

The Rise of Islamic Finance in ASEAN: Unlocking Its Growth Potential

Over the past decade, Islamic finance in ASEAN continues to transform. What began as an offering aimed primarily at meeting the needs of Muslim consumers has evolved into a dynamic segment of the regional financial system. Increasing demand for Shariah-compliant solutions, given the range of diverse options and stronger policy support across several ASEAN economies are main forces driving this growth. As global interest in ethical and sustainable finance expands, Islamic finance has gained further momentum in ASEAN. Its emphasis on value-based principles, balanced risk-reward considerations and wider benefits for society and the environment speaks to a growing demand for financial solutions that create long-term propositions beyond profits.

Since 2014, Islamic financial assets in ASEAN have more than doubled from USD468 billion to USD954 billion in 2024.¹ Importantly, the growing rise of Islamic finance is also evident in countries such as Singapore and the Philippines – largely non-Muslim societies, reflecting its wider appeal.

Islamic finance as a catalyst for inclusive and sustainable growth across ASEAN

Islamic finance continues to contribute meaningfully to both national and regional development objectives. It has expanded financial access for underserved groups, particularly, among Muslim communities that were previously reluctant to engage in conventional banking.² Through Shariah-compliant financing, many have been able to obtain funding for home and vehicle ownership. At the same time, small and medium enterprises (SMEs) are now able to access Shariah-compliant financing to start or grow their business, helping them to expand productive capacity and boost job creation.

Beyond financing, Islamic finance also promotes inclusive wealth distribution. By integrating *zakat*, *waqf* and *sadaqah* into the sector, Islamic finance provides broader channels for supporting vulnerable communities. Indonesia, for example, has introduced innovative instruments such as cash waqf linked sukuk and cash waqf linked deposit that allow account holders to channel their funds into social, humanitarian or public projects. Malaysia, on another note, has actively leveraged blended financing initiative, known as iTEKAD, to support entrepreneurial activities by combining bank's financing with zakat-based seed capital, further reinforced with capacity-building programmes and skills training. As these communities expand their income-generating activities, they evolve from recipients to economic contributors who help uplift others. As a result, this creates pathways for more inclusive and sustainable growth within the economy. Meanwhile, *takaful* and risk-sharing structures help strengthen financial protection. Together, these features make it a practical tool for advancing financial inclusion, social resilience, and consequently equitable development across ASEAN.

Islamic finance also plays a vital role in supporting economic development. This reflects its fundamental principle, which requires financial instruments to be backed by underlying assets and linked to real economic activities. Sukuk, in particular, has been widely used for the construction of various development and infrastructure needs. Both the Malaysian and Indonesian sukuk markets have funded the development of various infrastructures including roads, healthcare facilities and green projects. The use of sukuk is also attributed to its capability of providing long-term funding from a wider pool of investors, suitable for the financing needs of large-scale and capital-intensive projects.

¹ Source: London Stock Exchange Group (LSEG)

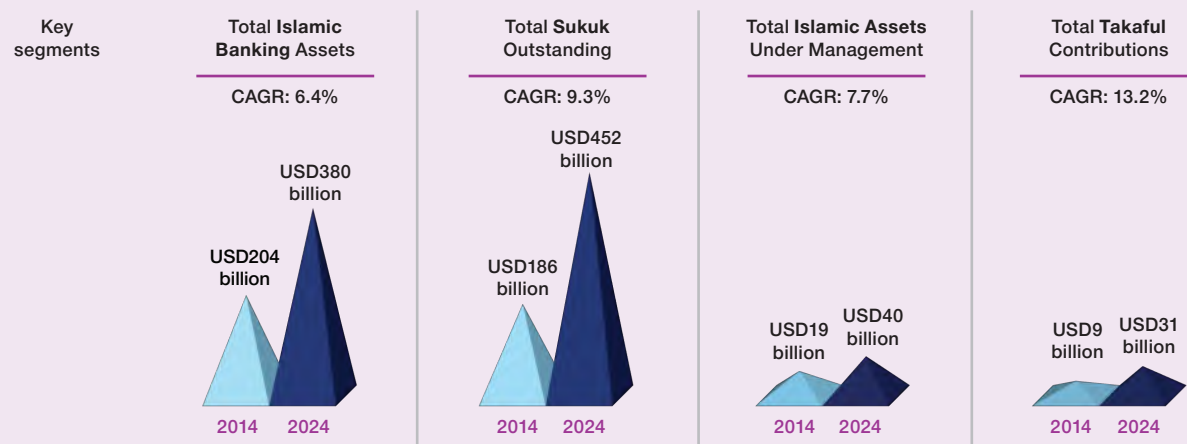
² Estimates by the Islamic Development Bank reveal that, on average, around nine percent of the population in 35 selected Muslim-majority countries (including Indonesia and Malaysia) voluntarily exclude themselves from the formal financial sector due to religious considerations (Alliance for Financial Inclusion, 2024). A similar pattern is seen in the Philippines, where a survey found high interest in Islamic banking but low account ownership among Muslim respondents, indicating unmet inclusion needs (Asian Development Bank Survey, 2024).

