



COMCEC

Standing Committee
For Economic and Commercial Cooperation
of the Organization of Islamic Cooperation

CAPITAL MARKET
REGULATORS FORUM

ISLAMIC FINANCE TASK FORCE

Alternative Finance in Islamic Capital Market

Istanbul, Turkey

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Suruhanjaya Sekuriti
Securities Commission
Malaysia

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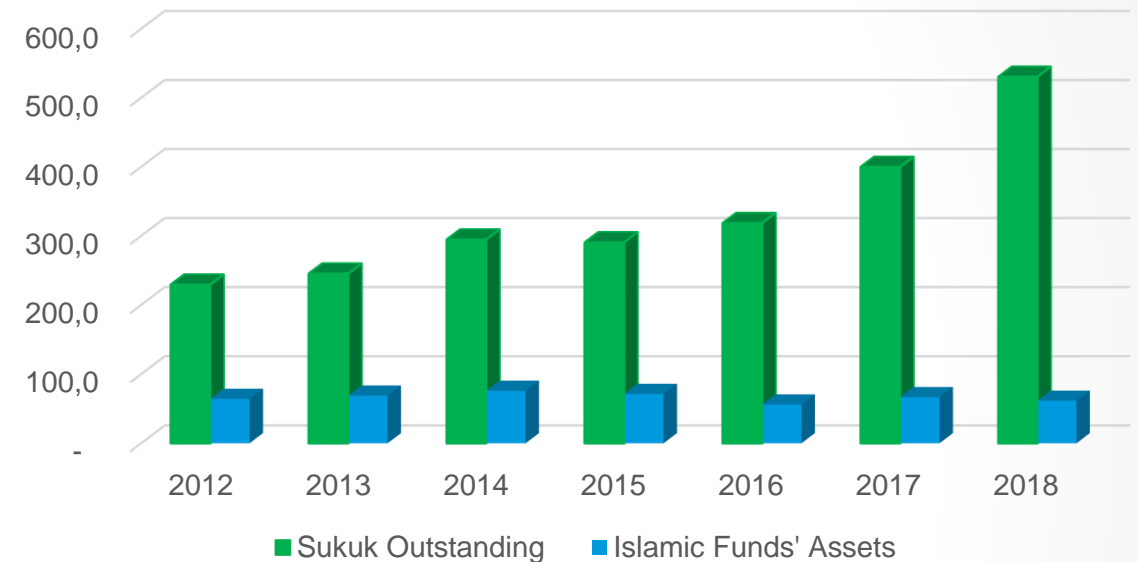
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ISLAMIC CAPITAL MARKET: GLOBAL LANDSCAPE

- Islamic finance asset across its three main sectors (banking, capital markets and takāful) worth at US\$2.05 trillion in 2018, and projected to grow to **US\$3.2 trillion by 2020**.
- The Islamic capital market (ICM) sector continues to record **improved developments** in 2018, accounted for 27% of global Islamic finance asset, worth about US\$592 billion.
- **Growing trend** in Sustainable and Responsible Investment (SRI) and Financial Technology (Fintech)
- **New Innovative Products:** Green Sukuk, SDG financing, Crowdfunding, P2P lending, etc
- Given the projected **growth of the global halal market** to US\$7.7 trillion in size by 2030, further expansion of the innovative alternative sources of market-based financing will provide the necessary support for global halal businesses.



Source: IFSB Stability Report

- The global **sukuk** market continued its upward trajectory with global sukuk outstanding rising to a record US\$466 bil as at 1H 2019 (YoY with CAGR of 15%)
- **Islamic fund** market maintaining slower growth with asset under management (AuM) reached US\$83.9 billion

EMERGING TREND: 1) SUSTAINABLE & RESPONSIBLE INVESTMENT

- Growing commitments towards **Sustainable and Responsible Investments (SRI)** at the global stage
 - *SRI now stands at 26% of all professionally managed assets globally*
- Growing financing towards meeting **SDG goals**.
 - *Investments of US\$93 trillion would be needed in sustainable infrastructure projects during 2015-2030*

UN Sustainable Development Goals (SDGs)



- More investors are integrating **Environment, Social and Governance (ESG)** factors in investments
- Issuance of **SRI products**: Green Sukuk, Social Sukuk, Islamic SRI Funds, etc
- Upward trajectory of **green bond and sukuk** issuances globally
 - *Global green bonds issuance increased by 95% (2013-2016) and expected to increase to US\$1 trillion by 2020*
 - *Malaysia pioneered the issuance of green SRI sukuk with the world's first issuance in July 2017. To date, 7 green SRI sukuk issued under the SC's SRI Sukuk Framework totaled RM3.07 billion (US\$735 mil).*
- SC Malaysia is currently developing an **SRI Roadmap** in charting strategic direction in accelerating the growth of SRI including studying the importance of **green taxonomy** for the financial sector and capital market.

