

COMPILATION AND ESTIMATION OF ISLAMIC FINANCE STATISTICS: THE MALAYSIA'S EXPERIENCE

Presentation by:

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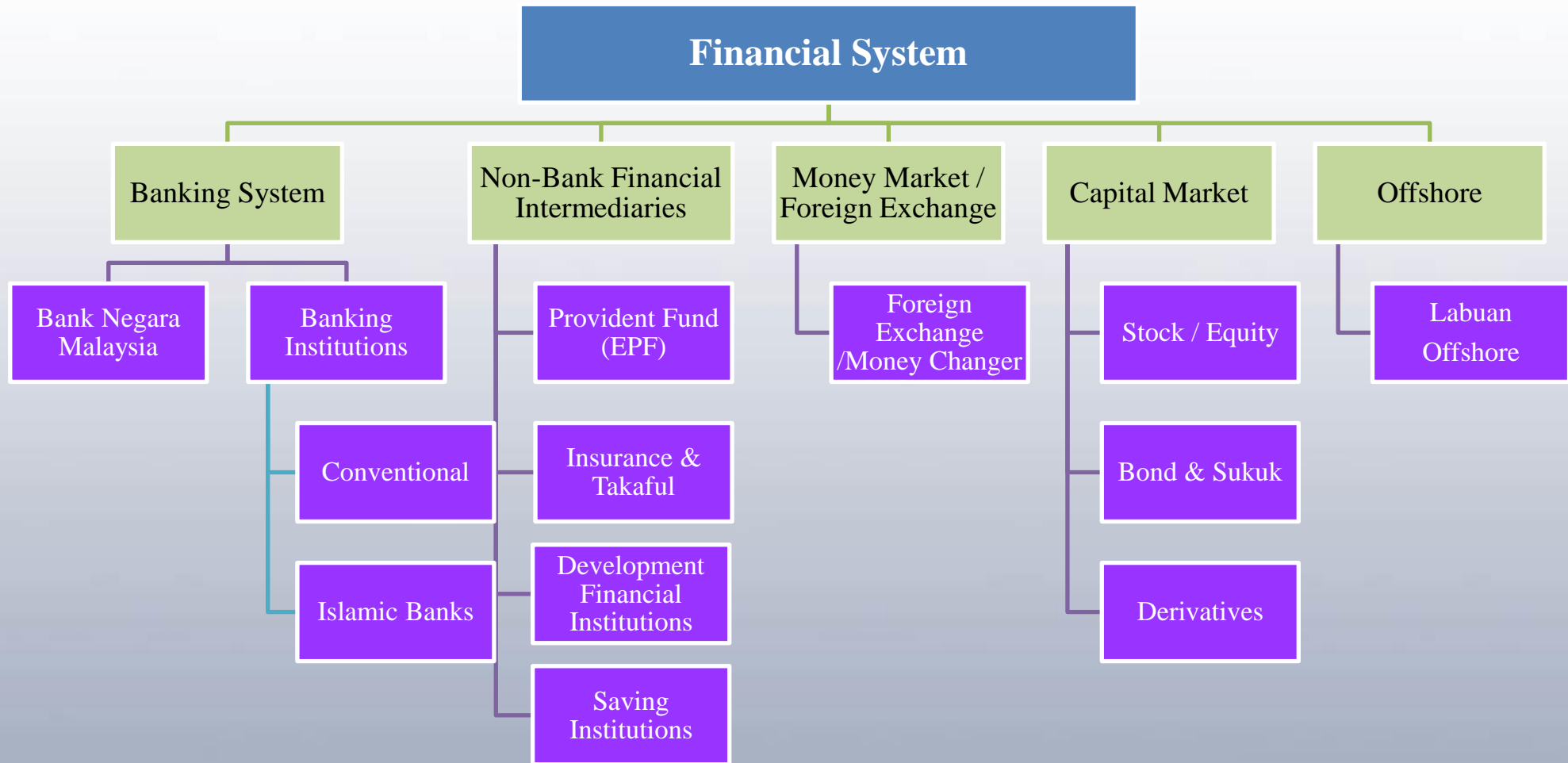
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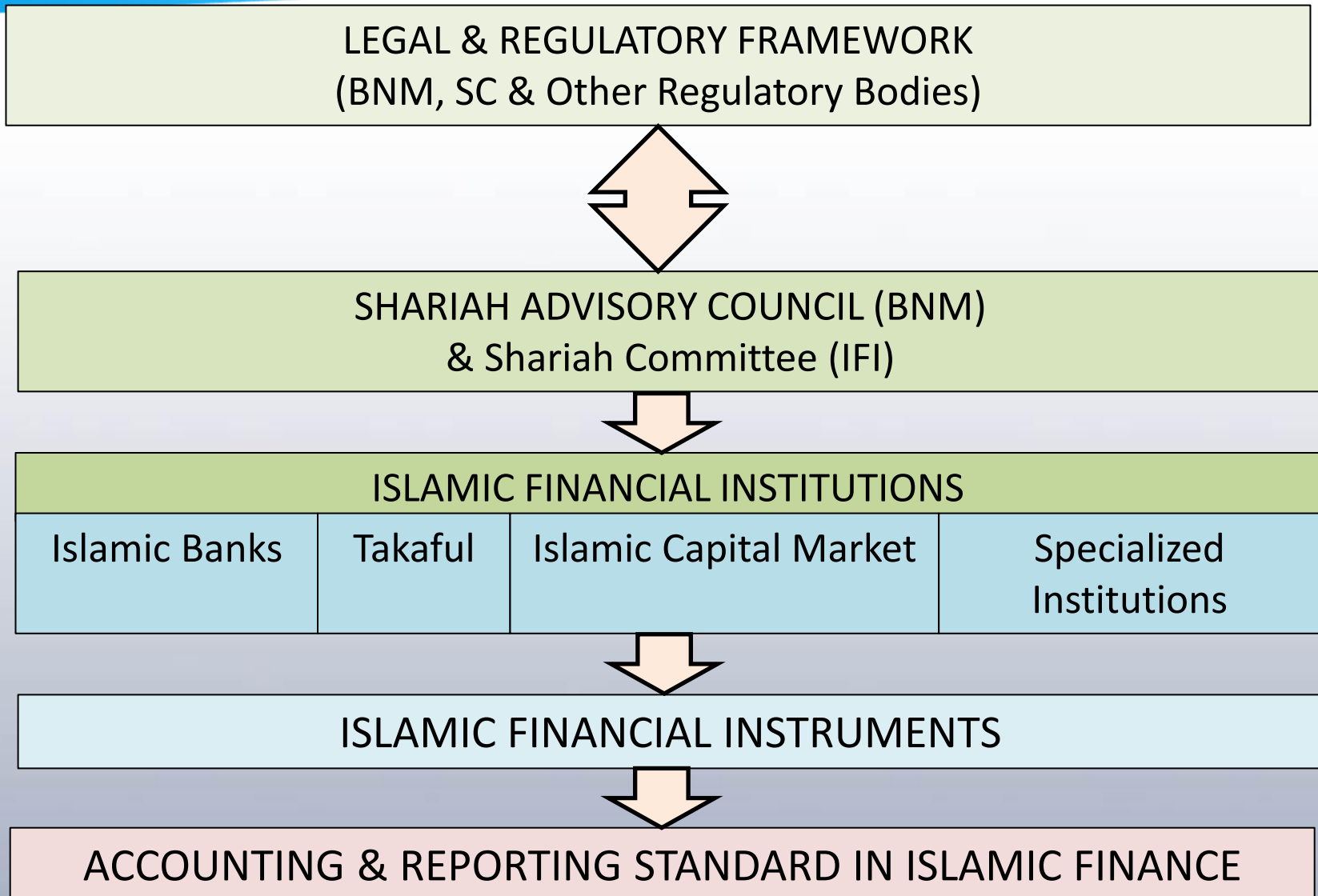
Outline

