

Promoting a Progressive and Inclusive Islamic Financial System

Malaysia's Islamic financial system is a core pillar of our economy. As such, Bank Negara Malaysia (BNM) continues to champion value-based finance that delivers meaningful impact and socio-economic outcomes. This is anchored in fairness, shared prosperity and real economy value creation. In 2025, our work centred on three key strategic thrusts. These are advancing value-based innovation, strengthening the Islamic finance ecosystem, and retaining Malaysia's position as a global leader in the field. Together, we sustain a progressive and inclusive Islamic financial ecosystem that contributes to the economy and broader society.

Resilient growth in Islamic banking and takaful

Throughout the year, Islamic finance deepened its role in serving Malaysians. Islamic financing rose to 48% of total financing and takaful participation reached 24.5% (Diagram 1). This growth reflects how Islamic finance continues to meet the changing financing and protection needs of households and small and medium enterprises (SMEs) (Diagram 2).

Thrust 1: Advancing value-based intermediation for social and economic impact

Islamic finance is built on the objectives (*maqasid*)¹ of Shariah. These objectives build on values such as fairness, equitable wealth distribution and shared responsibility. Value-Based Intermediation (VBI) puts these values into practice. For Islamic financial institutions (IFIs), this means to operate and create positive and lasting impacts instead of just focusing on profit. In 2024, IFIs intermediated RM148.6 billion² into VBI-aligned activities including for SMEs and green financing, as well as social finance activities. This shows how VBI places people and the real economy at the centre of financial intermediation. In building stronger impact, BNM introduced initiatives to nurture meaningful innovations to support national priorities (Diagram 3). We also directed efforts to improve understanding of Islamic finance and build industry capabilities in exploring innovations.

Fostering sustainable practices for halal businesses

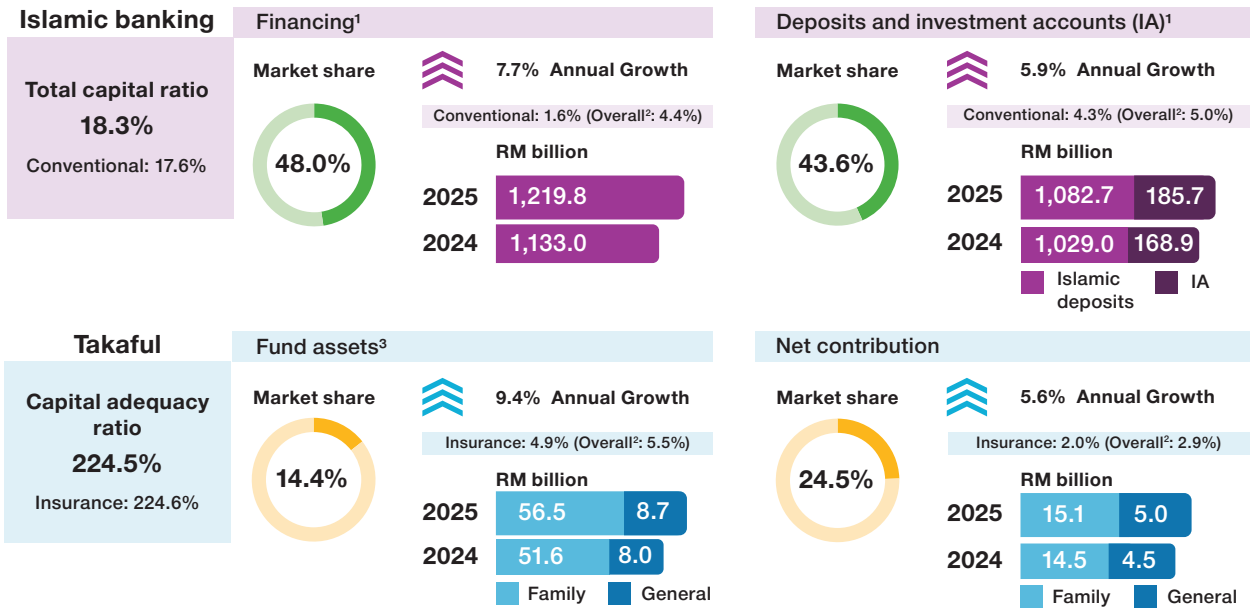
Increasingly, Malaysian halal businesses must consider environmental aspects in their operations to stay competitive globally. For SMEs, this means meeting international green standards and certifications, which is typically costly and challenging. The Greening Halal Businesses (GHB) initiative supports SMEs by providing carbon tracking tools and guidance. With the support of eight IFIs, over 200 halal SMEs have begun adopting greener practices. The programme remains open for others to join.³ Early adopters are better placed to access new markets and obtain preferential procurement from buyers.

¹ The five main objectives of Shariah (*maqasid* Shariah) consist of the preservation of religion, life, intellect, lineage and wealth (property).

² VBI-aligned initiatives refer to deposits and investment accounts, financing, investment and social finance activities. For financing portion, this refers to the approved amount of financing by banks that are VBI-aligned.

³ Further information at (<https://www.bnm.gov.my/sme-financing/ghb>).

