

UNLOCKING THE POTENTIAL OF ISLAMIC FINANCE IN THE PHILIPPINES: A MARKET ANALYSIS AND LANDSCAPE REPORT

June 2024

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ACKNOWLEDGMENTS

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Section 1.4 of this report, is based on the findings of the market research study titled "Islamic Finance in the Philippines: Market Appetite, and Prospects", prepared by Gabay Research Philippines Inc., Curiosity Design Research, and IFAAS under the sponsorship of ADB.

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LIST OF KEY TERMS, ABBREVIATIONS, AND ACRONYMS

| | | | |
|------------------|---|--------------------------------|--|
| AAIIBP | Al-Amanah Islamic Investment Bank of the Philippines | IMF | International Monetary Fund |
| AAOIFI | Accounting and Auditing Organisation for Islamic Financial Institutions | MSMEs | Micro, Small and Medium Enterprises |
| ADB | Asian Development Bank | NBQBs | Non-Bank Financial Institutions with Quasi-Banking Functions |
| AMRO | ASEAN+3 Macroeconomic Research Office | NCR | National Capital Region |
| ATM | Automated Teller Machines | NCMF | National Commission for Muslim Filipinos |
| BARMM | Bangsamoro Autonomous Region in Muslim Mindanao | NPL | Non-Performing Loan |
| BG | Bangsamoro Government | NSSLA | Non-Stock Savings and Loan Association |
| BSP | Bangko Sentral ng Pilipinas (Central Bank of the Philippines) | PD | Presidential Decree |
| BIR | Bureau of Internal Revenue | PDIC | Philippine Deposit Insurance Corporation |
| BNPL | Buy Now, Pay Later | PHP | Philippine Peso |
| CAGR | Compound Annual Growth Rate | PSE | Philippine Stock Exchange |
| CAR | Capital Adequacy Ratio | ROA | Return on Assets |
| DBP | Development Bank of the Philippines | Resigned | Islamic religiosity category, moderately strict |
| DOF | Department of Finance | ROE | Return on Equity |
| FDIs | Foreign Direct Investments | SME | Small and Medium Enterprise (variant of MSME) |
| GDP | Gross Domestic Product | SSB | Shariah Supervisory Board |
| IB | Islamic Bank | Skeptical Conservatives | Islamic religiosity category, most strict |
| IBU | Islamic Banking Unit | UAE | United Arab Emirates |
| IC | Insurance Commission | UKBs | Universal and Commercial Banks |
| IFSB | Islamic Financial Services Board | USD | United States Dollar |
| IIMM | Islamic Interbank Money Market | WAIR | Weighted Average Interest Rates |
| Modernist | Islamic religiosity category, least strict | | |

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EXECUTIVE SUMMARY

This report explores the potential of Islamic finance in the Philippines for domestic and international investors. By examining the country's economic health and financial sector, as well as analyzing demographics, consumer behavior, and demand, the report identifies a promising potential market for Shariah-compliant financial products and services. This is further supported and reinforced by the government's support and key milestones achieved in building an enabling Islamic finance ecosystem in the country. The executive summary consists of two main sections, providing market analysis and presenting the landscape of Islamic finance in the Philippines.

SECTION 1: MARKET ANALYSIS

The Philippines presents a compelling investment opportunity driven by a robust and fast-growing economy. This market analysis delves into the nation's vibrant economic ecosystem, highlighting its strengths and promising future. Key findings are the following:

Economic Boom: The Philippines is experiencing a significant economic upswing, with projected GDP doubling by 2030¹ and a strong job market.²

Financial Inclusion Efforts: The government is making strides towards financial inclusion, with a growing number of Filipinos utilizing banks and digital financial services.

Potential For Islamic Finance:

A study conducted by the Asian Development Bank (ADB) in the Philippines which involved surveying 450 individuals (92% of whom are Muslims) and 50 business owners and decision makers, sought to evaluate the market appetite and potential for Islamic finance in the country. The study revealed several key findings as follows:

- 70% of Filipinos surveyed feel compelled to use interest-based products due to limited access to non-interest based financial solutions, and would prefer to utilize Islamic financial services
- Majority of retail clients surveyed (78%) expressed interest in using Islamic financial services.
- The preferred types of Islamic financial services among retail clients include saving accounts, business loans, health/medical insurance, personal loans, and E-wallets.
- Majority of business owners and decision makers surveyed (88%) expressed interest in using Islamic financial services.
- The preferred types of Islamic financial services among business clients include business credit cards, vehicle insurance for business, employee benefits through smart apps, property insurance for business, and saving accounts.

Underexploited Potential: Despite progress in financial inclusion, 29% of cities and municipalities in the Philippines (472) remain unbanked at the end of 2023. Moreover, around 92.4% (110 out of 119) of the cities and municipalities in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) remain unbanked.³ This presents a substantial opportunity for investors in financial services, including Islamic finance.

Thriving MSMEs: Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Philippine economy, but they are hampered by a lack of financing with just 20% loan applications as of 2022.⁴ This creates another significant investment opportunity.