1. Introduction
2. Development of Islamic Finance in Malaysia
3. Islamic Banking and Takaful Statistics in Malaysia
4. The Compilation of Islamic Banking Value Added :
The Malaysian Experience
5. Issues and Challenges
6. Conclusion

Malaysia Financial System & Structure



Governance of Islamic Financial Services in Malaysia



Abbreviation :

BNM : Bank Negara Malaysia

SC : Securities Commission

IFI : Islamic Financial Institution

Legal Framework of Islamic Finance & Islamic Banking

Islamic Banking Act 1983

- “Islamic banking business” means banking business whose aims and operations do not involve any element which is not approved by the Religion of Islam;

Islamic Financial Services Act 2013

- An institution shall at all times ensure that its aims and operations, business, affairs and activities are in compliance with Shariah.
- [Securities Commission \(Amendment\) Act 2015 And Capital Markets And Services \(Amendment\) Act 2015](#)
- [Capital Markets and Services Act 2007](#)
- [Securities Commission Malaysia Act 1993](#)
- [Securities Industry \(Central Depositories\) Act 1991](#)
- [Demutualisation \(Kuala Lumpur Stock Exchange\) Act 2003 \(pdf\)](#)
- [Securities Industry Act 1983](#)
- [Futures Industry Act 1993](#)
- [Comparison Between the Securities Industry Act 1983 and the Capital Markets and Services Act 2007](#)
- http://www.bnm.gov.my/index.php?ch=en_policy&pg=en_policy_banking

Malaysia Industrial Classification of Financial Sector

FINANCIAL SERVICE ACTIVITIES, EXCEPT INSURANCE/TAKAFUL AND PENSION FUNDING

This division includes the activities of obtaining and redistributing funds other than for the purpose of insurance/takaful or pension funding or compulsory social security.

GROUP 641 Monetary intermediation

This group includes the obtaining of funds in the form of transferable deposits, i.e. funds that are fixed in money terms, and obtained on a day-to-day basis and, apart from central banking, obtained from non-financial sources.

GROUP 642 Activities of holding companies

This group includes the activities of holding companies, i.e. units that hold the assets (owning controlling-levels of equity) of a group of subsidiary corporations and whose principal activity owns the group. The holding companies in this group do not provide any other service to the businesses in which the equity is held, i.e. they do not administer or manage other units.

GROUP 643 Trusts, funds and similar financial entities

This group includes legal entities organized to pool securities or other financial assets, without managing, on behalf of shareholders or beneficiaries. The portfolios are customized to achieve specific investment characteristics, such as diversification, risk, rate of return, and price volatility. These entities earn interest, dividends, and other property income, but have little or no employment and no revenue from the sale of services.

GROUP 649 Other financial service activities, except insurance/takaful and pension funding activities

This group includes financial service activities other than those conducted by monetary institutions.

CLASS	ITEM	DESCRIPTION
6411		Central banking
	64110	Central banking
6419 ⁽¹⁾		Other monetary intermediation
	64191	Commercial Banks
	64192	Islamic Banks
	64193	Offshore Banks ⁽²⁾
	64194	Investment Banks
	64195	Development financial institutions (with deposits taking functions) ⁽³⁾
	64199	Other monetary intermediation (with deposits taking functions) n.e.c.

Malaysia Industrial Classification of Financial Sector

CLASS	ITEM	DESCRIPTION
6520		Reinsurance/Retakaful
	65201	Life reinsurance
	65202	Family retakaful
	65203	General reinsurance
	65204	General retakaful
	65205	Composite retakaful
	65206	Offshore reinsurance
	65207	Offshore retakaful

CLASS	ITEM	DESCRIPTION
6511		Insurance/Takaful
	65111	Life insurance
	65112	Family takaful
6512		General insurance
	65121	General insurance
	65122	General takaful
	65123	Composite insurance
	65124	Offshore insurance
	65125	Offshore takaful ⁽¹⁾

Malaysia Islamic Banking and Finance



1983 - First Islamic bank established (Bank Islam Malaysia Berhad)
1984 – First full-fledge takaful company established (Syarikat Takaful Malaysia Bhd)
1. Islamic Banking Act 1983
2. Government Investment Act 1983

1999 - Bank Muamalat Malaysia Berhad started operation as second Islamic bank

2004 – Three licenses issued to foreign Islamic bank:
1. Kuwait Finance House
2. Al-Rajhi Banking & Investment Corporation
3. A consortium of Islamic financial institutions (Qatar Islamic Bank, RUSD Investment Bank Inc. and Global Investment House)

2006

- International Centre for Education in Islamic Finance (INCEIF)
- Malaysia International Islamic Financial Centre (MIFC)

2008 - Issuance International Islamic Banking licenses (IIB)

2010 Onwards

- NKEA - National Key Economic Areas – NKEA#5 Financial Services, EPP 10: Becoming the Indisputable Global Hub for Islamic Finance

2011 Onwards

- **Islamic Financial Services 2013 Acts**
- [Financial Sector Blueprint 2011 - 2020](#)

SHARE OF FINANCE SECTOR TO MALAYSIA GDP

Share of Finance and Insurance to GDP at Constant prices 2010

YEAR	2010	2011	2012	2013	2014	2015	2016	2017
FINANCE	5.8	5.9	5.9	5.7	5.5	5.2	5.1	5.0
INSURANCE	1.7	1.7	1.9	1.9	1.8	1.7	1.7	1.7
TOTAL FINANCE & INSURANCE	7.5	7.6	7.8	7.6	7.3	6.9	6.8	6.7

Islamic Banking Statistics

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of Institutions	43	42	47	54	54	55	56	56	55	54	54	54	54
Commercial Bank	27	22	22	22	22	23	25	27	27	27	27	27	27
Merchant/Investment Bank	10	10	14	15	15	15	15	13	12	11	11	11	11
Islamic Bank	6	10	11	17	17	17	16	16	16	16	16	16	16

