

Features

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Islamic Banking Needs To Gear Up To Face Changes In Consumer Demand

By Nor Baizura Basri

KUALA LUMPUR, Dec 22 (Bernama) -- Islamic banking, which is likely to experience changes in consumer demand, will need to gear up their existing resources and go for more innovative Islamic financial products to cater to Muslims and non-Muslims.

Hong Leong Bank Bhd's general manager (debt capital market), Aminnurrallah Mustapah, said these changes were likely to take place in the immediate future as clients, investors and financial institutions were becoming increasingly savvy and sophisticated with the structuring and development of Islamic offerings.

He said the market was gradually moving towards providers of innovative Islamic solutions.

He said that in the past, there were much replication and referencing to conventional products and services; and consumers tended to have Islamic products that were merely financially re-engineered conventional solutions, but with the added Syariah-compliant element.

"But now we believe the appetite is definitely there for ground-breaking Islamic structures," he told Bernama in an interview.

He said the marketplace was starting to recognise that there were two entirely different products.

"The global marketplace, as well as us in Hong Leong Islamic banking, is moving towards a greater understanding of how Islamic finance should be developed," he said.

As for the outlook of Islamic banking next year, he said with intensive price competition and thin margins, some tie-ups or strategic alliances were expected.

"With the anticipated market liberalisation, we will definitely feel the presence of more and more foreign players and we think that is just what the industry needs to act as the impetus for local institutions to shape up," he said.

He said Islamic banks were expected to start diversifying revenue sources next year and he anticipated the emergence of Islamic investment banking and structured finance, asset and wealth management as major business lines.

"Currently, most Islamic banks and financial institutions took up the role of financial intermediaries within the retail and commercial banking segment," he said.

Meanwhile, this year saw the emergence of foreign players in the local scene after being awarded Islamic banking licences a year earlier.

This should spur Bank Islam to level up its competitive edge in order to compete in a

healthy environment with foreign players like Kuwait Finance House and Dubai Investment Bank.

On takaful, Malaysia is expected to register a strong long-term growth potential in the takaful and re-takaful market following its strong capability in maintaining the current leadership role in the global takaful industry.

Growth has been encouraging in the last few years and with new entrants, the industry is expected to expand robustly.

"After 22 years of takaful existence with only 5.6 percent market penetration, we must seriously consider other ways of educating or approaching the market," said new operator in the takaful industry, Prudential BSN Takaful chief executive officer Mohamad Salihuddin Ahmad.

He said Malaysia should set up a strong research and development institute to come out with innovative products and services that would push the country to be recognised as a leader in the Syariah-compliant community.

"Malaysia also needs to be efficient and fast in its approval process to ensure it will have the edge over neighbouring Singapore, which is also eyeing a top spot in the industry.

"If we are able to do that, Malaysia can definitely be ahead of Singapore in becoming a global Islamic financial hub (as envisioned by the government)," Mohamad Salihuddin added.

As for Islamic bond or sukuk market, its future is expected to be bright following growing awareness on sukuk as another set of asset which conventional investors could invest.

Bondweb Malaysia Sdn Bhd's head of research and pricing, Meor Amri Meor Ayob, said innovative sukuk structures incorporating one or more of the standard Islamic financing contracts were continuously being developed and introduced into the market.

"This will push up the size of the Islamic sukuk market, a trend which is expected to continue in the foreseeable future," he said.

Meor Amri said for the last few years, the healthy annual growth rates enjoyed by the Malaysian bond market had experienced a slowdown, from a high of 53.1 percent in 2003, to just single digit for the last two years.

"This was due primarily to the contraction in the conventional public debt securities in the last two years.

"If not for the strong growth registered by the Islamic sukuk market, the growth for the whole market would have been in negative territory," he said.

For the first 10 months of 2006, the Islamic sukuk market grew by 16.4 percent.

Due to the opposite direction on growth trend between conventional bonds and Islamic sukus, as a proportion, Islamic sukus now constituted 31.0 percent of the total Malaysian bond market, up from just 17.0 percent in 2000.

Malaysia Rating Agency Corporation said bond issues this year was estimated to be between

RM35 billion and RM40 billion, of which 70 to 80 percent of the amount was expected to be Islamic.

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