Diagram 1: Key Financial Indicators



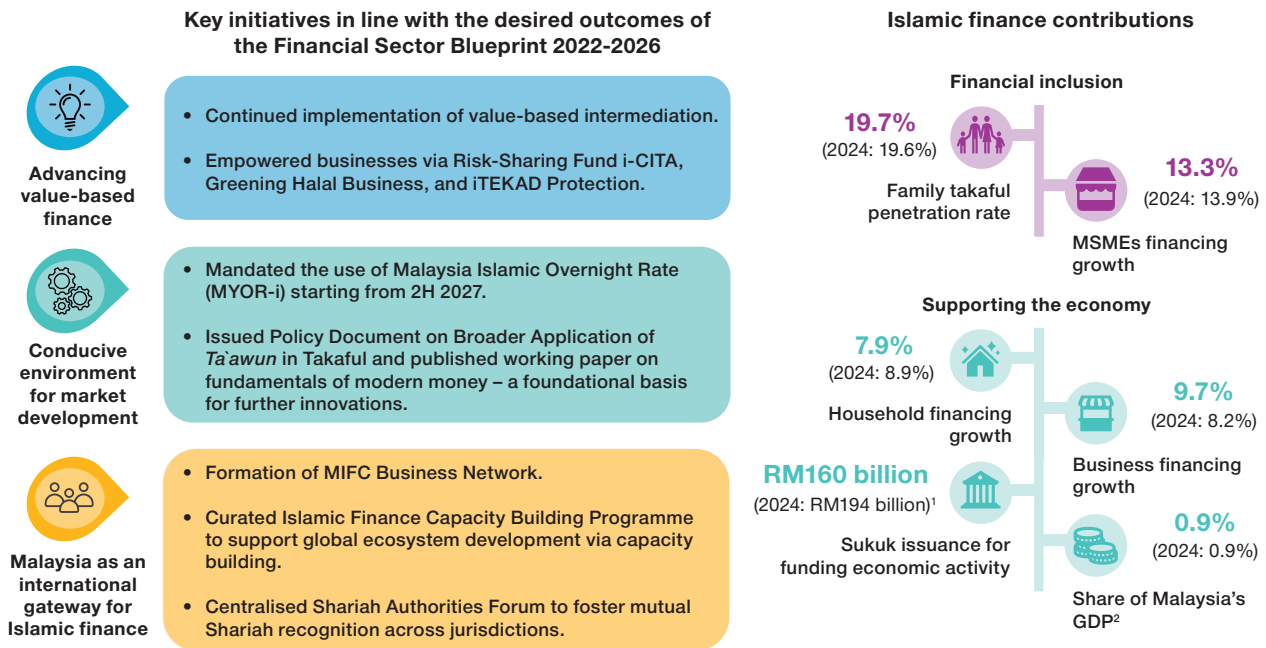
¹ Includes development financial institutions.

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

Diagram 2: Summary of Key Islamic Finance Initiatives and Contributions

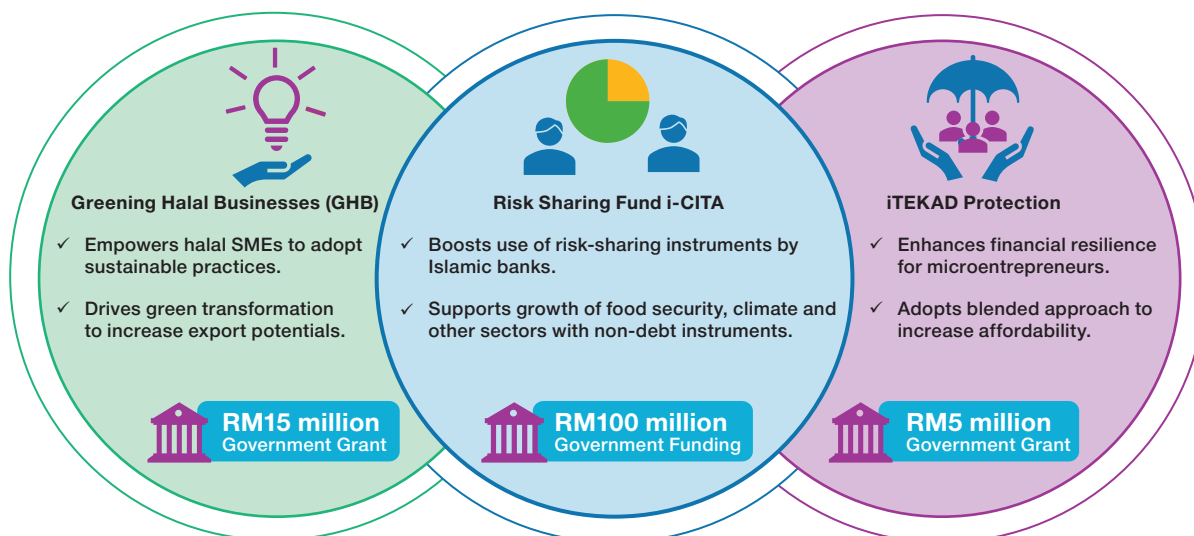


¹ Lower government sukuk and bond issuance in line with reducing government fiscal deficit.

² Based on the amount of net income of Islamic financial institutions compared to the total GDP. For Islamic banks, net income includes net profit margin and service charges, whereas for takaful operators, it includes net premium income and investment income (minus claims paid).

Source: Bank Negara Malaysia, Department of Statistics, Malaysia

Diagram 3: Key Innovations



Source: Bank Negara Malaysia

Catalysing the growth of risk-sharing instrument offerings

Islamic finance goes beyond provision of credit. There are instruments based on risk-sharing contracts that allow investors and entrepreneurs to share risks and returns. Such instruments provide more diverse risk and reward contractual obligations. For instance, economic activities with longer horizons and unpredictable cashflows such as climate-transition projects cannot rely on traditional debt alone which usually is used to finance projects with more predictable cashflows or lower risk profiles. For such activities, equity-based contracts may be a better fit. With this in mind, BNM launched the i-CITA programme in September 2025. It promotes wider use of risk-sharing contracts, such as *mudarabah* and *musyarakah*. Through RM100 million of matching funds,⁴ i-CITA has the potential to improve funding access for new viable ventures. The programme encourages IFIs to develop innovative risk-sharing solutions that channel investments into key economic areas such as food security and climate resilience.

