No:23

2022
APRIL

NON-BANKING ISLAMIC FINANCIAL INSTITUTIONS AND MODELS REPORT: INDONESIA-MALAYSIA

- Shifa Mohd Nor
- Rahmatina Awaliah Kasri
- Syajarul Imna Mohd Amin

Country Reports 11

ikam
RESEARCH CENTER FOR ISLAMIC ECONOMICS

İLKE Publication No:129 | IKAM Research Reports 23 | IKAM Country Reports 11 | ISBN: 978-625-7684-97-2 | E-ISBN: 978-625-7684-98-9 | DOI: http://dx.doi.org/10.26414/ur11

Non-Banking Islamic Financial Institutions and Models Report: Indonesia-Malaysia

Shifa Mohd Nor
Rahmatina Awaliah Kasri
Syajarul Imna Mohd Amin

Editors

Rabiul Islam
Merve Soylu

İLKE Foundation is a non-governmental organization that conducts research on social issues and proposes policies and strategies to blaze the trail for the policymakers and direct them towards the right track and contributes to the formation of the necessary knowledge for the future.

This Research Report was prepared by the Research Center for Islamic Economics (IKAM). IKAM aims to produce competent ideas and theories in order to build Islamic economic thought in a holistic manner.

Address: Aziz Mahmut Hüdayi Mah. Türbe Kapısı Sk. No: 13 Üsküdar/ İstanbul Phone: +90 216 532 63 70 E-mail: info@ikam.org.tr Web: ikam.org.tr

ABSTRACT

Important as the mainstream Islamic financial institutions, the Islamic non-banking financial institutions (NBFIs) complement the role of providing for the development of socioeconomics. The Islamic NBFIs served various prospect that covers multiple responsibilities such as microfinancing, charity, zakat, endowment, pension funds, venture capitals and etc. The increasing demand of financial assistance via innovative avenues provide advantages for Muslims to fulfil their developmental needs. This report attempts to describe the Islamic NBFIs in Malaysia and Indonesia. So much as the growth of Islamic finance in both countries, the development of these institutions in Malaysia is due to the governments initiatives (top-down) while in Indonesia it is mostly due to the society's demand (bottom-up) to cater their livelihood. The Malaysian case has not separate the Islamic and non-Islamic NBFIs as they work alongside together, in contrast to Indonesia that specifically differentiates the Islamic NBFIs. The landscape of NBFIs in both countries are different from size of the institutions, complexity, maturity, regulatory and also supervisory framework. This report provides valuable information pertaining to various sectors in the industry from both countries.

Keywords: Indonesia, Malaysia, Non-Banking Islamic Financial Institutions (NBFIs), Islamic finance.

ÖZET

Ana akım İslami finans kurumları kadar önemli olan Banka Dışı İslami Finans Kurumları (BDİFK), sosyoekonominin gelişimini sağlama rolünü tamamlamaktadır. Banka dışı İslami finans kurumları mikrofinans, hayır kurumu, zekat, bağış, emeklilik fonları, risk sermayeleri vb. gibi birden fazla sorumluluğu kapsayan çeşitli beklentilere hizmet etmektedir. Yenilikçi yollarla artan mali yardım talebi, Müslümanların kalkınma ihtiyaçlarını karşılamaları için birtakım avantajlar sağlamaktadır. Bu rapor, Malezya ve Endonezya'daki banka dışı İslami finans kurumlarını tanımlamaya çalışmaktadır. Her iki ülkede de İslami finansın büyümesi kadar, Malezya'da bu kurumların gelişimi hükümet girişimlerine (yukarıdan aşağıya) bağlıyken, Endonezya'da çoğunlukla toplumun geçimlerini sağlama talebine (aşağıdan yukarıya) bağlıdır. Malezya örneği, banka dışı İslami finans kurumlarını özel olarak farklılaştıran Endonezya'nın aksine, birlikte çalışmaları sebebiyle İslami ve İslami olmayan banka dışı finans kurumlarını ayırmadı. Her iki ülkedeki BDFK'lerin tabiatı, kurumların boyutundan, karmaşıklığından, olgunluğundan, düzenleyici ve denetleyici çerçevesinden farklıdır. Bu rapor her iki ülkeden sanayideki çeşitli sektörlerle ilgili değerli bilgiler sunmaktadır.

Anahtar Kelimeler: Endonezya, Malezya, Banka Dışı İslami Finans Kurumları, İslami finans.

Reference: Mohd Nor, S., Kasri, R. A., and Mohd Amin, S. I. (2022). *Non-Banking Islamic Financial Institutions and Models Report: Indonesia-Malaysia* (Research Report No. 23). İstanbul: Research Center for Islamic Economics (IKAM).

ABOUT AUTHORS

Shifa Mohd Nor, PhD, is a senior lecturer at the Centre for Governance, Resilience and Accountability Studies (GRACE), Faculty of Economics and Management, Universiti Kebangsaan Malaysia. She is also an associate fellow at the Institute of Islam Hadhari, Universiti Kebangsaan Malaysia. Dr. Shifa begins by achieving a degree in Business Administration from International Islamic University Malaysia. She then pursues her Master's degree in Islamic Banking, Management and Finance at Loughborough University, UK and then was awarded a PhD from Durham University, UK. Her research interests are related to social responsibility, ethics, sustainability, Islamic social finance especially zakat and fintech.

https://orcid.org/0000-0002-7205-1179

Rahmatina Awaliah Kasri, PhD, is the Director of Islamic Economics and Business Center and a senior lecturer at the Faculty of Economics and Business Universitas Indonesia. She also serves as the Chairwoman of the Jakarta Chapter of the Indonesian Association of Islamic Economist, the Expert Board's member of Indonesia Islamic Economic Society and a member of the International Association of Islamic Economists. She gained her Ph.D. from Durham University UK, MBA from IIU Malaysia, MA from Australian National University, and BA in Economics from Universitas Indonesia. Her research interest includes Islamic economics and finance as well as development economics.

https://orcid.org/0000-0002-5752-3326

Syajarul Imna Mohd Amin, PhD, has served for 13 years as a finance and banking lecturer at the Faculty of Economics and Business (FEP), Universiti Kebangsaan Malaysia (UKM). Currently, she is a senior lecturer and Head of the Finance, Banking and Monetary Cluster, Centre for Sustainable and Inclusive Development (SID), FEP. Her doctorate from The Global University of Islamic Finance (INCEIF) examined liquidity risk management of Islamic banks in OIC countries. Her areas of expertise are banking, financial economics, capital markets, and financial risk management. Recently, her research activities have focused on stock analysis, Fintech, and cyber securities in banking.

https://orcid.org/0000-0002-7335-9191

Introduction

The concept of Non-Banking Financial Institutions (NBFIs) has different interpretations from one jurisdiction to another due to geo-economic differences. While some refer to the NBFIs as "shadow banking" interchangeably, others have termed it as "Non-Bank Financial Intermediation" (Financial Stability Board, 2020). The Financial Stability Board defines NBFIs as "credit intermediation involving entities and activities outside the regular banking system". In Malaysia, the NBFIs are financial institutions that provide financial services outside BNM's regulatory perimeter (Muhamad Amar, 2013; Azmir & Ishak, 2021). There is no specific term for Islamic NBFIs in Malaysia, hence the mere reporting. While in Indonesia, NBFIs refer to a field of activity related to activities in the insurance industry, pension funds, financing institutions, and other financial service institutions (OJK, 2020). On the other hand, Islamic Non-Banking Financial Institutions (INBFIs) are subject to additional Shariah requirements in providing financial services to a society that demands Shariah-compliant products. In general, the NBFIs sector in Malaysia and INBFIs sector in Indonesia is smaller than the more dominant banking sector. The classification of NBFIs between the two countries is different in size and complexity, maturity, regulatory and supervisory framework.

Malaysian NBFIs can be broadly divided into five groups (refer Table 1). The classification is based on five economic functions (EFs): management of collective investment vehicles with features that make them susceptible to runs (EF1), loan provision that is dependent on short-term funding (EF2), intermediation of market activities that are dependent on short-term funding or secured funding of client assets (EF3), facilitation of credit creation (EF4), and securitisation-based credit intermediation and funding of financial entities (EF5).

Table 1: Non-Banking Financial Institutions in Malaysia

Non-Banking Financial Institutions (NBFIs) in Malaysia
• Insurans and Takaful Companies Provident and Pension Funds • Other Development Financial Institutions (DFIs) • Fund Management Industry • Securitisations vehicles • Other NBFIs

Source: Bank Negara Malaysia (2019).

In Indonesia, although the INBFIs are also broadly divided into six groups, there are 16 institutions classified under the groups (refer Table 2).

Table 2: Islamic Non-Banking Financial Institutions (NBFIs) in Indonesia

Groups	Institutions
Insurance	Sharia life insurance, sharia non-life insurance and sharia reinsurance
Finance Institutions	Sharia finance company, sharia venture capital company and sharia infrastructure finance company
Pension Funds	Corporate-based employee-provident funds (EPF-DBPF and EPF-DCPF) and financial institutions' pension funds
Specialized Financial Institution	Sharia Guarantee Company, Sharia Pawn Shop, Sharia Unit of Indonesia Export Guarantee Agency (LPEI), Sharia Housing Secondary Financing Company, and PNM Sharia Unit
Micro Finance Institutions	Sharia Micro Finance Institution
Fintech	Financial Technology Sharia

Source: Summarised from OJK (2021).

The tremendous growth of Islamic finance in the past two decades is partly contributed by the growing significance of INBFIs in the mobilization of savings and investments. The INBFIs have enhanced access to a diverse range of funding and investment alternatives for households, businesses, and financial institutions. The INBFIs offer alternative sources of financial services to unbanked or underserved economic agents and fill the gaps in the financial system. They serve a specific segment of society with specific social objectives that banks cannot deliver, for instance, due to the customers' creditworthiness issues. Thus, NBFIs play a significant role in promoting financial inclusion, making the financial system accessible, especially to the community in rural areas and small-scale businesses. Besides, compared to deposits in banking which are short-term and liquid, funds mobilization through savings in NBFIs are long-term and illiquid. The NBFIs are involved in relatively risky long-term financing and serve as the key players in accelerating the capital market development and thus market stability.

Institutional Development

Institutional development refers to the ecosystem, regulation and research and development in Islamic finance. Malaysia and Indonesia have different Islamic financial development structures where Malaysia is mostly government-led initiatives while Indonesia is a community-based initiative. Both countries' top-down and bottom-up approaches have definitely provided a significant impact on the development of INBFIs.

Ecosystem

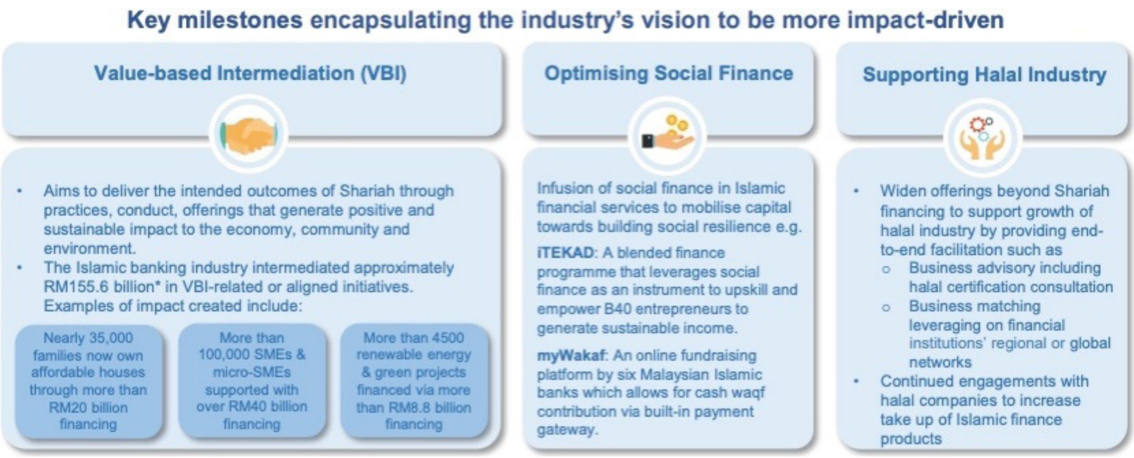
The year 2020 was devastating on various fronts. The unprecedented Covid-19 health crisis has significantly impacted economic and social disruption globally, which Malaysia and Indonesia included. Several national measures have been introduced to weather the pandemic, such as travel restrictions, lockdowns, and social distancing, which inevitably lead to an economic slowdown, increase in unemployment, inflation, poverty, and a shift in the way of doing business. The majority of businesses invest in digital channels to adapt to the current circumstances to improve service delivery.

Figure 1: Islamic Finance Ecosystem in Malaysia

Source: MIFC (2020).

The Islamic finance ecosystem in Malaysia continues to have steady growth and improvement towards a vision of impact driven. Figure 1 shows the diverse key players of Islamic financial institutions and entities i.e., banking institutions, takaful operators, fund management, talent management, governance, technology etc., to ensure the success of the system.

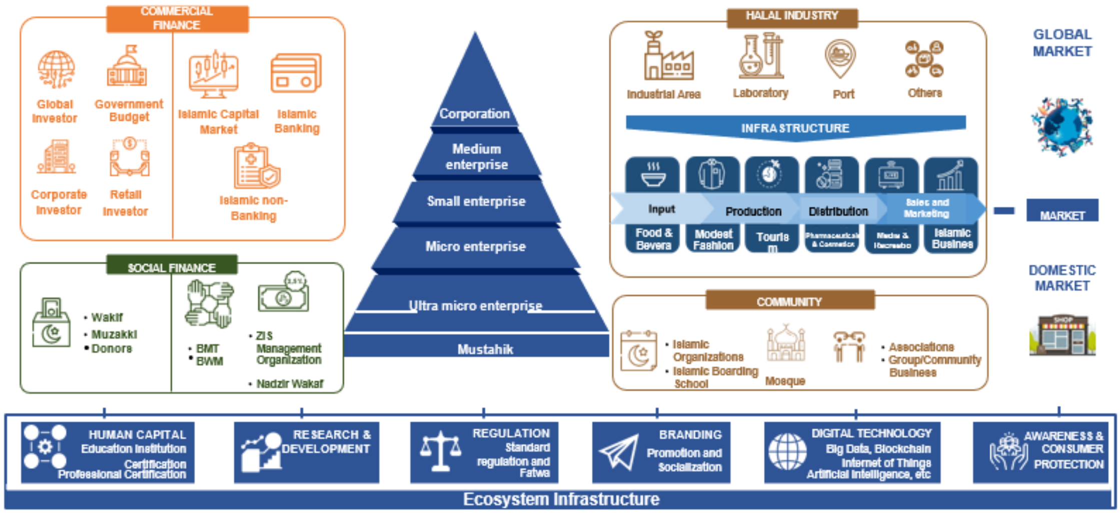
Figure 2: Key Milestone of Islamic Finance in Malaysia



Source: MIFC (2020).

Moving towards the Sustainable Development Agenda (SDGs), Islamic finance in Malaysia enhanced its attention towards capacity building and community development (refer Figure 2). Malaysia has promoted Value-Based Intermediation (VBI) to manifest the *Maqasid al-Shariah* and uphold the Islamic economy's fundamentals. In addition, social inclusion becomes among the importance of Islamic finance in Malaysia by infusing social finance into the Islamic financial services. Malaysia also widens the spectrum of the halal industry.

Figure 3: Islamic Economics Ecosystem in Indonesia



Source: Komite Nasional Ekonomi dan Keuangan Syariah (KNEKS) (2021).

The Islamic economics ecosystem in Indonesia is illustrated in Figure 3. With this framework, the INBFIs are considered a supplier of funds located under Islamic commercial finance, alongside Islamic banking, and the Islamic capital market. It is also notable that human capital, research and development (R&D), regulation, branding, digital technology and awareness and consumer protection are part of the ecosystem.

Regulation

Malaysia is renowned as an Islamic finance hub that equips with robust and comprehensive regulation, Shariah governance framework and infrastructure. Islamic banks (and Takaful operators) are subject to the Central Bank of Malaysia – Bank Negara Malaysia (BNM) requirements and regulations (IFSA, 2013). The other INBFIs are exceptional as they have their specific acts. However, the Central Bank of Malaysia Act (2009) has given the authority to BNM to conduct ongoing surveillance and monitoring of NBFIs and take risk mitigation action, if necessary, in ensuring financial system stability. Since the classification of INBFIs in Malaysia is too broad, Table 3 provides the regulatory framework of selected key INBFIs in the country.

Table 3: Legislation and Guidelines

No	Institution	Regulator	Act and Guideline
1	Islamic Fund Management	Security Commission	Capital Market Service Act (CMSA) 2007 Shari'ah Advisor Guideline Islamic Fund Management Guideline
2	Islamic Cooperative	Suruhanjaya Koperasi Malaysia	Cooperative Societies Act 1993 Shari'ah governance framework (SKM)
3	Ar-Rahnu (Corporation)	No Regulator	No specific guideline issue except National Fatwa Committee
4	Permodalan Nasional Berhad (PNB)	Minister of Finance	Minister of Finance (Incorporation) Act 1957

5	Employees Provident Funds (EPF)	Minister of Finance	EPF Act 1991
6	Tabung Haji	Prime Minister's Department (Religious Affairs)	TH Act 1995

Source: Ahmad and Ishak (2021).

Similarly, the regulatory framework of INBFIs in Indonesia is comprehensive due to the complex nature of the sector. Selected regulations of the sector are summarised below.

Table 4: Regulations of INBFIs in Indonesia

Recapitulation of Islamic Non-Bank Financial Institution (NBFIs) Regulations					
	Institutional	Governance	Operational	Health (Soundness)	Regulation Level*
Islamic Insurance	√	√	√	√	PP 39/2008 PMK 18/2010 PER 08/2011 UU 40/2014 POJK 69/2016
Islamic Financing	√	√	√	√	POJK 31/2014 SE OJK 11/2020
Islamic Guarantee	√	√	√	√	POJK 1/2017
Islamic Venture Capital	x	x	x	x	Being prepared
Islamic Pension Funds	√	√	√	√	POJK 33/2016
Islamic Pawning	x	x	x	x	Being prepared
Islamic Indonesian Export Financing Agency	√	√	√	√	UU 2/2009 PMK 140/2009
Islamic Microfinance	√	√	√	√	PP 9/1995 UU 1/2013 POJK 61/2015
Risk Management of INBFIs	√	√	√	√	POJK 4/2021
(*) Note: a. UU: Act b. PP: Government Regulation c. PMK: Regulation of The Minister of Finance d. SE: Circular Letter e. POJK: Financial Services Authority of Indonesia (OJK) Regulation					

Source: Summarised from OJK Road Map 2015-2019; OJK (2020).

In terms of Shariah governance, Malaysia adopts a two-tier model where the Shariah Advisory Council is placed at the national level (BNM or Securities Commission), and the Shariah committee is compulsory at the institutional level. The INBFIs are not subject to the Shariah Governance Framework (SGF) of BNM 2010 except *Takaful* and DFIs. The revised Shariah Governance Policy Document (SGPD, 2019) has further strengthened the role of the BOD and Shariah committee in ensuring the effective implementation of Shariah governance, policies, procedures, and practices. Table 5 shows the SGF of selected most significant INBFIs in Malaysia.

Table 5: Shariah Governance Framework

No	Institution	Shariah Committee	Shariah Research	Shariah Review	Shariah Audit	Shariah Risk Management
1.	Islamic Fund Management	√	x	x	x	x
2.	Islamic Cooperative	√	√	x	x	x
3.	Ar-Rahnu (Corporation)	x	x	x	x	x
4.	Permodalan Nasional Berhad (PNB)	√	√	x	x	x
5.	Employees Provident Funds (EPF)	√	√	√	√	x
6.	Tabung Haji	√	√	√	√	x

Source: Ahmad and Ishak (2021).