EMERGING TREND: 2) FINANCIAL TECHNOLOGY

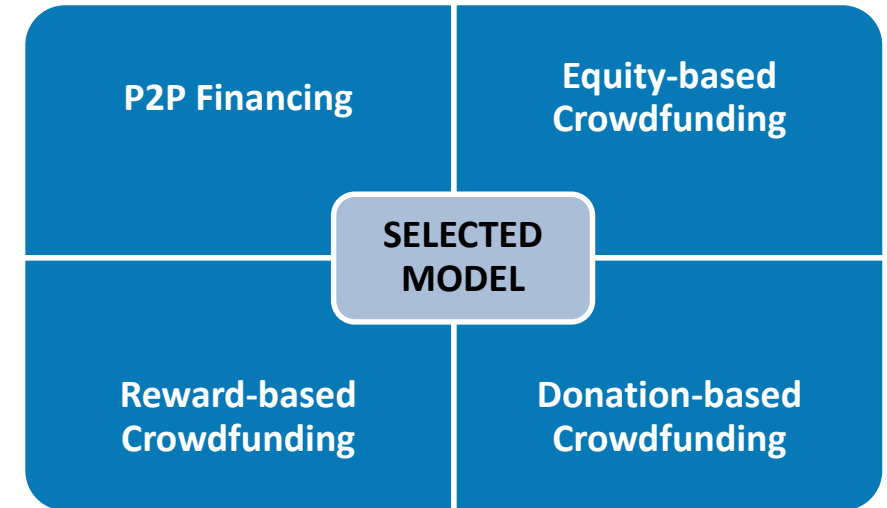


Financial Technology, or widely known as Fintech is a technological innovation applied in the provision of financial services.

- Fintech innovation has become a global trend and continues to go from strength to strength.
 - Over the past 12 months alone, a record US\$86 billion has been invested globally, representing a 65% increase from 2017.
- From a regional perspective, **Asia Pacific** has also continued to dominate the global landscape.
 - achieved a record level of investment with USD\$20.6 billion invested over the past year
 - The region now has **eight of the 33 fintech unicorns** and **five of the world's top 10 fintech companies** coming from the Asia Pacific region.
- Fintech offers **significant opportunities for Islamic finance** to contribute to financial development and inclusion.
 - highly congruent with Islamic finance principles, with the latter focusing on asset-backed transactions and risk sharing.
 - Many are platform applications such as P2P lending or equity crowdfunding schemes
 - Blockchain and DLT found their way into Islamic finance. Smart contracts can automate the execution of Sharī'ah contracts
- In Malaysia, Islamic financial institutions have been incorporating fintech in their offerings
 - a more efficient and effective way of **distributing social finance funds** electronically to targeted deserving communities such as waqf and sadaqah;
 - risk-sharing investment account as **alternative funding for SMEs**.

WHAT IS ALTERNATIVE FINANCE?

- **Alternative Finance** refers to financial channels, processes, and instruments that have emerged outside of the traditional finance system such as regulated banks and capital market, this usually include but not limited to digital investment products such as Equity Crowdfunding (ECF), Peer-to-Peer (P2P) Financing or other new source of funding.
 - “The alternative finance activities can be characterized as *technology-enabled online channels* or models that *act as intermediaries* in the demand and supply of funding (e.g. capital formation and allocation activities) to individuals and businesses *outside of the traditional banking system*.” Cambridge Centre for Alternative Finance (CCAF)
- The alternative finance avenues succeed because they enable **underserved issuers** e.g SMEs and entrepreneurs to connect with traditionally untapped pools of investors, while offering **cheaper, faster and more convenient** delivery channels.
- Two most common types: **Equity crowdfunding** and **peer-to-peer financing**. P2P lending represents the majority at 58%.
- **Real estate crowdfunding** market is growing rapidly. Currently 5% of the global volume.



