

Promoting a Progressive and Inclusive Islamic Financial System

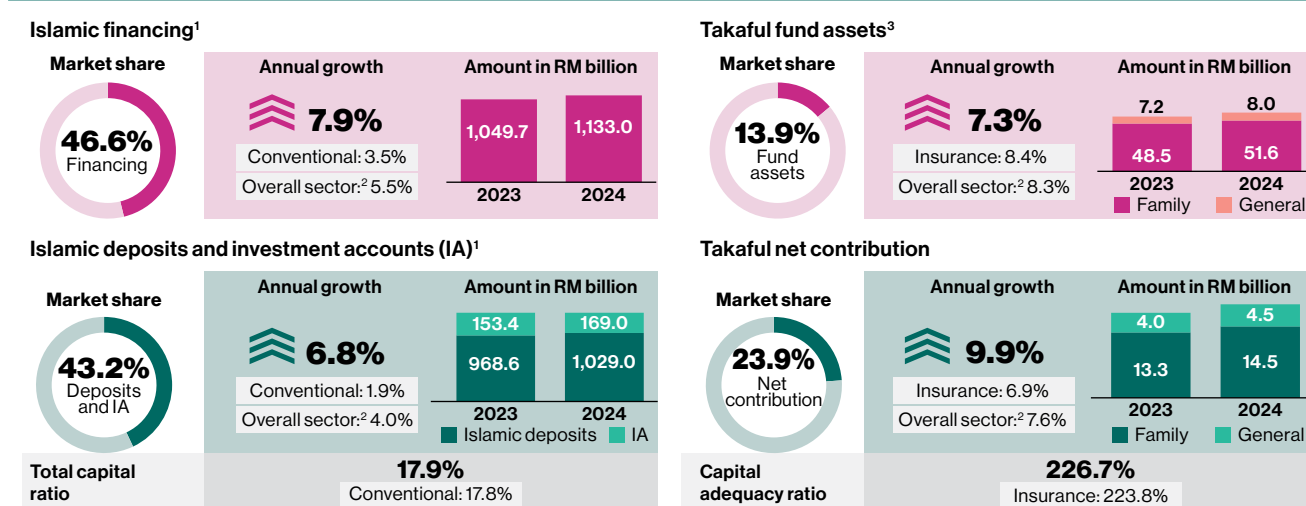
During the year, we focused on elevating Islamic finance's role and impact towards promoting sustainable economic growth and enhancing social justice.

In 2024, Bank Negara Malaysia (BNM) continued to advance Islamic finance in collaboration with key stakeholders. Efforts remained focused on enhancing the Islamic finance sector's contribution to economic developments, sustainability and financial inclusion. BNM also strengthened the regulatory environment to promote value-based finance and innovative financial instruments. On the global front, BNM actively collaborated with the industry to strengthen Malaysia's thought leadership in Islamic finance and position Malaysia as an international gateway for Islamic finance. This includes enhancing cross-border linkages, enhancing clarity in Shariah understanding and application in modern financial activities, promoting Shariah mutual recognition and exchanging insights and best practices through various

international fora. These efforts are aligned with development priorities set out in the Financial Sector Blueprint (FSBP) 2022–2026.

The Islamic banking and takaful industries continued to record positive growth in 2024. The Islamic banking industry's share of total financing in the financial system increased from 45.6% in 2023 to 46.6% in 2024, while the takaful industry's share of total net contribution increased from 23.4% in 2023 to 23.9% in 2024. Islamic banking and takaful institutions remained resilient and well-capitalised (Diagram 1). The resilience of the Islamic financial institutions has enabled the industry to continue meeting the funding needs of businesses, including small and medium enterprises (SMEs), and households, as well as providing financial protection (Diagram 2). Although total takaful net contributions grew steadily, the family takaful market penetration¹ has moderated slightly in 2024. This was due to decline in sales of new certificates relating to investment-linked and medical and health products during the year arising from challenges relating to medical cost inflation and general cost of living pressures.