Similar to the Malaysian model of Shariah supervision for IFIs, the Indonesian model is characterised by the existence of a dual Shariah supervisory body: the National Shariah Council (DSN) at the national level and The Sharia Board (SB) at the institutional level. The DSN is an independent body formed by the Indonesian Council of *Ulama* or Muslim scholars, known as the MUI, in 1999. The fatwa issued by DSN-MUI serves as a guideline for financial institutions that offer Islamic financial services. It is notable that, although the DSN organizational status is a non-governmental organization, the fatwa issued specifically related to financial transactions is of a binding nature for Shariah financial industry players as stipulated in Article 26 of Law No. 21/2008 concerning Islamic banking. Furthermore, on the institutional level, every IFIs must establish an SB to supervise the Shariah compliance of all operations made by the IFIs. To ensure greater Shariah compliance, the relevant government institutions must set up "fit and proper" criteria, which include a test for new members of the SB that cover the understanding of Shariah principles and knowledge of Islamic banking and finance in general (Asri et al., 2020; Grassa, 2013).

Human Resource

The human resource aspect could be seen primarily from the Islamic finance education landscape, which includes educational institutions, certification, and research activities. According to the INCEIF Refinitiv Islamic Finance Knowledge Outlook Report 2020, Indonesia leads the world with the highest number of Islamic education providers, with 355 institutions providing Islamic finance education at degree, professional qualification, or certificate levels. Considerable interest in Islamic economics has triggered Indonesia's astronomical growth in the number of education providers, and there are now 166 education providers offering courses in this subject. This is followed by the UK with 72 education providers and 62 in Malaysia (INCEIF, 2020).

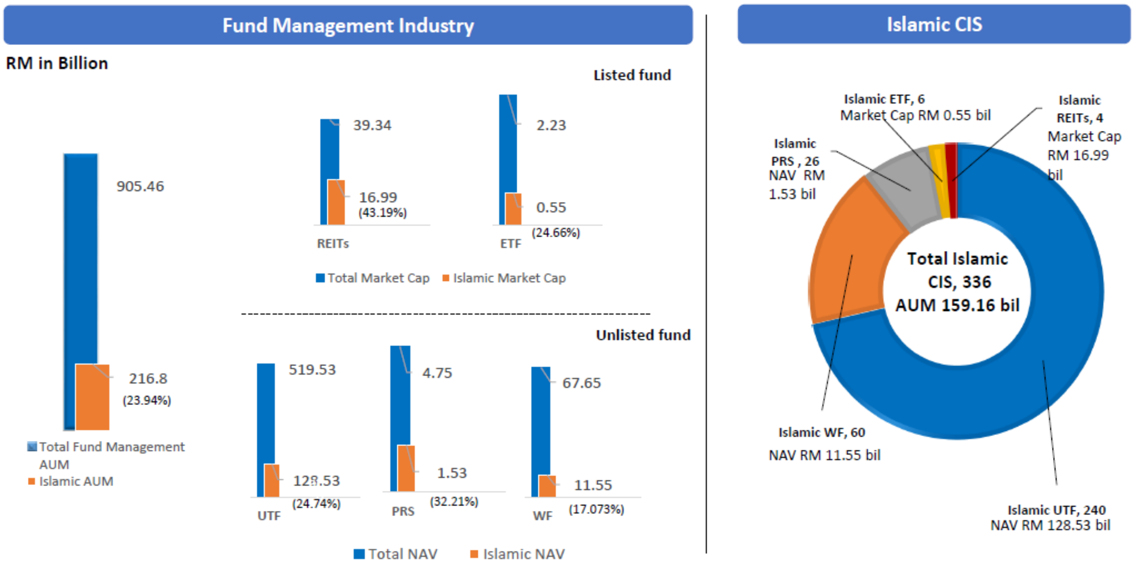
In terms of Islamic finance research, Malaysia is the world's most widely covered country due to its being a global leader in Islamic finance and a market known for *Sukuk* issuances with innovative structures. Indonesia is second due to its numerous Islamic finance-related projects, which have made the country the second most important market in Southeast Asia after Malaysia. Malaysia has ranked top in the Refinitiv Islamic Finance Development Knowledge indicator as Malaysian researchers and academics produced a substantial number of research papers. There were 876 research papers and 604 peer-reviewed journal articles in 2018. Malaysia's number of research papers published is almost double the number in Indonesia, which is in second place with 465 research papers and 343 peer-reviewed articles. The reason for the relative shortage of research papers and peer-reviewed articles in Indonesia is that most of the research papers published in the country are in the Bahasa Indonesia language (INCEIF, 2020).

Industry Development

Today, Islamic finance in Malaysia has become relatively broader and better structured on all its fronts, including ecosystem, legislative framework, and human resource development. The development of INBFIs have been modest in concomitant with the size of economies. In aggregate, the market shares of NBFIs continue expanding, at a 2.9 percent increase in the second half of 2019 to account for 40.6 percent of the financial system's assets. Provident and pension funds and the fund management industry make up the most significant portions of NBFI's total assets at 82.8%. The continuing growth of NBFI assets illustrates how NBFIs have gained their systemic presence in the Malaysian financial system.

Based on the data from Financial Services Authority (OJK) (2020), the total assets of INBFIs in Indonesia in 2020 are IDR 116 trillion. Of this total, the Islamic insurance industry and Islamic specialized financial institutions dominate the proportion of total INBFIs asset, which is 37% (IDR 44 trillion) for Islamic insurance and 35% (IDR 41 trillion) for the Islamic specialized financial services institutions. In the next position, the total assets of Islamic finance institutions recorded a proportion of 18% (IDR 21 trillion) of INBFIs' total assets. Then the Islamic pension funds occupy the upcoming position with a proportion of 7% (IDR 7 trillion) of INBFIs' total assets. Furthermore, Islamic microfinance and Islamic fintech occupy the bottom two positions with total assets proportions of only 0.43% (IDR 499.70 billion) and 0.06% (IDR 74.68 billion) of INBFIs' total assets, respectively.

Figure 4: INBFIs Assets in 2020 (Indonesia)



Source: Processed from OJK INFBIs Statistics (2020).

Islamic Insurance

Islamic insurance or known as Takaful is a joint scheme to guarantee within themselves upon defined losses using the contribution of participants from the takaful funds based on the principle of *tabarru'* (donation) and *ta'awun* (cooperation). The report below describes the overview of takaful from Indonesian and Malaysian perspectives, respectively.

Malaysia

The Takaful Malaysian sector was first established in 1984, which went through three stages of development in tandem with the principal blueprint of the Malaysian Central Bank (Bank Negara Malaysia, 2005). The first stage (1982–1992) focused on the structure development of the sector. The second stage (1993–2000) involved strengthening regional collaboration between the takaful operatives. The third stage (2001 until present) was to strengthen the Financial Sector Principal Blueprint and Shariah governing framework. It is also a phase that aims to improve the proficiency of the Takaful operators.

Takaful is one of the critical epicentres of Islamic finance in Malaysia. There are currently 15 Takaful operators and 3 retakaful operators in the country. Before the Covid-19 pandemic, Takaful has recorded astounding growth for more than two decades despite intense competition from its traditional insurance rivalry.

The Family Takaful, which is the main product, continued to expand from 34% in 2019 to 38% in 2020 due to new business contributions of life insurance during the 2020 health crisis. However, during the first half of the year, it experienced a minor fall in profitability (28%) compared to a significant 79% drop in life insurance funds due to unrealised losses in equity investment and lowered new contributions. On the other hand, General Takaful (including medical, motor and home takaful) has seen stable progress at 16% of the overall general insurance market. The takaful sector's capital adequacy ratio recorded high at 240%, above the 226% of the insurance sector.

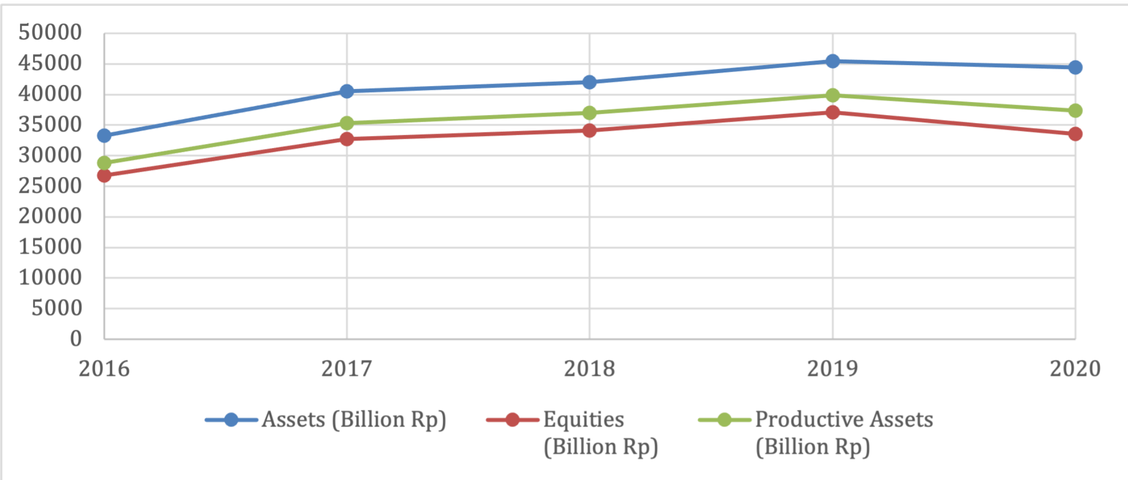
Takaful penetration prospects remain bright in favour of the government's initiatives to provide financial support for the bottom 40% of income earners under the *'Perlindungan Tenang'* scheme. The extent of the Takaful's recovery in 2021 will highly rely on the economic ramifications of Covid-19's infectious level and the nationwide vaccination progress. The year 2021 will see a 10% to 12% rebound in new business growth driven by a recovery of mortgage takaful contracts. It is anticipated that an uptick in car sales in 2021 will likely stimulate general takaful growth at 6% to 8% (RAM, 2021).

Indonesia

According to the data from Financial Services Authority (Otoritas Jasa Keuangan), the total number of Islamic insurance industries in Indonesia as of December 2020 is 13 units, of which 7 units are Islamic life insurance industries, 5 units are Islamic non-life insurance industries, and 1 unit is Islamic reassurance industries. In the last five years, Islamic insurance institutions have also shown a fairly good development. It can be seen from the overall growth trend of assets, equity, and productive assets of Islamic insurance institutions, which have increased, although in 2020 there was a slight decline due to the impact of the Covid-19 pandemic (see Figure 5).

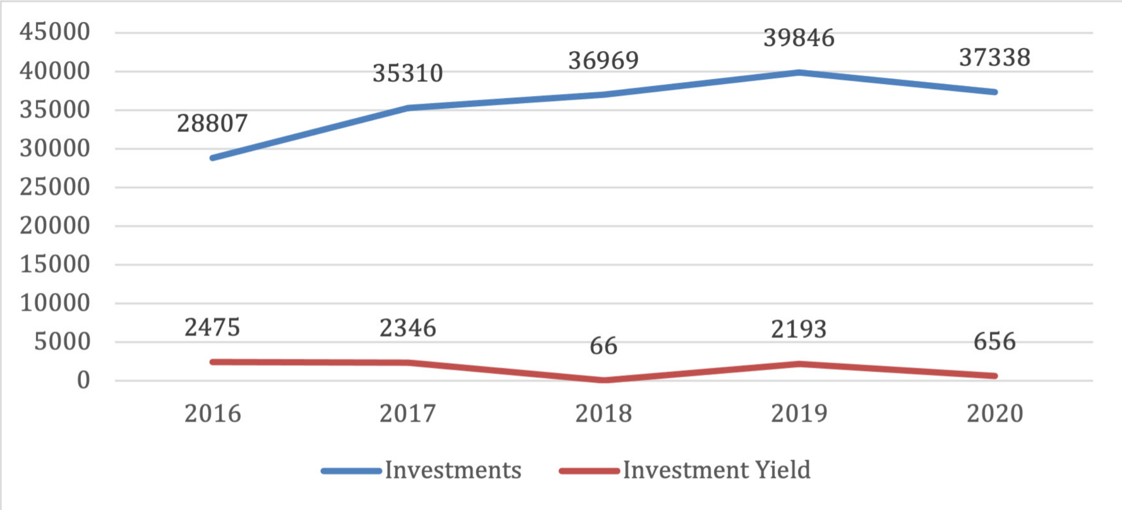
Furthermore, when it was compared between 2016 and 2020, total assets grew 34% or increased from IDR 33,244 billion to IDR 44,440. Meanwhile, in the same period, the equity side grew 25% from IDR 26,770- billion to IDR 33,572, while in productive assets, the growth reached 30% or grew from IDR 28,807 to IDR 37,338.

Figure 5: Assets, Equities, and Productive Assets of Indonesia Islamic Insurance (in Billion IDR)



Source: OJK (2020).

Figure 6: Investment and Investment Yields in Islamic Insurance Industries

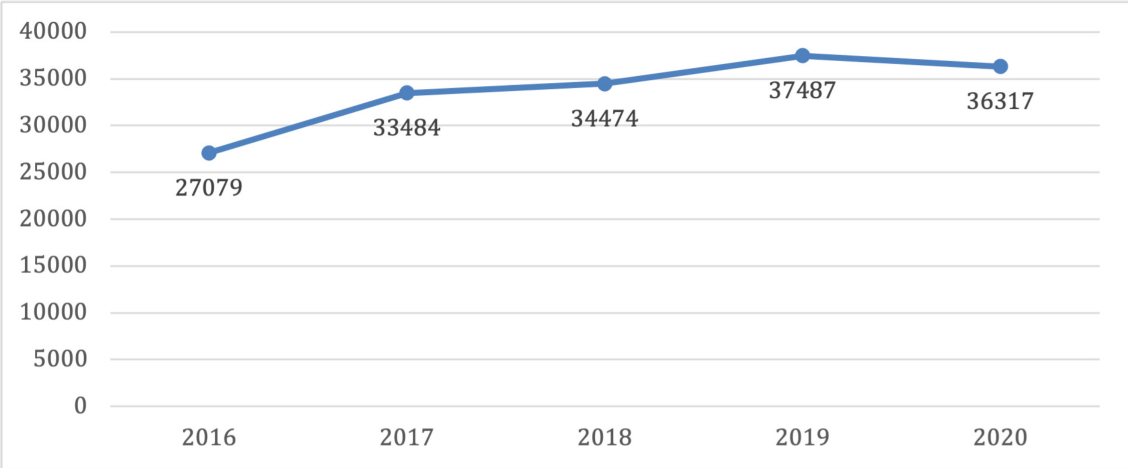


Source: OJK (2020).

Meanwhile, as shown in Figure 6, the Islamic insurance industry's investment value experienced an increasing growth trend except in 2020 due to the Covid-19 pandemic. Furthermore, investment returns in the Islamic insurance industry experienced a trend that tends to be more volatile. This condition occurs due to the investment climate that tends to fluctuate, macroeconomic movements are not good and other factors such as the Covid-19 pandemic that affect investment results in the Islamic insurance industry. Moreover, there are two types of Islamic insurance in Indonesia divided into the sub-sector, namely Islamic life insurance and Islamic non-life insurance.

Based on the Otoritas Jasa Keuangan (OJK) data (2020), Islamic life insurance occupies 82% of the total assets of the Islamic insurance industry. As shown in Figure 7, the growth of Islamic life insurance assets is good because it generally shows an increasing trend. For example, in the 2016 to 2019 period, growth occurred between 3%-24%, where initially the assets of Islamic life insurance were IDR 27,079 billion in 2016, then increased to IDR 37,487 billion in 2019. Meanwhile, the total Islamic life insurance assets decreased in 2020, which is believed due to the impact of the Covid-19. However, the decline in Islamic life insurance assets was only around 3% or decreased to IDR 36,317 billion in 2020.

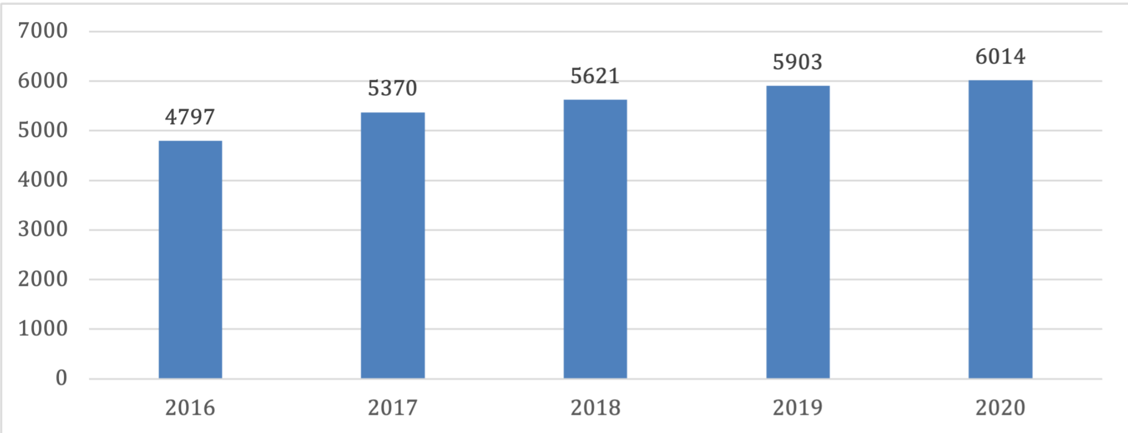
Figure 7: Total Assets of the Islamic Life Insurance (in Billion IDR)



Source: OJK (2020).

Meanwhile, Islamic non-life insurance has a proportion that is not so large compared with Islamic life insurance. The proportion of Islamic non-life insurance assets to total Islamic insurance assets is 13%-14%. Nevertheless, the growth of Islamic non-life insurance assets is quite good because the overall growth trend is increasing even during the Covid-19 pandemic (see Figure 8).

Figure 8: Total Assets of Islamic Non-Life Insurance



Source: OJK (2020).

Islamic Financing Institutions

Malaysia

In Malaysia, the establishment of DFIs is for the purpose of carrying out specific tasks in developing specific critical sectors for the socio-economic development of the country, including small and medium-sized enterprises (SMEs), export-oriented sectors agriculture, infrastructure, maritime, and capital-intensive and high-technology industries. DFIs complement the role of banks in providing financial products and services to strategic sectors for promoting the long-term economy. Over the years, the development of DFIs has been quite stagnant. In 2013, DFIs accounted for the growth. There are 13 DFIs in Malaysia, six are regulated under the Development Financial Institutions Act 2002 (DFIA 2002) and the remaining seven are not regulated by BNM under DFIA (see Table 6).

Table 6: Development Financial Institutions in Malaysia

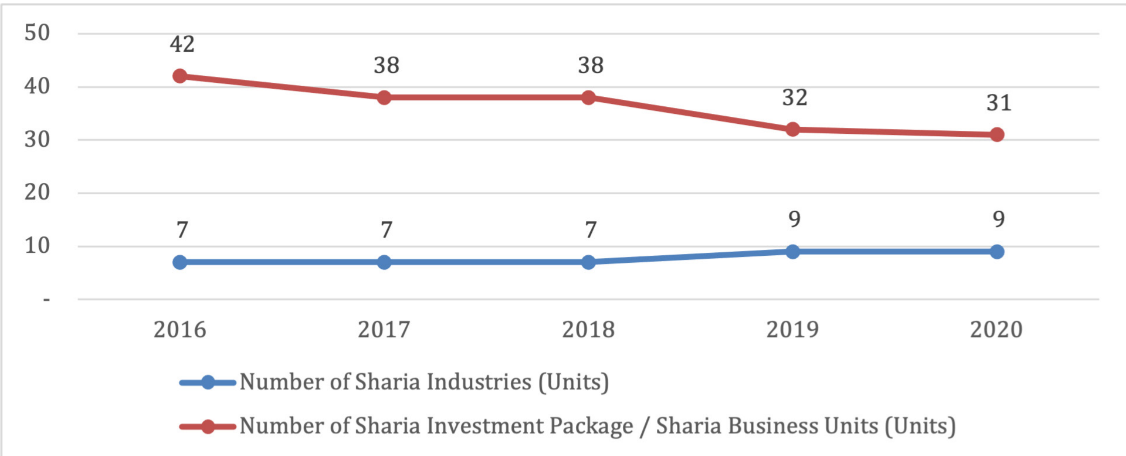
No	Regulated	Non-Regulated
1.	Bank Pembangunan Malaysia Berhad	Malaysian Industrial Development Finance Berhad
2.	SME Bank Malaysia Berhad	Credit Guarantee Corporation Berhad
3.	Export-Import Bank of Malaysia Berhad	Lembaga Tabung Haji
4.	Bank Kerjasama Rakyat Malaysia Berhad	Sabah Development Bank Berhad
5.	Bank Simpanan Nasional	Sabah Credit Corporation
6.	Agrobank	Borneo Development Corp. (Sabah) Sdn Bhd
7.		Borneo Development Corp. (Sarawak) Sdn Bhd

Source: Bank Negara Malaysia (2021).

