

# ISLAMIC FUNDS INDUSTRY: 2015 REVIEW & OUTLOOK

In 3Q 2015, total global Islamic assets under management (AuM) stood at USD60.2 billion. The sector is conservatively projected to grow by 5.05% per annum for the next five years to reach USD77 billion in value by 2019. This is substantiated by a number of facts, such as the average growth rate of Islamic funds at 9.55% per annum over the past five years.

**MALAYSIA**  
WORLD'S ISLAMIC FINANCE  
MARKETPLACE

## Islamic Funds Industry: 2015 Review & Outlook

Islamic financial products have evolved and developed considerably from simple and straightforward structures to sophisticated and multifaceted instruments. While Islamic financial products and services offered in the 1980s-90s were dominated by deposits and savings products, syndicated project financing as well as Shariah-compliant stocks, the last decade has witnessed the unveiling of more sophisticated structures,<sup>1</sup> including various Islamic investment funds such as Islamic exchange traded funds, Islamic money market, Islamic real estates, and real estate investment trust. This evolution is underpinned by the maturity and complexity of market alongside more

### Global Islamic Funds: Sectoral Snapshot

Islamic funds sector has witnessed an exciting growth path globally, supported by the large number of Shariah-compliant capital market instruments such as listed Islamic equities, fixed income instruments,

### Global Islamic Funds: Geographical Focus

Even though the industry remains small compared to other sectors of Islamic finance, Islamic funds have witnessed remarkable growth across jurisdictions particularly over the last decade. In key Islamic finance jurisdiction such as the GCC, Saudi Arabia remains a key player for the Islamic funds, contributing 41% of the global Islamic AuM in 3Q 2015.<sup>7</sup> In term of number of Islamic funds, Saudi Arabia has 18% of the total market share. The growing market share of Islamic funds in Saudi

sophisticated and demanding investors.

In 3Q 2015, the total of global Islamic asset under management (AuM) stood at USD60.2 bln, posting a decrease from the previous year AuM of USD75.8 bln (3Q 2014).<sup>2</sup> The number of Islamic funds declined to 1,030 from 1,161 for the similar period last year. This is mainly due to the decline in oil prices and the rapid changes in the global regulatory framework which substantially affect the overall growth of the Islamic finance industry.<sup>3</sup> Notwithstanding this, the sector is projected to register an annual growth of 5.05% per annum for the next five years and estimated to reach USD 77 bln by 2019.<sup>4</sup>

money market instruments and other structured investment products.<sup>5</sup> This substantially provides fund managers with a wide range of Shariah-compliant financial instruments to manage and structure the portfolio to meet investors' requirements.<sup>6</sup>

Arabia is determined by demand and supply. The increase of awareness towards Shariah-compliant investment products due to religious reason has contributed to the demand of Islamic funds. Meanwhile on the supply side, strong governmental support is a key catalyst for the market. For example, the Saudi Capital Market Authority has released regulations that allow qualified foreign institutions to have access to the Tadawul stock exchange starting from June 2015.<sup>8</sup>

<sup>1</sup> ISRA, 2015

<sup>2</sup> ISRA & Zawya, 30 September 2015

<sup>3</sup> S&P, 2015

<sup>4</sup> Thomson Reuters, 2015

<sup>5</sup> IFSB, 2014

<sup>6</sup> IFSB, 2014

<sup>7</sup> Thomson Reuters, 2015

<sup>8</sup> <http://www.gulfbusiness.com>

<sup>9</sup>A survey by Ernst &Young found that Saudi investors consider Shariah-compliant offering as a preferable investment compared to conventional investment and are willing to sacrifice lower returns for the former investment option.

Moving to Asia, Malaysia, Indonesia and Pakistan are the key jurisdictions for Islamic funds industry. Malaysia contributes the largest portion of the total number of global Islamic funds with a market share of 24% and the second largest Islamic AuM, representing a total of 28% market share as per 3Q 2015<sup>10</sup>. The total value of Islamic AuM in Malaysia as per June 2015 was RM 117.40 bln or approximately USD 27.20 bln, representing 17.9% market share of the total AuM industry in Malaysia. In particular, the country has launched 190 Islamic Unit Trust Funds with the total net asset value (NAV) of RM 48.99 bln or USD 11.35 bln, representing 13.8% of the total unit trust fund industry as per June 2015.