Diagram 1: Market Share and Growth Indicators

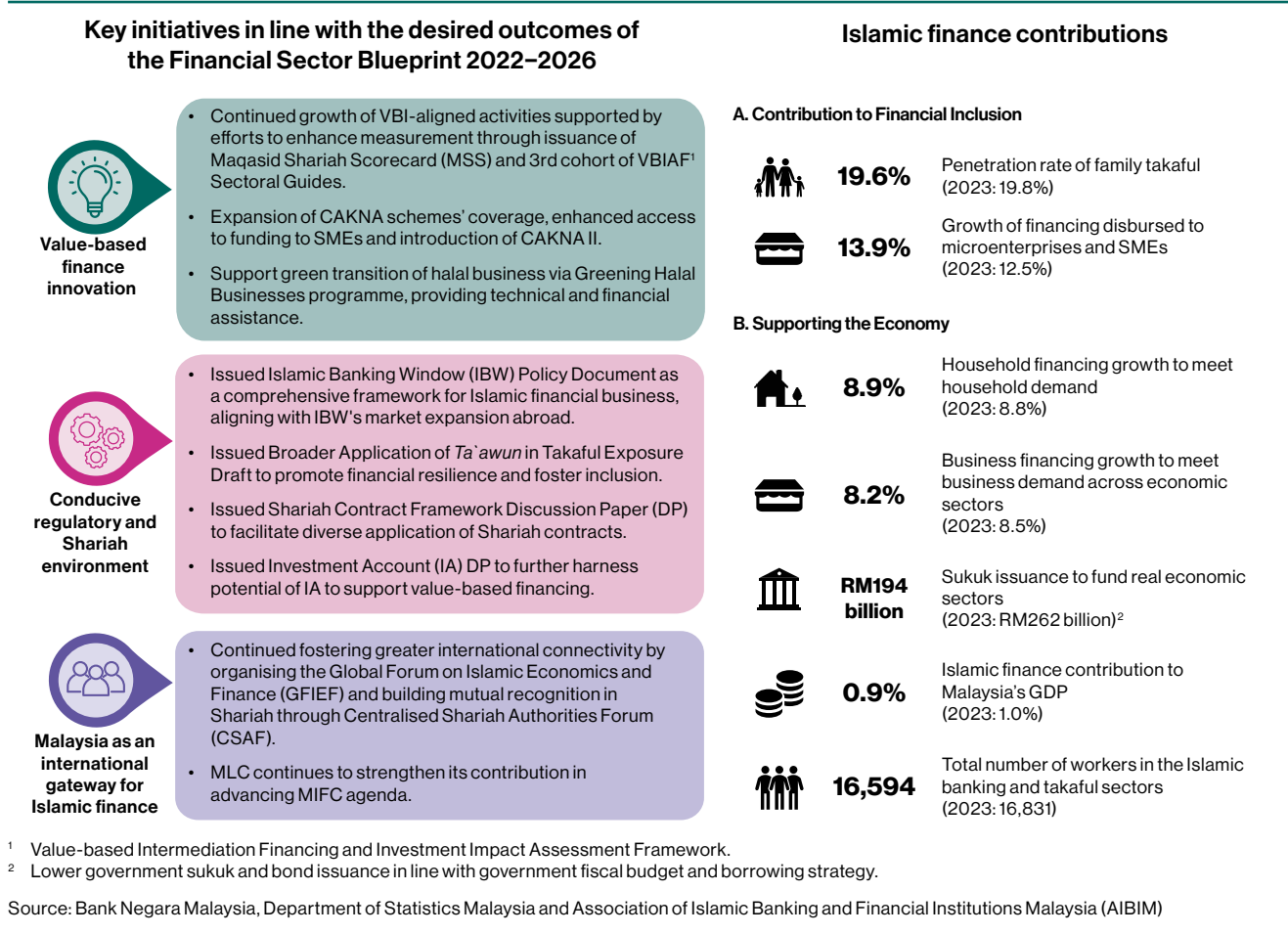


¹ Includes development financial institutions.
² Annual growth for overall sector refers to combination of Islamic and conventional sectors.
³ Not inclusive of the shareholders' fund assets.

Source: Bank Negara Malaysia

¹ The ratio of total number of family takaful certificates in-force to total population.

Diagram 2: Summary of Islamic Finance Key Initiatives in 2024 with Indicators on Contributions to the Economy



¹ Value-based Intermediation Financing and Investment Impact Assessment Framework.
² Lower government sukuk and bond issuance in line with government fiscal budget and borrowing strategy.

Source: Bank Negara Malaysia, Department of Statistics Malaysia and Association of Islamic Banking and Financial Institutions Malaysia (AIBIM)

Strengthening Islamic Finance Ecosystem for Sustainable Economic and Social Impact

Steady progress of value-based finance initiatives

The Value-based Intermediation (VBI) principles have been key in guiding the Islamic financial industry to deliver positive impact on the economy, community and environment. Islamic banks intermediated RM216.1 billion in 2023, benefitting 8.0 million accounts through initiatives that were aligned with VBI goals.² These figures reflect a significant growth of 64.5% in value and 61.2% in outreach compared to 2022, showing the growing commitment of Islamic banks to VBI goals. Islamic banks also showed significant progress in fostering a high value green economy through a substantial rise in net-zero and green financing. While still relatively nascent, the financing amounts increased by approximately 50%, rising from RM16.5 billion in 2022 to RM25.9 billion in

2023. Additionally, the number of accounts has more than tripled to 140,798 accounts in 2023 compared to the previous year. Specific areas of focus include clean and green transportation, transition financing, and sustainable water and wastewater management.