Indonesia

In the last five years, the number of Islamic financing institutions has had a relatively stagnant trend with a slight increase, as shown in Figure 9. For example, during the 2016-2018 period, the number of Islamic financing institutions was 7 units, while in the 2019-2020 period, it increased slightly to 9 units. However, in terms of the sharia business unit, the trend tends to decrease. For example, in 2016, the number of sharia business units was 42 units but continued to decline in subsequent periods to 38 units in the 2017-2018 period, 32 units in 2019, and the lowest in 2020, which was 31.

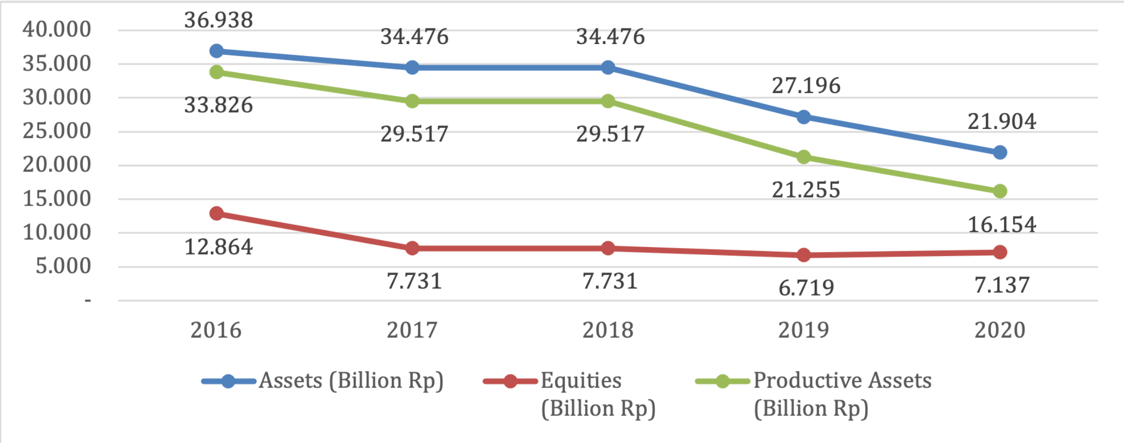
Figure 9: Number of Industry and Sharia Business Units of IFIs in Indonesia



Source: OJK (2020).

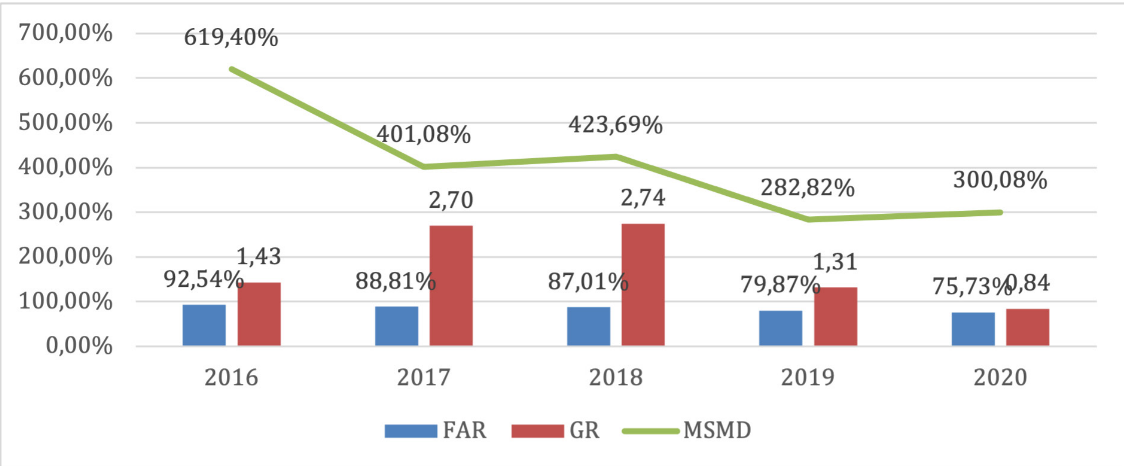
Furthermore, based on the OJK (2020) statistics, the decrease in the number of sharia business units in Islamic financing institutions was also accompanied by a decrease in assets, equity, and productive assets (see Figure 10). The decline in these three aspects was quite significant, when compared between the 2016 and 2020 periods, the decline in assets reached 41%, equity decreased by 45%, while productive assets fell by 52%. Some of these developmental conditions illustrate that Islamic financing companies are one of the sectors that are quite affected by unfavourable macroeconomic conditions, where the largest decline occurred in 2020, which was the period of the Covid-19 pandemic.

Figure 10: Assets, Equity, and Productive Assets of Islamic Financing Institutions



Source: OJK (2020).

Figure 11: Development of Islamic Financing Institutions Performance



Source: OJK (2020).

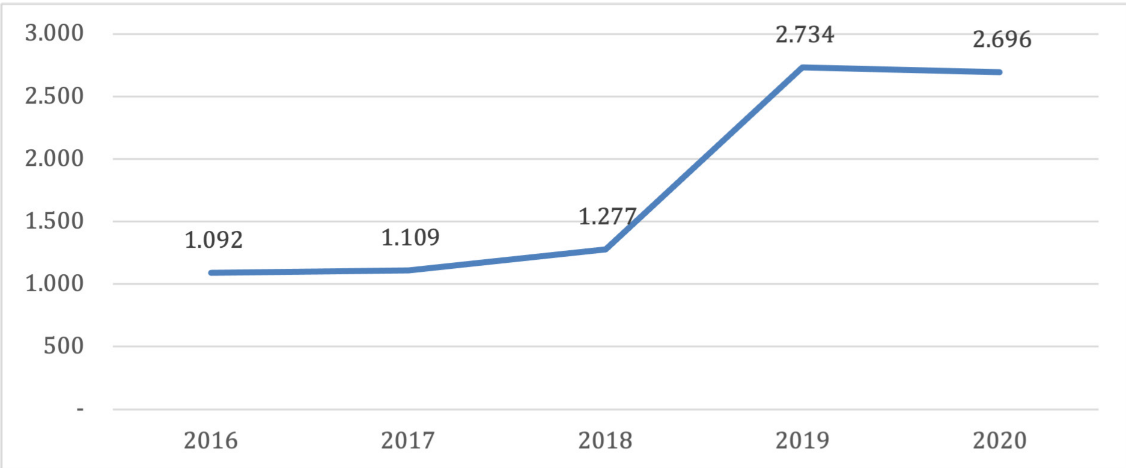
Figure 11 shows the performance of Islamic financing institutions in the last five years. The Financing to Asset Ratio (FAR) trend tends to decrease, wherein in 2016 the FAR value reached 93%, then continued to decline to 76% in 2020. It indicates that the liquidity of Islamic financing institutions is getting higher because the amount of assets needed to finance the credit is getting smaller. Meanwhile, in general, the gearing ratio value of Islamic finance institutions is still far from the applicable regulations, where the maximum limit set by the OJK is 10 times. In addition, the growth trend also tends to increase in the 2016-2018 period, then gradually declines in the following period. The declining condition that occurred was due to a reduction in funding received by Islamic financing institutions due to contraction during the pandemic, especially in 2020, so that Islamic financing institutions depended more on their capital than on debt. Meanwhile, in terms of the Equity-Paid-In Capital (MSMD) ratio, although in the 2016-2020 period the trend is inclined to decrease, the MSMD ratio of Islamic financing institutions still meets the applicable provisions, namely a minimum of 50%, so this condition indicates that Islamic financing institutions still have sufficient capital, so it does not require additional capital deposits.

Venture Capital

Venture capital is part of Islamic financing institutions in Indonesia, where the growth of the institutions in Indonesia is considered underdeveloped. As of July 2020, there were 57 conventional venture capitals, but there were only four sharia-based venture capital in Indonesia. In addition, the total assets of Islamic venture capital are also one of the institutions that have the smallest percentage, with only 2% of the total assets of Islamic NBFIs, which is IDR 2,696 billion.

However, growth in total assets in Islamic venture capital companies tends to increase significantly (see Figure 12). For example, compared to total assets in 2016, the growth that occurred until 2020 reached 147%, where total assets increased from IDR 1,092 billion in 2016 to IDR 2,696 billion in 2020. More specifically, there was a drastic increase from 2018 to 2019, where the total assets grew 114% from IDR 1,277 billion in 2018 to IDR 2,734 billion in 2019. However, total assets experienced a decline in the next period, which is believed due to the Covid-19, but the decline was not significant, only around -1.4%.

Figure 12: Total Assets of Islamic Venture Capital Companies



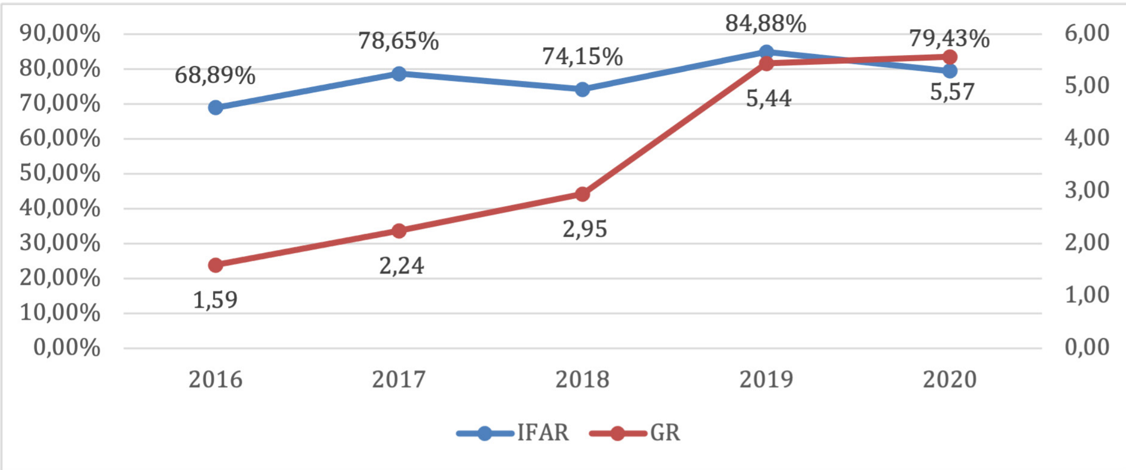
Source: OJK (2020).

Along with the increase in the total assets of Islamic venture capital companies in Indonesia, there is also an increase in their total income. In this case, the growth that occurred in terms of total revenue compared between 2016 and 2020 was 197%, increasing from IDR 166 billion to IDR 492 billion in 2020. Furthermore, a significant increase also occurred on the side of total revenue from 2018 to 2019, wherein the previous period growth only ranged between 14%-30%, but in the 2018 to 2019 period, the growth reached 80%. In addition, despite the Covid-19 pandemic in 2020, the trend of income continued to increase by 10%.

As for the Islamic venture capital performance shown from Financing to Asset Ratio (IFAR) and Gearing Ratio (GR), the trend IFAR from the Islamic venture capital companies tends to fluctuate, but in general, it still fulfils the stipulated OJK provisions, namely a minimum of 40%. In other words, PMV is required to have an investment value, participation, and/or receivable value originating from business activities of at least 40%. Therefore, Islamic PMV shows a relatively good performance because the IFAR value ranges from 69%-85% in the 2016-2020 period.

In terms of the Gearing Ratio (GR), Islamic venture capital companies have an increasing trend of growth (see Figure 13). Therefore, it indicates that over time Islamic venture capital has a higher financial risk. In addition, a high GR value also indicates that the liquidity of Islamic venture capital companies is getting lower because they have a fairly high debt value compared to their capital. However, the GR of Islamic venture capital companies' value generally ranges from 2-5 times, which is still below the OJK standard, which stipulates the maximum GR limit of 10 times.

Figure 13: Performance of the Islamic Venture Capital Companies



Source: OJK (2020).

Fund Management

Malaysia

Besides Provident and Pensions Funds (PPF), the fund management sector constitutes a substantial part of NBFIs in the country. As in 2018, the fund management sector contributes 35.3% of total NBFIs asset and 14% of total financial system assets. Like conventional funds, the Malaysia Islamic funds sector is on the rise. Besides Saudi Arabia, Malaysia remains the core domicile contributing to the largest market share of the global Islamic funds sector. There are 336 Islamic collective investment schemes or known as CIS (UTF, WF, PRS, REIT and ETF) including 5 Islamic Socially Responsible Investment (SRI) unit trust funds. The number of Fund Management Companies (FMCs) managing Islamic funds is 54, with 23 full-fledged Islamic FMCs and 31 FMCs offering Islamic windows.

Table 7 presents asset allocation on shariah investment from 2018 to 2020. Islamic funds have shown an increasing trend in all types of assets compositions, except money market placements which experienced a downward trend. In 2020, assets composition included 48.3% of equity funds, 23.7%

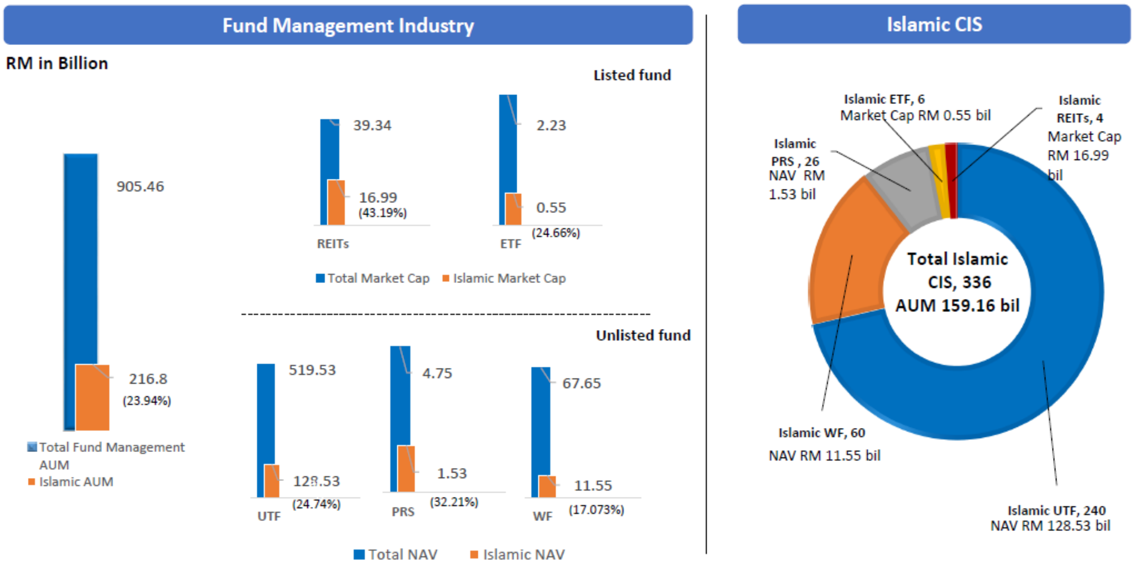
of fixed income securities, 16.8% of money market funds, 5.4% of unit trust funds, and the remaining 5.7% of private equity and mixed funds (Securities Commission, 2021).

Table 7: Asset Allocation on Shariah Investment

Year	Equities	Fixed Income Securities	Money Market Placement	Unit Trust Funds	Private Equity/ Unquoted Stocks	Others	Total
2018	351.28	158.9	168.57	27.26	11.77	25.79	743.58
2019	400.15	181.64	163.24	35.79	14.98	27.39	823.19
2020	437.22	215.08	152.09	49.19	18.35	33.53	905.46

Source: Securities Commission Malaysia (2021).

Figure 14: Fund Management Industry in Malaysia



Source: Securities Commission Malaysia (2021).

Table 8: Malaysia Funds

Malaysia Funds (RM Bil)	2018	2019	2020
Total AUM	743.58	823.19	905.46
Islamic AUM	158.83	180.52	216.8
Total Unit trust Fund Size (NAV)	426.18	482.09	519.53
Islamic Unit trust Fund Size (NAV)	83.45	107.32	128.53
Total Wholesale Fund Size (NAV)	64.95	58.1	67.65
Islamic Wholesale Fund Size (NAV)	23.58	12.33	11.55
Total Private Retirement Scheme Size (NAV)	2.68	3.5	4.75
Islamic Private Retirement Scheme Size (NAV)	0.82	1.06	1.53
Total Real Estate Investment Trust Size (Mcap)	41.43	43.83	39.34
Islamic Real Estate Investment Trust Size (Mcap)	17.19	18.24	16.99
Total Exchange Traded Fund Size (Mcap)	1978.12	2143.22	2233.63
Islamic Exchange Traded Fund Size (Mcap)	549.7	545.86	547.72

Source: Securities Commission Malaysia (2021).

Islamic Pension Funds

Similar to conventional pension funds, Islamic pension funds serve the purpose of a financial guarantee to be enjoyed after retirement. These funds are financed according to a specific ratio by the employee's salary and their employers. Although this untapped industry in Islamic finance is still considered foreign as there is a lack of data and mere reporting, it is believed that it has the potential to develop bigger in the near future (Alwyni, 2021).

Malaysia

In Malaysia, provident and pension funds (PPFs) have the largest share of NBFIs, which accounted for 46.4% NBFIs' total assets and 18.4% of total financial system assets in 2018 (SEACEN, 2020). The pension system in Malaysia can be broadly categorized into social security and social insurance. Social security consists of retirement programs such as the civil service pension scheme (CSPS), employee provident fund (EPF), and Armed Forces fund (LTAT). The most prominent player in the Malaysian PPFs sector is the EPF and Retirement Fund (Incorporated) (KWAP). While EPF manages the national pension fund scheme for individuals employed in both the Malaysian private and public sectors, KWAP manages contributions from permanent government staff with pensionable status.

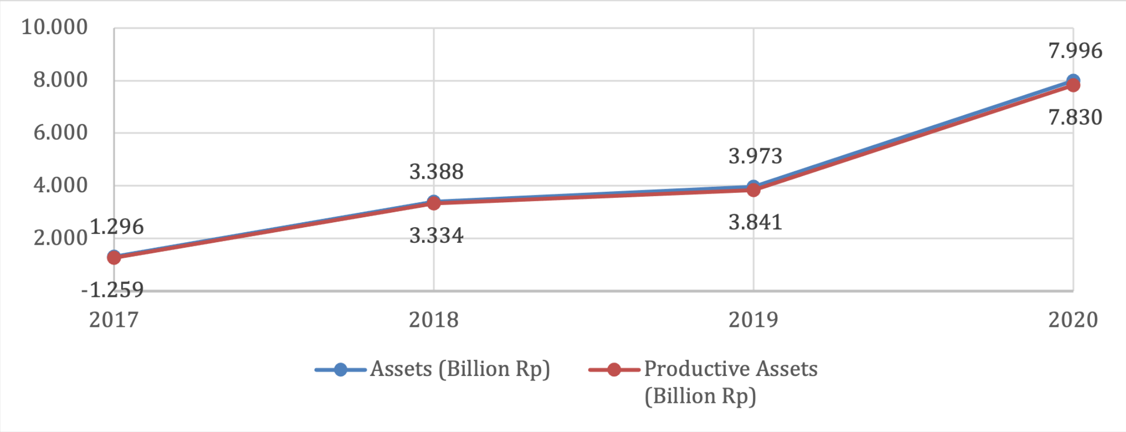
EPF has recorded an 18% increase in gross investment income from RM33.21 billion in 2018 to RM39.20 billion in 2019. The contribution to total gross investment income was from interest and profit on investments (RM21.60 billion or 55%), dividend on investment (RM2.41 billion or 32%), capital gain from disposal of investments (RM3.13 billion or 8%), and other investment income (RM2.06 billion or 5%). The breakdown between conventional and Shariah saving for Gross Investment Income in 2019 was RM35.59 billion (90.8%) and RM3.61 billion (9.2%), respectively. In terms of the dividend pay-out, conventional savings paid 5.45% (RM41.68 billion) while Shariah savings paid 5% (RM4.14 billion) to the members. The strategic asset allocation (SAA) of EPF's investment was primarily 51% in fixed income instruments, 36% in equities, 10% in real estate and infrastructure, and 3% in money market instruments.