More recently, Islamic finance has increasingly been channelled toward green and transition-related activities. Indonesia and Malaysia collectively contribute 45% share of the global SRI and ESG sukuk outstanding in 2024.³ This reinforces the sector’s alignment with broader ESG objectives and strengthens its role as a catalyst for sustainable development. Building on this momentum and recognising the importance of SMEs in the economy, we developed practical tools to support their transition. These efforts include blended facilitation programmes such as the Greening Value Chain (GVC) and Greening Halal Businesses (GHB),⁴ which offer both technical and financial assistance. Together with the Asian Development Bank and the United Nations Development Programme, BNM published the ‘Building Supply Chain Resilience: Insights into Greening Value Chains for ASEAN’ Playbook. The playbook draws from Malaysia’s experience and provides guidance for ASEAN policymakers, financial institutions and businesses on how they can integrate sustainability considerations and practices into their value chains. Beyond SMEs, we also promoted Islamic finance as a viable funding source for large public infrastructure such as the ASEAN Power Grid and innovative solutions under Climate Finance Innovation Lab.⁵

Amid growing size and maturity of key segments within Islamic finance ecosystems in ASEAN (refer Chart 1), cross-border sukuk issuances, investment flows and financial partnerships begin to also support greater regional integration. This integration is important to broaden the pool of market participants, diversify instruments, deepen liquidity and mobilise capital flows across the region. As of 2025, nine participants from ASEAN took part in Malaysia’s commodity trading platform, known as Bursa Suq Al-Sila’ (BSAS), with a combined transaction value of RM55.9 billion for the year.⁶ Their participation in BSAS primarily supports their operations for Shariah-compliant financing, deposit taking and investment activities.

Chart 1: Overview of Islamic Finance in ASEAN

Islamic finance in ASEAN: Growing contributions
Growth by segments 2014 vs 2024



Note: CAGR refers to Compound Annual Growth Rate.
Source: LSEG

Malaysia’s roles in advancing Islamic finance across ASEAN

Malaysia has pursued a deliberate, long-term strategy to develop a comprehensive financial system, where Islamic finance exists alongside the conventional financial system. At Bank Negara Malaysia (BNM), efforts to support Islamic finance include strengthening Shariah governance, enhancing legal, regulatory and market ecosystem as well as spurring innovation to meet more diverse economic and social needs. Supported by sustained investment into capacity building, Malaysia has gradually developed a diversified Islamic finance ecosystem spanning banking, capital, financial markets and takaful.

³ Source: LSEG

⁴ More details on Greening Halal Businesses can be found in the annual report’s chapter on ‘Promoting a Progressive and Inclusive Islamic Financial System’.

⁵ The Climate Finance Innovation Lab (CFIL) aims to serve as a collaborative platform to ideate, develop, and accelerate innovative climate finance solutions and mechanisms that can mobilise private and public finance to support Malaysia’s transition to net zero, to strengthen its climate resilience and to advance nature-positive actions.

⁶ ASEAN BSAS participants comprise a range of financial institutions, including full-fledged Islamic banks, Islamic windows, development financial institutions and asset management companies from Singapore, Brunei, Indonesia and Thailand. This transaction value excludes Malaysia (Source: Bursa Malaysia).