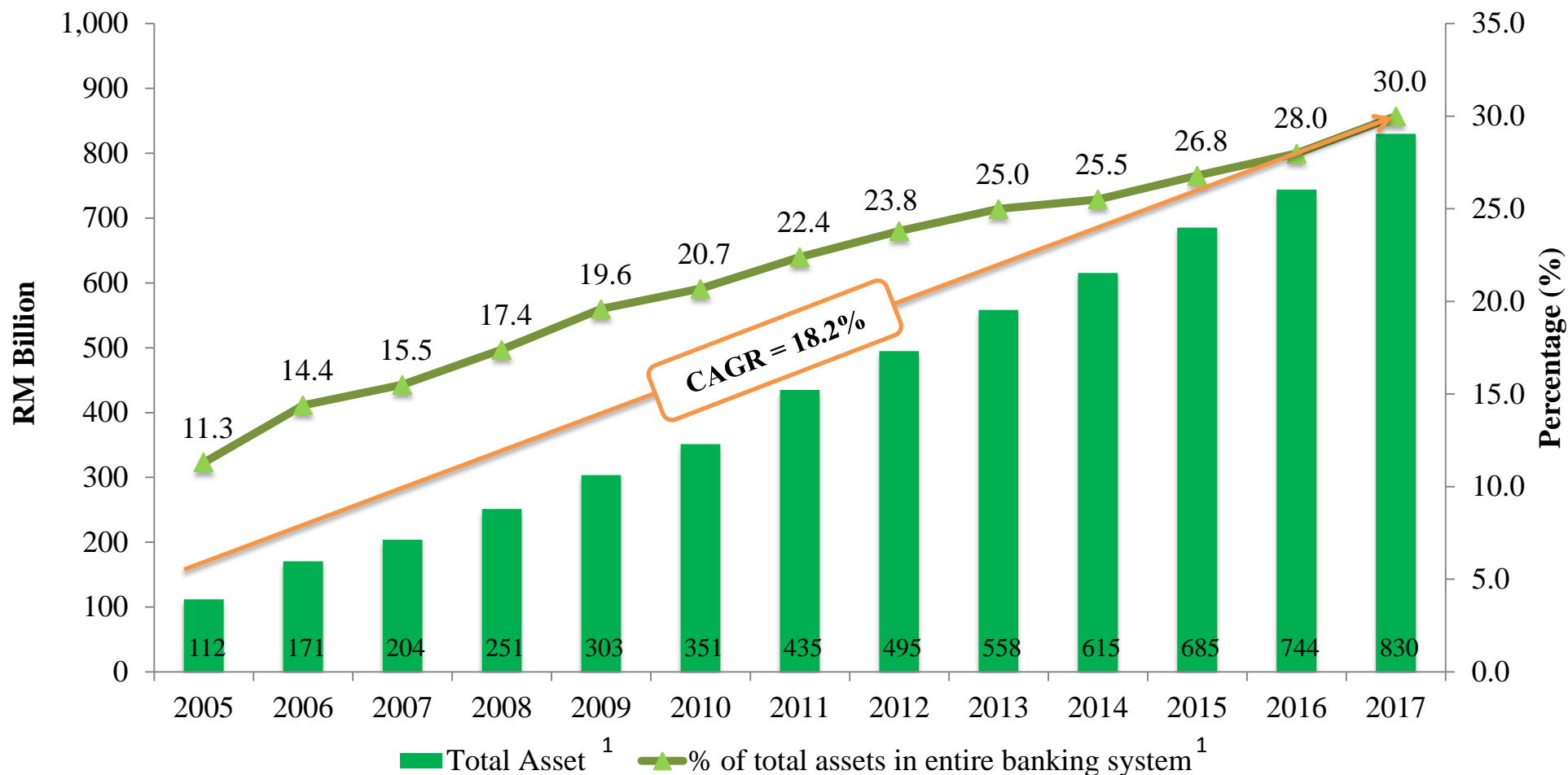
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Office Network	2,244	2,139	2,245	2,271	2,298	2,312	2,435	2,481	2,479	2,494	2,500	2,498	2,494
Commercial Bank	2,072	1,952	1,968	1,979	1,999	2,006	2,050	2,056	2,029	2,045	2,048	2,019	2,019
Merchant/Investment Bank	19	19	120	131	131	133	133	148	135	135	119	130	130
Islamic Bank ¹	766	1,167	1,272	2,039	2,087	2,102	2,147	2,171	2,177	2,192	2,206	2,197	2,196

¹ Includes Islamic bank branches that are shared with conventional bank branches

^p Preliminary

source : Bank Negara Malaysia

Islamic Banking Statistics – Asset



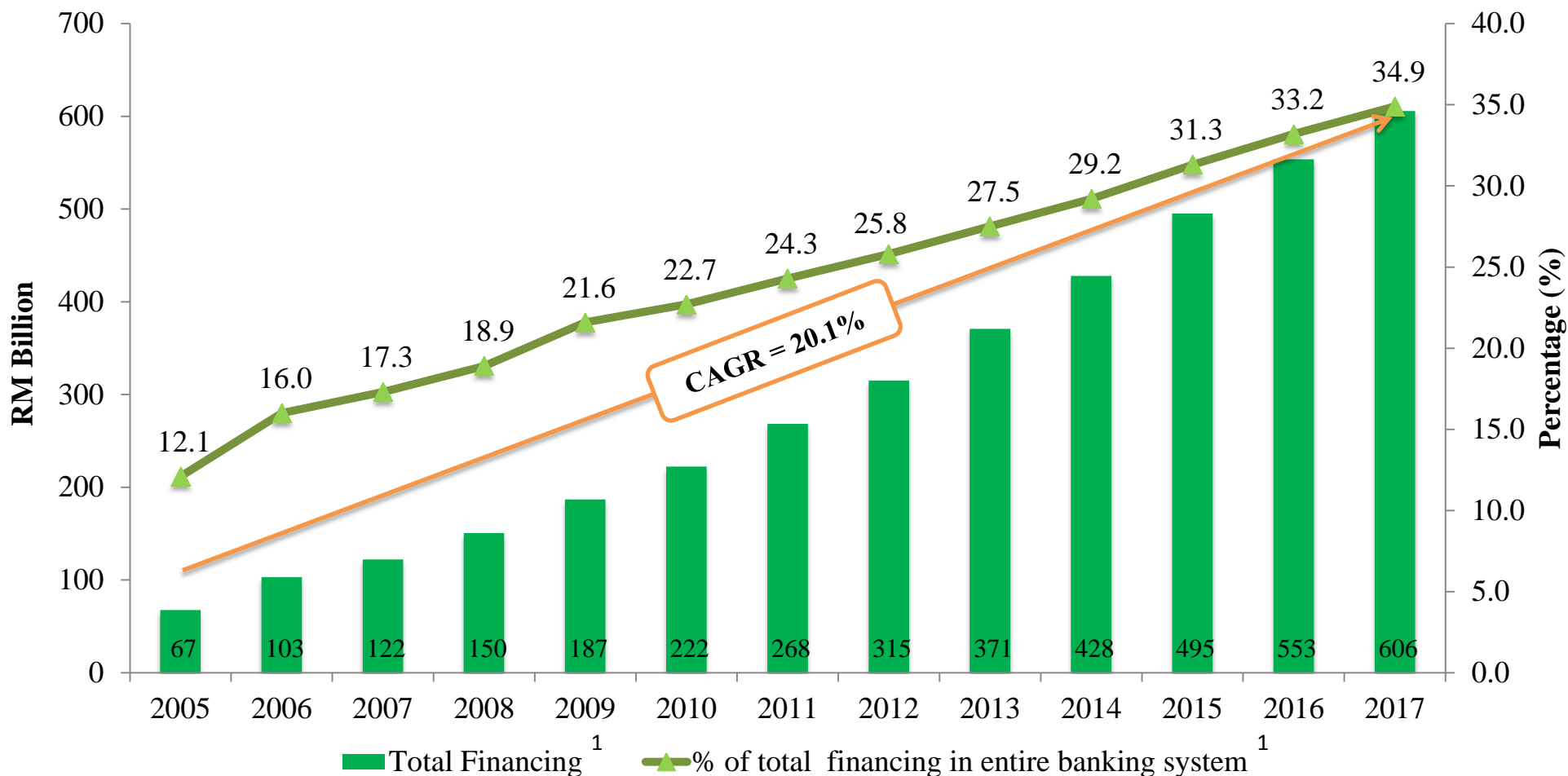
¹ Including development financial institutions under the Development Financial Institutions Act 2002