On the other hand, as in 2018, KWAP has recorded a gross investment income of RM7.06 billion from RM136.51 billion total fund size in 2018. The KWAP has recorded increasing annual growth in total fund size (10.49%), gross investment income (RM6 billion), and gross return on investment (6.23%). Their time-weighted rate of return (TWRR) for one-, three- and five-year periods are 0.17%, 1.09% and 1.66% respectively. KWAP has invested RM58.21 billion in equities, RM69.48 billion in fixed-income investments, and RM8.88 in alternative investments (such as properties). It has generated a total income of RM1.91 billion in equity investment, which is largely from investment in the domestic market (71%). Plus, it also has realized RM3.37 billion and RM648.5 million from fixed-income investment and alternative investments, respectively.

Indonesia

As of December 2020, there were 4 Islamic pension fund industries, with the number of participants reaching 274,060 participants or around 5% of the total pension fund participants (OJK, 2020). In addition, in the four years since its inception, the total assets of Islamic pension funds and their productive assets have also experienced significant growth. OJK data records the growth of total assets of the Islamic pension fund industry from IDR 1,296 billion in 2017 to IDR 7,996 billion in December 2020 or growing up to 517%, while the same thing happened to its productive assets, which grew by 522% from IDR 1,259 billion in 2017 to IDR 1,259 billion in 2017. IDR 7,830 billion in 2020.

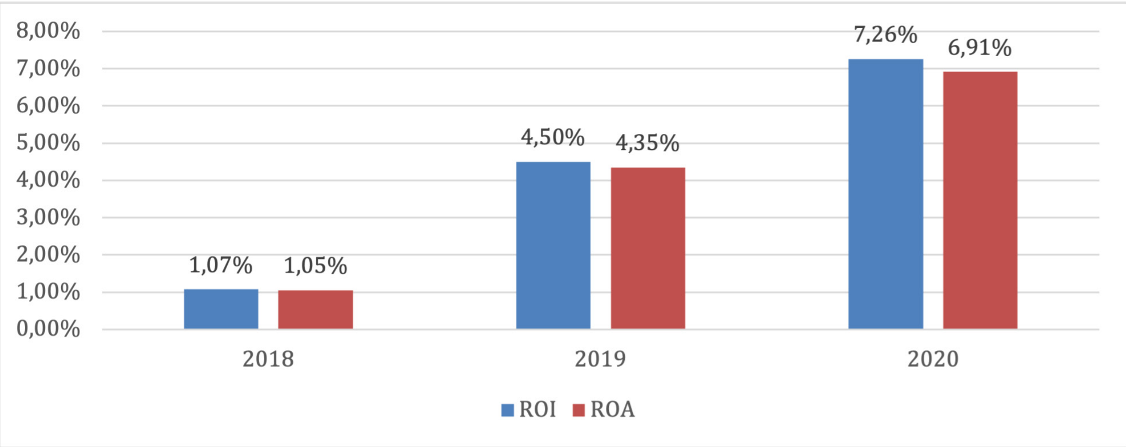
Figure 15: Total Assets and Productive Assets of Islamic Pension Funds



Source: OJK (2020).

Meanwhile, from the aspect of financial ratios, Islamic pension fund institutions recorded good growth which can be seen from the Return on Investment (ROI) and Return on Assets (ROA) values which experienced an increasing growth trend in the 2018-2020 period. In more detail, the ROI value in 2018 was only 1.1%; then, it increased to 4.5% and 7.3% in 2019 and 2020, respectively. Therefore, it indicates that the investment action taken by the Islamic pension fund institution is efficient enough because the investment can generate a positive return. In addition, the ROA value at Islamic pension fund institutions has also increased, wherein in 2018, the ROA value was only 1.1%, then in 2019 and 2020, it increased to 4.4% and 7%. This condition also indicates that Islamic pension fund institutions can obtain positive returns by utilizing their assets. In other words, on average Islamic pension fund institutions use assets efficiently in generating income.

Figure 16: Financial Ratio of Islamic Pension Funds



Source: OJK (2020).

Meanwhile, the increase in financial ratios in Islamic pension fund institutions was also accompanied by an increase in the number of investments and investment returns, especially in Islamic DPLK. The growth in the number of investments reached 78% or increased from IDR 3,334 billion in 2018 to IDR 5,924 billion in 2020. Meanwhile, in terms of investment returns, the same thing also happened, where the investment returns of Islamic DPLK increased by 65 %, increasing from IDR 104 billion in 2018 to IDR 173 billion in 2020. Furthermore, Islamic DPLK also does not invest its funds in direct investment and investment in land and buildings, but placements of funds are made in time deposits, government securities, sukuk, shares, and mutual fund units. In the last three years, the largest investment portion of Islamic DPLK was in time deposits, which accounted for 35% to 39% of the total investment. Meanwhile, the next largest portion is in government securities which reached 19% to 29% of total investment in 2018 and 2019. Meanwhile, the share of investment placements in shares showed a very significant increasing trend, especially in 2020, where the increase occurred, namely increasing from a total of IDR 50 billion in 2018 and 2019 to IDR 1,839 billion in 2020 and made the shares in the second position of the total investment placements made in Islamic DPLK in 2020.

Islamic Specialized Financial Institution

Malaysia

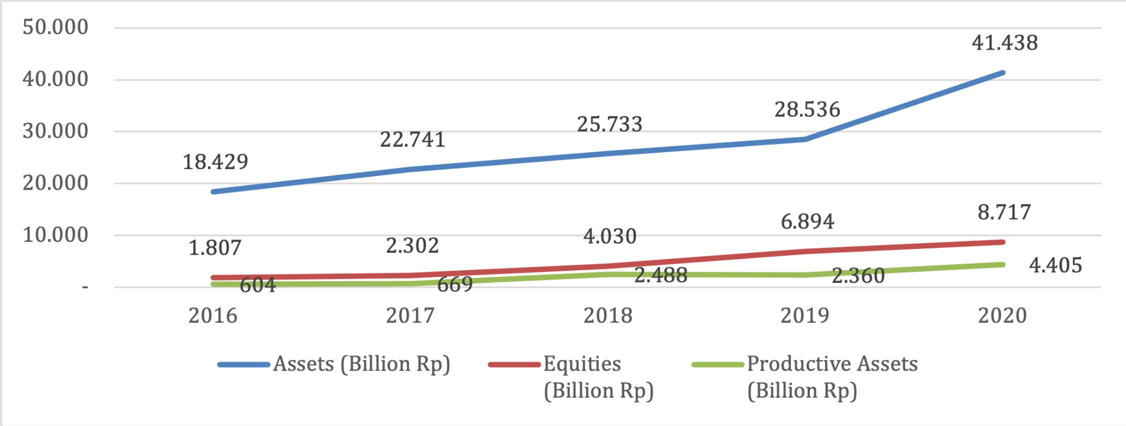
Other NBFIs in Malaysia include co-operatives, pawnbrokers, money lenders, leasing and factoring companies, building societies, non-bank providers of education financing, non-bank providers of hire purchase financing, government-owned trustee companies and social security organizations. They are alternative providers of personal financing via credit extension to specific segments of the population such as the group of low-to-middle income earners and or to finance small scale businesses.

Indonesia

As of 2020, Islamic specialized financial institutions in Indonesia consist of 5 industries: Sharia Guarantee, Sharia Pawnshop, Sharia LPEI, Civilian National Capital, and Sharia Secondary Housing Financing Company (PPSP). The total of sharia business units in the Islamic specialized financial institutions is nine units, where the dominance lies in sharia pawnshops.

Overall, Islamic specialized financial institutions experienced positive growth in assets, equity, and productive assets. In more detail, very significant growth occurred on the asset side in the 2020 period, where there was an increase of 45% or an increase from IDR 28,536 billion to IDR 41,438 billion. Meanwhile, in terms of equity and productive assets, an increasing trend also occurred, and significant growth occurred in 2018, where equity grew 75% from the previous year while productive assets grew up to 272% from the previous year. In addition, the productive assets of Islamic specialized financial institutions also increased in the 2020 period by 87% or increased from IDR 2,360 billion in 2019 to IDR 4,405 billion. This condition indicates that amid the pandemic conditions in 2020, Islamic specialized financial institutions had quite good growth compared to several other Islamic financial institutions.

Figure 17: Assets, Equity, and Productive Assets of Islamic Specialized Financial Institutions

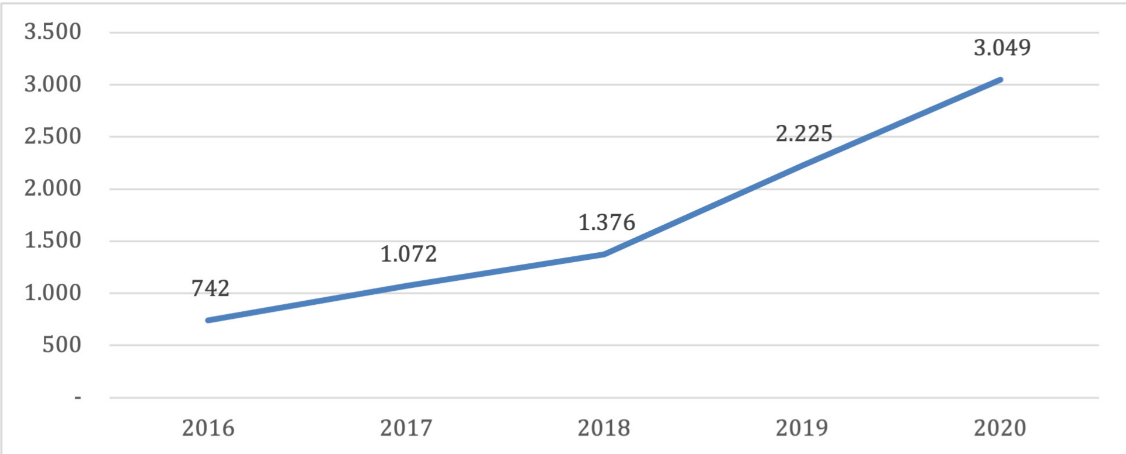


Source: OJK (2020).

Islamic Guarantee Institution

Based on OJK data (2020), there are two Islamic guarantee institutions in Indonesia with five sharia business units. Overall, Islamic guarantees institutions recorded good growth in terms of assets (see Figure 18). In this case, there was a significant growth in total assets in 2019, where the total assets increased by 62% from the previous period. When compared to the 2016 period, the growth in total assets of Islamic guaranteed institutions was even greater, growing by 311%, from IDR 742 billion in 2016 to IDR 3,049 billion in 2020.

Figure 18: Assets of Islamic Guarantee Institution



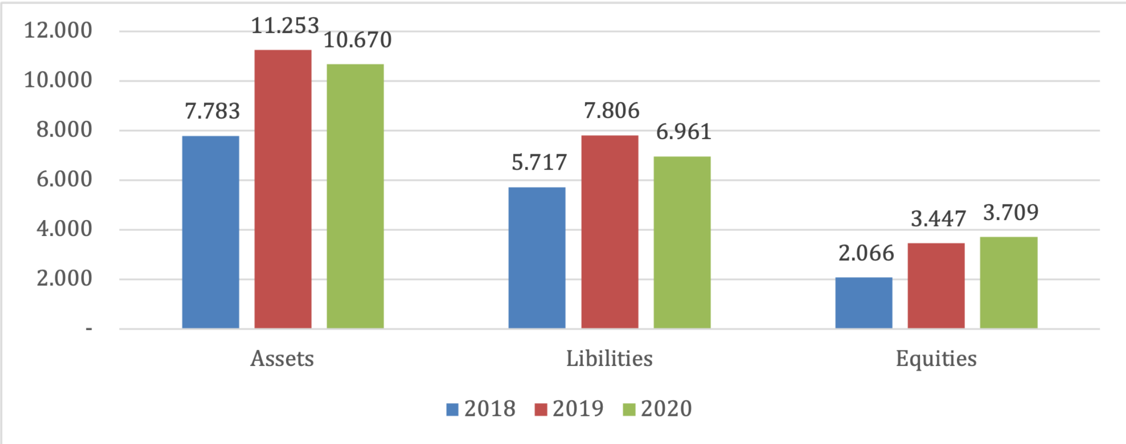
Source: OJK (2020).

Islamic Pawnshops

Indonesia

In 2020, there are three sharia pawnshop industries with one sharia business unit (OJK, 2020). In addition, the growth of total assets, liabilities, and equity tends to be positive in the 2018-2020 period. In more detail, there was a 45% asset growth from 2018 to 2019 from IDR 7,783 billion to IDR 11,253 billion, then decreased by -5% to IDR 10,670 billion in the following period. A similar pattern also occurs on the liability side of sharia pawnshops, where in the 2018-2019 period, there was an increase of 37% from IDR 5,717 billion to IDR 7,806 billion, then decreased by -11% in the next period to IDR 6,961 billion. Furthermore, the equity also increased from IDR 2,066 billion to IDR 3,447 billion in 2018 to 2019 or grew 67% and increased again by 8% to IDR 3,709 billion.

Figure 19: Assets, Liabilities, Equities, and Productive Assets of Islamic Pawnshop Institution



Source: OJK (2020).

In addition, as shown in Figure 19, the total financing provided by *PT Pegadaian Syariah* also has a positive growth trend. The most significant increase in total financing at *PT Pegadaian Syariah* occurred in 2019, where there was an increase of 49%, from IDR 7,094 billion in 2018 to IDR 10,556 billion. In addition, compared to 2016 and 2020, the total financing growth that has occurred has reached 134%. Meanwhile, in terms of the type of financing, the most widely used is the *Rahn* contract, in which the pawned goods are handed over to the sharia pawnshop company. In this case, the amount of financing under the *Rahn* contract in 2020 reached IDR 7,786 billion. In addition, positive growth has also occurred in financing with the *Rahn Tasjili* contract, in which in the contract only valid proof of ownership is submitted to the recipient, while the physical collateral remains with the owner of the goods. Moreover, the growth of this contract increased quite significantly, where in the 2016 - 2017 period it grew 93%, then grew by 145% in the 2018 period, and continuously increased by 73% in the 2019 period. On the other hand, in 2020, financing with *Rahn Tasjili* contracts decreased by -27% or decreased from IDR 3,978 billion in 2019 to IDR 2,906 billion.

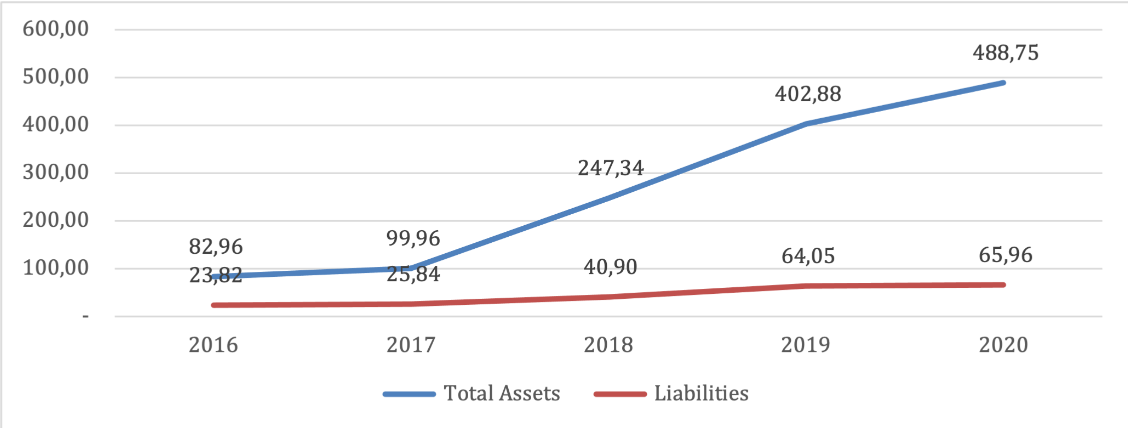
Islamic Microfinance Institutions

Indonesia

Based on the OJK (2020) data, the number of Islamic microfinance industries in Indonesia as of 2020 is 80 units, increasing by five units from the previous year. Meanwhile, it is also reported that there was positive growth in the total assets and liabilities of Islamic microfinance institutions from

2016-2018, where the most significant growth occurred in 2018, in which total assets increased by 147% from IDR 99.96 billion to IDR 247.34 billion, while liabilities also increased by 58%, from IDR 25.84 billion in 2017 to IDR 40.90 billion in 2018.

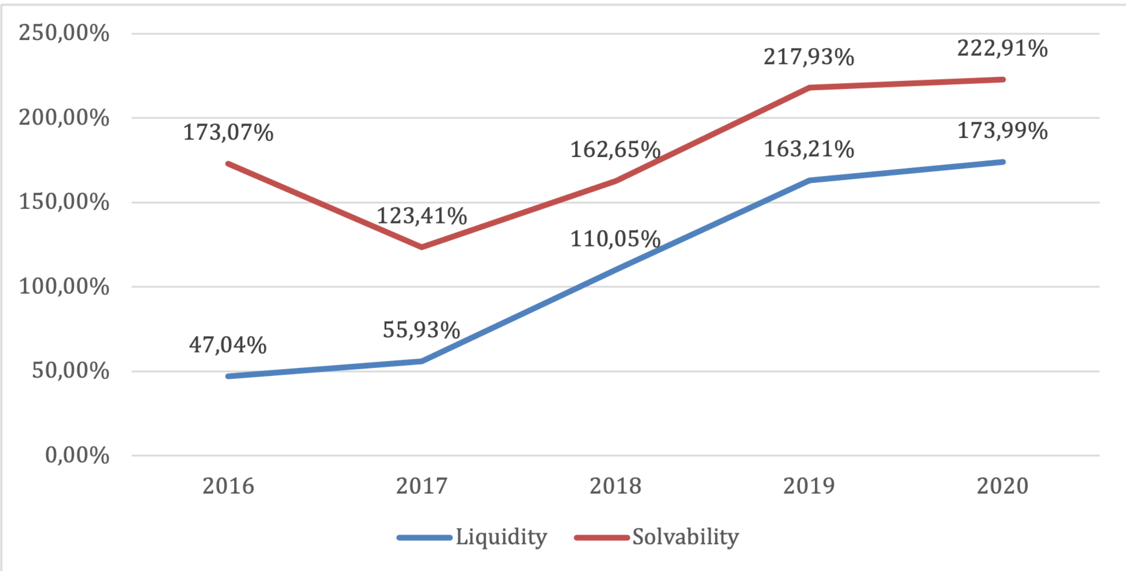
Figure 20: Total Assets and Liabilities of Islamic Microfinance Institutions



Source: OJK (2020).

Furthermore, in terms of the performance of Islamic microfinance institutions, their liquidity experienced positive growth, from 47,04% in 2016 to 173,99% in 2020. However, the decline in the solvability aspect occurs in 2016 - 2017, from 173,07% to 123,41%. Nevertheless, its value continues increasing in the next periods until it reached 222,91% in 2020.

Figure 21: Liquidity and Solvability of Islamic Microfinance Institutions



Source: OJK (2020).

Islamic Financial Technology (Fintech)

The digitization of financial services has led to a new phenomenon of financial technology known as Fintech. The emergence of fintech brought together varieties of benefits to stakeholders such as swift transaction, accessibility, security, transparency, and traceability that has led to innovation in managing the financial industry including Islamic finance.