The exciting development of Islamic AuM in Malaysia is substantiated by a number of government initiatives among others are as follows:<sup>11</sup>

1. The easing of licensing requirements for dealing in fund management and giving investment advice.
2. The possibility for Islamic fund managers to invest their entire AuM abroad.
3. Liberalised foreign shareholding requirements of unit trust management companies which opens the door for wholly-owned foreign fund managers to launch and distribute retail funds in Malaysia.
4. The establishment of bilateral and multilateral

The country also launched 76 Islamic wholesale funds (WF) with the total NAV of RM 23.48 bln or USD 5.44 bln, contributing to 31.3% of the total WF industry. Furthermore, Malaysia has also launched 18 Islamic private retirement scheme (PRS) with the total NAV of RM 258.10 bln or USD 59.8 bln, accounting for 28.7% of total PRS industry in Malaysia in 2015. As for Exchange Trade Fund (ETF), the country introduced 3 Islamic ETF with the market capitalization of RM 0.32 bln or USD 0.07 bln, representing a total market share of 30.2%. Finally, Malaysia also launched 3 Islamic Real Estate Investment Trust (REIT) with the market cap at RM 15.35 bln or USD 3.55 bln, contributing 42.1% to the total REITs industry in Malaysia in 2015.<sup>12</sup> It is also noteworthy to inform that more than one third of new Islamic funds are launched yearly in Malaysia since 2000 onward.<sup>13</sup> For that reason, the country is regarded the most active jurisdiction in introducing new Islamic product to the market.

arrangements for cross border offering of Islamic funds to promote further expansion of markets thus providing new opportunities for Islamic fund and wealth managers to grow their businesses.

5. Tax exemption until 2020 for all fund management companies on fees derived from the management of Shariah-compliant investment mandates, including Islamic real estate investment trusts and Islamic business trusts.<sup>14</sup>
6. Guidelines for Sustainable and Responsible Investment.<sup>15</sup>
7. The plan to establish a new Shariah-compliant retirement fund.<sup>16</sup>