In September 2024, the third cohort of the Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) Sectoral Guides, which aligns with BNM's Policy Document on Climate Risk Management and Scenario Analysis (CRMSA) and Climate Change and Principle-based Taxonomy (CCPT), was issued, covering four sectors.³ The VBIAF Sectoral Guides outline sector-specific guidelines that assess the impact of financing and investment activities across ten economic sectors⁴ in total. The first and the second cohorts of the Sectoral Guides covering six sectors, issued in 2021 and 2022 respectively, are currently being

³ The third cohort covers agriculture, mining, transport and waste management sectors.
⁴ The first cohort covers palm oil, renewable energy and energy efficiency sectors while the second cohort covers oil and gas, construction, and infrastructure and manufacturing sectors.

² Source: Value-based Intermediation (VBI) Report 2023 by the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM)

reviewed by the VBI Community of Practitioners (VBI CoP)⁵ to also ensure alignment with CRMSA as well as CCPT.⁶ The review is targeted for completion by 2025.

In October 2024, the takaful sector advanced the implementation of Value-based Intermediation for Takaful (VBIT) framework with the launch of the *Maqasid* Shariah Scorecard (MSS) by the Malaysian Takaful Association (MTA). This pioneering initiative aims to track key performance indicators (KPIs) and outcomes that reflect the core values of Islamic finance. The MSS uses a scorecard that incorporates *maqasid* Shariah parameters to help takaful operators measure their KPIs based on key thrusts of the VBIT framework.⁷



Assistant Governor Suhaimi Ali together with members of MTA and ISRA Institute during the launch of *Maqasid* Shariah Scorecard at VBIT conference

Another VBIT initiative is the pilot social takaful programme using a 'blended approach' for the under-protected segments. This initiative blends benevolent funds with takaful contributions and private funds to provide affordable protection to vulnerable groups, including

micro-entrepreneurs, in a sustainable manner. The programme aims to promote inclusive protection, in line with VBIT's goals of empowerment and sustainability in takaful solutions. The programme is also expected to utilise the Government's grant on annual takaful contributions for microentrepreneurs under iTEKAD as announced in Budget 2025. More information on iTEKAD can be found in the chapter on 'Promoting a Progressive and Inclusive Financial System'.

Scaling up funding solutions through CAKNA schemes

CAKNA schemes⁸ remained accessible to SMEs in managing their cash flow throughout the project lifecycle for government procurement contracts. Since its inception in 2021, CAKNA I has provided a total of RM919 million non-debt funding facilities, benefiting 305 SME vendors. The scheme has now been expanded to cover all ministries and state-level agencies, providing liquidity to SMEs across a broader scope of business activities through eight participating financial institutions.

During the year, CAKNA II was introduced as a financing facility to help SMEs with timely completion of their projects, particularly small contractors (G1-G4) with government projects related to supplies, services or contract works. Currently, five participating financial institutions offer six financing products under CAKNA II for SMEs with government contracts. Additionally, RM200 million was allocated under All Economic Sectors Facility (AES) of BNM's Fund for SMEs to support the implementation of small-scale government projects.

As part of these expansions, outreach programmes were held in collaboration with the Ministry of Finance (MOF) and the Ministry of Entrepreneur Development and Cooperatives (MEDC). These programmes aim to raise awareness and familiarity with CAKNA schemes among Ministries, state agencies as well as SME vendors.

⁵ VBI CoP is a collaborative platform initiated by Islamic banks spearheading VBI industry initiatives. The founding members consist of Bank Islam Malaysia Berhad, CIMB Islamic Bank Berhad, Bank Muamalat Malaysia Berhad, HSBC Amanah Malaysia Berhad and Bank Pertanian Malaysia Berhad (Agrobank), and the CoP has grown to 16 members to date.

⁶ CRMSA sets out the principles and requirements for financial institutions to manage climate-related risks by financial institutions while CCPT facilitate financial institutions in assessing and classifying economic activities that contribute to climate change mitigation and adaptation. CRMSA and CCPT were issued in 2022 and 2021 respectively.

⁷ Four key thrusts of VBIT – financial resilience (ability to bounce back from the financial shock); good self-governance (ability to effectively exercise all necessary functions of regulation); community empowerment (process of enabling people to gain control over the factors and decisions that shape their lives); and best conduct (practice that is deemed to be most superior because it leads to the best results).

⁸ There are two schemes under CAKNA. CAKNA I caters to the liquidity needs of SMEs post-contract delivery, while CAKNA II caters to the financing needs pre-contract delivery. Further information at <https://www.bnm.gov.my/skim-cakna>.