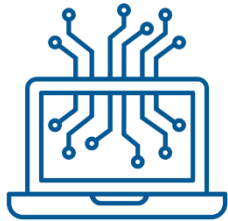
- **Peer-to-Peer:** Connect borrowers (individuals or businesses) with multiple lenders while lenders receive interest in return
- **Crowdfunding:** A joint effort of several individuals to pool their resources in order to support projects/ventures initiated by organizations. Usually involve small amounts of capital from a large number of individuals to finance a new business venture.

WHY ALTERNATIVE FINANCE?



Access to Financing

The development of alternative finance can help to bridge this gap by opening up new financing opportunities for innovative and early-stage businesses



Leveraging on Digital Platforms

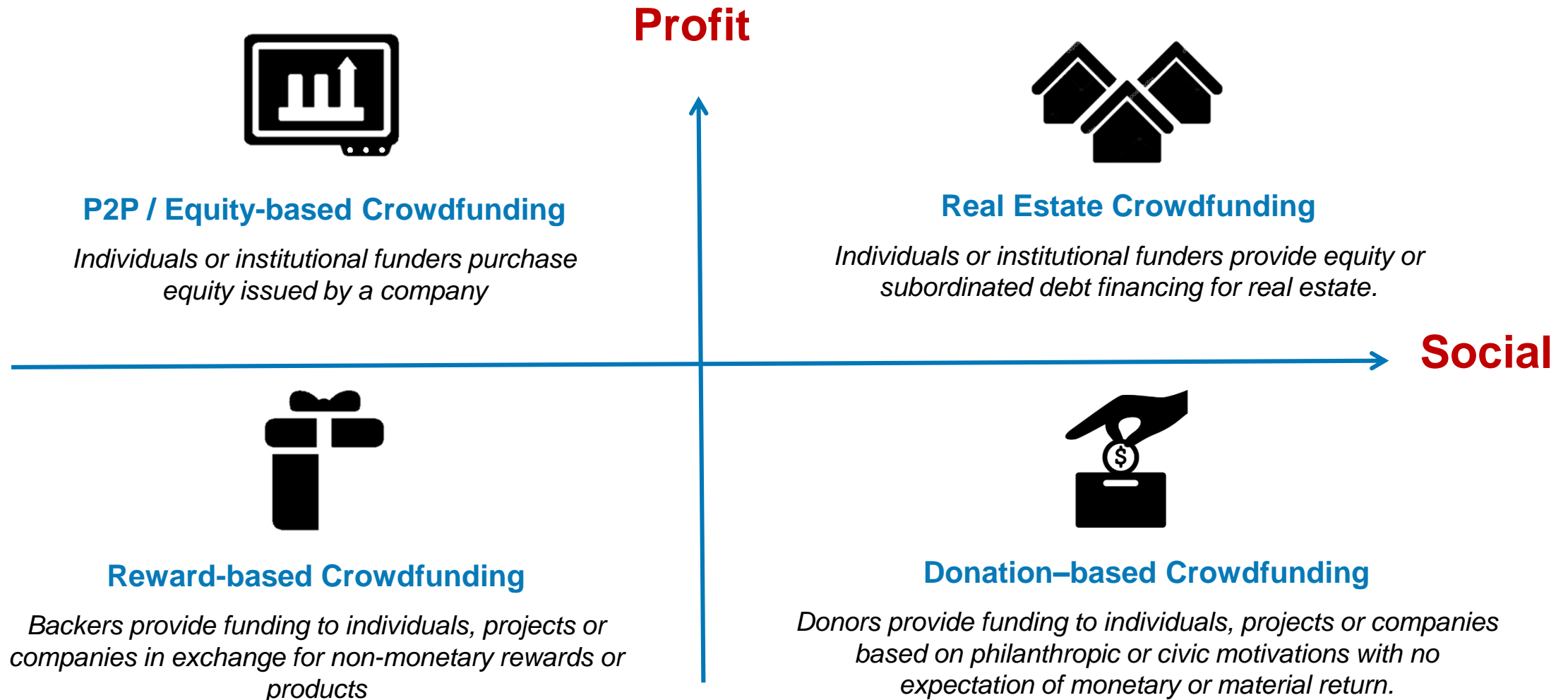
Further increasing their efficiency and potential to address financing gaps in the economy. Lower the cost of financing and improve investor experience.