Malaysia

Malaysia is towards a digital economy agenda which printed the idea in the Twelfth Malaysian Plan (2021 - 2025) with three core dimensions: Economic empowerment, environmental sustainability, and social re-engineering. The halal agenda and digital economy are part of the targeted sectors in meeting the economics and digital empowerment. Besides, this digital agenda was also to enhance financial inclusion where the Securities Commission (SC) of Malaysia anticipated providing access to financing, increasing investor participation, augmenting the institutional market and developing a synergy ecosystem with multiple stakeholders.

The ecosystem of fintech in Malaysia begins with e-payments and embraces other mainstream fintech avenues such as financing platforms, insuretech, blockchain and remittances (Salim, et. al., 2020).

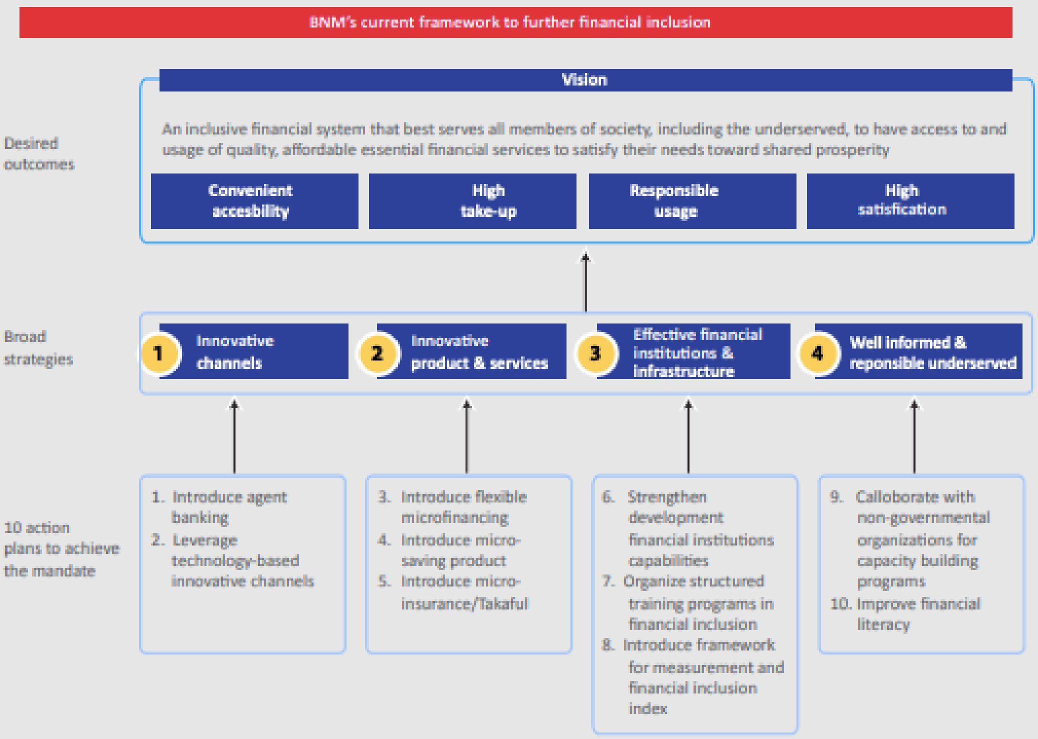
In November 2016, SC announced six registered Peer-to-Peer (P2P) financing platform operators in Malaysia to widen funding avenues for small and medium enterprises (SMEs) following the introduction of the P2P financing framework issued in April 2016. B2B FinPAL, Ethis Kapital, FundedByMe Malaysia, ManagePay Services, Modalku Ventures and Peoplender are the six registered operators. This makes Malaysia the first country in the ASEAN region to regulate P2P financing.

The adoption of digital technology for an alternative financing is to enhance the opportunities for entrepreneurs, the SMEs and the Micro-SMEs. In Malaysia, the Micro SMEs and SMES are more than 98% of the business establishments and they collectively contributed

A new strategy: Driving digital financial inclusion through Islamic fintech for greater prosperity

A cohesive and comprehensive national Islamic fintech strategy or framework is an urgent request from the industry.

Pivoting the Islamic fintech narrative toward financial inclusion, this agenda should also be included as part of the country's Financial Inclusion Framework and be a larger focus in the upcoming Financial Sector Blueprint.



Source: Bank Negara Malaysia

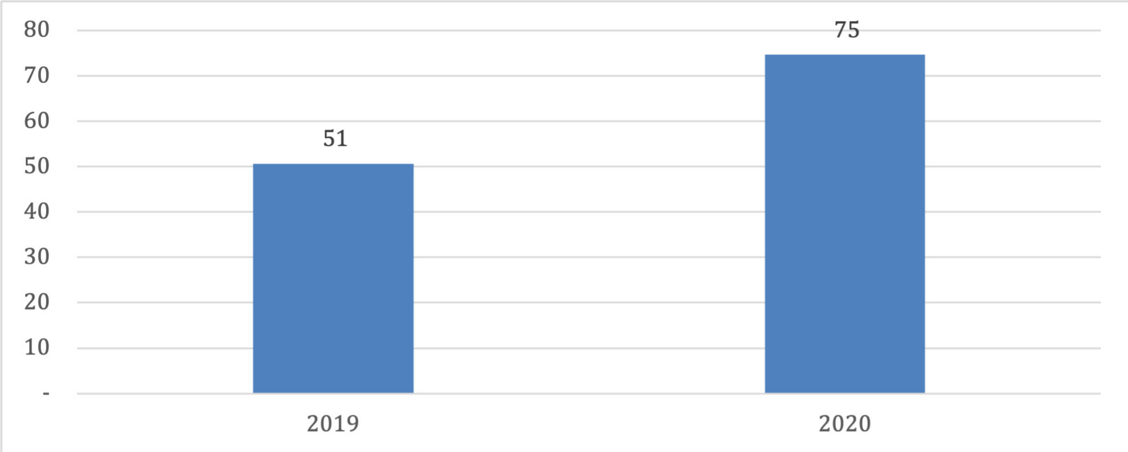
Source: Islamic Finance News and Malaysia Digital Economy Corporation (2020).

approximately 40% of Malaysia's GDP. In 2020, there is a raised of 42.91% of issuers on ECF and P2P financing platforms due to the steps taken by SC to mitigate lower demand from investors in the alternative markets. The 1,403 issuers raised RM631.04 million on ECF and P2P in 2020 as compared to RM441.56 million in 2019. The 57% of ECF issuers raised for the purpose of business expansion while 97% of P2P financing issuers raised funds for working capital (Lim, 2021).

Indonesia

As of December 2020, there were 10 Islamic fintech industries in Indonesia, where Islamic fintech lending assets reached IDR 50.62 billion in 2019, increased by 48% to IDR 75 billion from the assets of the previous year. However, compared to the total assets of fintech institutions, the percentage of total Islamic fintech assets in Indonesia is still very small, which is only 2% of the total assets of fintech institutions.

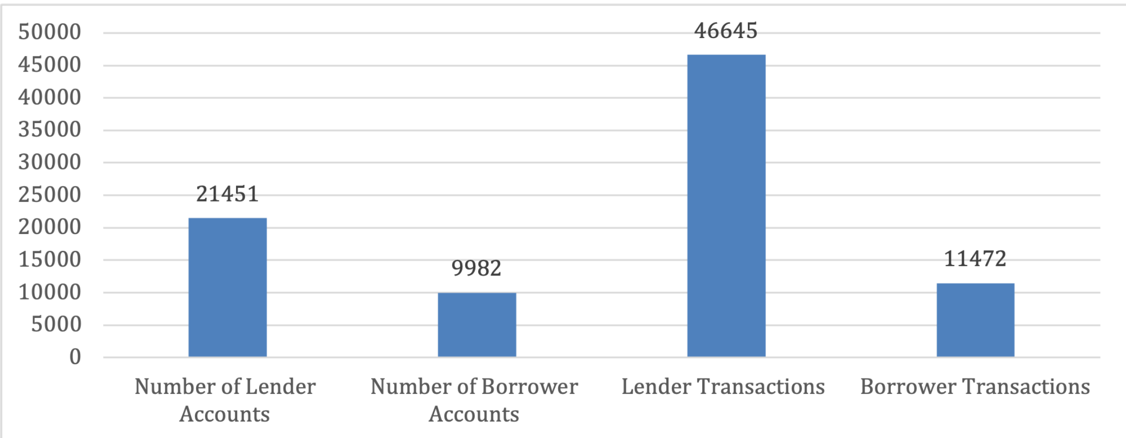
Figure 22: Assets of Fintech Syariah



Source: OJK (2020).

In addition, as shown in Figure 22, until the end of 2019, the total accumulation of disbursements (aggregate) from Islamic fintech lending has reached IDR 509.02 billion with an outstanding of IDR 284.71 billion. In terms of accumulation of lender accounts (aggregate), Islamic fintech lending operators recorded by 21,451 entities at the end of 2019, while the accumulation of borrower accounts (aggregated) reached 9,982 entities. In addition, the number of accumulated lender transactions (aggregated) is 46,645 transactions, with the total accumulated number of borrower transactions (aggregated) being 11,472 transactions. From these figures, it can be seen that the number of borrower transactions is 14.93% more than the accumulated number of borrower accounts, which illustrates that borrowers make repeated transactions.

Figure 23: Number of Lenders & Borrower Accounts and Transactions



Source: OJK (2020).

ZISWAF (Zakat, Infaq, Sadaqah, and Waqf)

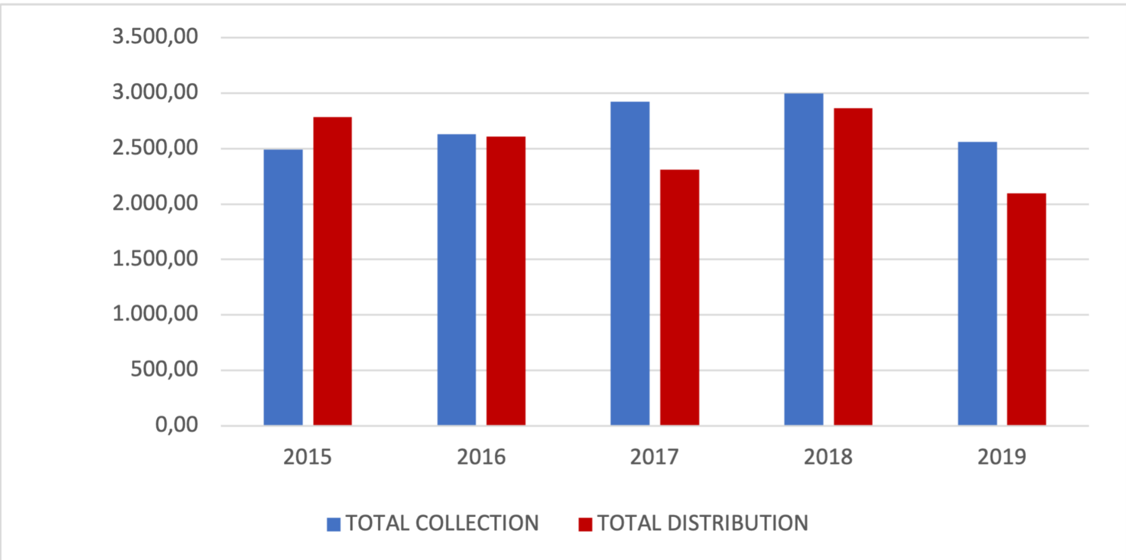
Islamic social finance instruments are very important to complement the commercial Islamic finance industry in achieving the socioeconomic prospect brought by the foundation of the Islamic economy. Among the popular Islamic financial instruments, today are the zakat, *infaq*, *sadaqah* and *waqf* (ZISWAF).

The zakat industry in Indonesia and Malaysia has a different outlook. In Indonesia, zakat is centralized and managed by a national agency known as National Amil Zakat Agency (BAZNAS). Meanwhile, in Malaysia, the zakat institutions are uniquely managed by the Islamic state religious council and governed by each state law. In Malaysia, there are 14 states including federal territories which totals up to 14 zakat institutions representing each state and federal territory. Therefore, this has impacted the operation, governance and regulations of each zakat institution which needs to seek approval according to state law.

Malaysia

Based on the data provided by the Department of Awqaf, Zakat and Hajj (JAWHAR), the table below reveals the zakat collections and distributions in Malaysia. The present data is to show the trends in the collection and distribution of zakat funds. Nonetheless, the data is not exhaustive as there are missing data from several states. According to the chart, the zakat collection has a slow growth from 2015 to 2016 with an increment of 5.3%. The zakat collection continues to grow up to 10% in 2017 and further 2.5% in 2018. In the year 2019, there is a drop of 17% in the zakat collection. The zakat funds collected should be distributed fairly. Referring to Figure 24, the zakat distributions show a 12% deficit in the collection in 2015 which means that the zakat funds are distributed beyond the collection gained in that particular year. Whereas from 2016 until 2019, there is an under usage of zakat funds.

Figure 24: Zakat Collection and Distribution in Malaysia (in Million Ringgit)



Source: JAWHAR (2021).

The recent data for 2020 is yet available, however, there is an increasing trend of zakat collections in several states due to the promotion of digital zakat services in theCovid-19 situation.

In 2006, Lembaga Zakat Selangor became the pioneer for an e-zakat portal that provides an online payment system (Ahmad & Ma'in, 2014). The demand for digital zakat management is to improve the governance structure of zakat and to enhance efficiency. Improvement in the online zakat payment has revealed that zakat institutions offer various avenues for zakat payment i.e. online banking, e-wallet, credit card and other payment gateways etc. Certain zakat institutions also began to offer other services such as online applications and reviews for the beneficiaries (*asnaf*). Few zakat institutions also developed mobile apps that offer attractive features for payment and digital content information in raising awareness of society. As of last year, despite the pandemic, Pusat Pungutan Zakat (PPZ-MAIWP) revealed that the online collection of zakat escalated to 119% in the year 2020 (Azman, 2020). Table 9 depicts the snapshot of digital zakat management in Malaysia.

Table 9: Digital Zakat Management in Malaysia

No.		Online Zakat Collections (Internet banking; e-wallet)	Online Zakat Distributions (Application and review)	E-agreement (Digital contract, signature, stamp)	Digital Zakat Counter (Two-ways communication)	Mobile Apps
1.	Lembaga Zakat Selangor (LZS)	√		√		
2.	Pusat Pungutan Zakat (PPZ-MAIWP)	√	√ (Application)		√	
3.	Lembaga Zakat Negeri Kedah	√	√ (Application and review)			√ (Payment medium; online review) Zakat on Touch
4.	Majlis Agama Islam dan Adat Istiadat Melayu Kelantan (MAIK)	√	√ (Application and review)			√ (Payment medium)
5.	Perbadanan Baitulmal Negeri Sembilan	√	√ (Review)			√ (Payment medium)
6.	Pusat Kutipan Zakat Pahang	√	√ (Review)			√ (List of directories: Entrepreneurs)
7.	Majlis Agama Islam & Adat Istiadat Melayu Perlis (MAIP)	√				

8.	Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM)	√	√ (Application and review)			
9.	Majlis Agama Islam Negeri Johor (MAIJ)	√				
10.	Zakat Melaka	√				
11.	Tabung Baitulmal Sarawak	√				
12.	Majlis Ugama Islam Sabah (MUIS)	√				
13.	Majlis Agama Islam dan Adat Istiadat Perak (MAIPk)	√				
14.	Zakat Pulau Pinang	√				

Source: Adopted from Johari & Yusoff (2019).

Similar to Indonesia, there are also challenges to acquiring data on waqf in Malaysia as waqf is governed by state law like zakat management. The state religious council are the sole trustee to manage *waqf* property. Nonetheless, there is an initiative made by the federal government under the Wakaf, Zakat and Hajj Department (JAWHAR) of the Malaysia Prime Minister's Office to establish a national waqf foundation known as Yayasan Wakaf Malaysia (YWM) with participation from each state's religious council as a member of the board of trustee. This government entity has two main objectives; (i) to collect and generate funds to develop waqf properties and (ii) to develop waqf properties in collaboration with the state religious council. There are several avenues offered by YWM in ensuring easy access to perform waqf. Among the initiatives offered are through the cash waqf system or Sistem Wakaf Tunai Malaysia (SWTM) since 2013. The SWTM provides services via payment gateways, monthly salary deduction, review list of transactions and printable annual waqf statement for tax exemption. Besides, YWM has collaborated with several Islamic banks hence offering services through online banking services. Another initiative made by YWM is through the collaboration with takaful agencies, where waqf elements are added to the takaful products. Lastly, YWM offers their services also through postal money and physical counters.

Yayasan Wakaf Malaysia offers 6 waqf products which have different purposes (see Figure 25). Although the main agenda is to ensure private goods to be enjoyed by society, YWM suggests managing the waqf funds accordingly to ensure good governance. The data presented below does represent the overall landscape of waqf in Malaysia. The availability of data presented in this report only describes the activities by YWM.

As depicted in the chart below (Figure 26), there is an upward trend of Malaysians donating general cash waqf for the development of the *ummah*. According to YWM, the funds in 2016 increased by 5% from the year before and in the year 2017, it has witnessed an increase of 11%. Then in 2018 and 2019, the collection of general cash waqf slowly increased to another 3% and 4% respectively.

Figure 25: Waqf Products in Malaysia

General Cash Waqf
- Used for public purposes without specific condition imposed by waqif

Specific Cash Waqf
- Used for public purposes with specifi condition imposed by waqif

Cash Waqf Education Certificate
- The collected fund will be used for educational purposes i.e. education equipment and facilities, education sponsorship, refurbish education institutions etc.

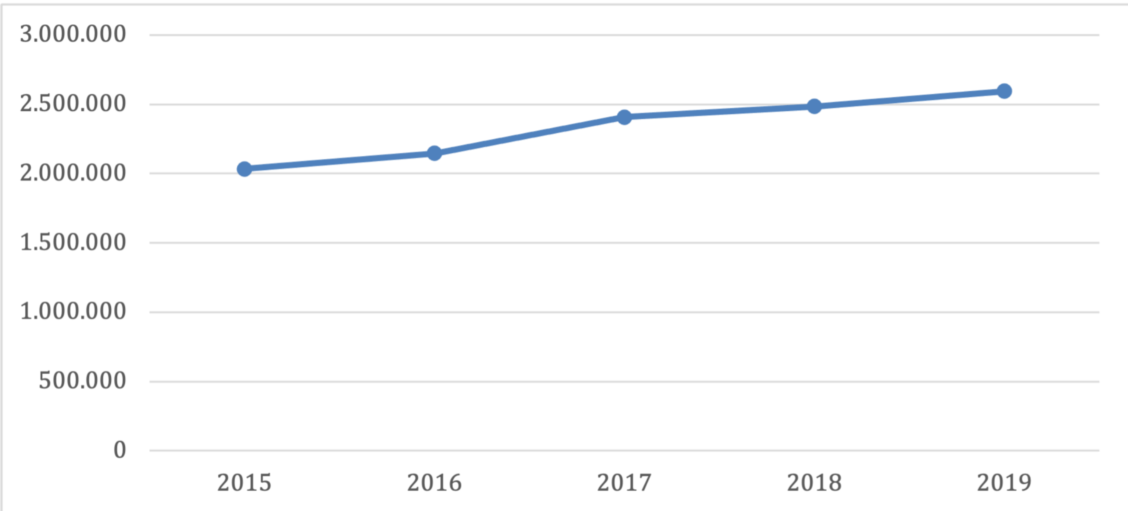
Cash Waqf Health Certificate
- The collected fund will be used for health and well-being purposes i.e. medical equipment, medicines, medical financial assistance etc.

Cash waqf Economy Development Certificate
- The collected fund will be used for community economic development purposes i.e. enhance entrepreneurial skills and facilities, fianncial aids for business etc.

Cash Waqf Building Certificate
- The collected fund will be used for financing potential building through leasing.

Source: Yayasan Wakaf Malaysia (2020).