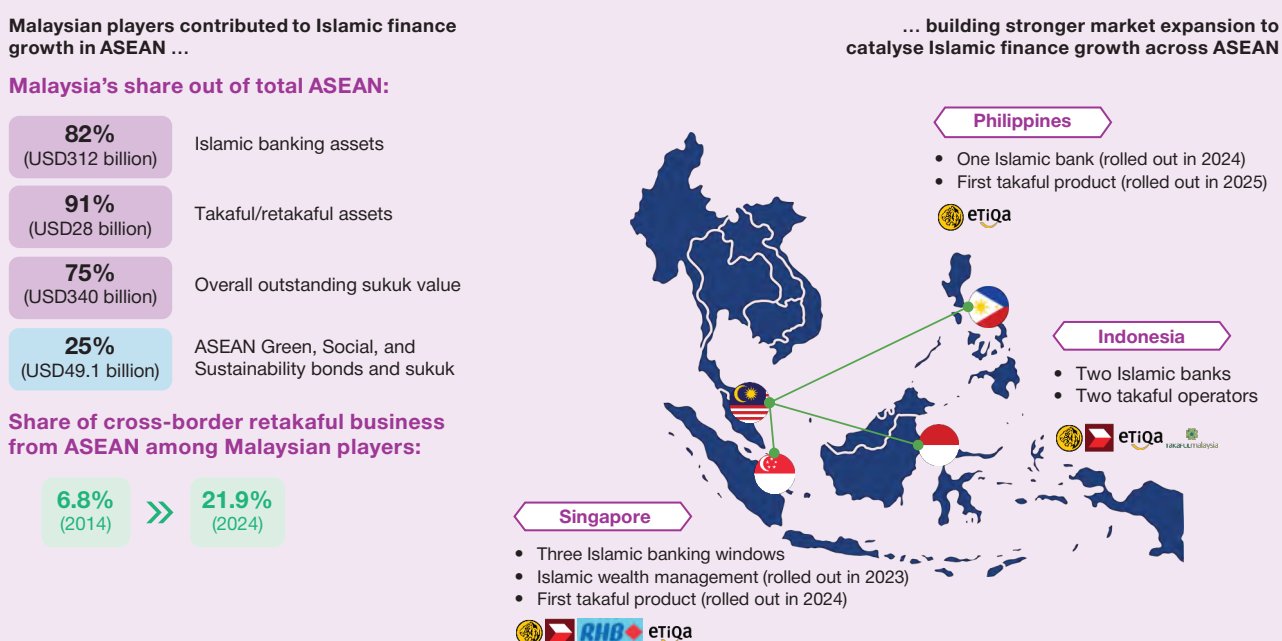
PROMOTING A PROGRESSIVE AND INCLUSIVE ISLAMIC FINANCIAL SYSTEM

Leveraging the strengths of the domestic ecosystem, Malaysia has been actively pursuing initiatives to facilitate the outreach of Islamic finance in partnership with the neighbouring economies. These efforts – together with support from host country regulatory authorities – have facilitated market entry and enabled the development of new Islamic finance segments across ASEAN. The following section illustrates Malaysia’s contribution in supporting various developments as ASEAN countries look to capitalise on Islamic finance.

(i) Expanding regional footprint and cross-border services

Malaysia has nurtured credible and competitive Islamic finance institutions with deep expertise and a strong track record. The larger domestic banks have strong presence in the region offering a wide range of Islamic financial solutions. These banks are also well recognised for their advisory roles in sukuk issuances within ASEAN and beyond, reflecting their active roles in the Islamic capital market developments. In the takaful sector, Malaysian retakaful operators have steadily expanded their client base across the region (refer Diagram 1). Beyond expansion of financial services, Malaysia’s ancillary service providers, particularly legal and Shariah advisory firms, also play a pivotal role in enabling cross border Islamic finance transaction.

Diagram 1: Malaysian Players Actively Tapping Regional Business Opportunities



Note: Malaysia’s Islamic asset figures exclude Malaysian players’ Islamic operations abroad.