Growth of Non-Bank Financial Intermediation

Effectively and efficiently mobilizing resources from surplus sector of the economy and allocating same to the deficit units.

ALTERNATIVE FINANCE: PROFIT vs SOCIAL

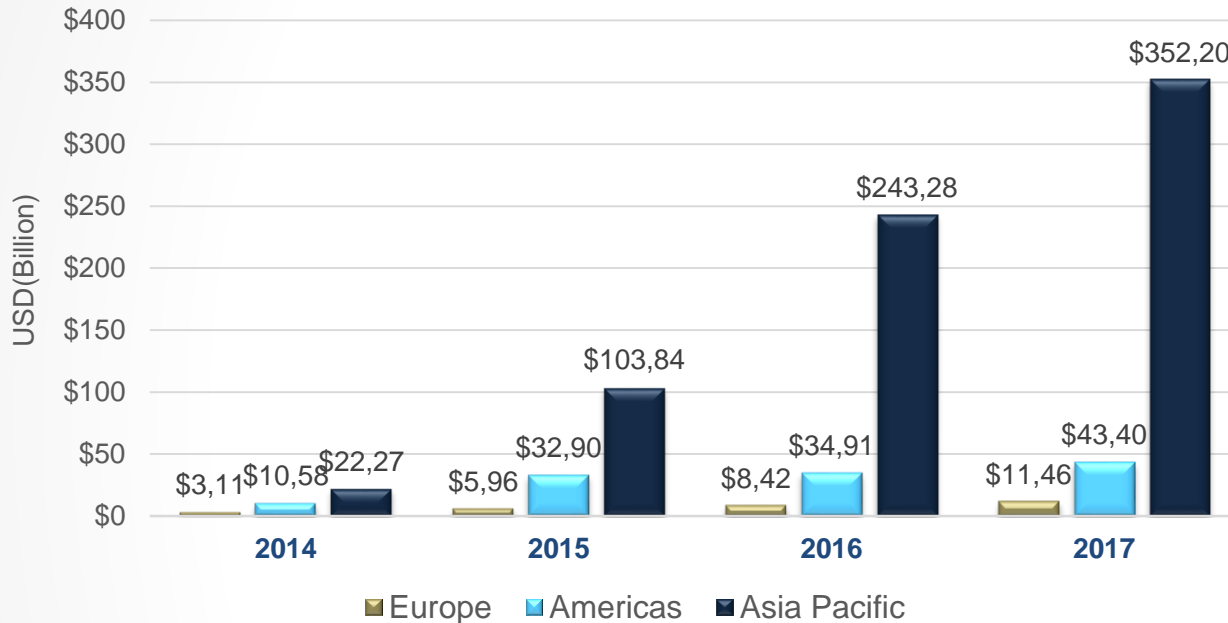


ALTERNATIVE FINANCE: COMPARING ECF AND P2P IN MALAYSIA

	EQUITY CROWDFUNDING (2015)	PEER-TO-PEER FUNDING (2016)
Target	<ul style="list-style-type: none"> For start-ups and SMEs to gain access to early stage . 	<ul style="list-style-type: none"> For SMEs looking to raise working capital or growth capital, meant for short-term financing needs.
Basis	<ul style="list-style-type: none"> Start-ups/SMEs raise funds by issuing public shares/offering equity to investors in exchange for cash. 	<ul style="list-style-type: none"> SMEs raise funds from investors and repay the cash plus interest in instalments over a specified period.
Issuers	<ul style="list-style-type: none"> Eligible issuers can raise up to RM3 mil (about US\$725K) in 12 months. 	<ul style="list-style-type: none"> No limit imposed by the SC on the amount of funds that can be raised, with limits and financing rate to be decided by the P2P operator based on risk scoring. Eligible issuers do not need collateral and are assessed based on credit history, behaviour and founders.
Limits	<ul style="list-style-type: none"> Can only raise RM5 mil (about US\$1.2 mil) maximum, no multiple and concurrent listing for issuers. 	<ul style="list-style-type: none"> Can host concurrent listings on multiple P2P platforms but must be for different purposes and must be disclosed to the P2P operator.
Investor	<ul style="list-style-type: none"> Retail investors are limited to a maximum of RM5,000 per issuer with a total not exceeding RM50,000 within 12 months, while it goes up to RM500,000 for angel investors. 	<ul style="list-style-type: none"> Retail investors are encouraged to limit investments to a maximum of RM50,000 at any one time.

