



Singapore's Take on Islamic Finance

Islamic Finance news

Singapore's plunge into the Islamic finance scene did not come as a surprise to many in the industry. Seeing the Islamic finance industry take-off in Malaysia and with Hong Kong and Indonesia playing catch up, Singapore's obvious move was to take on this ethical form of financing with formidable force. Despite being the first Asian country to fall into a recession, which prompted the government to declare the situation as the worst ever for it, the Lion City was still optimistic about launching its first Sukuk at a signing ceremony last month.

Monetary Authority of Singapore (MAS) managing director Heng Swee Keat described the Sukuk as the Shariah-compliant equivalent of Singapore Government Securities (SGS) and said it was of the highest credit standing. He assured investors that it would be given equal regulatory treatment as SGS, such as qualifying as an asset in the computation of capital and liquidity requirements, and as eligible collateral for tapping MAS' liquidity.

"MAS is committed to the facility, issuing to meet the needs of financial institutions that are carrying out or plan to carry out Shariah-compliant activities in Singapore, as this will strengthen their ability to meet their capital and liquidity requirements." He added.

Research and consulting firm Cerulli Associates released a report recently on the Islamic finance industry in Singapore, focusing on the Islamic funds available in the republic. According to it, Hong Kong and Singapore have been financial services hub rivals in Asia and their competition has now extended to Islamic finance. The report states that the Islamic finance is not to cater for their relatively small Muslim populations, but rather to encompass all areas of financial services as well as attract the petro-dollars from the Middle East.

Describing Hong Kong's and Singapore's effort as wholesale as opposed to Malaysia's and Indonesia's "more retail approach", Cerulli said the Singapore government had decided several years ago that as trade with its Middle East counterparts increased, there would be a need for an Islamic finance industry. Its Middle East trade doubled to US\$37 billion in four years to the end of 2007.

"MAS has been proactive in trying to create a level playing field for the conventional and Islamic approaches – in 2005, for example, it remitted the additional stamp duties that Islamic financing arrangements on property were incurring, and allowed banks to offer Murabahah financing," the report stated.

Cerulli added that income tax and goods and services tax (GST) treatments for Shariah-compliant financing arrangements and Sukuk were clarified and given a level playing field as conventional products. "Retail investors in Murabahah are now given the same regulatory protection under Singapore's Bank Act as any conventional depositor. And a 5% concessionary tax rate was announced in February 2008 on income derived from qualifying Shariah-compliant financial activities, including lending, fund management, insurance and reinsurance."

Cerulli noted that the significant step in Singapore's Islamic finance push came with the formation of the Islamic Bank of Asia (IB Asia) in June 2007. Singapore's largest bank, DBS, holds the majority share in the bank together with Middle East investors. IB Asia has since opened a representative office in Bahrain. It focuses on Shariah-compliant commercial banking, corporate finance, capital market and private banking services.

According to Cerulli, the Sukuk issuance working on reverse inquiry that would be issued based on the needs of the republic's financial institutions could boost the development of Islamic finance. However it would not be the republic's first issuance as there have been several other issuances such as the MBB Sukuk Inc established by Maybank that raised US\$300 million two years ago.

Cerulli observed that Singapore has its own Shariah index, the FTSE SGX Asia Shariah 100 Index, which is designed to be used as a basis for exchange-traded funds and over-the-counter trading instruments although it maintained that none have yet been launched. "There are currently six managers with Shariah funds registered in Singapore who are collectively responsible for assets worth about US\$470 million, although this figure was somewhat higher prior to the current financial crisis."



Top Shariah managers in Singapore, October 2008

	Managers	No. of Funds	AUM (US\$ million)	AUM Marketshare
1	State Street Global Advisors	1	164	35%
2	RHB Asset Management, CIMB-Principal Asset Management	1	157	33%
3	HSBC Insurance Singapore	3	84	18%
4	NTUC Income, Wellington International Management Company	1	55	12%
5	Singapore Unit Trusts	2	10	2%
6	UOB Asset Management	1	4	1%
	Total	9	474	100%

Sources: Eurekaledge, Cerulli Associates

Shariah-compliant funds have also found a place in Singapore. Cerulli states that NTUC Income, a cooperative insurance society and a leader in life and general insurance with more than 1.8 million policyholders, currently offers the republic's two largest Shariah funds.

The Amanah Bond Fund is managed by RHB Investment Management and CIMB-Principal Asset Management. It had US\$157 million under management at the end of October last year. The other fund is NTUC's Amanah Equity Fund, described by Cerulli as a global passive product, which is managed by State Street Global Advisors and has US\$164 million under management. NTUC also offers a Takaful fund, jointly managed by NTUC Income and Wellington International Management with US\$55 million under management.

Cerulli's report also notes that other local players offering funds include UOB Asset Management, Singapore Unit Trusts (SUT) and Swiss-Asia Financial Services. UOB Asset Management offers the Afdaal Asia Pacific Equity Fund, for which CIMB-Principal Asset Management is the advisor. SUT, a member company of Malaysia's Permodalan Nasional Berhad (PNB) Group, has two Shariah-compliant funds: the Ethical Value Fund and Ethical Growth Funds, both being global equity products; while Swiss-Asia Financial Services launched its first Shariah fund, an absolute return Asian equity product named the Mashriq Fund, in July 2006.

According to Cerulli, the largest Shariah-compliant investment product sold in Singapore to-date was by a group called Pacific Star Investment and Development, which sold the now closed Baitak Asian Real Estate Fund at US\$600 million. On offshore funds, Cerulli states that the available Shariah-compliant funds from the offshore managers are the DWS Noor range, including an Asia-Pacific equity fund, China equity fund, Global select equity fund, Japan equity fund and a precious metals securities product. "All are sold in Singapore (though they are domiciled in Ireland), as are CIMB Islamic's Asia-Pacific equity fund and several HSBC products, domiciled locally under the HSBC-Link Ethical brand," it added.

	Fund Name	Fund Size (US\$ m)	Inception Year	Base Currency	Investment Geography	Instruments Traded	Manager
1	NTUC Amanah Equity Fund	164	2005	S\$	Global	Equity	State Street Global Advisors
2	NTUC Amanah Bond Fund	157	2005	S\$	Asia Pacific	Fixed income	RHB Asset Management, CIMB-Principal Asset Management
3	HSBC-Link Ethical Global Equity Fund (Formerly Takaful Global Fund)	60	1995	S\$	Global	Equity	HSBC Insurance Singapore
4	NTUC Takaful Fund	55	1995	S\$	Global	Equity	NTUC Income, Wellington International Management Company
5	HSBC-Link Ethical Capital Protected Fund (Formerly Takaful Sinaran Fund)	16	2002	S\$	Global	Equity	HSBC Insurance Singapore
6	HSBC-Link Ethical Asia Equity Fund (Formerly Takaful Asia Pacific Fund)	8	2004	S\$	Asia Pacific	Equity	HSBC Insurance Singapore
7	SUT Ethical Value Fund	6	2001	S\$	Global	Equity	Singapore Unit Trusts
8	Afdaal Asia Pacific Equity Fund	4	2006	S\$	Asia Pacific	Equity	UOB Asset Management
9	SUT Ethical Growth Fund	4	2001	S\$	Global	Equity	Singapore Unit Trusts
	Total	474					

Sources: Eurekaledge, Cerulli Associate