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Briefing on CAKNA I and CAKNA II to government officials in Putrajaya and government contractors in Kedah

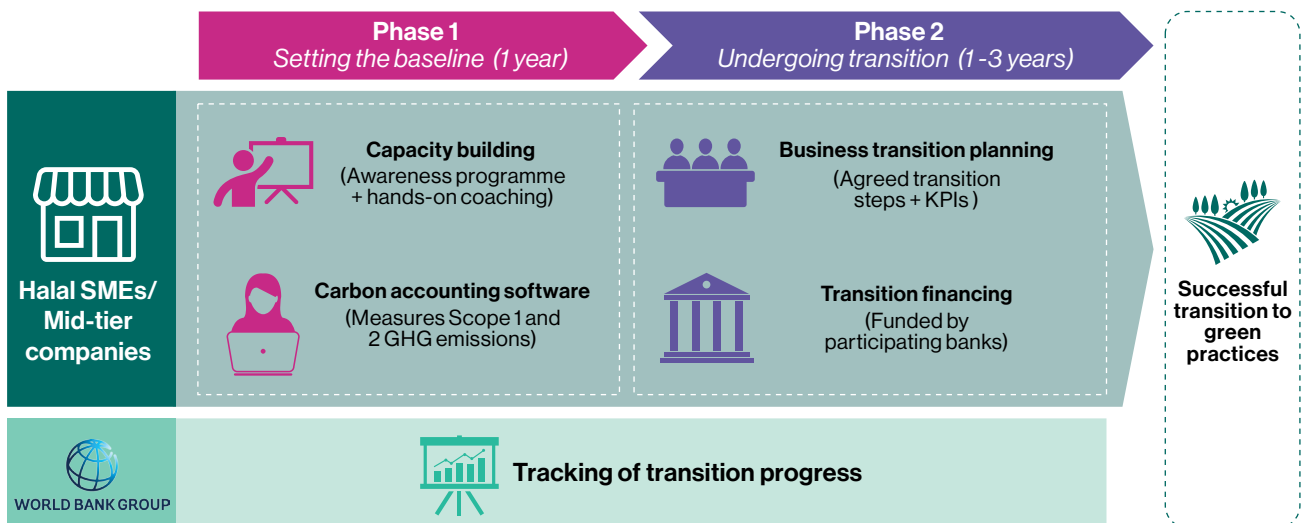
Advancing halal trade and business

The halal sector presents significant opportunities for Islamic finance to support the real economy. With growing global demand for halal products, Islamic financial institutions, together with relevant government agencies,⁹ can help support halal companies to grow and expand their export potential.

In May 2024, BNM, in collaboration with MOF, Islamic Development Bank (IsDB) and the World Bank Group Inclusive Growth and Sustainable Finance Hub (World Bank) in Malaysia, announced the Greening Halal Businesses (GHB) pilot programme. This initiative aims to support greening efforts by Malaysian halal businesses, particularly SMEs and mid-tier companies in meeting green transition needs. The increasing emphasis on ethical consumerism underscores the need for halal businesses, especially those across the value chain in exports, to intensify their commitment to sustainable practices.

The GHB pilot programme employs a blended facilitation approach, offering a range of support mechanisms in phases (Diagram 3). Phase 1 focuses on offering capacity building and carbon accounting tools to measure greenhouse gas (GHG) emissions. Additionally, financial assistance will also be provided via a government grant allocation of RM15 million under Budget 2025 to further incentivise the transitioning efforts of halal companies. These may include obtaining green certification to access new export markets and purchasing energy-efficient equipment to reduce emissions from business operations. Beyond this, Phase 2 will be funded through facilities provided by participating banks to support the successful transition of businesses to green practices. The implementation progress will be tracked and evaluated by the World Bank through identified impact indicators.

Diagram 3: Illustration of Greening Halal Businesses' Structure and Mechanism



Source: Bank Negara Malaysia

⁹ For example, the Halal Development Corporation Berhad (HDCB) and the Malaysian External Trade Development Corporation (MATRADE).

Implementation of Agritakaful

Malaysia's first agriculture-based takaful programme, the Paddy Crop Takaful Scheme (Skim Takaful Tanaman Padi, STTP), was launched during the year. The scheme is designed to enhance the resilience of the agriculture community by providing basic protection against crop losses, particularly from natural disasters such as floods and droughts, that are exacerbated by climate change.

The STTP, offered by a subsidiary of Agrobank – Agro Captive Takaful Limited – through collaboration with the Ministry of Agriculture and Food Security (MAFS), specifically targets the paddy farming subsector. This voluntary, multi-peril takaful scheme aims to cover about 200,000 small-scale paddy farmers registered with MAFS agencies, spanning 350,000 hectares of paddy fields nationwide. Takaful coverage offered is up to RM3,000 per hectare per planting season, with a limit of two seasons per year. Takaful contributions amounting to RM60 per hectare per season will be fully subsidised by the Government in the first year. The scheme is also expected to support national food security efforts by encouraging more entrepreneurs to participate in the agriculture industry with takaful coverage to protect against unforeseen events that could disrupt harvests. The scheme will be piloted over the next three years.