ALTERNATIVE FINANCE: GLOBAL LANDSCAPE

Global Current Market



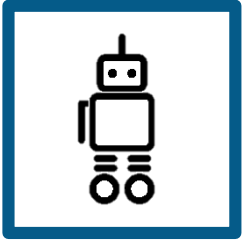
- The Asia-Pacific region experienced a 4-year average annual growth rate of 145% which was largely driven by the Chinese market.
- By 2023, the global alternative finance market could reach US\$550 billion of funds, a significant sum, but still a small amount compared to the financing granted by banks.
- In Malaysia, as at June 2019, 1,202 issuers have successfully raised capital amounting to RM432 mil (about US\$104m) through ECF and P2P platforms since 2015.

Market Players



- 782 unique platform recognized in China market represent more than half of the Asia-Pacific total players.
- Top 6 Alternative finance country contribution in the Middle East: UAE, Lebanon, Palestine, Jordan and Iran.

ALTERNATIVE FINANCE: LEVERAGING FINTECH



Robo-Advisors

Online platforms and applications providing fully automated, algorithm driven investments and automated advisory solutions to retail customers.



Portfolio Management

Software that helps centralise investment portfolios in a single platform, analyse/forecast portfolio performance and make portfolio allocation



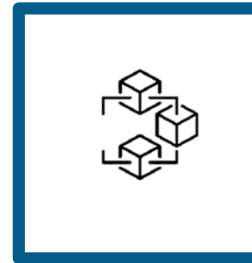
Digital Brokerage

Alternative brokerage platforms for retail investors and software solutions



Investment Platforms

Platforms that enable customers to invest in a wide range of products. Enhanced professional support by bringing conventional advisors and technology on the investment



Blockchain

Use of Distributed Ledger Technology (DLT), Distributed Autonomous Organisation and smart contracts



Analytical Tools

Software that supports the operations of asset management firms.

ALTERNATIVE FINANCE: GLOBAL CURRENT REGULATION PRACTICE

- **Dubai Financial Services Authority (DFSA)** launched a regulatory framework for loan and investment-based crowdfunding platforms (first framework in GCC).
- **Central Bank of Bahrain** introduced legal framework for loan crowdfunding (both conventional and Sharia compliant) while providing governance for financial technology and approved of three Regulatory Sandbox participants who have proposed Islamic Fintech Solutions.
- **Capital Market Board of Turkey** introduced equity crowdfunding into the Capital Markets Law
- **Securities Commission Malaysia** launched Guidelines on Recognized Markets to facilitate the issuance of Equity Crowdfunding, Peer-to-Peer Financing, Digital Asset Exchange and Property Crowdfunding
- **Otoritas Jasa Keuangan (OJK) (Indonesian finance authority)** – Both loan-based crowdfunding (recognized as P2P/Marketplace Lending) and equity-based Crowdfunding has already been acknowledged and regulated by OJK and Bank of Indonesia.