Figure 26: General Cash Waqf in Malaysia (Ringgit Malaysia)

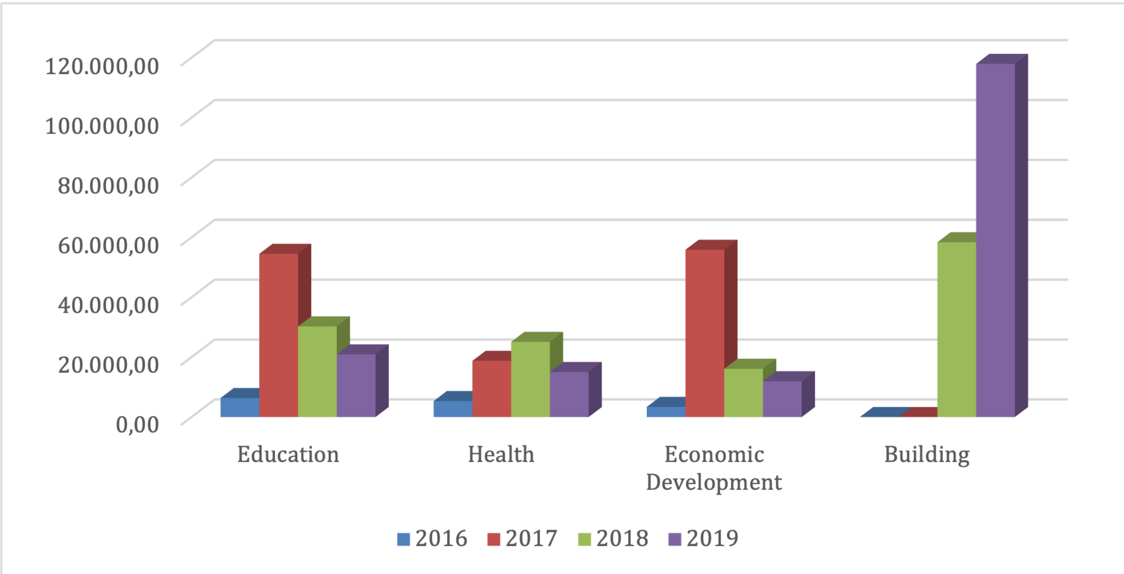


Source: Yayasan Wakaf Malaysia (2020).

Meanwhile, the cash waqf certificates data is presented below (Figure 27). The cash waqf certificate for education in 2016 managed to acquire RM6,350. There has been a sharp increment in the following year where the education fund collected in the year 2017 accumulated to RM54,501.

An 88% increase in education signifies the importance of contributing to the education sector in order to enhance the knowledge-based society. However, there was a decline in funds beginning in 2018 and continued further in 2019 with a decrease of 80% and 45% respectively. The cash waqf certificates for health also begin with small funding. In 2016, the donation for health purposes was only RM5,330. Then it slowly increased to RM 18,770 and RM 25,090 in the year 2017 and 2018 respectively. In 2019, the collection for this sector declined to RM15, 030 which is about 67%. For economic development, the cash waqf collection is RM3,380 in the year 2016. The sharp growth of 94% which is RM 55,870 was collected in 2017. Then, there it plummeted to RM 16,110 and further to RM11,950 in 2018 and 2019 respectively. For cash waqf certificate buildings, the data available is only in years 2018 and 2019 with a sharp increase from RM 58,375 to RM 117,950 respectively. There is a 50% increase in the building sector.

Figure 27: Cash Waqf Certificates in Malaysia



Source: Yayasan Wakaf Malaysia (2020).

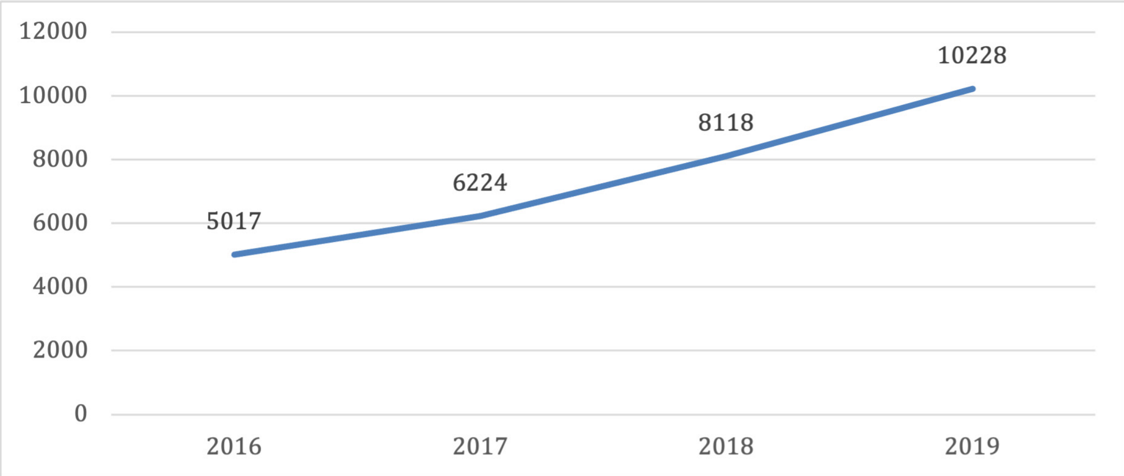
Indonesia

Based on data from the National Amil Zakat Agency (BAZNAS) (2020), in general, the growth trend of national collection funds has increased, as shown in Figure 28. As a result, total national fundraising in 2019 was IDR 10,228 billion, increasing 26% from the previous year. Moreover, national collection funds in Indonesia were IDR 5,017 billion in 2016, increasing 104% compared to 2019 fundraising.

Generally, in the 2016-2019 period, the proportion of zakat *maal* income still dominates the total collection of national funds, and the percentage of CSR *infaq* funds still has the lowest proportion in total national fund receipts. The percentage of zakat *maal* sourced from income zakat is IDR 2,582 billion or 57% of the total collection in 2019. However, this percentage is lower compared to 2018 because, in that year, the proportion of income zakat collection was 41% of the total collection ZIS funds. In addition, the second-highest proportion in 2018 and 2019 was funded, originating from

Unrestricted *Infaq/Alms* worth 18% and 25% or IDR 1.4 trillion and IDR 2.6 trillion. Meanwhile, the third-highest proportion is a collection from zakat *fitrah*, 14% or IDR 1.1 trillion.

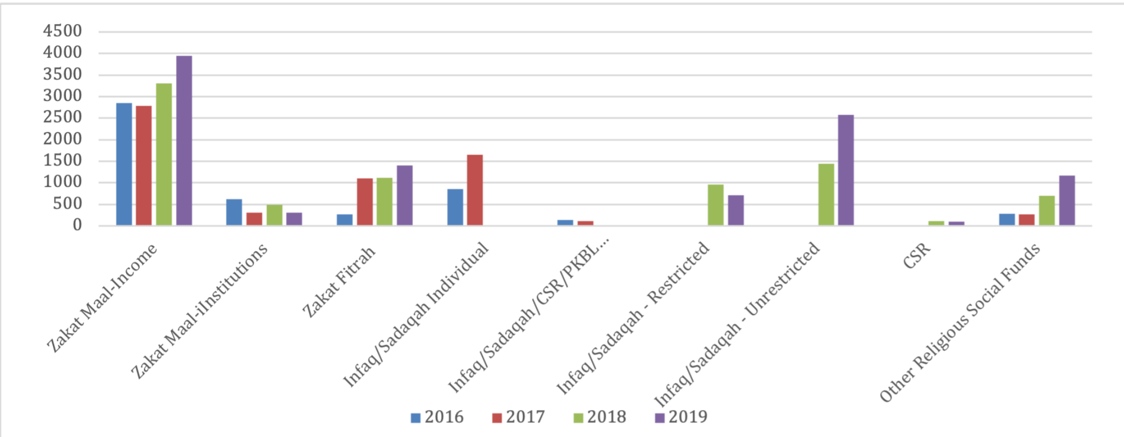
Figure 28: Trends in National Collection in Indonesia (in Billion IDR)



Source: BAZNAS (2020).

Furthermore, the fourth-highest proportion is DSKL, with a percentage of 11% of the total collection or IDR 1173 billion. Meanwhile, the next position is funded from IST, which is 7% of the total collection. Meanwhile, the lowest proportion of funds comes from CSR, which has a proportion of 1% or IDR 96 billion.

Figure 29: National Collection by Type of Fund (in Billion IDR)

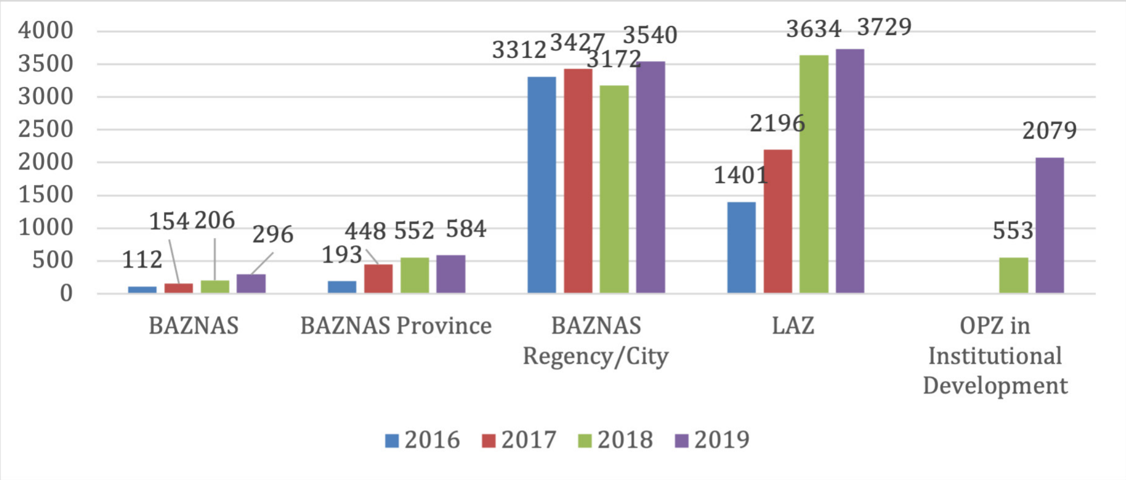


Source: BAZNAS (2020).

Furthermore, Figure 30 illustrates the collection of ZIS funds by institution, whereas an increasing trend in ZIS funds collected in almost all institutions. More specifically, in 2019 and 2020, most of the ZIS funds were collected by LAZ (45% and 36%) and district/city BAZNAS (39% and 34.6%). This condition is different from the previous period wherein in 2016-2017, the dominance of ZIS fund collection was in the Regency/City BAZNAS, with the percentage reaching 66% and 55% of the total fundraising. Meanwhile, throughout 2020, the total ZIS funds collected by BAZNAS reached around IDR 385.5 billion, an increase of 101.44% compared to the same period last year, which only reached IDR 296 billion.

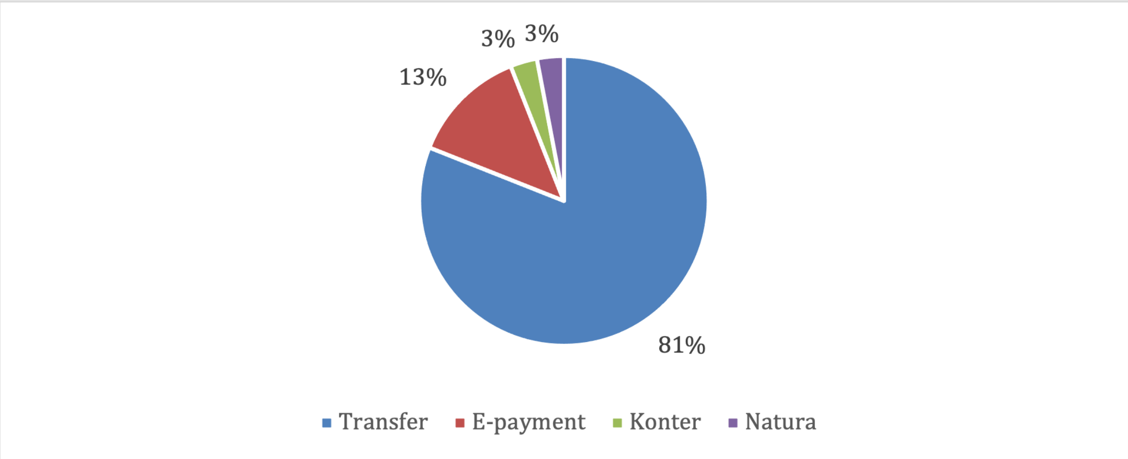
In addition, interesting things related to the zakat collection can be seen from the percentage of zakat collection based on the media or payment channels used by *muzaki* to pay zakat. For example, in 2019, most *muzaki* made payments via transfer (81%) and e-payment (13%). Meanwhile, only a few *muzaki* pay zakat through the counter (3%) and in-kind (3%) (see Figure 31). Thus, it shows that there is a shift in payment patterns from traditional media to digital media.

Figure 30: ZIS Collection by Institution for the 2016-2019



Source: BAZNAS (2020).

Figure 31: ZIS Collection of Central BAZNAS by Payment Channel 2019

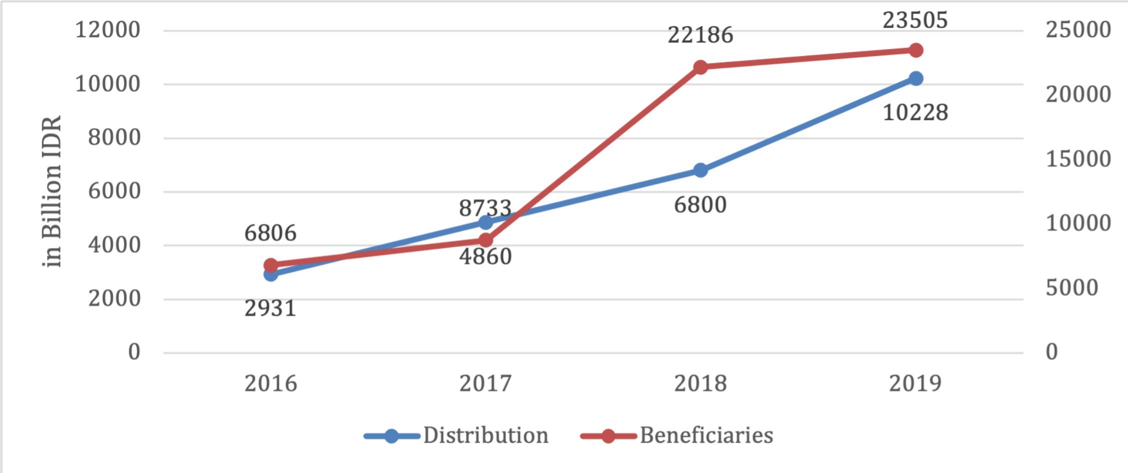


Source: BAZNAS (2020).

Furthermore, in terms of distribution, data shows that distribution and beneficiaries of ZIS funds continue to experience a significant increase. In 2016, the number of ZIS funds disbursed was only IDR 2.93 trillion, with around 6 million beneficiaries. However, in 2019, the number of ZIS funds disbursed reached almost IDR 8.7 trillion with 23.5 million beneficiaries (see Figure 32). Thus, the growth in the distribution of ZIS funds was 249%, and the beneficiaries were 245% throughout 2016-

2019. ZIS distribution in 2020 is considered effective because the ratio of ZIS distribution to ZIS revenue or absorption capacity reaches 84.95%. Furthermore, the effectiveness of this disbursement also has good growth, wherein 2016, the absorption capacity based on the total collection of funds that was successfully disbursed effectively was only 56.8%, in other words, an increase of 50% in the 2016 to 2020 period.

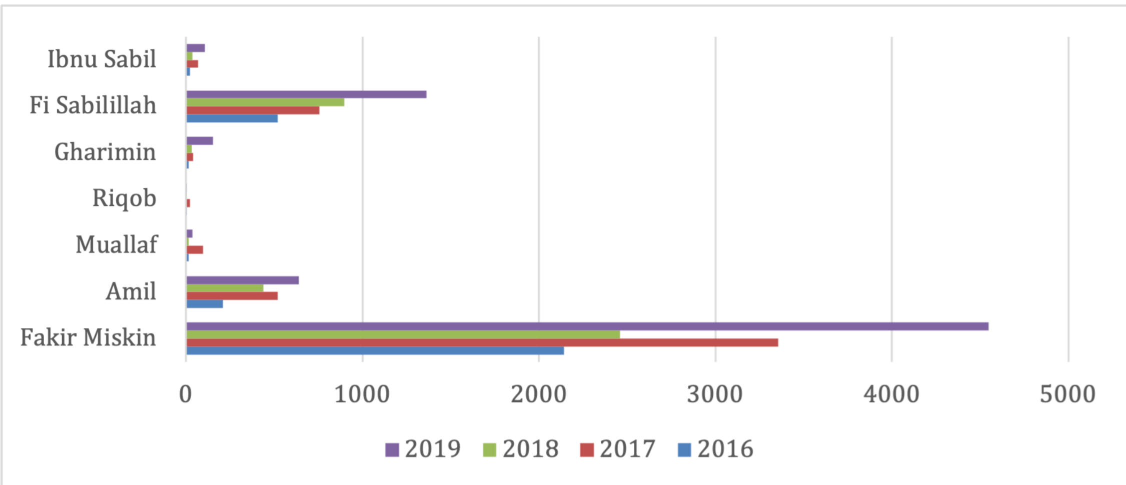
Figure 32: Growth of ZIS Distribution and Beneficiaries in 2016–2019



Source: BAZNAS (2020).

Meanwhile, the practice of distributing national zakat funds by OPZ runs following the stipulated provisions. Figure 33 shows the number of funds disbursed based on *asnaf*. In this case, according to the Al-Quran (At-Taubah: 60); zakat recipients are divided into 8 (eight) groups. Those (*asnaf*) groups are the indigent, the poor, the amil, the converts, the *riqob*, the *gharimin*, the *fi sabilillah*, and the *ibn sabil*. However, because the indigent and poor *asnaf* are often in the same environment and are difficult to separate, the distribution is carried out simultaneously for the two *asnaf*, so that in this case, the needy and poor are categorized into one group.

Figure 33: Disbursed Funds Based on *Asnaf*

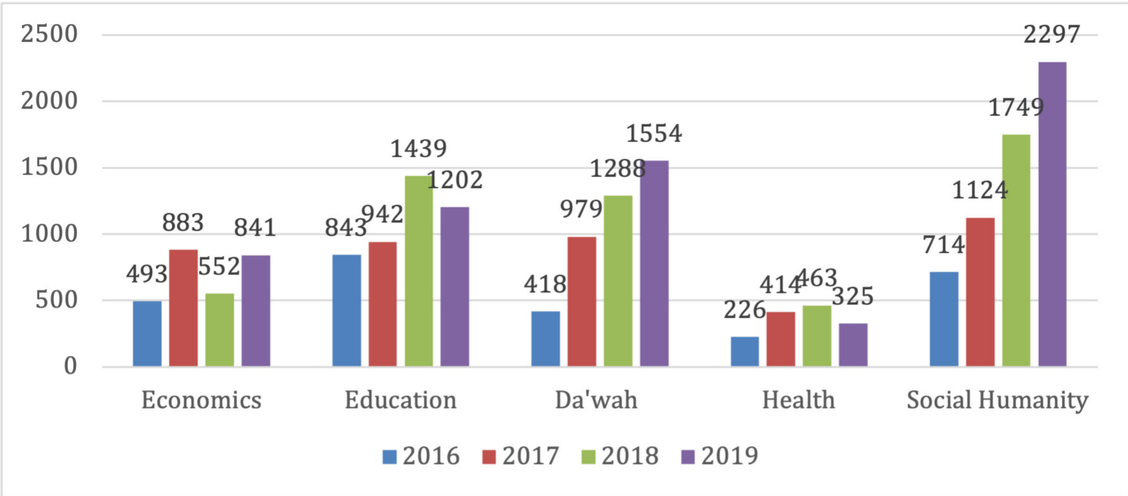


Source: BAZNAS (2020).