^p Preliminary

source: Bank Negara Malaysia

Islamic Banking Statistics - Financing

Financing refers to assets / financing funded by investment accounts

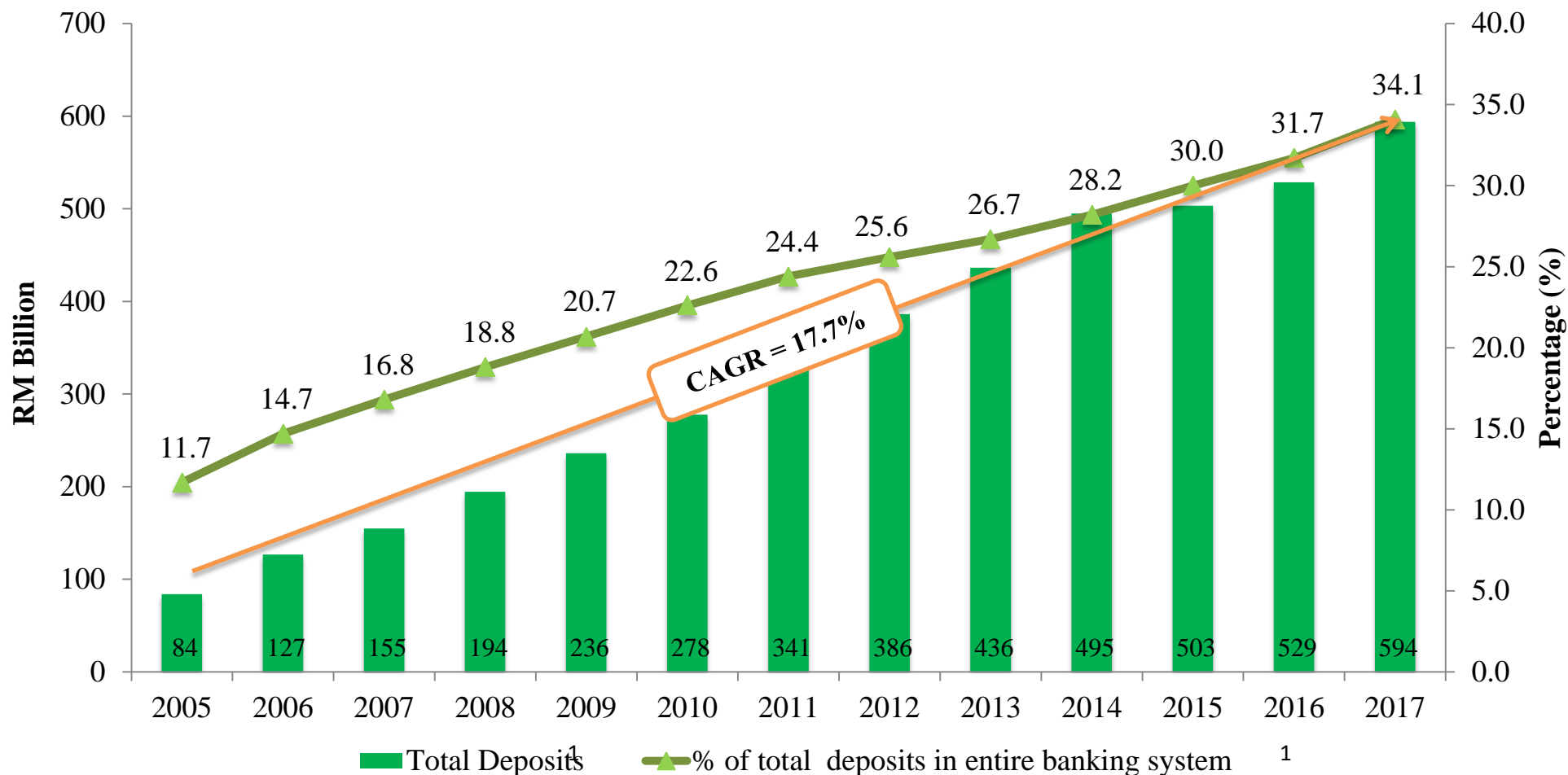


¹ Including development financial institutions under the Development Financial Institutions Act 2002