Strengthening financial wellbeing

In 2025, we expanded iTEKAD to include iTEKAD Protection,⁵ a social takaful solution. The aim is to make protection more affordable and provide easier access for microentrepreneurs (Diagram 4). Rooted in the takaful principle of ‘mutual assistance’, four takaful operators committed to pilot iTEKAD Protection at its launch during the Global Islamic Finance Forum (GIFF). In December 2025, two takaful operators began rolling out their offerings. These efforts show the continued commitment of BNM and IFIs to strengthen social safety nets and support wider economic participation.

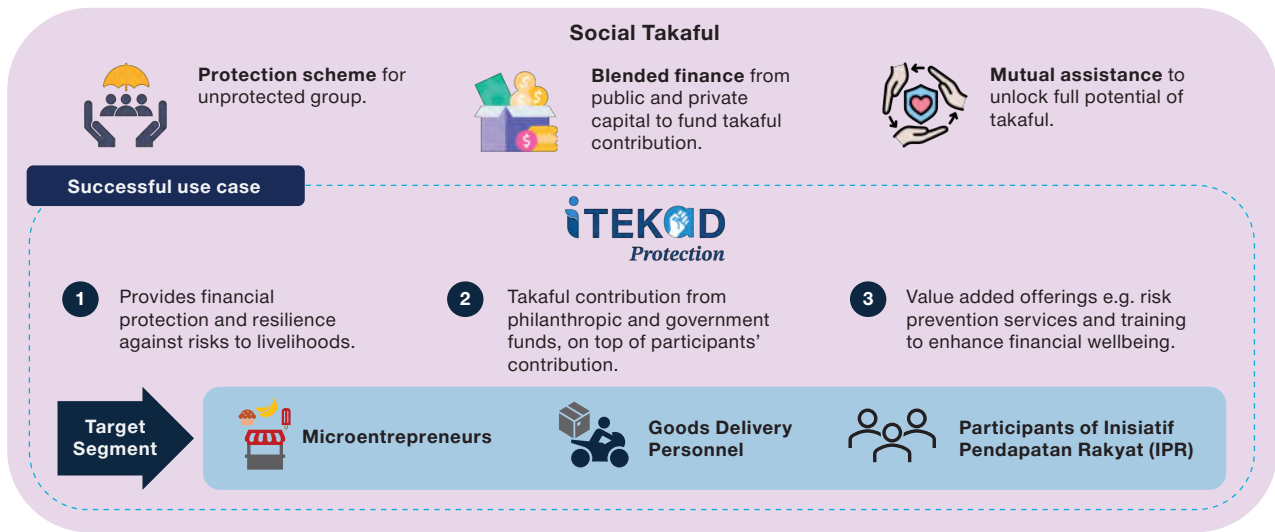


Governor Abdul Rasheed Ghaffour on stage with participating iTEKAD Protection takaful operators and implementation partners at the Global Islamic Finance Forum 2025

⁴ Further information in Budget 2025 Speech (paragraph 154) at (<https://belanjawan.mof.gov.my/pdf/belanjawan2025/ucapan/ub25-en.pdf>).

⁵ Further details on iTEKAD can be found in the chapter ‘Promoting a Progressive and Inclusive Financial System’ in BNM’s Annual Report 2025.

Diagram 4: Social Takaful and its Benefits to Participants



Source: Bank Negara Malaysia

Thrust 2: Sustaining a conducive ecosystem for market development

We adopt a whole-of-ecosystem approach to support progressive and inclusive growth. This includes providing a conducive regulatory environment, deepening the Islamic financial market, and ensuring Shariah certainty in Islamic financial practices. BNM also continued efforts to futureproof the Shariah ecosystem. This is done through research, talent development and public understanding of Islamic finance.

Conducive regulatory environment

In November 2025, BNM issued a Policy Document on Broader Application of *Ta'awun* in Takaful to strengthen the use of mutual assistance in the takaful industry. The goal is for takaful operators to explore solutions that support access to protection by certain segments in the economy. In line with the value-based framework, such mutual support can help build financial resilience for all segments of society. Our intent is for Islamic finance to not only promote financial protection, but also a culture of shared support, so that the benefits of Islamic finance can reach those who need them.

We are also currently reviewing industry feedback on the Shariah Contract Framework and Investment Account discussion papers. These reviews aim to provide clear and practical guidance. This ensures that Shariah principles are effectively applied in financial contracts and

investment accounts. By working closely with the industry, this will continue to keep the regulatory frameworks robust, transparent and adaptable to market developments.

Deepening Islamic financial market

A sound regulatory foundation must be supported by clear policy roadmaps and strong market readiness. We made further progress in implementing key policies for the Malaysia Islamic Overnight Rate (MYOR-i)⁶ and Islamic collateralised funding. Through these policies, we intend to:

- Introduce more transparent Islamic product pricing and benchmark transition. We will be mandating the use of MYOR-i for Islamic products beginning the second half of 2027. This supports the broader transition away from the Kuala Lumpur Interbank Overnight Rate (KLIBOR) to MYOR/MYOR-i.⁷ As MYOR-i reflects actual overnight Islamic interbank placements, it provides a benchmark that is reflective of Shariah-compliant market activity. This shift is expected to make pricing more transparent and support an end-to-end Shariah-compliant solution for IFIs.

