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Bumpy road for S'pore Islamic finance

But MAS believes deepening trade, investment linkages between Asia and Middle East will continue to present opportunities over time

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SINGAPORE's nascent Islamic finance industry is finding it tough going amid volatile financial markets and depressed oil revenues.

So far this year, there has been only one sukuk, or Islamic bond, deal in a fairly brisk fixed-income market which saw 136 bond deals worth S\$17.7 billion sold in the first nine months of 2015 - Malaysia's mortgage lender Cagamas Bhd sold a S\$163 million sukuk in September.

The lack of a natural pool of Islamic funds in secular Singapore is a major barrier to sukuk launches, according to Clifford Lee, DBS Bank head of fixed income.

"And so you try to sell in other markets which need education (leading to) higher costs; if you're a strong issuer, the conventional bond market is more than ready to meet your needs," explained Mr Lee.

Islamic finance bans interest, products with excessive uncertainty, gambling, short sales and the financing of prohibited activities considered harmful to society.

The strongest indicator that it's not smooth sailing for Islamic finance players here came in September when DBS Group Holdings said it will be winding down its Islamic banking unit, which it said has been unable to achieve the necessary economies of scale.

DBS had set up Islamic Bank of Asia in 2007, investing US\$250 million in Singapore's first Islamic bank. Its decision was not unexpected, as observers point to the challenges faced by an industry which had previously enjoyed double-digit expansion before last year's oil price plunge.

"Specific sectors will go through periods of growth and slowdown," said a Monetary Authority of Singapore (MAS) spokeswoman.

While growth in the Islamic finance business in Singapore is moderating in line with slower global growth in Islamic finance, it is important not to take a short-term view, she pointed out. "Deepening trade and investment linkages between Asia and Middle East will continue to present opportunities for Islamic finance over time."

The Islamic Financial Services Board has also embarked on efforts to promote a more consistent Islamic finance cross-border regulatory framework globally, she added.

Last month, a report said that the fast-growing Islamic finance industry is set to slow down next year over the sharp fall in oil revenues and rapid regulatory changes.

Standard and Poor's Ratings Services said that "Islamic finance growth will drop to single digits in 2016 from between 10 per cent and 15 per cent over the past decade."

It said that such rapid growth had seen the Islamic finance industry exceed an estimated US\$2 trillion in value and expects this to reach US\$3 trillion sometime in the next decade.

Malaysia, the world's biggest Islamic finance centre, has also seen growth moderate. "Islamic financial institutions in Malaysia, while facing a similar tough operating environment as their conventional banking counterparts, grew at around 8 per cent for the first six months of 2015, outpacing conventional banks which grew at around 4 per cent," said Alhami Abdan, head of international finance and capital markets, OCBC Al-Amin Bank Berhad.

Malaysian issuers, including the government, have raised about US\$12.02 billion from 67 Islamic bond deals between January and October, said Nikkei Asian Review in a recent report using Dealogic data. That compares to nearly US\$15 billion raised through 72 transactions during the same period last year and US\$17.9 billion in the whole of 2014.

"For 2016, the general sentiment is that it will be a challenging period for the Islamic finance industry worldwide, but the country's infrastructure financing needs will continue to anchor the Malaysian corporate segment," added Mr Abdan.

As a non-Muslim country, Singapore has gone the furthest in developing Islamic finance. In June, it held the 6th annual Annual World Islamic Banking Conference Asia, a yearly event hosted in Singapore since its inauguration.

At that conference, MAS deputy managing director Jacqueline Loh told 500 Islamic finance industry players and regulators that "Islamic banking assets in Singapore have grown by 73 per cent since 2010 and are increasingly cross-border in nature".

There have been 31 sukuk issuances over the past five years. MAS itself in 2009 created a sukuk facility to provide regulatory assets for banks undertaking Islamic finance activity. It remains the only conventional central bank to have done so.

"There have been eight issuances to date totalling S\$600 million, supported by robust demand," said Ms Loh, adding that the latest issuance, in November last year, was the largest yet.

Despite the challenges, there are some who are building up their capabilities in Singapore, to service the financing needs of corporate clients in the region and the Middle East.

Bobby Tay, co-founder, chief strategy officer of Sabana Real Estate Investment Trust, the only syariah-compliant listed company on the Singapore Exchange, said: "Corporates here are not incentivised to use Islamic products, as there is no special tax treatment for doing Islamic finance."

But Mr Tay is not giving up. "On a brighter note... I was invited to Beijing by a company owned by a China policy bank and they are keen to learn more about Islamic Finance," he revealed.

Banks from the Middle East have also launched wholesale products here. First Gulf Bank has rolled out wholesale Islamic banking products and treasury solutions.

Maybank and OCBC Bank offer syariah-compliant retail and business accounts.

Maybank has the Ar-Rihla Regular Savings Account - a special savings account for pilgrimage - the Islamic Auto Finance and Malaysia Residential Property Financing and Malaysia Commercial & Industrial Property Financing.

Last year, Maybank introduced another first here - Business Term Financing - the only syariah-compliant SME financing offered by a bank. Also introduced were Islamic trade facilities and foreign currency deposits.

"In terms of performance, we saw a commendable growth in the Islamic banking segment in Singapore, and over the last five years we have grown our financing portfolio with a five-year compound annual growth rate (CAGR) of more than 50 per cent," noted a Maybank Singapore spokeswoman.

OCBC Singapore offers the Al-Wadiah Savings Account and the Al-Wadiah Current Account.

The CAGR for both Al-Wadiah products for the period 2012-2014 is 4.8 per cent, said a OCBC spokesman.