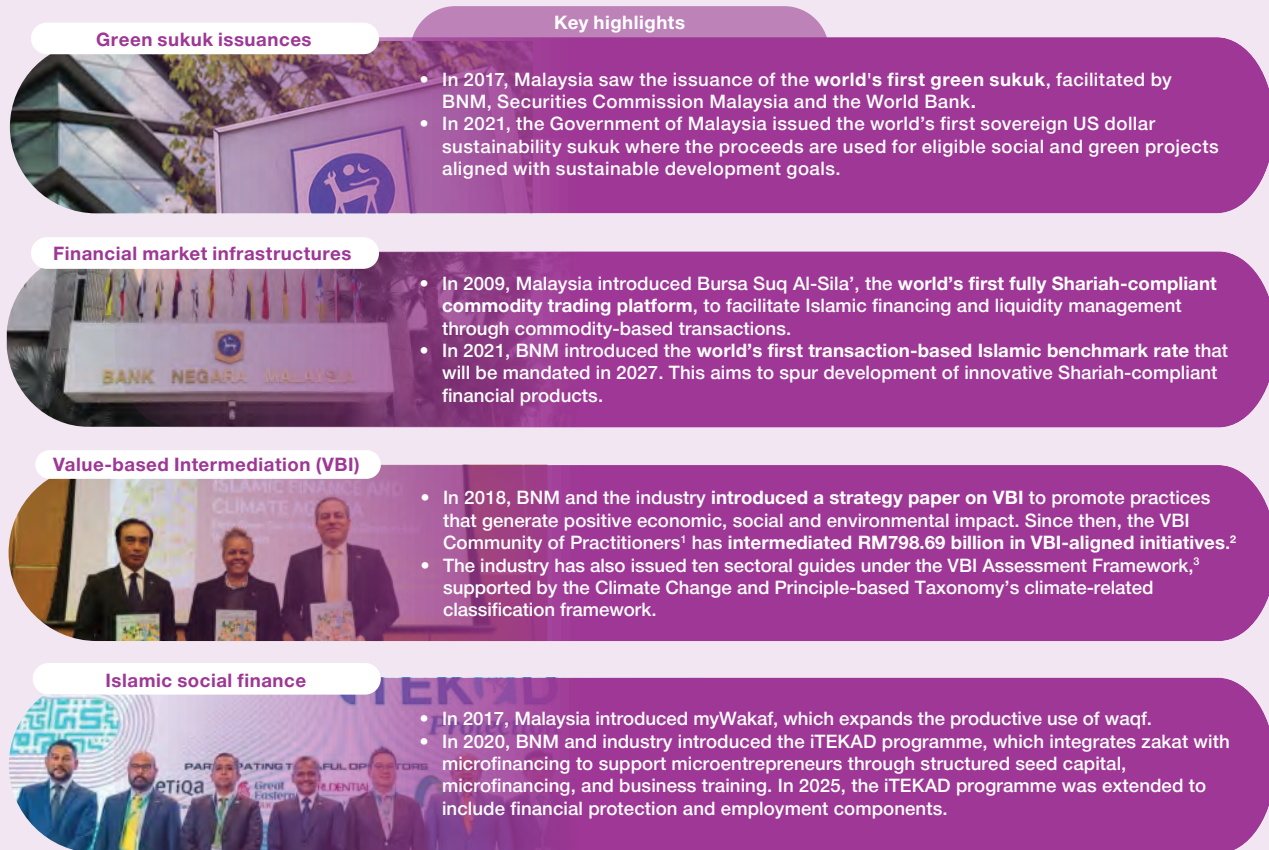
Source: LSEG, Securities Commission Malaysia and Bank Negara Malaysia (data as of September 2025)

This progress is meaningful. It opens new business opportunities for Malaysia’s financial sector while enabling domestic players to scale their operations, enhance service quality, and compete more efficiently at a regional level. The provision of cross-border services also encourages collaboration with regional partners and generates shared growth opportunities – ranging from the creation of new jobs to a broader supply of alternative financial products and services.

(ii) Pioneering innovation and market developments

Malaysia has been at the forefront of innovation and market developments in Islamic finance. This includes pioneering new sukuk and social finance innovations, introducing financial market infrastructure and spearheading the adoption of value-based intermediation, VBI (refer Diagram 2). These advancements provide useful reference models and practical lessons for other ASEAN countries, helping to raise overall standards and support greater development of Islamic finance across the region. Collectively, these developments also attract international investors and global financial institutions, further deepening the region’s Islamic financial markets.

Diagram 2: Malaysia's Key Innovations and Market Developments



¹ The VBI Community of Practitioners or 'CoP' is a collaborative platform for industry players to strategically advance industry-wide implementation of the VBI agenda.

² This includes both green and social finance. Source: Association of Islamic Banking and Financial Institutions Malaysia (AIBIM)

³ This covers ten sectors: palm oil, renewable energy, energy efficiency, oil & gas, construction, infrastructure & manufacturing, agriculture, mining & quarrying, road transportation and waste management.