⁶ MYOR-i is the world's first transaction-based Islamic benchmark rate, introduced in 2022 as alternative reference rate, alongside its conventional equivalent, the Malaysia Overnight Rate (MYOR).

⁷ BNM announced the transition roadmap in October 2025 to accelerate the financial industry's adoption of MYOR/MYOR-i, following the cessation of KLIBOR by 1 January 2029. Further information is in the chapter 'Promoting a Progressive and Inclusive Financial System' in BNM's Annual Report 2025, (<https://financialmarkets.bnm.gov.my/transition-roadmap>) and BNM's Financial Stability Review for First Half 2024 box article titled 'Transition from KLIBOR to MYOR/MYOR-i'.

- Enhance operational readiness and risk management. Several Islamic banks signed two Memoranda of Understanding (MOUs)⁸ to improve the use of secured Islamic money market and hedging instruments. These MOUs standardise market practices, which support better liquidity management, more reliable hedging, and smoother day-to-day operations, in line with global standards.

Providing Shariah certainty in Islamic financial practices

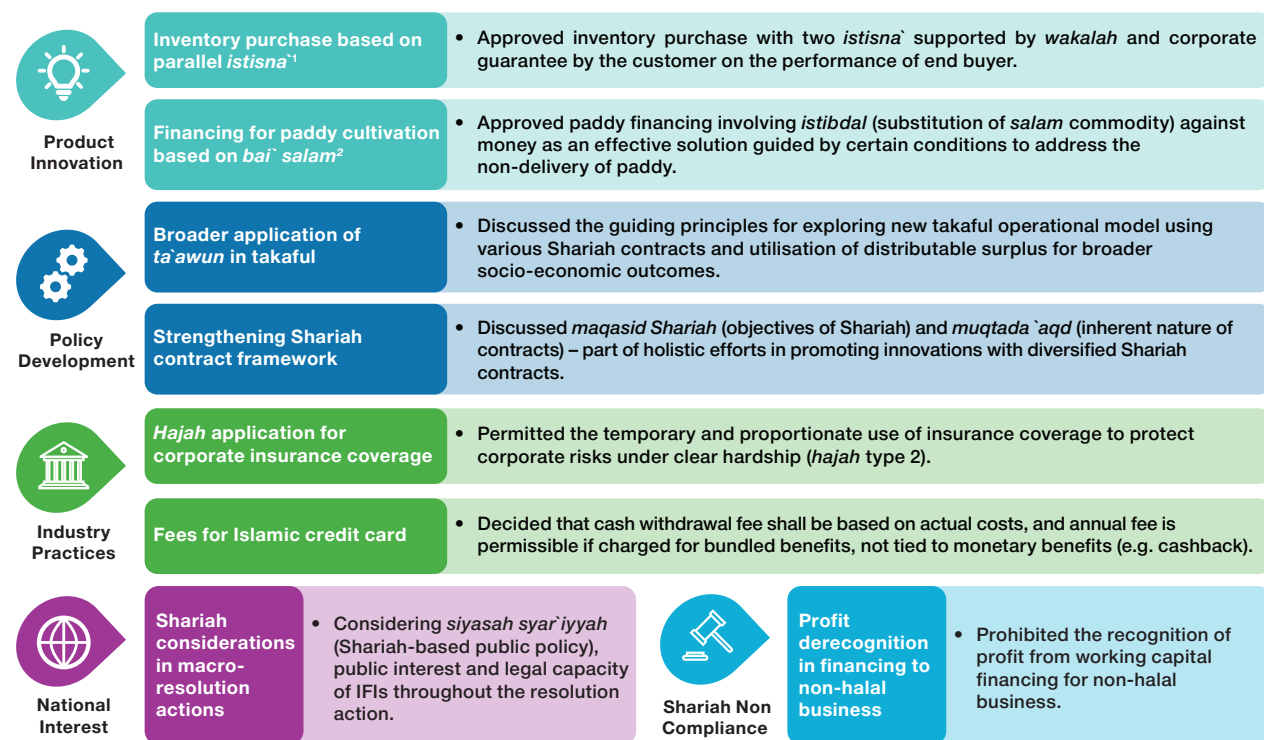
Clear Shariah guidance builds confidence and trust in Islamic finance. The Shariah Advisory Council (SAC) continues to provide clear guidance on what is permissible in Islamic finance. Its decisions anchor our regulatory framework and ensure that new market practices and policy developments are aligned with Shariah expectations. During the year, SAC decisions enabled new solutions such as *istisna*¹-based inventory purchase and *salam*-based agriculture financing (Diagram 5).

Building a futureproof Shariah ecosystem

As financial innovation accelerates, deeper understanding of emerging issues is needed to maintain Shariah certainty. This means clear, authoritative and consistent guidance are necessary on what is allowed in Islamic finance. New tools, such as digital assets and other emerging financial tools are expanding how markets work and raise questions that require careful Shariah assessment. To stay ahead, BNM is focusing on Shariah research and talent development as key elements of a futureproof ecosystem.

In July 2025, BNM released a Working Paper on 'Fundamentals of Money and its Application to Central Bank Digital Currency (CBDC): An Exploratory Shariah Analysis'. The paper sets out the foundational understanding of what money is and how it works in modern economic systems. It offers a framework to guide Shariah deliberation on new financial innovations, including digital assets, stablecoins and CBDCs.⁹ This analytical groundwork also paved the way for broader regional engagement on emerging monetary issues (refer to Thrust 3).