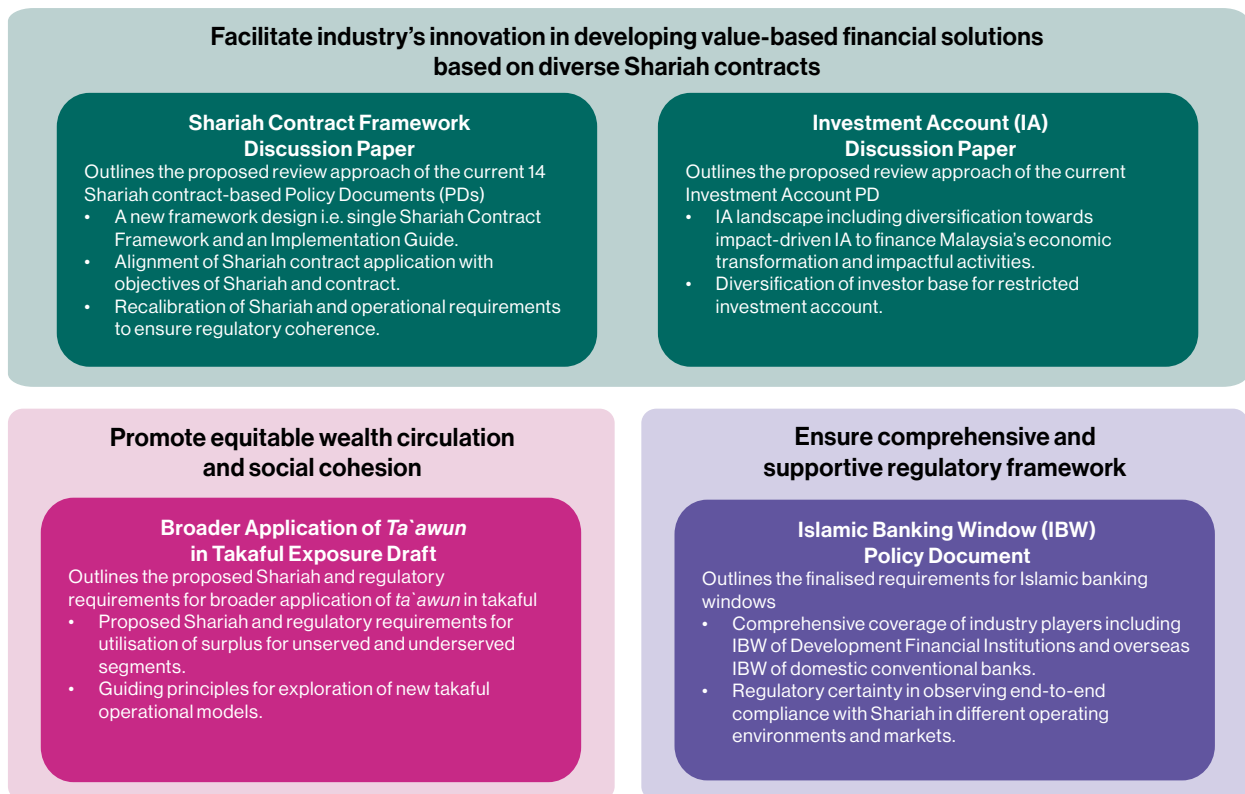
Enabling Regulatory Environment to Facilitate Islamic Finance Growth

Strengthening policy enablers to facilitate business growth

In 2024, BNM reviewed and enhanced several Islamic finance regulations to continue providing a conducive regulatory environment that fosters growth in Islamic finance. BNM issued a number of discussion papers during the year to facilitate application of diverse Shariah contracts, aimed at supporting inclusion and product innovation in value-based finance. This includes a review of the Shariah contract-based regulatory framework and existing policy requirements on investment account. As part of the review of the Shariah contract-based regulatory framework, BNM is exploring a new framework design and policy recalibration for both Shariah and operational requirements of the existing 14 Shariah contracts. These efforts aim to facilitate innovation in the use of diverse Shariah contracts while ensuring end-to-end Shariah compliance to better address consumer and economic needs.

BNM also published the Broader Application of *Ta'awun* in Takaful Exposure Draft to facilitate the takaful industry to

Diagram 4: Key Islamic Finance Policy Initiatives in 2024



Source: Bank Negara Malaysia

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contribute towards socio-economic advancement of society through the *ta'awun* (mutual assistance) concept. To remain effective amid evolving market environments, BNM also revised its policy on the Islamic banking window to ensure a

level playing field across different types of institutions. Overall, these efforts seek to encourage innovative solutions and drive business growth within the industry. The policy issuances are summarised in Diagram 4.

Diagram 5: Summary of Key Shariah Deliberations in 2024



Product Innovation

Issuance of Malaysian Government Investment Issue (MGII) based on *wakalah* concept

- SAC approved MGII structure based on *wakalah* (agency) contract and its variants such as *wakalah bi al-istithmar* (agency contract for investment) and *wakalah bi al-khadamat* (agency contract for services) as an alternative to murabahah in order to diversify the underlying Shariah concept for the instrument.

New features of Sell and Buy Back Agreement (SBBA)

- SAC approved the proposed new features of SBBA including margining, profit disbursement and substitution of asset.