Regulatory Approaches



Sandbox

Operating under a special exemption, allowance



National Policy

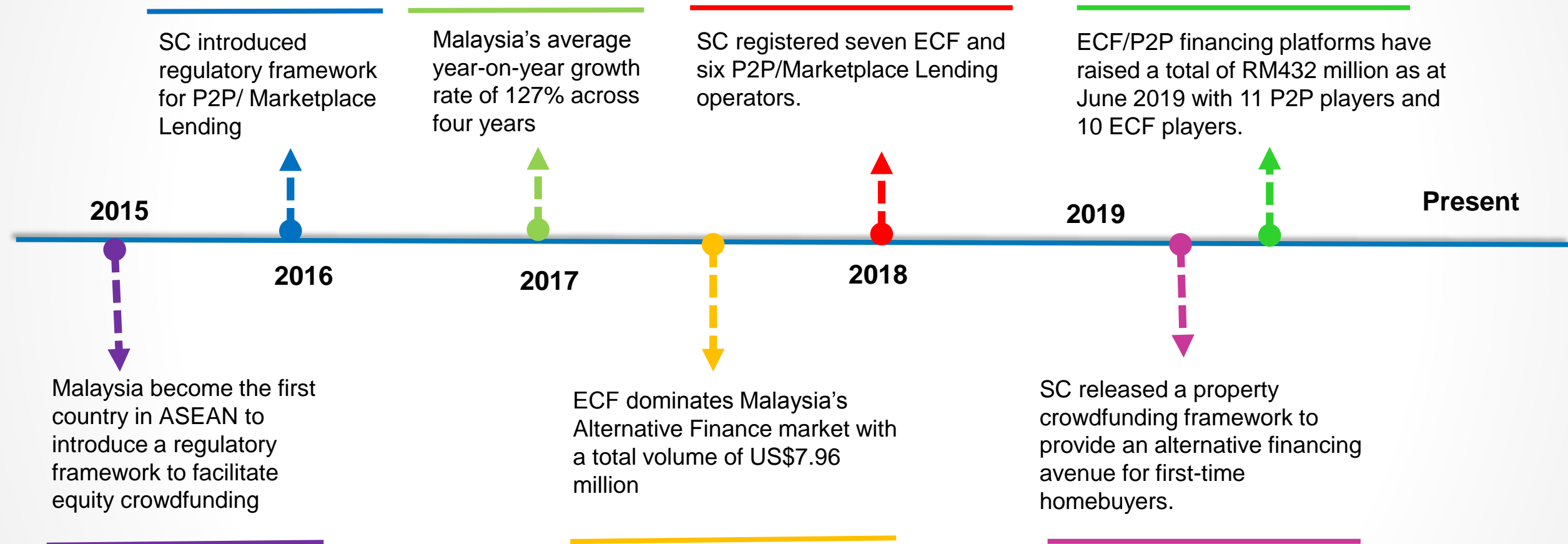
A written financial policy in pursuit of national objectives



Guidelines

Streamline particular processes to a set of routine

ALTERNATIVE FINANCE: MALAYSIA



ALTERNATIVE FINANCE: ISLAMIC FINANCE TASK FORCE SURVEY

Islamic Finance Task Force initiative - to conduct a project on broadening the alternative finance avenues in Islamic capital market via financial technology.

Why?

- SMEs and entrepreneurs have seen a shift from traditional brick and mortar businesses to more digitally-led businesses, changing the way they interact with consumers.
- Capital markets have evolved to cater to a wider spectrum of SMEs with alternative avenues of financing are fast gaining acceptance as complements to traditional funding channels.

Objectives of the survey

- To identify the current status of Alternative Finance implementation in the COMCEC Member States and highlight the country specific needs and issues faced by the regulatory and supervisory authorities.
- To determine role the fintech in supporting the Alternative Finance covering the development of Fintech in member countries and its regulatory approach and supervisory responsibility in regulating the Fintech.

- **12 members countries** responded to the survey (Albania, Bahrain, Bangladesh, Brunei, Iran, Kuwait, Malaysia, Maldives, Palestine, Turkey, Saudi Arabia and Tunisia)

SURVEY FINDINGS: **ALTERNATIVE FINANCE**



Penetration

Limited use of Alternative Finance products among the country.



Developing rapidly

Many countries are developing their Alternative Finance models in term of regulation, models, and technology.



Financing opportunity to SMEs

SMEs difficult to secure the funding using traditional finance. Hence, provide opportunities to SMEs using Alternative Finance



Special incentives

Incentives are available to facilitate the development of the Alternative Finance in certain countries

SURVEY FINDINGS: **FINANCIAL TECHNOLOGY**



Regulation

Many approaches to regulation: laws/guidelines/sandboxes to govern fintech



Products & Services Offering

Many innovative products and services: Equity Crowdfunding, Mobile-based financial services, Investment platforms



Supervisory Responsibility

Supervisory authorities have regulatory responsibilities in develop fintech



Challenges

Key challenges: Lack of financial knowledge and awareness, technology infrastructure issues, and lack of regulation

WHAT'S NEXT FOR ALTERNATIVE FINANCE?