Diagram 5: Key SAC Deliberations 2025



¹ *Istisna*¹ is a sale contract by way of order for certain product with certain specifications and mode of delivery and payment (either in cash or deferred).

² *Salam* is a sale contract based on order of certain asset with certain specifications. Full payment is made in cash at the time of conclusion of the contract whereas the delivery of the asset is deferred to a specified time.

Source: Bank Negara Malaysia

⁸ The enhanced Sell Buy Back Agreement (SBBA) and the Tahawwut Master Agreement (TMA) signed during the Islamic Financial Market Sub-Committee (IFMC) roundtable. Further information is available at (<https://www.bnm.gov.my/documents/20124/11285645/ifmc-2025-milestones-trends.pdf>).

⁹ Further information at (<https://www.bnm.gov.my/documents/20124/826852/ahmad-et-al-2025-wp325.pdf>).

A futureproof ecosystem also means to have strong pool of Shariah talent. In October 2025, BNM convened a roundtable that brought together internationally prominent Shariah scholars and experts¹⁰ to exchange views on key Shariah issues. This includes using Shariah contracts beyond *tawarruq* and the role of Shariah advisors in shaping the industry. The session helped build stronger relationships and encouraged mentorship, supporting the development of Shariah talent ecosystem.

Broadening Islamic financial literacy outreach

Financial literacy helps customers understand the features and values of Islamic finance. It also helps boost public confidence by understanding how Shariah principles and governance protect integrity of the system. For the first time this year, we included Islamic Financial Literacy (IFL) programme in the Karnival Celik Kewangan¹¹ in Pulau Pinang. Through the IFL forum and the Shariah Clinic,¹² consumers received practical guidance on Islamic finance and basic wealth management. This support helps them take part in the system more confidently and responsibly.



Panelists of IFL Forum including Deputy Governor Adnan Zaylani Mohamad Zahid (second from the right), Mufti of Wilayah Persekutuan Ustaz Ahmad Fauwaz Fadzil (in the middle), and SAC member of BNM Dr. Ahmad Basri Ibrahim (first from the left)

¹⁰ Shariah experts are developing and established Shariah professionals who are progressively building expertise, exposure, and practical experience in Islamic finance. They display potential as the next generation of Shariah scholars in Islamic finance.

¹¹ Karnival Celik Kewangan is an initiative by the Financial Education Network (FEN), aimed to enhance financial literacy among Malaysians through engaging and interactive approaches. Further details can be found in the chapter 'Engaging Malaysians' in BNM's Annual Report 2025.

¹² The forum refers to a panel discussion entitled 'Berkat Rezeki, Tenang Jiwa – Memahami Kebimbangan Pengurusan Kewangan dari Perspektif Islam' which explores how Islamic principles guide financial decisions-making. Shariah Clinic provides a consultation booth offering on-the-spot guidance on Shariah and Islamic finance matters.

Thrust 3: Positioning Malaysia as global thought leader

We continue efforts to position Malaysia as a global thought leader in Islamic finance. This builds on a solid ecosystem and steady market progress. Our priorities for 2025 include strengthening business linkages, promoting mutual Shariah recognition, accelerating innovation and building global capabilities (Diagram 6). Through these efforts, Malaysia aims to build a more connected and progressive global Islamic finance ecosystem.

Strengthening industry stewardship

The regulators including BNM have played a key role in the early development phase of Islamic finance in Malaysia. As the industry now being more mature, it is time for them to drive key agendas for the Malaysia International Islamic Financial Centre (MIFC). To support this, industry players formed the MIFC Business Network (MBN) in October 2025. It serves as a sector-wide coordination platform for players in the banking, takaful, capital market and ancillary services. The MBN can better coordinate efforts to draw interest on Malaysia's Islamic finance business opportunities, positioning Malaysia as an international gateway. It also supports efforts to develop and nurture the industry into regional or global players. MBN builds on the foundation laid by the MIFC Leadership Council (MLC) where 18 identified Impact Projects¹³ have already catalysed early progress toward these outcomes (Diagram 7).

Driving value-based innovation

Malaysia partners with global counterparts to drive innovation that addresses social and sustainability needs. With the theme of 'Accelerating Innovation Empowering Change,' BNM and the MLC worked with global¹⁴ and domestic¹⁵ partners for the MIFC Global Impact Challenge (MIFC GIC). Through this challenge, participants developed Shariah-compliant solutions targeting social and sustainability issues.

¹³ The Impact Projects as outlined in MLC Position Paper 2024 aim to drive collective actions and shifts by the industry to foster positive societal change through Islamic finance. Further information at (https://mifc.com/main/wp-content/uploads/2024/05/MIFC_Positioning_-_Paper.pdf).

¹⁴ Islamic Finance Council UK, Hong Kong Trade Development Council, Islamic Development Bank, and the World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia.

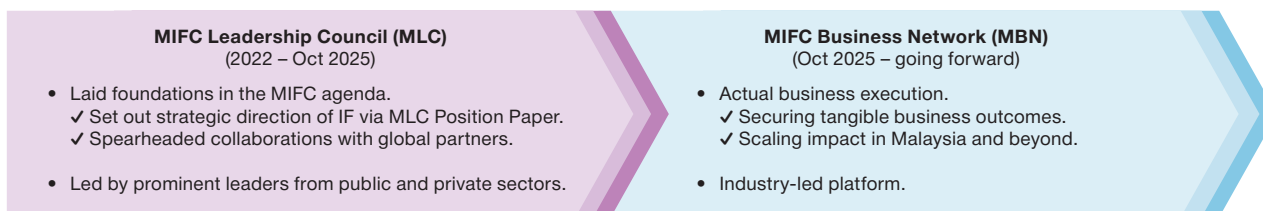
¹⁵ ASBhive by the Asia School of Business acted as the knowledge partner and accelerator programme provider. Other partners are Fintech Association of Malaysia, Association of Shariah Advisors in Islamic Finance and Islamic Finance News.