Policy Development

Transfer of funds for funding and liquidity risk management from an Islamic financial institution to a conventional financial institution

- In principle, it is not permissible for any form of fund to be transferred from Islamic financial institutions to conventional financial institutions, unless there is certainty (*al-yaqin*) or a high probability (*ghalib al-zann*) that the funds will not be used for non-Shariah compliant activities, in which the transfer of funds aims to address hardship, subject to *Hajah* and *Darurah* Policy Document (PD).

Broader application of *ta'awun* in takaful

- Utilisation of distributable surplus for broader application of *ta'awun*, best interest of takaful participants must be preserved.
- Express consent from takaful participants must be sought as a general Shariah requirement when utilising the distributable surplus.

Strengthening Shariah contract framework

- SAC deliberated proposed review approach of the Shariah contract PDs to support the application of diverse Shariah contracts and innovation by the industry.

Research on fundamentals of modern money including Central Bank Digital Currency from Shariah perspectives

- Understanding of money from historical Shariah conception and how it works in the modern banking and economic system for ascertainment of Shariah perspectives.



Industry Practices

Anticipatory hedging

- Anticipatory hedging is recognised to mitigate risk exposure from projected or anticipated transactions, where it may be considered as an actual risk if the amount of transaction is justifiable, quantifiable and the timing of payment can be ascertained.

Review of existing SAC rulings on *tawarruq*

- SAC deliberated Shariah assessment on *tawarruq* application in the industry and its potential impact to the policy direction.

Parameters for the transfer of takaful business to an insurance company through a novation agreement in a run-off arrangement

- SAC deliberated on the transfer of takaful business to an insurance company (including a licensed reinsurance company) through novation agreement in a run-off arrangement, mapped against requirements set out in the *Hajah* and *Darurah* PD.



Market Infrastructures

Islamic FX Swap as a liquidity management instrument between BNM and IFIs

- Islamic FX Swap based on (a) *bai' al-sarf* and *wa'd* (currency exchange and unilateral promise) and (b) *tawarruq* for the purpose of liquidity management is permissible given the need (*hajah*) to facilitate liquidity injection into the market.

Funding Facility for Retail Payment Settlement (FRPS)

- Affirmed permissibility of subscription to FRPS in respect of its Shariah compliance, which involves automated sale and purchase transactions using *wakalah* contract.



Arrangements that Do Not Meet Shariah Requirements

Financing of property under construction based on *ijarah muntahiyah bi tamlik*

- The financing does not meet the requirements of the sale and purchase contract on establishing ownership of the asset before the rental contract is signed, and the asset does not exist at the time of signing of the sale and purchase contract.

Execution of Foreign Exchange Products and Settlements Services without *wakalah* agreement

- The *wakalah* arrangement does not meet the structure approved by the SAC and requirements of a valid *wakalah* agreement.

Source: Bank Negara Malaysia

Building a Conducive Shariah Framework to Enable Vibrant Ecosystem

Summary of key Shariah deliberations in 2024

The Shariah Advisory Council of Bank Negara Malaysia (SAC) continued to play a critical role in developing Islamic finance in Malaysia. Its rulings follow a structured decision-making framework that integrates both classical Shariah underpinnings and comprehensive sources of Islamic law, as well as contemporary views and fatwas. These rulings consider practical application of financial instruments, real-world conditions, impact on the industry, and their broader influence on the overall economy.

In 2024, SAC addressed various contemporary issues and provided clarity on Shariah matters to support market innovation. Key areas of SAC's deliberations are summarised in Diagram 5.

Advancing Shariah talent ecosystem

In 2024, BNM continued efforts to develop credible and sustainable pipeline of Shariah experts in Islamic finance. Targeted initiatives include an intensive mentoring programme where participants were able to engage closely with SAC members and prominent international Shariah scholars.

BNM also held a focus group session which provided a platform for participants to discuss the application of the Shariah decision-making framework adopted by the SAC to industry issues under the guidance of SAC members. This initiative is part of the ongoing development process aimed at futureproofing the Shariah talent pool within the domestic Islamic finance ecosystem.



Sheikh Professor Dr. Ali Muhiddin Al-Qaradaghi, Professor Dr. Ashraf Md. Hashim (Chairman of the SAC) and Tan Sri Dr. Mohd Daud Bakar at the mentoring programme with Shariah experts in Islamic finance

Elevating Malaysia's Leadership in Fostering Global Linkages in Islamic Finance

Malaysia remains committed in strengthening its position as a global gateway for Islamic finance. During the year, BNM continued its efforts anchored on three key areas:

- Fostering global cooperation and initiatives to advance Islamic finance.
- Strengthening Malaysia International Islamic Financial Centre (MIFC) business linkages.
- Deepening Islamic financial market.