^p Preliminary

source: Bank Negara Malaysia

Islamic Banking Statistics - Deposits

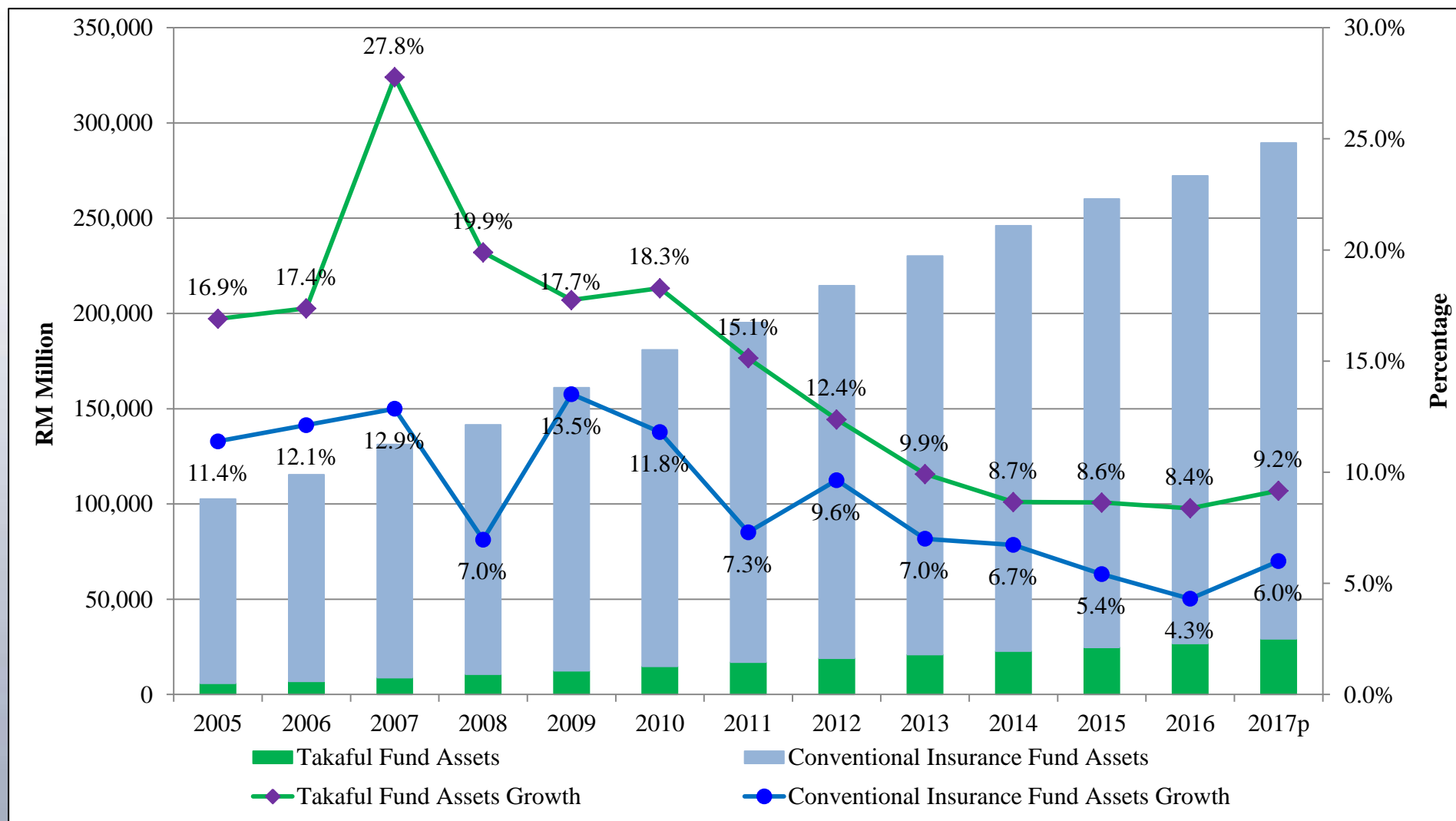


¹ Including development financial institutions under the Development Financial Institutions Act 2002

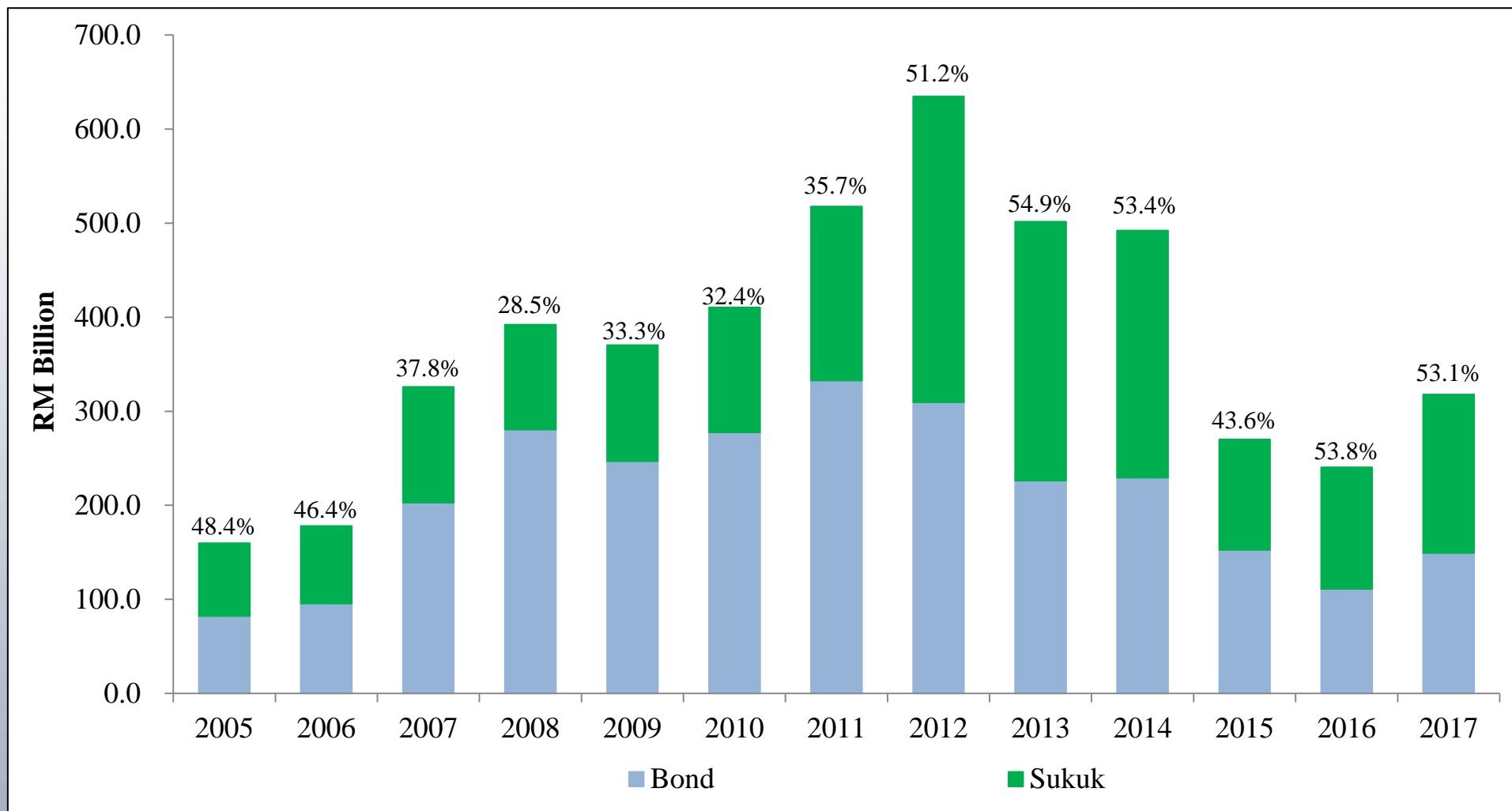
² Preliminary

source: Bank Negara Malaysia

Takaful and Conventional Insurance - Assets



Islamic Banking Statistics – Debt Securities Issuance in Malaysia



Notes: Refers to those of all tenors, i.e. both short-term and long-term securities listed on FAST, BNM. Reflects nominal value as at time of issue.