Diagram 6: Key Initiatives in 2025



Source: Bank Negara Malaysia

Diagram 7: MIFC Next Chapter: Tactical Shift in Realising Business Outcomes



Source: Bank Negara Malaysia

The four winning ideas covered social welfare, estate planning, agritech and digital platforms. These solutions enhance transparency, improve efficiency and empower communities. The MLC and MIFC GIC partners provided support and guidance to winners, over a 12-month period, on how to scale up their solutions for wider adoption. This collaboration showcases Malaysia’s role in encouraging practical, value-based innovation that can benefit the wider Islamic finance community globally.

Promoting greater cross-jurisdictional Shariah advocacy

We value diversity in Shariah views as robust discourse allows for clearer guidance and stronger industry practice. In this context, the Centralised Shariah Authorities Forum (CSAF) continues to serve as a key platform to strengthen global collaboration in Shariah

matters. By hosting and steering CSAF, Malaysia brings together leading Shariah authorities to share insights, address emerging issues and enhance collective understanding. The 6th CSAF, held in October 2025, marked another important milestone where the CSAF Terms of Reference (ToR) was finalised. This further strengthened the governance framework and coordination among member countries. It also fostered deeper mutual respect among Shariah authorities.¹⁶ Discussion areas include thematic and jurisdictional Shariah developments such as takaful practices and modern money.

Building on this momentum, further discussion continued at the Muzakarah Cendekiawan Syariah Nusantara 2025 in Bangkok. These sessions broadened understanding of digital asset development and supported deeper cross-jurisdictional Shariah discussions. They also strengthened our role in shaping global Shariah perspectives on emerging financial innovations.

¹⁶ Include delegates from ten jurisdictions including Malaysia (Libya, Maldives, Morocco, Nigeria, Oman, Pakistan, the Philippines, United Arab Emirates and Uzbekistan (as observer)).



MIFC Global Impact Challenge Demo Day at Sasana Kijang, Kuala Lumpur



International delegates attending the 6th CSAF meeting in Kuala Lumpur



Deputy Governor Adnan Zaylani Mohamad Zahid (fourth from the right) presented the research paper at the Muzakarah Cendekiawan Nusantara



Welcoming representatives from Central Asia countries and Azerbaijan during the Islamic Finance Capacity Building Programme

Strengthening capacity building

Learning from one another is crucial to know what works well and what to avoid. In 2025, we supported 17 jurisdictions¹⁷ by sharing Malaysia’s experience through technical consultations and strategic dialogues. We also hosted the inaugural Islamic Finance Capacity Building Programme (IFCBP).¹⁸ The programme offered practical guidance on building dual financial systems in Central Asia countries¹⁹ and Azerbaijan. It covered key areas on regulatory and supervisory frameworks, and liquidity management. The positive feedback we received reaffirms Malaysia’s role as a reference point for jurisdictions when developing their Islamic

finance ecosystems. It also allows us to expand and tailor the programme for other regions.

Going Forward

Looking ahead to 2026, our priorities are to strengthen value-based intermediation capabilities including in sustainability and climate agenda, foster an enabling environment for impactful innovation, and catalyse economic potential through the halal economy and global opportunities. Guided by strategic stewardship and collaboration, BNM remains committed to advancing Malaysia’s Islamic financial ecosystem. This ensures its progressive evolution delivers lasting benefits for all.

¹⁷ Including Azerbaijan, Benin, Cambodia, Djibouti, Hong Kong, Indonesia, Kazakhstan, Kenya, Kyrgyz Republic, the Philippines, Somalia, Tajikistan, Türkiye, Turkmenistan, the United Kingdom, Uzbekistan and Zambia.

¹⁸ The IFCBP was organised in collaboration with Islamic Development Bank, INCEIF University, and International Shariah Research Academy for Islamic Finance (ISRA).

¹⁹ Such as Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

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)

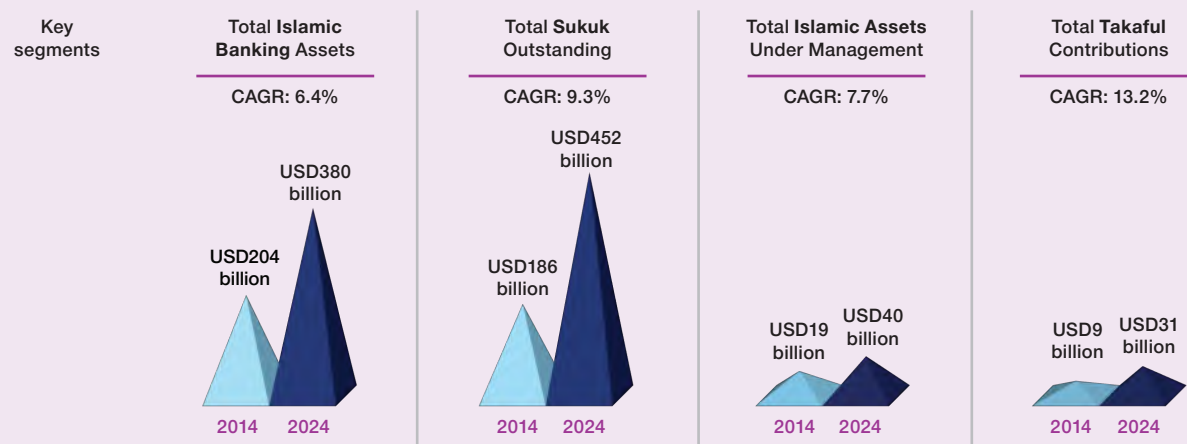
² Estimates by the Islamic Development Bank reveal that, on average, around nine percent of the population in 35 selected Muslim-majority countries (including Indonesia and Malaysia) voluntarily exclude themselves from the formal financial sector due to religious considerations (Alliance for Financial 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).