Fostering global cooperation and initiatives to advance Islamic finance

Global Forum on Islamic Economics and Finance

In May 2024, BNM organised the Global Forum on Islamic Economics and Finance (GFIEF) in Kuala Lumpur. The event gathered over 2,300 policymakers, industry leaders and practitioners from 75 countries. GFIEF was held under the patronage of MOF. Its organising partners include the Securities Commission Malaysia, Labuan Financial Services Authority, the International Islamic Liquidity Management Corporation (IILM), IsDB, the Islamic Financial Services Board (IFSB) and the World Bank Group.

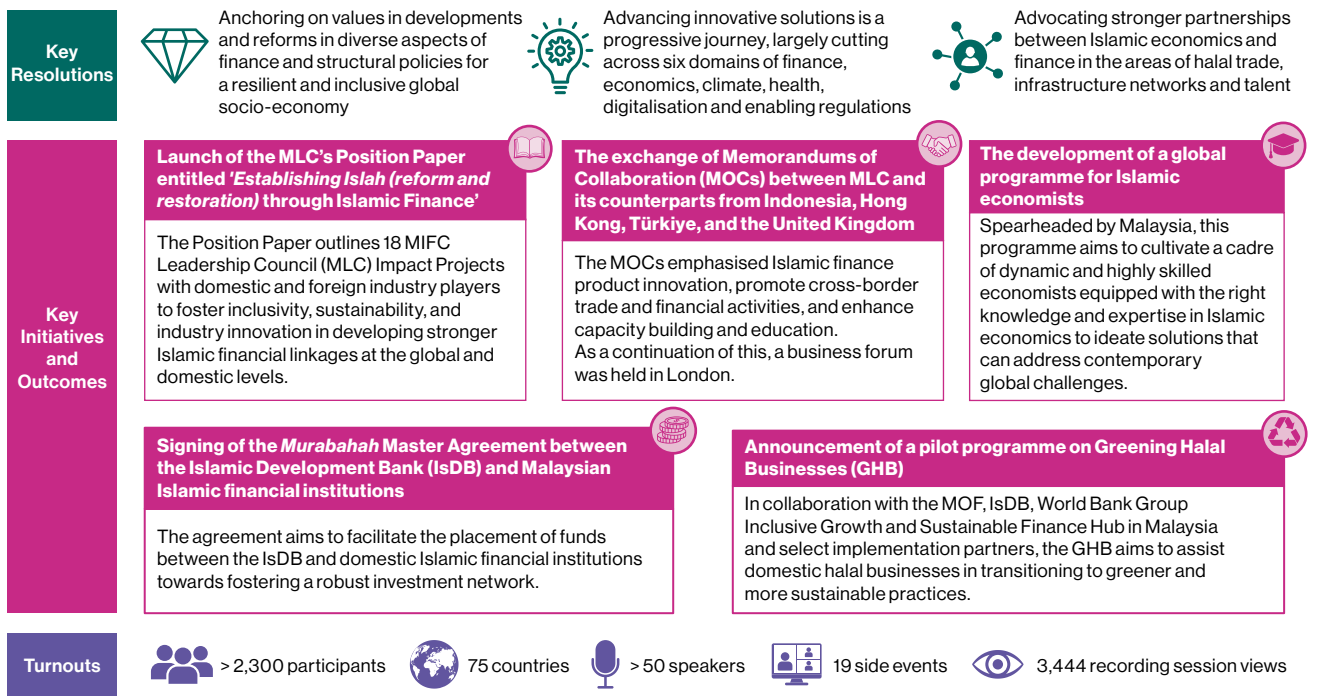
With the theme 'Shaping a Resilient Global Islamic Economy Through Values-based Reforms', the two-day forum featured deep policy discussions and initiatives that strengthen international cooperation (see Diagram 6).

Key international partnerships in Islamic finance

As part of the global Islamic finance community, BNM remained an active participant at international organisations and platforms such as the IFSB, IILM and the Organisation of Islamic Cooperation (OIC)-Standing Committee for Economic and Commercial Cooperation of the Organisation of the Islamic Cooperation (COMCEC) Central Banks Forum. Additionally, BNM also engaged with several countries at global and regional events to advance strategic initiatives. This includes promoting Islamic finance within ASEAN and OIC trade initiatives.

BNM remains committed to supporting the development of Islamic finance by offering to share knowledge and expertise with other jurisdictions, fostering collaboration, and contributing to exchange of insights and practices. In 2024, BNM engaged with several jurisdictions including Indonesia, Kazakhstan, Kyrgyz Republic, the Philippines, Republic of Tatarstan

Diagram 6: Key Initiatives and Outcomes from GFIEF



Source: Bank Negara Malaysia



Prime Minister YAB Dato' Seri Anwar bin Ibrahim delivering his keynote address



Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour delivering his welcoming remarks



Panel discussing GFIEF resolutions as actionable next steps for the industry, regulators and beyond



MLC Chairman Tan Sri Azman Mokhtar presenting the MLC's Position Paper to Prime Minister YAB Dato' Seri Anwar bin Ibrahim

(Russia), Tajikistan, Uganda, the United Arab Emirates and Uzbekistan. BNM is also collaborating with the IsDB's Center of Excellence in Kuala Lumpur and ISRA International Consulting (ISRA) in hosting the Islamic Finance Capacity Building Programme (IFCBP) for IsDB member countries, with a focus on the Central Asian region. The inaugural programme is scheduled for the first half of 2025. This initiative aims to meet the growing demand for specialised training in Islamic finance regulation and supervision while promoting a robust and stable financial system. The training programme is tailored to the specific needs and contexts of the Central Asian region, ensuring maximum relevance and impact.