source : Bank Negara Malaysia

Top Sukuk Markets in 2016

Jurisdiction

Issued amount & global market share

Top sectors

Malaysia

USD34.7 billion, 46.4%

1. Financial services
2. Government
3. Power and utilities
4. Transportation

Gulf Cooperation Council

USD19.6 billion, 26.2%

1. Financial services
2. Government
3. Oil and Gas

Indonesia

USD7.4 billion, 9.9%

1. Government
2. Financial services
3. Industrial manufacturing

Turkey

USD4.1 billion, 5.5%

1. Financial services
2. Government



Data availability – Balance Sheet of Islamic Banks

TOTAL ASSETS
Cash and Cash Equivalents
Deposits Placed and Reverse Repurchase Agreement
Statutory Deposits with Bank Negara Malaysia
Pledged Securities under Repurchase Agreement
Financial Assets Designated as Fair Value Through Profit or Loss
Financial Assets Held for Trading
Held to Maturity Investments
Available for Sale Financial Assets
Loans/Financing and Receivables (Net of Provision)
Loans/Financing and Advances
Trade and Other Receivables
Amount Due from Designated Financial Institutions
Overdrawn Vostro Accounts
Nostro Accounts
Interbank Placements
Surplus in SPICK
Other Amount Due from Designated Financial Institutions
Derivatives Financial Assets
Fair Value Changes of the Hedged Items in Portfolio Hedge of Interest Rate Risk/Profit Rate Risk (Assets)
Other Assets
Investment Properties
Inventories
Prepaid Lease Payment
Investment at Cost
Investment Accounted for Using Equity Method
Property, Plant and Equipment
Land
Buildings
IT Equipment
Fixtures and Fittings
Office Equipment
Motor Vehicles
Other Property, Plant and Equipment
(-) Depreciation and Impairment of Property, Plant and Equipment
Goodwill
Intangible Assets Other Than Goodwill
Tax Assets
Non Current Assets or Disposal Groups Classified as Held for Sale

TOTAL EQUITY AND LIABILITIES
TOTAL EQUITY
TOTAL LIABILITIES
Deposits Accepted and Repurchase Agreement
Deposits Accepted
Repurchase Agreement
Financial Liabilities Designated as Fair Value Through Profit or Loss
Financial Liabilities Held for Trading
Amount Due to Government
Amount Due to Designated Financial Institutions
Vostro Account Balances
Overdrawn Nostro Accounts
Deficit in SPICK
Interbank Borrowings
Other Amount Due to Designated Financial Institutions
Derivatives Financial Liabilities
Fair Value Changes of the Hedged Items in Portfolio Hedge of Interest Rate Risk/Profit Rate Risk (Liabilities)
Trade and Other Payables
Staff Employment Benefits
Other Provisions
Borrowed Funds
Debt Certificates Issued/Sukuk Issued
Other Liabilities
Tax Liabilities
Liabilities Included in Disposal Groups Classified as Held for Sale
TOTAL COMMITMENTS AND CONTINGENCIES

Data availability on Islamic Banks



Deposits by Types :

Deposits Accepted
Demand Deposits Accepted
Savings Deposits Accepted
Fixed Deposits Accepted
Specific Investment Accounts Accepted
General Investment Account Accepted
Commodity Murabahah Deposits Accepted
Call Deposits Accepted
Negotiable Instruments Deposits Issued
Special Deposits Accepted
Housing Development Account Deposits Accepted
Short Term Deposits Accepted
Investment-Linked to Derivatives Offered
Eligible Liabilities Exempt Deposits Accepted
Other Deposits Accepted
Repurchase Agreement

Income & Expenditure Statement

Net Interest/Finance
Interest/Finance Income
Interest/Finance Income from Loans/Financing and Advances
Interest/Finance Income from Amount Due from Financial Institutions
Interest/Finance Income from Financial Assets Held for Trading
Interest/Finance Income from Held to Maturity Investments
Interest/Finance Income from Available for Sale Financial Assets
Through Profit or Loss
Other Interest/Finance Income
Accretion of Discount on Securities
Miscellaneous Other Interest/Finance Income
(-) Interest/Finance Expense
Interest/Finance Expense on Deposits Accepted
Interest/Finance Expense on Amount Due to Financial Institutions
Interest/Finance Expense on Amount Due to Government
Interest/Finance Expense on Subordinated Liabilities
Interest/Finance Expense on Financial Liabilities Designated as Fair Value
Interest/Finance Expense on Finance Expense on Converted Funds
Other Interest/Finance Expense
Net Fee and Commission
Fee and Commission Income
Fees and Commission Income Securities Issuances and Management
Underwriting Fees
Brokerage Fees
Portfolio Management Fees
Other Fees Relating to Securities Issuances and Management
Fees and Commission Income for Corporate Advisory
Fees and Commission Income Assets Management
Fees and Commission Income Credit Commitments
Commitments Fees
Processing Fees
Syndication Fees
Guarantee Fees
Service Charges & Fees
Acceptance Fees
Other Fees Relating to Credit Commitments
Fees and Commission Income Payments Services
Other Fees and Commission Income
(-) Fee and Commission Expenses
Brokerage Expenses
Other Fee and Commissions Expenses