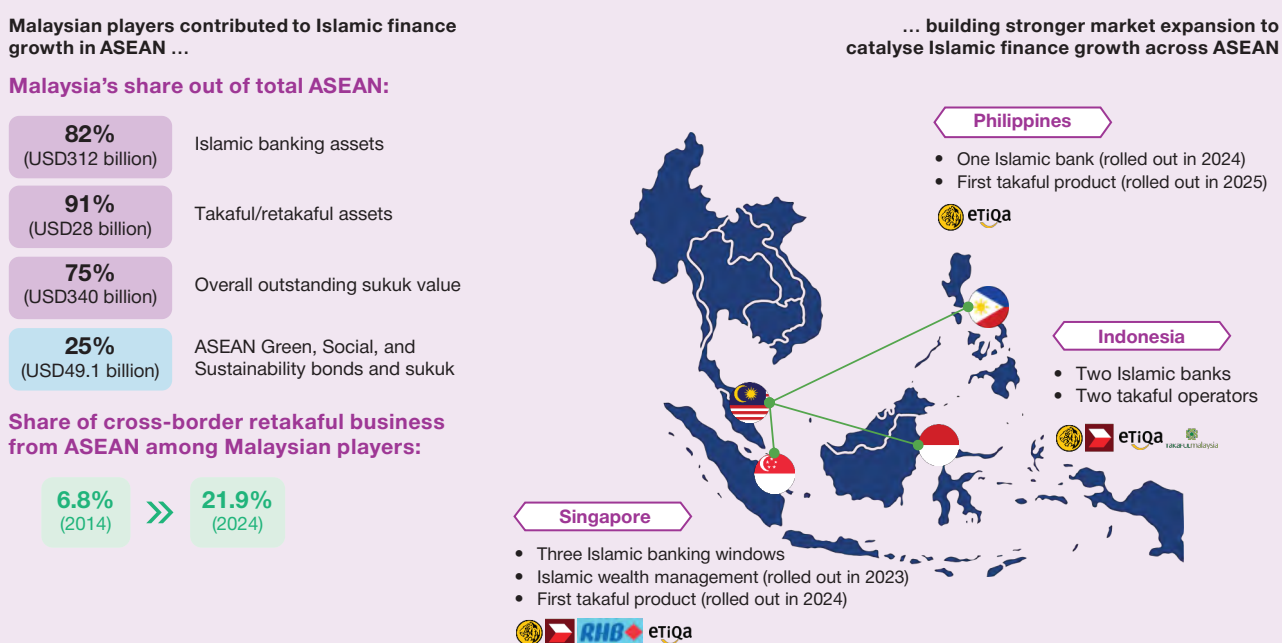
PROMOTING A PROGRESSIVE AND INCLUSIVE ISLAMIC FINANCIAL SYSTEM

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.

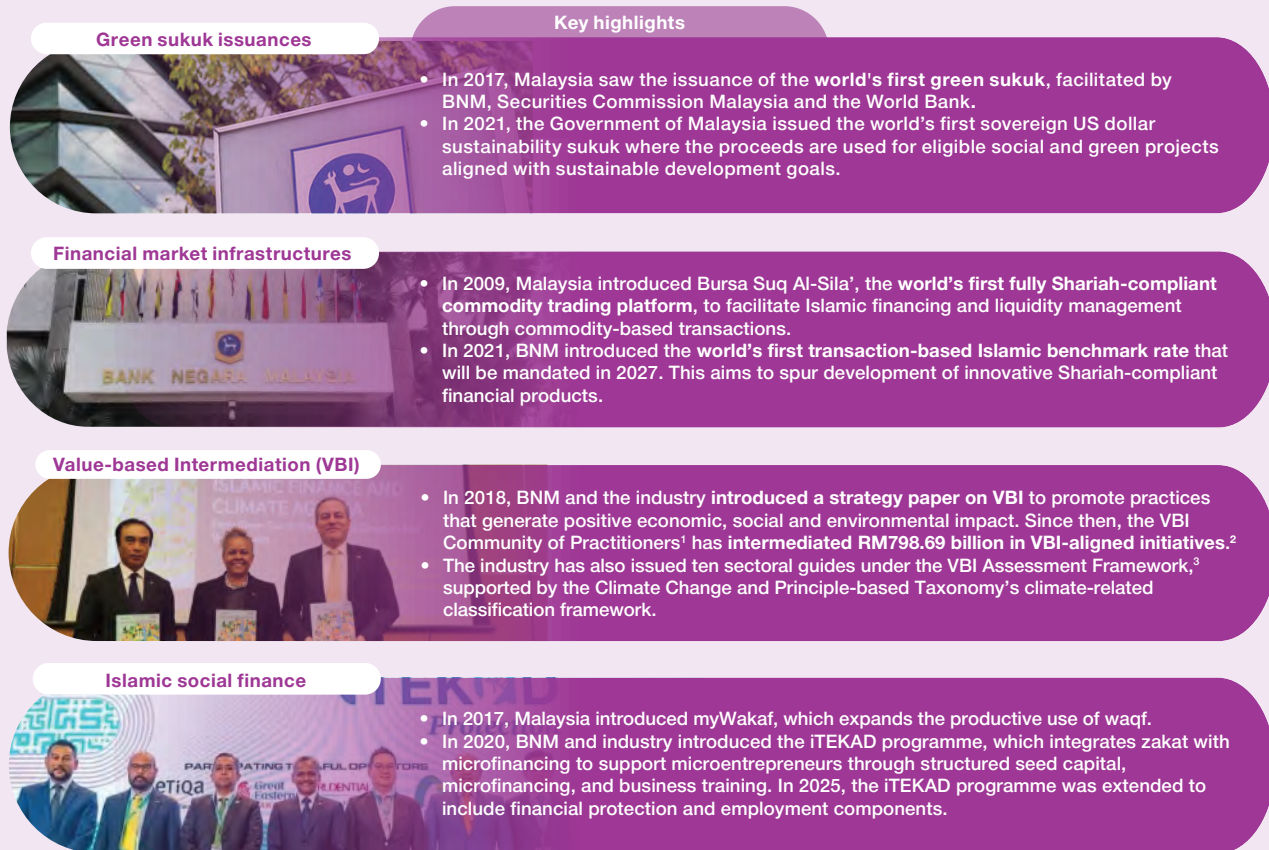
Source: LSEG, Securities Commission Malaysia and Bank Negara Malaysia (data as of September 2025)

