S’pore can be key in Islamic banking push

As financial hub near Muslim markets, it is seen as having double advantage

By Harsha Jethnani

SINGAPORE could play a critical role in helping Islamic finance achieve global standing, a roadshow on the fast-emerging industry has been told.

The Republic is now a key centre for Islamic finance and is well placed to become a regional and global hub for the sector, according to industry players.

Islamic finance involves investments and financial instruments that comply with Islamic principles, such as a ban on interest and on businesses linked to alcohol or gambling, for instance.

Mr Mohammad Safri Shahul Hamid, deputy chief executive officer of CIMB Islamic Malaysia, said that for Islamic finance to achieve global standing, some key developed countries such as those in the G-7 and G-20 needed to take notice.

Singapore’s role in getting these nations on board would be critical, he said.

Mr Safri said that while Malaysia may have a head start of more than 20 years on Singapore when it comes to developing Islamic finance, “Kuala Lumpur is not a global financial centre”.

Other industry players pointed to Singapore’s advantage over Hong Kong in terms of its proximity to important Islamic markets.

Mr Mohammad Faiz Azmi, partner and global Islamic finance leader at PricewaterhouseCoopers in Malaysia, also said that Singapore’s two key advantages are its location and status as a key financial centre.

Unlike Hong Kong, Singapore is near the Islamic finance markets of Malaysia and Indonesia, he told reporters on the sidelines of the Islamic Finance News roadshow held at the Singapore Management University.

The Republic has “good governance, good rules, and to show that Islamic finance can thrive in that kind of environment is a good selling story”, he said.

Last year, Singapore was the site of two significant developments in the industry.

First, Malaysian sovereign wealth fund Khazanah Nasional tapped markets here by issuing a $1.5 billion sukuk, or Islamic bond, that was four times oversubscribed.

And second, the world’s largest Islamic real estate investment trust, Sabana Reit, was listed on the Singapore stock exchange at the end of the year.

Mr Syed Abdull Aziz Jallani Syed Kechik, chief executive and director of OCBC Al-Amin – OCBC Malaysia’s Islamic finance operation – said Singapore is the place for “capital or cross-border liquidity flow among countries in the region”.

And Mr Allan Redimerio, director and head of Asia infrastructure ratings at Standard & Poor’s, cited the Khazanah issuance as an example of how Singapore can bridge the gap between investors and issuers when it comes to sukuk.

Comparing conventional and Islamic bonds, he said: “Once issuers understand that credit risks are similar... liquidity will be facilitated and it will encourage more issuers with sukuk.”

But OCBC Al-Amin’s Mr Syed pointed out that more still needs to be done to create a fully fledged financial system.

Progress has mainly been made on the capital markets and banking front, but things have to evolve in the takaful – Islamic insurance – and interbank markets “because this will provide a lot more liquidity”, he said.

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