<sup>9</sup> Industry Interview, Ernst and Young Analysis, 2008

<sup>10</sup> ISRA' & Zawya, 30 September 2015

<sup>11</sup> Securities Commission, 2015

<sup>12</sup> Bloomberg, 2015

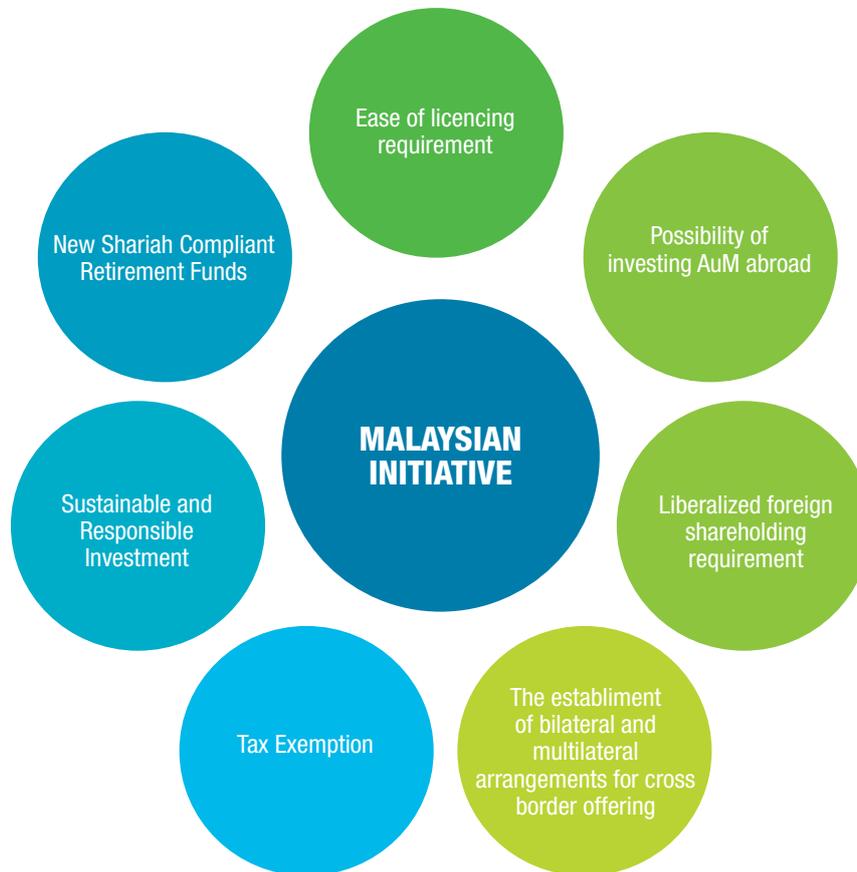
<sup>13</sup> SC Annual Report, 2014

<sup>14</sup> The Budget 2016 Speech By Prime Minister And Finance Minister Datuk Seri Najib Tun Razak - Introducing The Supply Bill (2016) At The Dewan Rakyat

<sup>15</sup> Thomson Reuters, 2015

<sup>16</sup> Thomson Reuters, 2015

**Malaysian Initiative for Islamic Funds Industry**



Source: Adapted from various sources

Indonesia, the world's fourth most populous country and home to a Muslim population of over 200 mln, contributed to 7% of the total Islamic funds globally as at 3Q 2015.<sup>17</sup> As at August 2015, the country has launched a total of 85 Islamic mutual funds with the total NAV of IDR 10.838 bln, comprising 12 Islamic fixed income, 1 Islamic ETF, 10 Islamic money market, 1 Islamic index and 18 mixed funds.<sup>18</sup> The prospect of Islamic funds in Indonesia is supported by stable political climate, an aggressive effort to deepen the Islamic finance industries across all sectors and more importantly the revision toward Islamic pensions and pilgrimage funds which will eventually boost the overall Islamic AuM.<sup>19</sup> The government has also shown full support to boost Islamic funds by a number of aggressive

initiatives, such as the implementation of Shariah online trading system to achieve efficiency and transparency, education and awareness progress via Shariah capital market school, increase supply and demand toward the Islamic mutual fund products via research on developing Shariah compliant products, awareness of the issuers on DES (Daftar Efek Syariah/Shariah Listed Stocks), promote the issuance of more Islamic ETF, improve human capital and information technology, awareness and education via various cooperation with universities to include Islamic capital market as the compulsory course, and coordination and synergy between regulators and related parties, such as DSN (Dewan Shariah Nasional/National Shariah Boards).<sup>20</sup>

<sup>17</sup> ISRA' & Zawya, 30 September 2015

<sup>18</sup> Indonesia Stock Exchange, 2015

<sup>19</sup> Zawya, 2015

<sup>20</sup> Indonesia Stock Exchange, 2014

**Islamic Mutual Funds in Indonesia**

No	Islamic Mutual Fund	Amount of Islamic Mutual Funds		NAV Islamic Mutual Funds (Billion IDR)	
		Aug 2015	Aug 2014	Aug 2015	Aug 2014
1	Money Market	10	1	932	29
2	Shares	25	20	5.153	3.142
3	Fixed Income	12	8	609	523
4	Mixed	18	17	1.683	3.970
5	Protected	18	18	1.646	1.179
6	Index	1	1	216	144
7	Exchange Traded Fund	1	1	599	403
	<b>Total</b>	<b>85</b>	<b>66</b>	<b>10.838</b>	<b>9.390</b>

Source: Indonesia Capital Market Statistics, August 2015

Moving on to Pakistan, the country has contributed 7% of the number of Islamic funds and 2% of the global Islamic AuM in 2015. Domestically, Islamic funds represent 25.3% of the total Islamic asset management industry as of June 2015. For the past five years, the market share of Islamic funds has shown an immense growth from about 12% in 2011 to over 25% in 2015. The Islamic AuM has also registered a cumulative annualised growth rate (CAGR) of 25% for the past five years.<sup>21</sup> The exciting growth of Islamic funds in Pakistan is mainly driven by the increase awareness and demand toward Shariah compliant investment alternative.<sup>22</sup>