(iii) Nurturing talent and capabilities

The advancement of Islamic finance requires a steady pipeline of skilled professionals with expertise spanning economics, finance, Shariah, and other related disciplines. At the industry level, Malaysia's talent development institutions play a central role by offering specialised professional certifications, degree and postgraduate programs that nurture well-trained talent and future-ready workforce (refer Diagram 3).

As Malaysia deepens its engagement with ASEAN, these institutions have also taken on a broader regional role. The expansion of cross-border services and partnerships demands professionals who can navigate diverse regulatory and market environments while upholding high standards of Shariah compliance and financial integrity. In 2025, a total of 1,632 graduates and professionals from across ASEAN have been supported by the various postgraduates and training modules offered by these Islamic finance talent entities.⁷

At BNM, we also work closely with regional regulatory counterparts in critical areas such as Islamic liquidity management and Shariah matters (refer Diagram 4). These collaborative efforts promote mutual understanding, support more consistent implementation across jurisdictions, and help address regulatory gaps, ultimately strengthening the region's Islamic finance ecosystem.

⁷ Based on data provided by INCEIF University, Islamic Banking and Finance Institute Malaysia (IBFIM) and Association of Shariah Advisors in Islamic Finance Malaysia (ASAS).

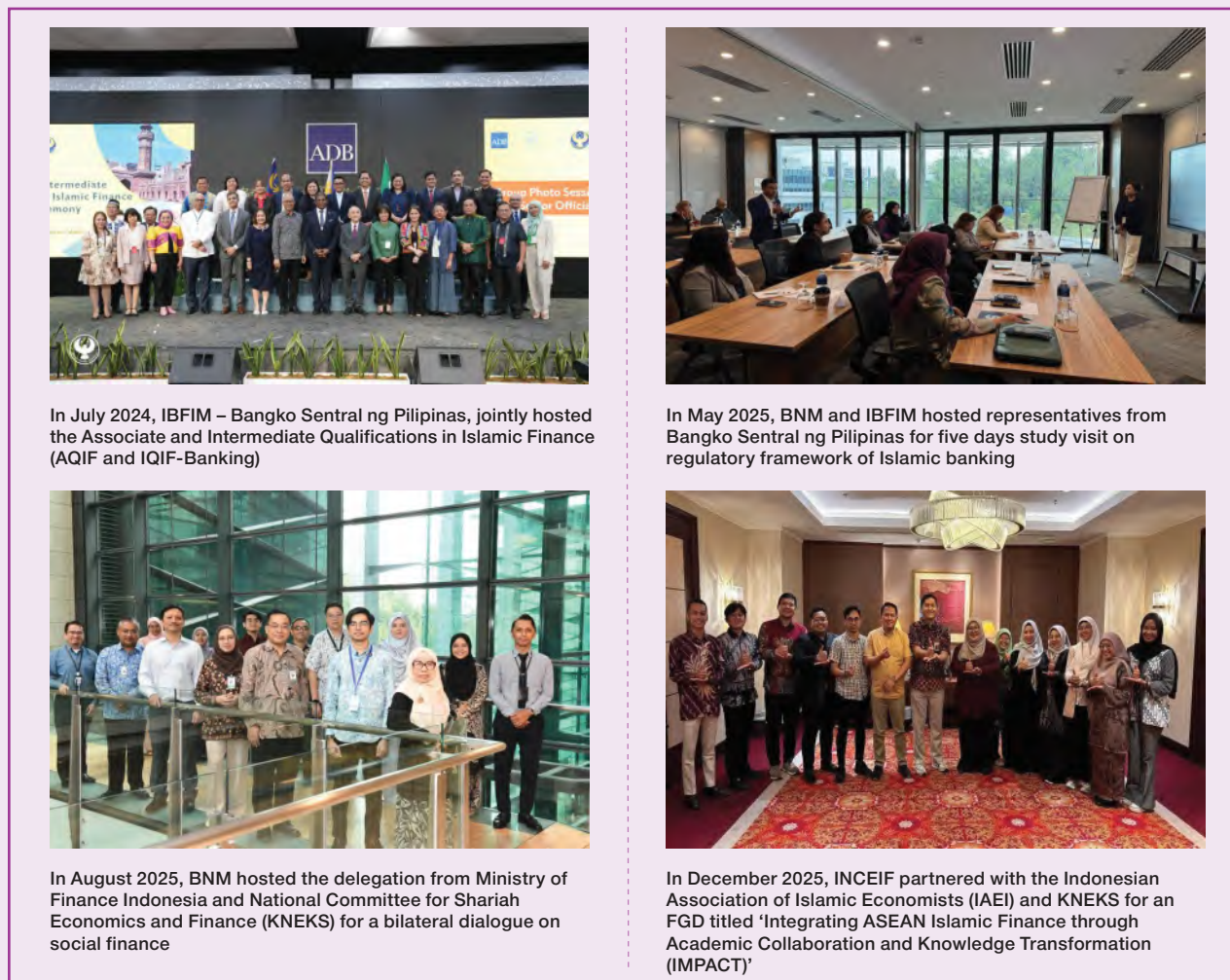
Diagram 3: Malaysia's Vibrant Islamic Finance Talent Ecosystem to Support Growth of the Industry