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).

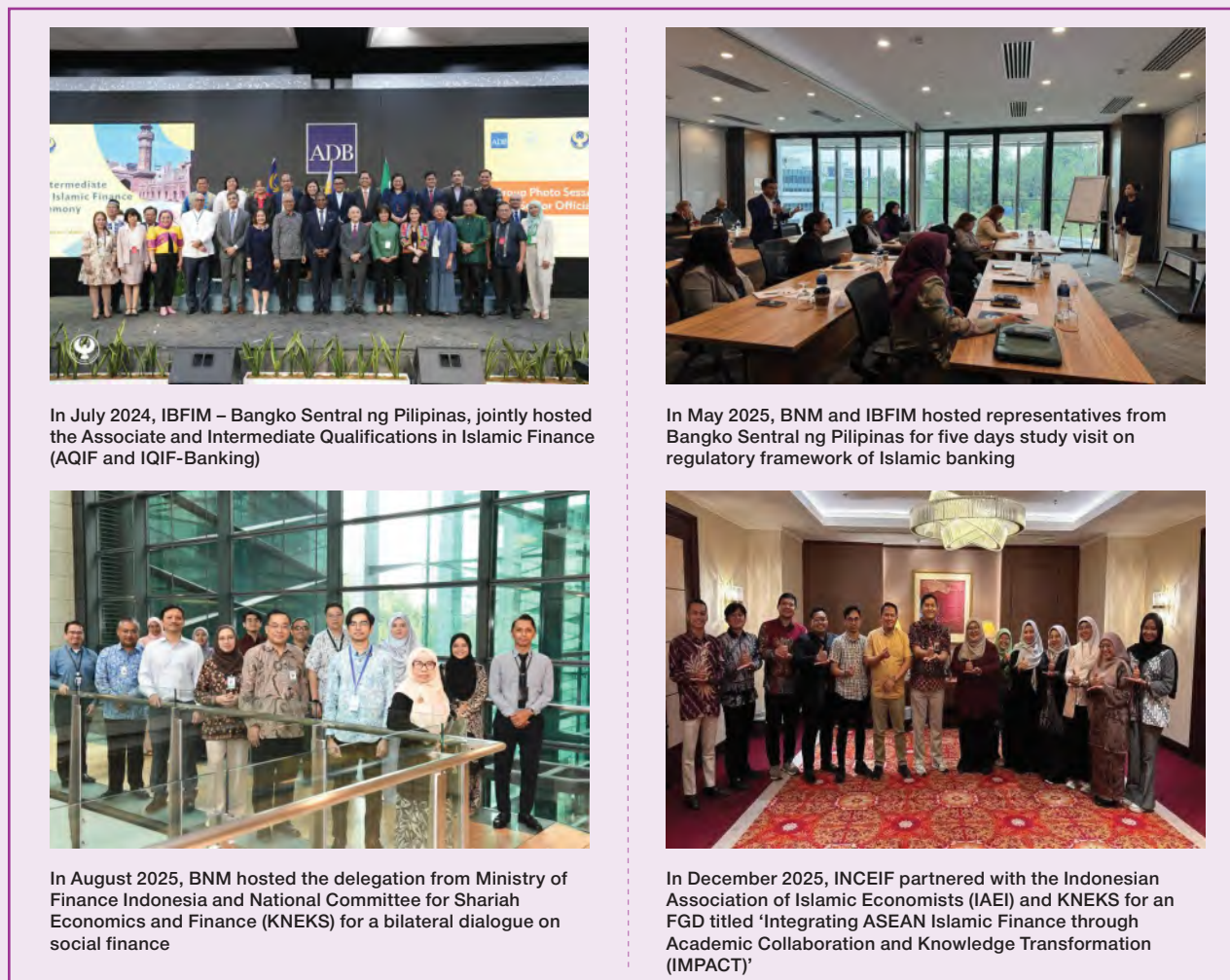
Diagram 3: Malaysia's Vibrant Islamic Finance Talent Ecosystem to Support Growth of the Industry



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.

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