Elsewhere in Europe, Jersey Island and Luxembourg

are the key jurisdictions for Islamic funds market in the continent. Jersey Island is registered as the third largest country for the global Islamic AuM market, representing 9% of the total market share and contributing 5% of the total number of Islamic funds in 2015.<sup>23</sup> Jersey's Islamic fund sector is supported by flexible legal system, measured regulatory regime and tax neutral environment.<sup>24</sup> Meanwhile, Luxembourg contributes to 5% of the market share of the global Islamic AuM, representing 17% of the total number of Islamic funds in 2015.<sup>25</sup> Similar market share of global Islamic AuM is also contributed by United States.<sup>26</sup>

<sup>21</sup> IFN, 2015

<sup>22</sup> IFN, 2015

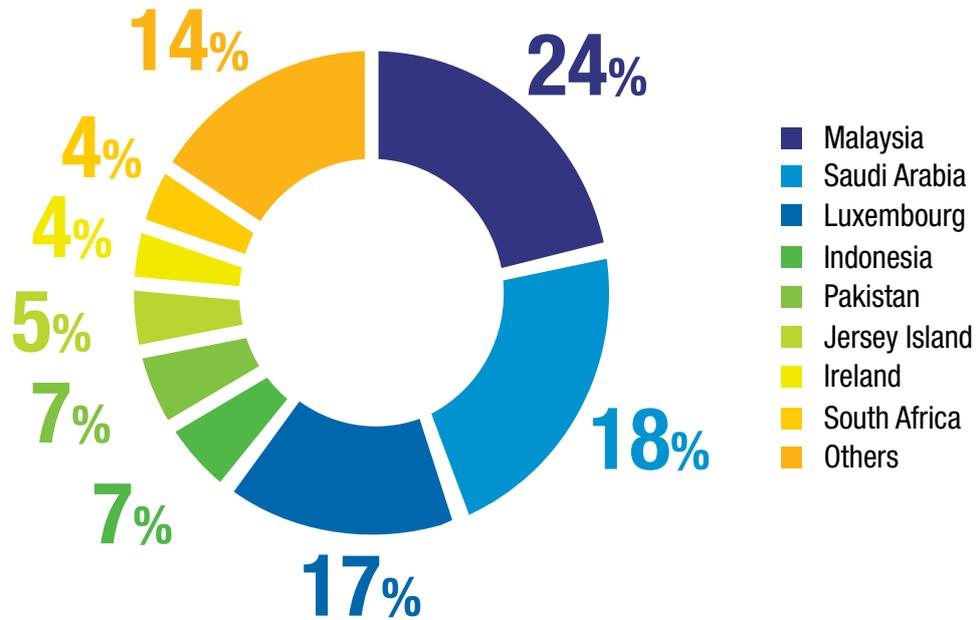
<sup>23</sup> ISRA & Zawya, 2015

<sup>24</sup> <https://www.jerseyfinance.je>

<sup>25</sup> ISRA & Zawya, 2015

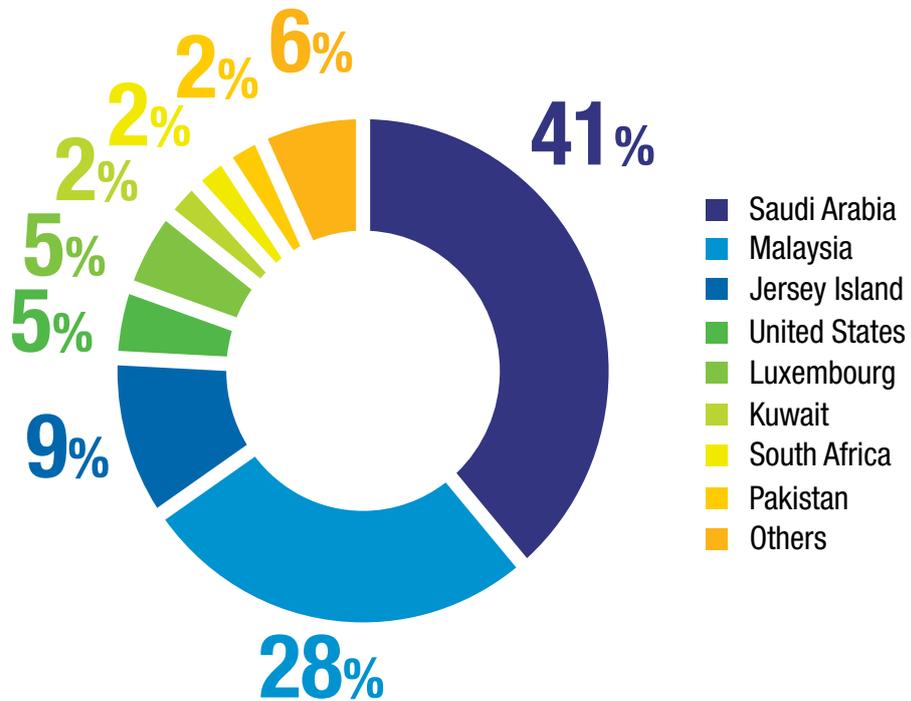
<sup>26</sup> ISRA & Zawya, 2015

**Number of Islamic Funds by Country (3Q2015)**



Source: ISRA' & Zawya, 30 September 2015

**Global Islamic Assets under Management (AuM) by domicile (USD billion) (3Q 2015)**



Source: ISRA' & Zawya, 30 September 2015

## Global Outlook

Overall, the global outlook of Islamic funds is expected to be positive in the next five years. It is projected that Islamic funds will grow by 5.05% per annum to reach USD 77 bln by 2019. This estimate is substantiated by a number of facts and assumptions:<sup>27</sup>

1. Islamic funds have shown an average growth of 9.55% per annum for the past five years. The growth is expected to continue but looking at the number of challenges the industry is currently facing, the 5.05% growth per annum for the next five year is a conservative projection.