Data availability on Islamic Banks – Income & Expenditure Statement – cont'd

Dividend Income	Losses on Derecognition of Other Non Current Assets Not Held for Sale
Dividend Income Subsidiaries	Finance Cost
Dividend Income Associates	Finance Cost on Subordinated Term Loans/Financing
Dividend Income Joint Ventures	Finance Cost on Finance Leases/Hire Purchase Interest
Dividend Income from Other Companies	Finance Cost on Financing Instruments
Other Dividend Income	Amortisation of Premium on Debt Securities Held
Net Gains/(Losses) on Financial Instruments	Other Finance Costs
Gains on Financial Instruments	Administration Costs
Gains on Financial Assets Held for Trading	Employee Expenses
Gains on Held to Maturity Investments	Establishment Expenses
Gains on Available for Sale Financial Assets	Marketing Expenses
Gains on Financial Instruments Designated as Fair Value Through Profit or Loss	Administration and General Expenses
Gains on Exchange Difference Revaluation	Net Provisions
Gains on Financial Instruments Due to Fair Value Adjustments in Hedge	Provision Made During the Period
Other Gains on Financial Instruments	(-)Reversal of Provisions During the Period
(-) Losses on Financial Instruments	Net Impairment Reversal/(Losses)
Losses on Financial Assets Held for Trading	Impairment Reversals
Losses on Held to Maturity Investments	Impairment Reversals Financial Instruments, Held-To-Maturity Investments
Losses on Available for Sale Financial Assets	Impairment Reversals Financial Instruments, Loans/Financing and Receivables
Losses on Financial Instruments Designated as Fair Value Through Profit or	Impairment Reversals Financial Instruments, Available for Sale Financial Assets
Losses on Exchange Difference Revaluation	Impairment Reversals Tangible and Intangible Assets
Losses on Financial Instruments Due to Fair Value Adjustments in Hedge	Other Impairment Reversals
Other Losses on Financial Instruments	(-) Impairment Losses
Net Gains/(Losses) on Derecognition of Non-Current Assets Not Held for Sale	Impairment Losses Financial Instruments, Held to Maturity Investments
Gains on Derecognition of Non-Current Assets Not Held for Sale	Impairment Losses Financial Instruments, Loans/Financing and Receivables
Gain on Derecognition of Property Plant and Equipment	Impairment Losses for Loans/Financing
Gain on Derecognition of Investment Property	Individual Impairment Losses
Gain on Derecognition of Identifiable Intangible Assets	Collective Impairment Losses
Gain on Derecognition of Investments in Subsidiaries, Associates and Joint	Impaired Loan/Financing Written Off
Gain from Derecognition of Shares in Subsidiaries	Impairment Losses for Trade Receivables
Gain from Derecognition of Shares in Associates	Impairment Losses Financial Instruments, Available for Sale Financial Assets
Gain from Derecognition of Shares in Joint Ventures	Impairment Losses Tangible and Intangible Assets
Gain on Disposal of Foreclosed Properties	Other Impairment Losses
Gain on Derecognition of Other Non Current Assets Not Held for Sale	Net Miscellaneous Income/(Expenses)
(-) Losses on Derecognition of Non-Current Assets Not Held for Sale	Miscellaneous Income
Losses on Derecognition of Property Plant and Equipment	Rental Income
Losses on Derecognition of Investment Property	Other Miscellaneous Income
Losses on Derecognition of Identifiable Intangible Assets	(-) Miscellaneous Expenses
Losses on Derecognition of Investments in Subsidiaries, Associates and Joint	Profit (Loss) Before Taxation
Losses from Sale of Shares in Subsidiaries	Income Tax Expenses
Losses from Sale of Shares in Associates	Zakat
Losses from Sale of Shares in Joint Ventures	Profit (Loss) for the Year

Data availability – Balance Sheet of Takaful

Total assets
Property, plant and equipment
Self-occupied properties
Other property, plant and equipment
Work-in-progress
Office renovation
Motor vehicles
Computer hardware & software
Office equipment
Furniture, fixtures & fittings
Investment properties
Financing
Secured financing
Unsecured financing
Staff financing
Investments
Government Islamic papers
Malaysian Government guaranteed financing
Islamic debt securities
Syariah-approved equities
Investment in other linked funds of the takaful company
Other investments
Foreign assets
Cash & deposits
Investment accounts/ Islamic money market
Cash & bank balances
Other assets
Outstanding contributions & agents' balances/Amount due from ceding companies/brokers (net)
Amount due from retakaful/ceding companies (net)
Retakaful deposits
Profits, dividends & rent receivables
Sundry debtors & other assets

Total liabilities
Takaful fund and reserves
Participants' fund c/f
Investment-linked fund c/f
Unearned contribution reserves (EOY)
Surplus attributable to participants (EOY)
Other reserves (EOY)
Provision for outstanding claims (EOY)
Other liabilities
Provision for outstanding claims (EOY)
Amount due to clients/ intermediaries
Amount due to retakaful/ ceding companies
Retakaful deposits
Deposit contributions
Dividend payables
Provision for taxation
Bank cashline/ financing
Benevolent loan
Deferred taxation
Staff retirement benefits
Sundry creditors and other liabilities
Amount due to income statement/ takaful funds
Provision for tax on unrealised capital gains
Revaluation reserves for Takaful funds

Data availability - Income & Expenditure Statement of Takaful

Total Income
Net contributions
Earned Contribution Income
Fire
MAT
Aviation
Cargo
Marine Hull
Offshore Oil-related
Motor
Motor Act
Motor Others
Miscellaneous
Bonds
Contractors' All Risks & Engineering
Liabilities
Medical and Health
Personal Accident
Workmen's Compensation & Employers' Liability
Others
Net investment income
Income
Investment accounts/ Islamic money market
Financing
Others
Gross dividends
Rent
Others (including net investment income for investment-linked fund)
Less : Investment expenses
Unrealised capital gains
Other Income
Profit on disposal
Bad debts recovery
Accretion of discounts on securities
Others

Total Outgo
Net certificate benefits
Net claims incurred
Fire
MAT
Aviation
Cargo
Marine Hull
Offshore Oil-related
Motor
Motor Act
Motor Others
Miscellaneous
Bonds
Contractors' All Risks & Engineering
Liabilities
Medical and Health
Personal Accident
Workmen's Compensation & Employers' Liability
Others
Net Commission (including wakalah)
Management expenses
Management expenses (Wakalah Fee)
Salaries
Bonus
Staff benefits
Marketing bonus
Directors' remuneration and related expenses
Syariah supervisory council members' remuneration & related expenses
Entertainment
Training expenses
Auditors' fees
Legal expenses
Management fees
Rent and rates
Repairs and maintenance
Motor vehicle expenses
EDP expenses
Depreciation
Miscellaneous expenses
Travelling expenses
Advertising
Printing & stationery
Electricity & water
Postage/ telephone/ telex/ telefax
TGSF levy
Others
Unrealised capital loss
Other Outgo
Loss on disposal
Bad and doubtful debts
Amortisation of premium on securities
Diminution in value of
Provision for tax on unrealised capital gains
Investment charge
Taxation
Finance Cost
Others
Excess of Income over Outgo

Islamic Banking - Value added Calculation

- DOSM as official statistics compilers for GDP.
- Islamic banking and Takaful Value Added was calculated separately since 2000 (1993 SNA).
- System of National Accounts 2008 (and SNA1993) recommended FISIM framework in estimating output for Financial Intermediation activity and it has been applied in Malaysian GDP since 2005, fully replacing the IBSC (SNA1968).

