selected after an evaluation process:



FIKRA

In order to help create direct market access and linkages for the cohort and the applicant pool, FIKRA partnered with 6 key industry players in Malaysia

The role of the Industry Partners was structured as an end-to-end engagement, starting with sharing insights on the ICM landscape in Malaysia to help potential applicants understand the opportunity. Subsequently, the Partners provided inputs on cohort selection, followed by deeper engagement with the cohort across the following areas –

- Conducting masterclasses and sessions for the cohort and applicant pool
- Providing structured mentorship to the cohort
- Evaluate cohort for solution co-creation and collaboration opportunities

There were over 20 curated interactions facilitated between Industry Partners and the cohort. This translated into over 10 partnered-solution exploration between the cohort participants and industry partners, following the completion of FIKRA in December 2021.

Our Ecosystem Partner (MDEC) has also continued engagements with FIKRA participants following the completion of FIKRA.