Based on the recipients, data shows that most of the ZIS funds have been channelled to the poor and *fi sabilillah* in the 2016-2019 period, namely 63%-73% and 16%-23% of the total distribution or IDR 2,143 billion in 2016, IDR 3,356 billion in 2017, IDR 2,460 billion in 2018, and IDR 4,549 billion in 2019. In general, this distribution pattern shows that the function of zakat to help the poor and alleviate poverty has been running quite well.

In terms of distribution programs, most of the ZIS funds were channelled to the social and humanitarian sector programs, wherein in 2019, the distribution in this sector reached 37% or IDR 2,297 billion, while in 2016-2018, the amount reached 26%. -32% or at IDR 714 billion-IDR 1,749 billion. Meanwhile, in the same period, ZIS funds were also channelled to other fields such as Da'wah (25%), Education (19%), Economics (14%), and Health (5%). Such conditions indicate that most of the zakat distributed is still consumptive. The percentage of zakat distribution based on the complete program area can be seen in Figure 34.

Figure 34: Distribution by Programs

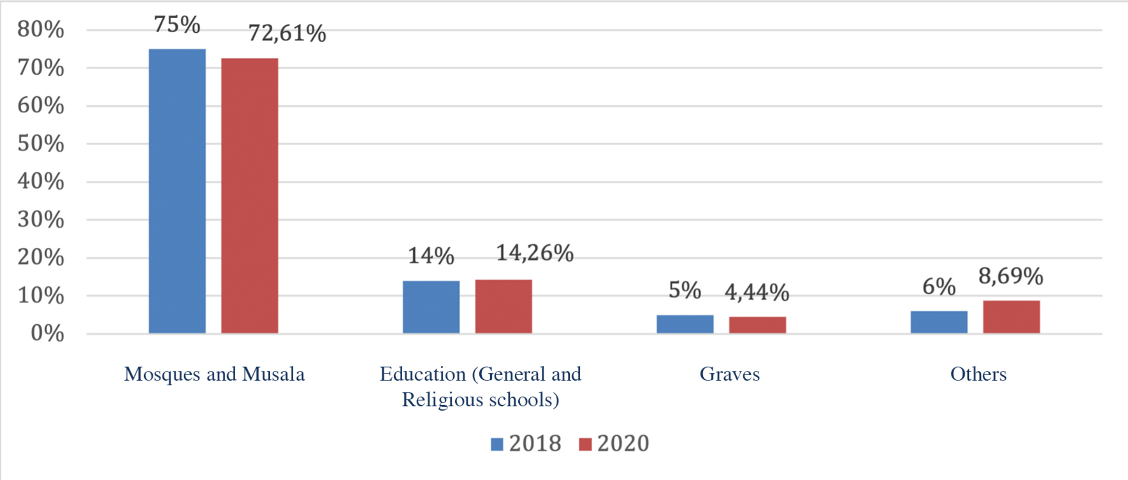


Source: BAZNAS (2020).

Indonesia does not yet have a strong information system to present data on various types of national waqf. Only the type of waqf in the form of land is already available through the Waqf Information System (SIWAK), which the Ministry of Religion manages. As of November 2020, the area of waqf land reached 52,389.25 hectares and spread over 390,982 locations. When compared to March 2020 data, within eight months, there was an increase in the area of 1,142.25 hectares and a total of 9,201 locations of waqf land. This data can show that the potential for waqf in Indonesia is very large. Even according to the Indonesian Waqf Board, at least 10-20% of waqf lands are in strategic locations and can be developed into commercial business projects.

The main challenges in developing waqf land can be divided into two sides. First, the majority of waqif still tend to pledge to use the social and religious sectors. As illustrated in Figure 35, the use of waqf land for *musala* and mosques reached 75% and 72.61%, respectively. Meanwhile, the remaining 25% and 27.39% of waqf land are used for graves, schools, Islamic boarding schools, and other social activities. However, there is no data regarding the use of waqf land managed commercially or commonly called productive waqf in this information system even though productive waqf management on waqf land has begun and has become one of the flagship programs of the current waqf *nazhir*.

Figure 35: The Use of Waqf Land in Indonesia



Source: SIWAK Kemenag (2021).

In addition to land, there are other types of waqf recognized in Law No. 41 of 2004, namely waqf of immovable assets, movable assets other than money, and movable assets in the form of money. In recent years, the type of cash waqf has continued to experience significant developments, especially product innovation. In 2020, the collaboration of the government, *nazhir* waqf, LKS PWU, and other related parties succeeded in realizing two issuances of state Sukuk-based cash waqf innovations, namely Cash Waqf Linked Sukuk (CWLS). For the first time, the government succeeded in issuing Sukuk Waqf (CWLS) by way of a private placement on March 10, 2020, with a nominal value of IDR 50.84 billion. The issuance of the SW001 Series CWLS is a form of the government's commitment to supporting social investment and productive waqf in Indonesia. The government provides an instrument platform for cash waqf to place their money waqf in safe and productive investment instruments. BWI used the proceeds from this waqf Sukuk investment to develop new waqf assets in the form of the Achmad Wardi Waqf Hospital located in Serang, Banten Province. The hospital is the first Eye Hospital to be built and developed based on waqf. Meanwhile, the coupons paid every month will be used for free cataract surgery services for the poor at the same hospital, with a target number of poor people served for five years as many as 2,513 patients, as well as the procurement of ambulances, to reach patients far from home The pain. Furthermore, the waqf Sukuk funds will return 100% to the waqif when the SBSN series SW001 matures (Ministry of Finance, 2019).

After successfully issuing the first CWLS, the government issued the SWR001 series CWLS instrument or Retail CWLS. The retail CWLS managed to collect IDR 14.9 billion, which was offered from October 9, 2020, to November 20, 2020. Unlike the previous series, retail CWLS reached 1,041 *waqifs* consisting of 1,037 individual waqif and four institutional waqifs. The distribution of the benefits of this waqf Sukuk is managed by seven partner *nazhir* through programs in the fields of health, education, social, economics, and *da'wah*.

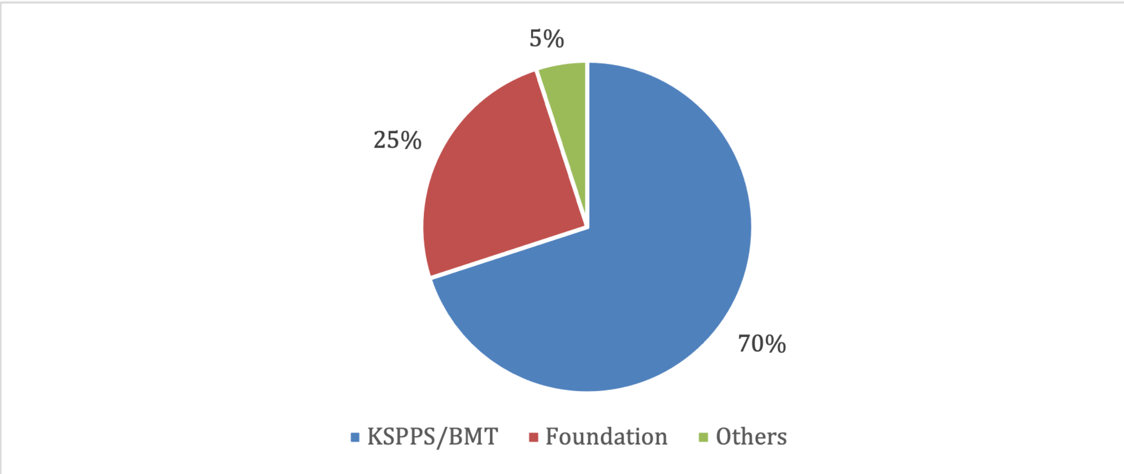
At the end of 2020, the government plans an agenda for the inauguration of the National Cash Waqf Movement. The purpose of this movement is to increase public awareness regarding the management of cash waqf. Furthermore, with the example of waqf from the President, Vice President, and other government officials, it is hoped that it can inspire the wider community to encourage the acceleration of the acquisition of national cash waqf.

The collection of cash waqf is still inversely proportional to its potential. According to BWI data, accumulatively, the cash waqf collected in 2011-2018 was only 255 billion or 0.14% of the potential 180 trillion. Meanwhile, data from the Ministry of Religion shows that so far, the collected cash waqf funds have only reached IDR 22 billion per year.

Furthermore, in terms of management, PP No. 42 of 2006 requires that cash waqf be deposited in advance to an Islamic bank that has obtained a permit as LKS-PWU based on a Decree of the Minister of Religion. If the LKS-PWU receives cash waqf for a certain period, the LKS-PWU is authorized to receive cash waqf and issue a Cash Waqf Certificate submitted to the nazhir appointed by the waqif.

Based on OJK data (2019), the government has determined 20 Islamic banks that can play a role as LKS-PWU in Indonesia. Meanwhile, the number of cash waqf *nazhir* registered with BWI as of October 2019 is 224 institutions. As shown in Graph 3.30, 70% of registered cash waqf *nazhir* are in the form of Baitul Maal wat Tamwil (BMT) and Sharia Savings and Loans and Financing Cooperatives (KSPPS). Then as much as 25% in the form of foundations, while the other 5% are institutions outside KSPPS/BMT and foundations such as association organizations, other institutions/institutions such as BWI, MUI Waqf Institution, PBNU, to universities.

Figure 36: Registered Cash Waqf Nazhir



Source: SIWAK Kemenag (2021).

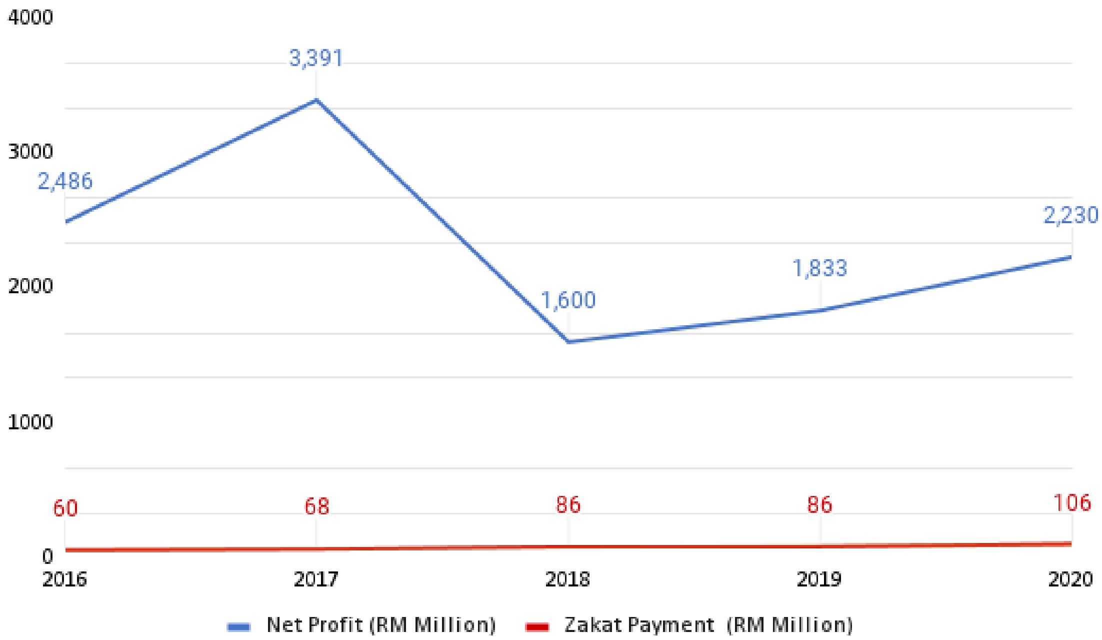
Hajj Fund

The development of Tabung Haji in the 1960s was considered a modern social finance initiative when the ultimate purpose was to ensure Muslims have halal, safe, and sustainable savings for performing pilgrimage (Hajj). At that particular time, there were no formal shariah compliance institutions to assist in financial savings in general and specifically for the purpose of Hajj, hence the difficulty to avoid *riba'*. As a result of reluctance to save money in conventional banks, Muslims hid their savings under the mattress or even under the house. Back then, the traditional way of savings (keeping large amount of cash at home, breeding cattle, purchasing assets i.e. land and jewelleries.) does not guarantee the accumulation of capital as they are exposed to various risk such as theft, loss in the value of the capital or other unforeseen circumstances (Shah, 2019). Hence, this Islamic social finance model has led to a growth of similar institutions all over the world.

Malaysia

Lembaga Tabung Haji or known as Tabung Haji was established in 1963. From the early inception of being just a savings fund institution, Tabung Haji has expanded its economic activities to become a dynamic social financial institution in managing Hajj expedition, depository savings and investment. The establishment of Tabung Haji manifest the overarching objective of Islamic economy that upholds the socioeconomic justice.

Figure 37: Net Profit and Zakat Payment



Source: Lembaga Tabung Haji (2021).

The changes of political economy in Malaysia beginning in the year 2018 have led to several effects on the industries including *Tabung Haji*. Tabung Haji witnessed a huge drop in net profit from RM 3391 million in 2017 to RM 1600 million in 2018 due to financial restructuring in improving the governance. The savings deposited in Tabung Haji is subscribed to an annual zakat payment to ensure the *Maqasid al-Shariah* is achieved. There is a steady upward trend of zakat payments from 2016 until 2020 despite the change in management with a contribution of RM 60 million to RM 106 million in 5 years. The zakat funds are used to facilitate the *asnaf* (beneficiaries) in various activities such as financial aid, education sponsorship and business capital to encourage entrepreneurs.

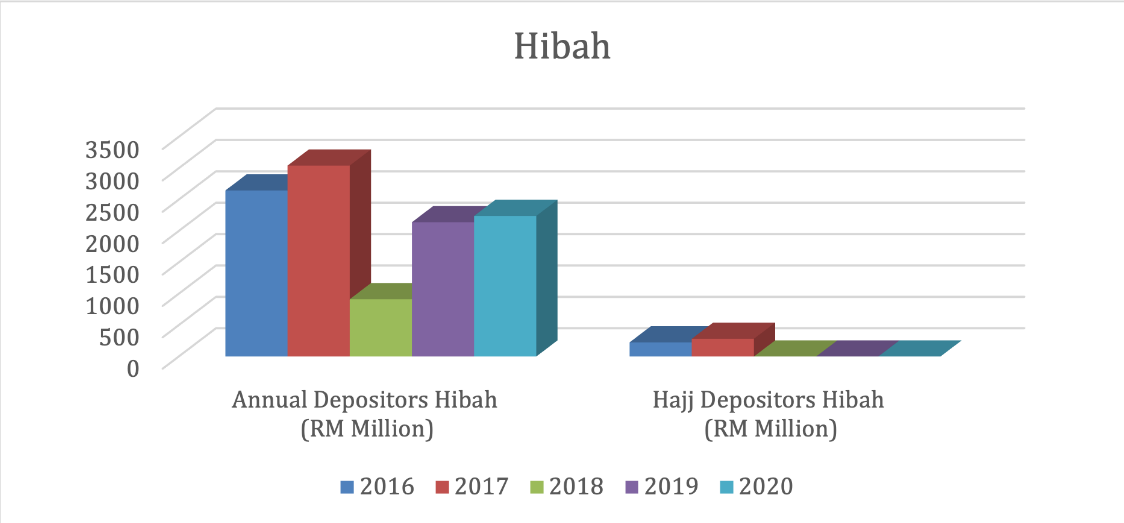
Table 10: Depositors of Tabung Haji

	2016	2017	2018	2019	2020
No. of depositors (Million people)	9.08	9.27	9.21	8.75	8.97
Depositors' Savings (RM Million)	64,834	70,199	74,489	69,417	75,920

Source: Lembaga Tabung Haji (2021).

Tabung Haji was at risk of a 'bank run' when depositors began to withdraw their savings which caused a decline in the numbers of depositors in 2018 as Tabung Haji announced its recovery and restructuring working plan. However, with sound decision making to execute strategic action plan in strengthening the governance of the institution, Tabung Haji managed to regain trust from the depositors as seen in the year 2020.

Figure 38: Depositors Hibah

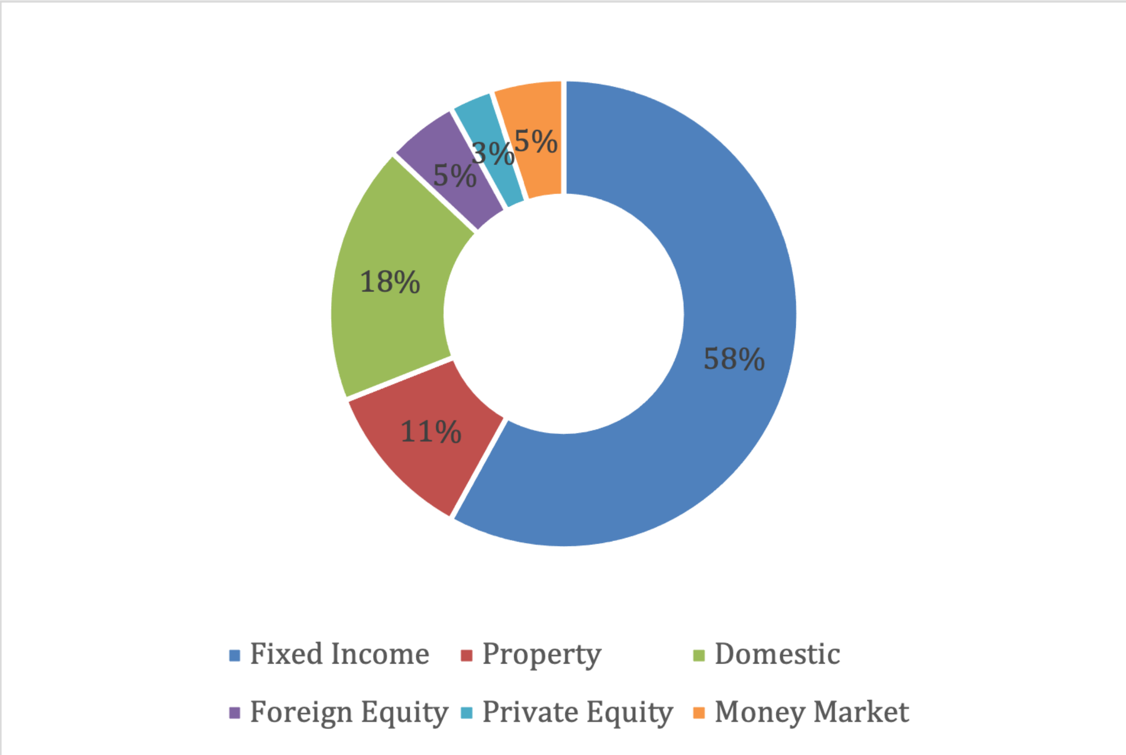


Source: Lembaga Tabung Haji (2021).

The *Hibah* distribution also witnessed a sharp decline from 6.25% (4.5% annual + 1.75% hajj) in 2017 to 1.25% in 2018. However, the *hibah* percentage slowly increased to 3.05% in 2019 and 3.10% in 2020. This improved profit distribution is supported by Tabung Haji's improved financial performance and positioning and is driven by sustainable investment strategies and prudent cost management measures. In previous years, Tabung Haji has divided the *hibah* percentage into two categories, which are Annual *Hibah* and Hajj *Hibah*. Annual *Hibah* is a gift announced by Tabung Haji, based on the Wadiah Yad Dhamanah concept, which depends on Tabung Haji's financial capacity during the current year. All depositors that hold an active savings account with Tabung Haji are eligible to receive the annual *hibah* at the announced rate while Hajj *Hibah* is a special gift given out to Tabung Haji depositors who have not performed hajj yet and are limited to current hajj expenses (RM 9,980). Starting from 2018, Tabung Haji has decided to only give out Annual *Hibah* to all depositors and removed the Hajj *Hibah*.

The asset allocation of TH funds is guided into four main assets which are equity, fixed income, property, and cash to ensure a strategic investment. It is important to have prudent asset management that could meet tolerable risk levels. Among the sectors that TH invested in are Islamic finance, plantations, constructions, property development, hospitality, and services sector i.e., hotel and residence, travel and tour services sector and information technology. The chart below depicts the strategic asset allocation of TH.