2. Conventional mutual funds play an essential component of the Islamic financial landscape in the developed markets. It is projected that Islamic financial market will follow a similar pathways the developed market thus the growth of Islamic finance segment and Shariah-compliant asset class will share the same level as the developed market. In addition to that, future of Islamic funds industry is driven by the exciting development of Islamic banking and finance as part of natural progression and evolution of the global Islamic financial industry.
3. Global Islamic banking deposits recorded an

annual growth of 19.5% from 2014 to 2015.<sup>28</sup> Based on conservative position, it is projected that Islamic banking deposit will grow 8% per annum for the next five year. Similar growth is also expected for Islamic funds as part of Islamic finance segment.

4. There is a growing interest and awareness towards Shariah-compliant investment asset class across jurisdictions both from Muslim investors and non-Muslim investors. The encouraging growth of the global Muslim population is undeniably a positive indicator for the future of funds. There are rising facts in the behavioural literature that faith and ethnicity may influence financial literacy and financial decisions.<sup>29</sup> In 2009, the global Muslim population was approximately 21% of the global population, making them the second largest religious segment in the world.<sup>30</sup> Of more importance the number is consistently growing. Although many Muslims are poor, there are a substantial number of wealthy Muslims, and the size of the Muslim middle class continues to expand, which represents a relatively untapped market for Shariah-compliant asset classes. It is projected that the number of Muslims in the world will double from 1.1 bln in 1990 to 2.2 bln in 2030.<sup>31</sup>

<sup>27</sup> Thomson Reuters Projection, 2015

<sup>28</sup> BNM's Monthly Statistical Bulletin (2015)

<sup>29</sup> Gerrans et al. 2009 and Khan 2010

<sup>30</sup> Pew Forum on the Religion and Public Life, The Future of the Muslim Global Population (2011)

<sup>31</sup> Pew Forum on the Religion and Public Life, The Future of the Muslim Global Population (2011)

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