Promoting greater mutual recognition of Shariah

In May 2024, BNM hosted the 4th Centralised Shariah Authorities Forum (CSAF) Working Group Meeting in Kuala Lumpur. The meeting focused on discussing a proposed future model for CSAF and its key terms of reference (ToR). These proposals aim to strengthen CSAF governance and streamline meeting conduct, including effective organisation of CSAF events, agenda setting, and host country rotation. The ToR also focused on enhancing CSAF's credibility as a prominent reference source for financial regulatory authorities, global fatwa-issuing bodies, and international standards-setting organisations.



4th CSAF Working Group Meeting in Kuala Lumpur

Strengthening Malaysia International Islamic Financial Centre (MIFC) business linkages

Strengthening industry's participation in advancing the MIFC agenda

Since the MIFC Leadership Council (MLC) was established in 2022, it has worked to strengthen the industry's role in advancing MIFC propositions as an

international gateway for Islamic finance. This could be seen from MLC's Position Paper which was published during GFIEF in May 2024. In its Position Paper, MLC identified 18 initial MLC Impact Projects that drive collective actions and shifts by the industry to foster positive societal change through Islamic finance. These efforts focus on connecting Islamic finance with global markets, promoting financial innovation via philanthropic capital, supporting sustainability, and building knowledge, capacity and institutions.

MIFC-UK Business Forum

As part of efforts to advance the MIFC agenda and position Malaysia as an attractive Shariah compliant fundraising destination, BNM and MLC co-organised the MIFC-UK Business Forum in London in September 2024. The event was held in partnership with the Islamic Finance Council United Kingdom (UKIFC), The CityUK, and UK Islamic Finance-Halal Economy Hybrid Group. His Royal Highness Sultan Nazrin Muizzuddin Shah, Royal Patron of Malaysia's Islamic Finance Initiative, graced the occasion. The Forum brought together over 140 key financial stakeholders from Malaysia and the United Kingdom (UK) to discuss the opportunities and challenges in promoting green investments through wider application of Islamic finance solutions.

The Forum concluded with a resounding call for strategic partnerships to enhance Islamic finance services in the UK, emphasising the transformative role of technology in banking solutions and its potential to drive accessibility, efficiency and innovation in addressing funding needs (Diagram 7). This collaborative effort seeks to increase impactful investments towards a sustainable future.

Diagram 7: Advocacy for Sustained Collaboration during the MIFC-UK Business Forum



Source: Bank Negara Malaysia



The MIFC-UK Business Forum, co-organised by BNM and MLC, brought together key financial stakeholders from Malaysia and the UK

Deepening Islamic financial market

Islamic Financial Market Subcommittee roundtables

In 2024, Islamic Financial Market Subcommittee (IFMC) held a series of dialogues aiming to strengthen investment linkages and position Malaysia as a Shariah-compliant investment destination. The IFMC-IsDB treasury dialogue, held alongside GFIEF in May 2024, showcased the depth of Malaysia's debt securities market, diverse and innovative sukuk structures as well as the development of Islamic derivatives and hedging markets. A key outcome of the dialogue was the signing of the Murabahah Master Agreement by IsDB and several Islamic banks to facilitate fund placements across institutions. This agreement is expected to further enhance investment linkages between the multilateral development bank and domestic financial institutions. The feature article on 'Deepening the Islamic Financial Market and Liquidity Management' provides more information on this strategy. Another IFMC-MLC roundtable was held in August 2024 which centred on advancing Malaysia's green funding ecosystem. The aim is to position Malaysia

as a competitive destination for Shariah-compliant green investment and fundraising activities.

Going Forward

Our strategic priorities in 2025 are to further develop the Islamic finance ecosystem, enabling the industry to adapt and grow sustainably in a fast-changing environment. Moving forward, we will focus on three key areas to drive the future of Islamic finance:

- Strengthen the ecosystem to support both economic and social development, while sustaining growth.
- Ensure an enabling regulatory environment and Shariah framework that support innovation and adapt to the evolving needs of the industry.
- Position Malaysia as an international gateway for Islamic finance through stronger global ties, business linkages and market growth. This includes advancing the role of Islamic finance in supporting regional funding needs including climate projects, green transition and social finance during Malaysia's ASEAN Chairmanship.