Figure 39: Strategic Asset Allocation of Tabung Haji

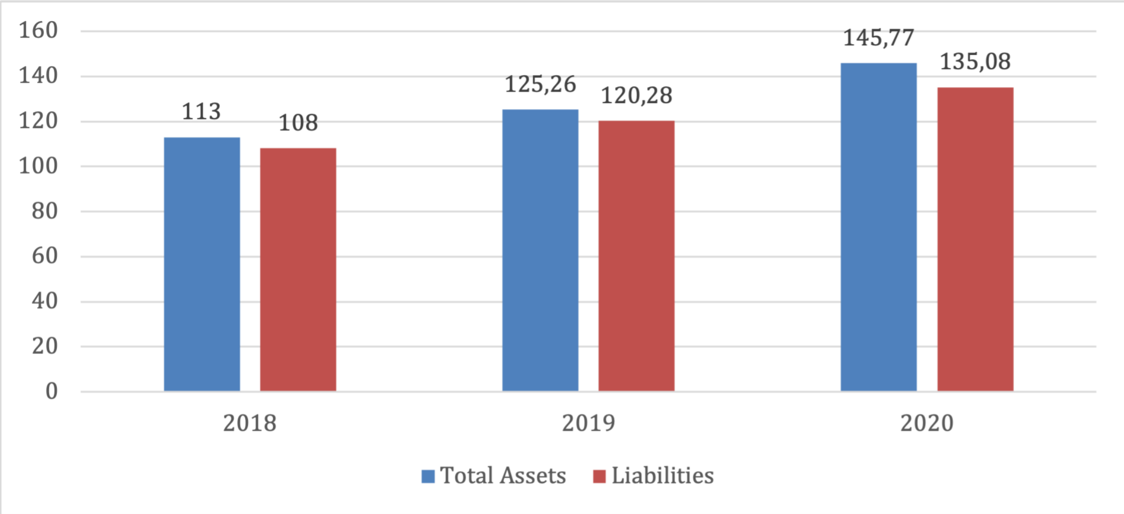


Source: Lembaga Tabung Haji (2021).

Indonesia

Based on data from the Hajj Financial Management Agency (BPKH) (2021), it can be seen in Graph 3.34 that the growth in total assets and liabilities of the Hajj fund management institutions experienced an increasing growth trend in the 2018-2020 period. In this case, BPKH's total assets amounted to IDR 145.77 trillion in 2020, or an increase of 16% from the previous year's total assets of IDR 125.35 trillion. Then, compared to total assets in 2016, which amounted to IDR 113 trillion, there has been an increase of 29% to 2020. In line with the increase in total assets, liabilities also increase along with the increase in prospective pilgrims, where the highest portion of the liabilities lies in pilgrim deposit funds. In terms of liabilities, there was an increase of 12% to IDR 135.08 trillion from IDR 120.28 trillion in the previous year, while in 2018, the total assets were IDR 108 trillion.

Figure 40: Total Assets and Liabilities of BPKH (in IDR Trillion)

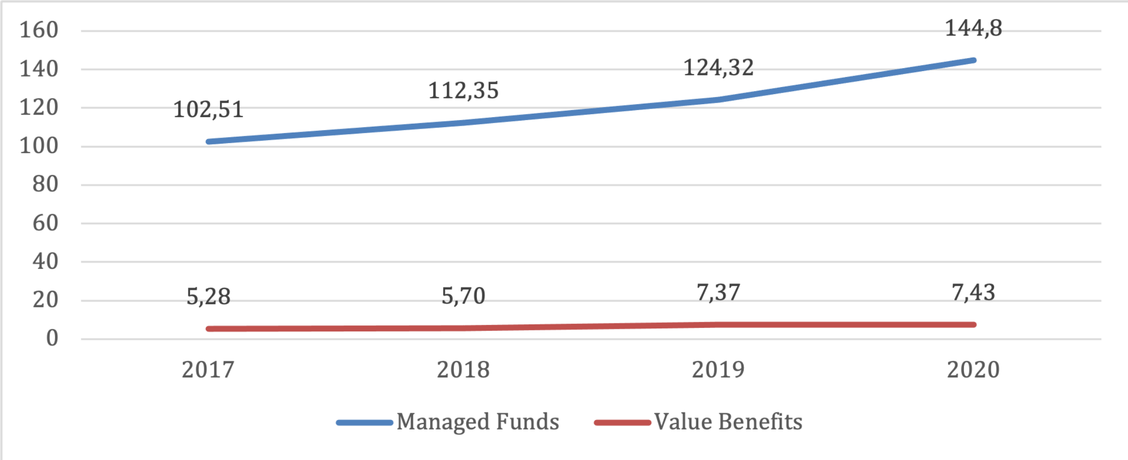


Source: BPKH (2020).

In addition, BPKH also recorded positive growth in managed funds and benefit value, as shown in Figure 40. The main source of this increase comes from the increasing number of prospective pilgrims who have officially registered and received departure queue numbers. As a result, as of 2020, BPKH's managed funds have reached IDR 144.8 trillion and grew by 16% from the 2019 period, IDR 124.32 trillion. Moreover, BPKH also recorded an increase in benefits value, from IDR 7.37 trillion in 2019 to IDR 7.43 trillion in 2020, increasing by 0.8%. Although the increase was quite small, it still showed good performance because BPKH was able to maintain positive value receipts considering the economic conditions in 2020 were not good due to the existence of Covid-19.

Furthermore, the value of the benefit was IDR 5.28 trillion and IDR 5.70 trillion in 2016-2017, which grew by 41% and 30% compared to the value in 2020. The distribution of the majority of the benefit value is for subsidizing the cost of organizing the hajj, which reaches 90% of the total value of the benefits, but this distribution in 2020 was not realized due to the cancellation of the departure hajj pilgrims due to Covid-19.

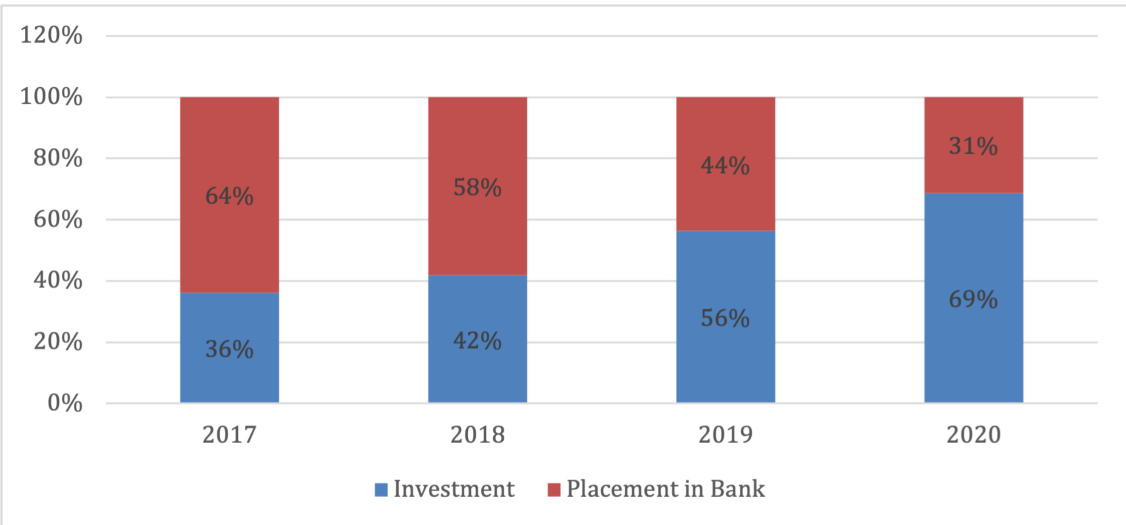
Figure 41: Funds Under Management and Value of Benefits in 2017-2020 (in Trillion IDR)



Source: BPKH (2020).

In addition, since its establishment in 2017, BPKH has also attempted to carry out the transformation of Hajj finance from a conservative management model to a more progressive one in terms of portfolio management. One of the focuses of BPKH, as mandated by PP. 5 of 2018, is to shift the portion of placement of funds in banks to investment instruments. Figure 42 shows the proportion of placement and investment of hajj funds and shows the progress of achieving the mandate of this PP. Overall, placements in banks' proportion decreased in the 2017-2020 period, while the proportion of investments continued to increase during that period. It indicates that BPKH is trying to fulfil the PP's mandate by increasing its managed funds in investment instruments. In more detail, in 2020, BPKH has reduced placements with Islamic banks from 44% in 2019 to 31%. Then, the proportion of placements with banks that previously dominated at 64% in 2017 slowly decreased to 58% in 2018 and 44% in 2019. Meanwhile, the proportion of investments continued to increase from 36% in 2017 to 42 %, 56%, and 69% in 2018-2020.

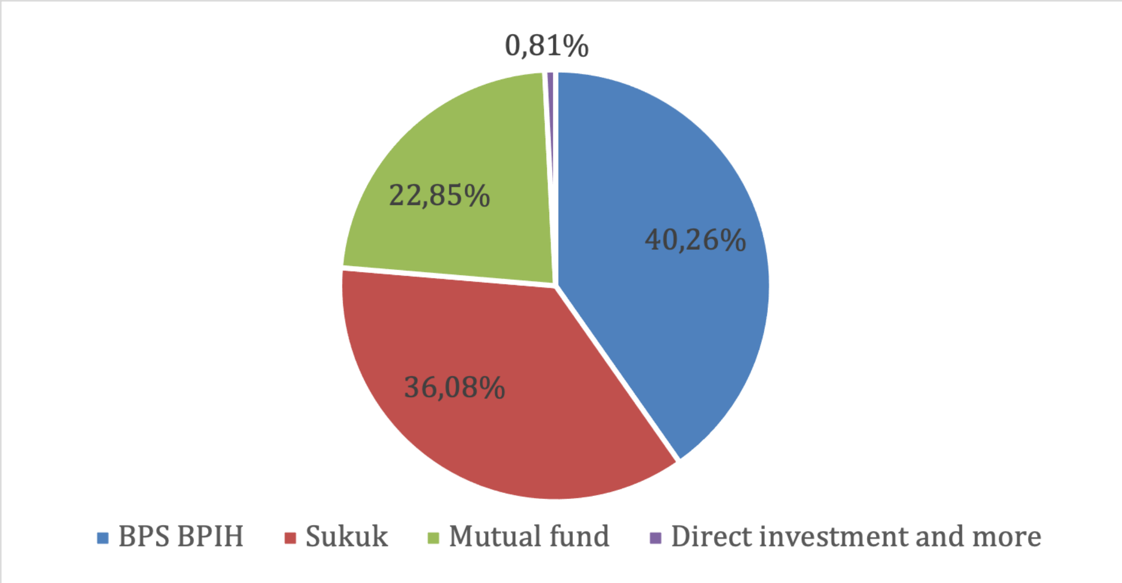
Figure 42: Proportion of Placement and Investment of Hajj Funds in 2018-2020



Source: BPKH (2020).

The proportion of investment in 2020 can be seen in Figure 43. In addition to being placed in BPS BPIH (Recipient Bank for Hajj Organizing Fees) (40.26%), the majority of hajj money is also invested in Sukuk (36.08%), especially those issued by the government. Mutual funds followed in the next position with a proportion of 22.85% of the total placements. The remaining 0.81% is placed in direct investment and others. This proportion is following the mandate of PP No. 5 of 2018 that Hajj investment can be channelled in the form of Islamic securities (minimum 65%), gold (maximum 5%), direct investment (maximum 20%), and other investments (maximum 10%).

Figure 43: Proportion of Hajj Fund Investment Instruments in 2020



Source: BPKH (2020).

Conclusion

The non-banking financial institutions aim to address the financial and social inclusions issues. The overall understanding from this study shows that both countries – Malaysia and Indonesia have revealed the importance of providing for socioeconomic development. These non-banking financial institutions provide multiple benefits with their own uniqueness to ensure societal well-being, especially during this Covid-19 crisis. The Malaysian case has not separated the Islamic and non-Islamic NBFIs as they work alongside together, in contrast to Indonesia that specifically differentiates the Islamic NBFIs. The landscape of NBFIs in both countries is different from the size of the institutions, complexity, maturity, regulatory and also supervisory framework. The motivation behind the establishment is also different as Malaysia has a government-led initiative while Indonesia begins with the aspiration of the community. Hence, comparing both countries would be unfair as each country provides unique institutions to cater for the developmental needs of their society.

Although there are similarities in products and services offered by both countries such as in the takaful industries, financing institutions, pension funds, zakat, waqf, hajj fund and fintech. However, the modus operandi and motivation may not be the same. The researcher face difficulties to gather data, especially as it is not made available in detail or in the form of mere reporting. The fintech industry in both countries is rapidly developing and applied almost to every sector. The pandemic Covid-19 has escalated the importance of having digital adoption in financial services to enhance efficiency and provide safety. Thus, the innovation of products and services are more welcoming in the near future.

The NBFI's role is important to complement the mainstream financial system as it focuses on socioeconomic development. This study proposes to have an efficient NBFI by improving in certain areas such as report disclosures, minimal political engagement and enhancing the SDG values. Having a central governing body to monitor these institutions would improve good governance and thus increase the trust among stakeholders.

Limitations

This report attempts to study the non-banking financial institutions from an Islamic view located in two countries i.e. Malaysia and Indonesia. It is a smaller financial sector in both countries as compared to the banking sector which is highly regulated by the central bank. This study has encountered several challenges, especially during this pandemic process of Covid-19. The researchers discovered difficulties in gathering information due to several factors such as Movement Restriction Orders caused by the increasing cases of Covid-19 and lack of information available on non-banking financial institutions either online or offline.

References

Ahmad, I. & Ma'in, M. (2014). The efficiency of zakat collection and distribution: Evidence from two stage analysis. *Journal of Economic Cooperation and Development, 35*(3), 133-170.

Ahmad, A., & Ishak , M. S. I. (2021). Shari'ah governance of Islamic non-banking financial institutions in Malaysia: A conceptual review. *The Journal of Management Theory and Practice, 2*(1), 70-77.

Alwyni, F.A. (2021). Islamic pension funds: The next big thing in Islamic finance. *Islamic Finance News*. Retrieved from https://www.islamicfinancenews.com/islamic-pension-funds-the-next-big-thing-in-islamic-finance.html

Asri, M. N. M., Siraj, M. A., Mighfari, E. R., & Firli, R. N. (2020). Shariah governance in Islamic financial institutions in Indonesia and Malaysia: A comparative analysis. *Journal of Islamic Finance, 9*(2), 146–154. Retrieved from https://journals.iium.edu.my/iiibf-journal/index.php/jif/article/view/492

Azman, N. H. (2020). Number of zakat payers jumps 90% this year. *The Malaysian Reserves.* Retrieved from https://themalaysianreserve.com/2020/12/18/number-of-zakat-payers-jumps-90-this-year.

Badan Amil Zakat Nasional (BAZNAS). (2020). *Indonesia's zakat outlook 2020.* Retrieved from https://www.puskasbaznas.com/publications/outlook/indonesia-zakat-outlook-2020/1254-indonesia-zakat-outlook-2020

Badan Pengelola Keuangan Haji. (2020). *Laporan keuangan tahun 2020* (Unaudited). Retrieved from https://bpkh.go.id/category/publikasi/laporan-tahunan/

Bank Negara Malaysia (2021). *List of development financial institution*. Retrieved from https://www.bnm.gov.my/list-of-development-financial-institutions

Bank Negara Malaysia. (2019). *Anti-money laundering, countering financing of terrorism and targeted financial sanctions for Designated Non-Financial Businesses and Professions (DNFBPs) & Non-Bank Financial Institutions (NBFIs) (AML/CFT and TFS for DNFBPs and NBFIs)*. Retrieved from https://www.bnm.gov.my/documents/20124/761679/AMLCFT+and+TFS+for+DNFBPs+and+NBFIs.pdf

Financial Stability Board. (2020). *Global monitoring report on non-bank financial intermediation 2020.* Retrieved from https://www.fsb.org/wp-content/uploads/P161220.pdf

Grassa, R. (2013). Shariah supervisory system in Islamic financial institutions: New issues and challenges: A comparative analysis between Southeast Asia models and GCC models. Humanomics, 29(4), 333-348.

International Centre for Education in Islamic Finance (INCEIF). (2020). *INCEIF refinitiv ıslamic finance knowledge outlook report 2020.* Retrieved from https://inceif.org/2020/10/01/inceif-and-refinitiv-launched-islamic-finance-knowledge-outlook-report-2020/

Islamic Finance News and Malaysia Digital Economy Corporation. (2020). *Islamic fintech & digital financial inclusion report*. Retrieved from https://www.islamicfinancenews.com/supplements/mdec-islamic-fintech-dialogue-report

Islamic Financial Service Act (IFSA). (2013). *Laws of Malaysia* (Act 759). Retrieved from https://www.bnm.gov.my/documents/20124/8102422b-e6dd-d149-8db0-e3637e89ed5c

JAWHAR – Department of Awqaf, Zakat and Hajj (2021). Retrieved from https://www.jawhar.gov.my/en/.

Johari, M. N. S. & Yusoff, A. S. (2019). Fintech: Ke arah keberkesanan kutipan dan agihan zakat di Malaysia. *International Journal of Zakat and Islamic Philanthropy, 1*(2), 49-59.

Kementerian Agama Republik Indonesia. (2021). *Data tanah wakaf.* Retrieved from http://siwak.kemenag.go.id/

Komite Nasional Ekonomi dan Keuangan Syariah. (2021). *Masterplan ekonomi syariah 2019-2024.* Retrieved from https://knks.go.id/storage/upload/1573459280-Masterplan%20Eksyar_Preview.pdf

Lembaga Tabung Haji (2021). Retrieved from https://www.tabunghaji.gov.my/index.php/en.

Lim, J. (2021). *SC Annual Report 2020: SC annual report 2020: SC's liberalisation of ECF, P2P financing platforms bolsters funding, up 43% y-o-y, The edge markets.* Retrieved from https://www.theedgemarkets.com/article/sc-annual-report-2020-scs-liberalisation-ecf-p2p-financing-platforms-bolsters-funding-43-yoy.

Malaysia International Islamic Financial Centre (MIFC) (2020). Retrieved from http://www.mifc.com/index.php.

Otoritas Jasa Keuangan (OJK). (2015). *Roadmap IKNB Syariah 2015-2019.* Retrieved from https://www.ojk.go.id/id/kanal/syariah/berita-dan-kegiatan/publikasi/Documents/Pages/Roadmap-Pasar-IKNB-2015-2019/roadmap-nbs_2015-2019.pdf

Otoritas Jasa Keuangan (OJK). (2020). *Laporan perkembangan keuangan syariah 2019.* Retrieved from https://www.ojk.go.id/id/kanal/syariah/data-dan-statistik/laporan-perkembangan-keuangan-syariah-indonesia/Pages/-%E2%80%8BLaporan-Perkembangan-Keuangan-Syariah-Indonesia-2019.aspx

Otoritas Jasa Keuangan (OJK). (2020). *Statistik IKNB Syariah 2020.* Retrieved from https://www.ojk.go.id/id/kanal/syariah/data-dan-statistik/iknb-syariah/default.aspx

Salim, K., Abojeib, M. & Baharom, AH. (2020). *Islamic fintech in Malaysia: Reality & outlook.* Kuala Lumpur: The International Centre for Education in Islamic Finance (INCEIF).

Securities Commission Malaysia (2021). Accessed at https://www.sc.com.my/analytics/ecfp2p.

Shah, M. E. (2019). *The Malaysian journey: Becoming a global hub for Islamic finance* (Report No. 12). Istanbul: Research Center for Islamic Economics (IKAM).

Yayasan Wakaf Malaysia. (2020). Retrieved from https://www.ywm.gov.my.

İLKE
Foundation for science, culture and education

ikam
RESEARCH CENTER FOR ISLAMIC ECONOMICS

Aziz Mahmud Hudayi Mah. Turbe Kapısı sok. No:13 Uskudar Istanbul

ikam.org.tr
info@ikam.org.tr
ikamorgtr
ikamorgtr