¹ Certified Shariah Advisor (CSA) and Certified Shariah Practitioner (CSP).

Source: Bank Negara Malaysia

Diagram 4: Collaborations with ASEAN Counterparts



Source: Bank Negara Malaysia

The way forward – Stronger ASEAN partnerships

With its universal ethical foundation, Islamic finance holds significant potential to scale across ASEAN. Realising this potential will require coordinated action across the entire ecosystem.

From BNM's perspective, Malaysian industry players must continue to modernise and diversify products, enhance value propositions, and widen distribution channels in tapping the opportunities across the region going forward. This includes:

- **Advancing financial inclusion and sustainability** across ASEAN, by expanding Shariah-compliant solutions that address financing gaps among Micro, Small and Medium Enterprises (MSMEs), underserved communities, and climate-vulnerable sectors. This supports ASEAN's broader push for inclusive growth and an orderly transition.
- **Deepening intermediation roles within the regional halal value chain**, capitalising on ASEAN's position as a fast-growing hub for halal production, trade, logistics, and tourism. Financial institutions can play a catalytic role in financing halal SMEs, providing protection needs, enabling cross-border trade, and supporting certification and supply-chain integration.
- **Accelerating digitalisation of Islamic financial services**, including through fintech collaboration, embedded finance models, and data-driven innovation. A stronger digital ecosystem enhances customer experience, increases operational efficiency, and enables wider outreach across a diverse and highly mobile ASEAN population.

The establishment of the MIFC Business Network (MBN)⁸ in 2025 is timely in capitalising on these business opportunities. By bringing together players across banking, capital market, takaful, private market, and ecosystem development, the network aims to drive innovation, co-develop solutions and unlock new growth opportunities that can deepen Islamic finance penetration across ASEAN. BNM, together with other agencies, will continue providing support to the industry players in navigating the next chapter of the MIFC agenda. Beyond this, capacity building will also catalyse long-term growth of Islamic finance in ASEAN. Continued sharing of expertise can be done by tapping on various platforms including initiatives to cater for the regional needs such as the ASEAN Takaful Alliance⁹ and Muzakarah Cendekiawan Syariah Nusantara.¹⁰

Islamic finance in ASEAN remains a journey in progress. Its future will depend on collective advancement rather than the performance of any single market. Regulatory cooperation will be vital, alongside deeper engagement among regulators to support cross-border activities while simultaneously safeguarding financial stability. Stronger collaboration among market participants will also be essential.

⁸ More details on MIFC Business Network can be found in the annual report's chapter on 'Promoting a Progressive and Inclusive Islamic Financial System'.

⁹ Launched at the Global Islamic Finance Forum 2025, the ASEAN Takaful Alliance is committed to fostering knowledge sharing and enhancing capacity among takaful operators within ASEAN.

¹⁰ A regional annual conference that brings together Shariah scholars, Islamic finance advisors, regulators, academics, and industry practitioners from across the Nusantara region (including Malaysia, Indonesia, Brunei, Singapore, and Thailand). It serves as a high-level platform for intellectual exchange, collaboration and the discussion of contemporary Shariah issues affecting Islamic finance.

References:

Alliance for Financial Inclusion (2024), 'Islamic Finance and Financial Inclusion: AFI Members' Perspectives', AFI & SME Finance Working Group Survey Report

Islamic Finance Advisory and Asian Development Bank (2024), 'Unlocking the Potential of Islamic Finance in the Philippines: A Market Analysis and Landscape Report'

Islamic Corporation for the Development of Private Sector of the Islamic Development Bank Group – LSEG Islamic Finance Development Report 2025 (2025), '50 Years of Exponential Growth'