Measurement of FISIM in Malaysia

- **Estimation of FISIM – Conventional Finance**

FISIM is calculated using the following formula:

$$\text{FISIM} = \text{FISIM on Loans} + \text{FISIM on Deposits}$$

FISIM on Loans

$$= \text{Stock of Loans} * [\text{Lending Rate} - \text{Reference Rate}]$$

FISIM on Deposits

$$= \text{Stock of Deposits} * [\text{Reference Rate} - \text{Deposits Rate}]$$

- **Reference Rate: Midpoint** between the loan and deposit rate
 - less volatile
 - FISIM values with greater transparency

Measurement of FISIM in Malaysia – Islamic Banking segment

- **Estimation of FISIM – Islamic Banking**

FISIM is calculated using the following formula:

$$\text{FISIM} = \text{FISIM on Financing} + \text{FISIM on Deposits}$$

$$\text{FISIM on Loans}$$

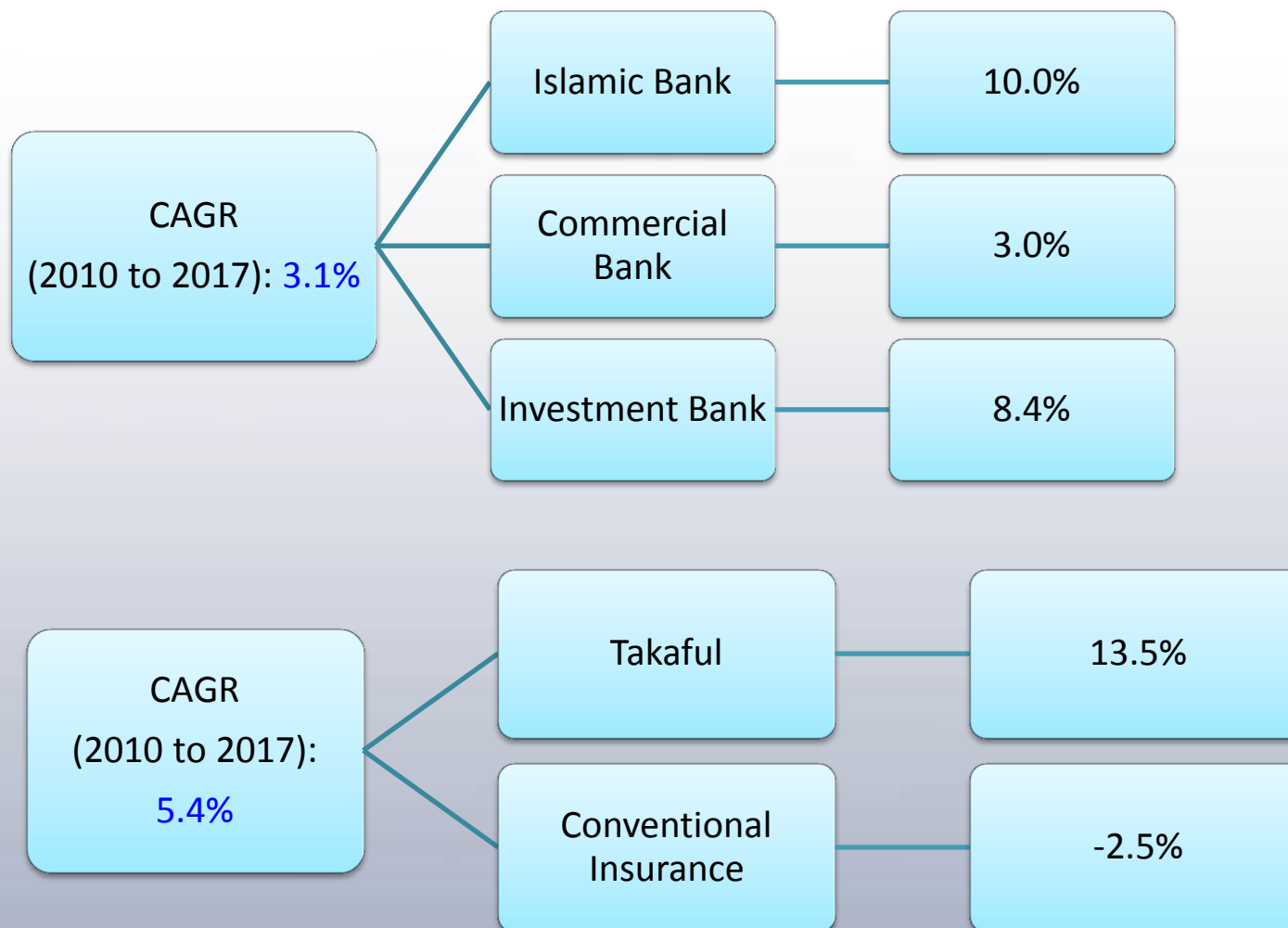
$$= \text{Stock of Financing} * [\text{Financing Rate} - \text{Reference Rate}]$$

$$\text{FISIM on Deposits}$$

$$= \text{Stock of Deposits} * [\text{Reference Rate} - \text{Profit Rate}]$$

- **Reference Rate: Midpoint** between the loan and deposit rate
 - less volatile
 - FISIM values with greater transparency

Islamic Banking & Takaful-Value added



Note : Based on Constant 2010 prices

- While estimation of VA of Islamic Banking by industry is very clear, estimation and contribution by Islamic Finance products from Islamic Windows is a challenge due to complexity of data and ability to split between the conventional and Islamic Finance products.
- Islamic Capital Market: Single enterprise offering both Islamic Financial and conventional products.
- Development of Services Producer Price Index (SPPI) for banking activities conventional as well as Islamic

Potential and Advantages of Compilation of Islamic Finance in Malaysia

1. Well regulated financial sector (Central Bank of Malaysia, Securities Commissions, Bursa Malaysia and other regulatory bodies).
2. Standardization in accounting and reporting standard in Islamic Finance
3. Shariah Advisory Council to advise Central Bank of Malaysia on shariah compliance of Islamic finance instruments and the main source of *ijtihad* to the Malaysia Islamic Finance Industry.
4. Nurturing talents and experts in Islamic Finance domestically and internationally through INCEIF and other institutions.
5. Structured financial sector development plan the development of Islam Finance Industry e.g Financial Sector Master Plan 2011-2020.
6. Administrative data sharing initiatives.

Conclusions

1. Islamic finance industry in Malaysia has become one of the most progressive and innovative in providing Islamic financial services and products.
2. The contribution of Islamic Finance in Malaysia's economy is getting more significant, in line with the expansion and innovation in the Islamic Financial Services.
3. With rapid development in Islamic banking and Islamic finance, DOSM continuously evaluating the methodology used in compiling the value added of Islamic banking, Takaful and Islamic Capital Market.
4. DOSM continuously engaging and collaborating with Islamic finance regulators such as BNM, SC, Bursa Malaysia and Labuan FSA in compiling the Islamic Finance Statistics.
5. Malaysia supports and participate in various initiatives undertaken by international statistical bodies on developing the statistical treatment of Islamic Finance in the national accounts.
6. Moving forward, a universal guidelines is needed to ensure the estimation Islamic banking and finance in the national accounts is comparable among countries.

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8. International Shari'ah Research Academy (ISRA): www.isra.my

Thank You



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