¹ S&P Global Market Intelligence, 2024, [Philippines on Track to Become One Trillion Dollar Economy by 2033](#)

² Bagong Pilipinas - Department of Finance, 2024, [Philippines: Paving the Way to a Robust Economic Future](#)

³ BSP, 2024, [Unbanked Cities and Municipalities in the Philippines](#)

⁴ BSP, 2023, [Financial Inclusion in the Philippines](#)

SECTION 2: LANDSCAPE OF ISLAMIC FINANCE IN THE PHILIPPINES

This section explores the history of Islamic finance in the Philippines and the government's initiatives to foster its growth. It highlights both the key achievements in this area and the commitment from various stakeholders, aiming to showcase Islamic finance's potential to benefit the Philippine economy and provide financial inclusion for the Muslim community. Below is a summary of notable initiatives and insights about the Islamic finance market landscape:

Islamic Finance Coordination Forum (IFCF)

- The Philippine government has made significant progress in advancing Islamic finance through the establishment of the IFCF.⁵ This forum serves as a central platform for collaboration and coordination among different government agencies to develop and promote Islamic banking and finance. The IFCF is responsible for coordinating regulatory policies, initiatives, and efforts related to Islamic banking and finance.

Changes to Laws to Accommodate Islamic Finance

- The government has enacted laws and regulations that pave the way for the establishment of local and foreign Islamic banks (IBs) and Islamic banking units (IBUs) to provide an enabling regulatory environment and level playing field wherein IBs/IBUs can operate alongside conventional banks. In addition, the laws and regulations have provisions that promote and support the growth of the Islamic finance sector.

Tax Neutrality

- To ensure a level playing field and a flourishing Islamic finance sector, the Philippine government has introduced tax neutrality laws and regulations to mandate equal tax treatment between Islamic banking transactions and equivalent conventional banking transactions. This recognizes that Islamic financial transactions are unique, and institutions engaged in these transactions will not face any taxation issues, such as double taxation.

Tax Incentives

- To encourage the growth and development of Islamic banking in the BARMM, the Bangsamoro Government has implemented tax exemptions for Islamic banks from the local tax paid to the region's local government units, such as provinces, cities, municipalities, and barangays. Islamic banks that are registered in the BARMM can benefit from this tax incentive. Additionally, the Bangsamoro Government is currently considering a new bill to exempt Islamic banks from regional tax as well.

Easing Capital Requirements for Conventional banks with IBUs

- Conventional banks in the Philippines can take advantage of the latest regulations by BSP, which allow them to establish IBUs, without additional capital requirements, within a reasonable BSP-approved transitory period not exceeding five (5) years.

⁵ The IFCF is composed of the BSP, Securities and Exchange Commission, Philippine Deposit Insurance Corporation, Insurance Commission, the Bureau of the Treasury, Bureau of Internal Revenue (BIR), Philippine Financial and Sustainability Reporting Standards Council, Department of Trade and Industry, National Commission on Muslim Filipinos (NCMF), the Asian Development Bank (ADB), Bangsamoro Government, and the Auditing and Assurance Standards Council.

Robust Regulatory & Supervisory Framework

- The Philippine regulatory and supervisory authorities have issued regulatory guidelines to support the growth of the Islamic finance sector. These guidelines set forth regulations for various aspects such as establishments of IBs and IBUs, Shariah governance framework, liquidity risk management, reporting on Islamic finance transactions, and regulated Takaful undertakings. This robust regulatory and supervisory framework creates a stable and secure environment for investment and contributes to long-term growth and profitability.

Islamic Deposit Insurance

- The Philippine Deposit Insurance Corporation has amended its charter to provide protection for Islamic deposits. This is a crucial milestone, as it enhances public trust and confidence in Islamic banking and creates a stable environment for the overall financial system.

Sovereign Sukuk & Liquidity Management

- In 2023, the Philippines government launched its first sovereign Sukuk in line with its initiative to promote the development of Islamic banking and finance in the country and diversify its global investor base. The 5.5-year Sukuk raised USD 1 billion with a profit rate of 5.045% and was listed in Nasdaq Dubai on 8 December 2023. This is a significant milestone in the development of Islamic finance in the Philippines as it marks the establishment of an active, liquid reference curve for other Philippine issuers to access the Sukuk market in the future. The sukuk issuance also provides greater opportunities for Islamic banks to effectively manage their liquidity and investment requirements and access high-quality liquid assets needed to meet regulatory requirements.

Regional Shariah Supervisory Board

- The creation of a central Shariah Supervisory Board (SBB) in 2022, in the BARMM, is a significant achievement for the development of Islamic finance in the Philippines. The SBB enhances the credibility of the industry, resulting in increased confidence on Shariah-compliance among investors and customers.

In a nutshell, investing in the Islamic finance industry in the Philippines is a unique and exciting opportunity for both domestic and foreign investors. By exploring the many available channels in the Philippines' Islamic finance industry, it is possible to achieve long-term growth and profitability. Additionally, Islamic finance can help boost halal exports and improve Philippines' trade relationships with other Muslim-majority nations, promote financial inclusion, and attract more foreign investment to the country.

INTRODUCTION

This report delves into the promising landscape of Islamic finance within the Philippines. To equip potential investors with a comprehensive understanding, the analysis begins with the initial part examining the Philippine economy's current state and growth projections. It also explores the structure of the financial sector, highlighting key figures and facts on the banking, insurance, capital market and the fintech sectors.

Subsequently, the report dives deep into the market potential for Islamic finance. By leveraging market research and other data sources, it explores demographics, existing financial habits, and the Muslim community's receptiveness to Islamic financial products. This section sheds light on the specific types of financial products and services likely to be in high demand, along with potential funding gaps that new players can address.

The last part of the report dives into the historical development and current state of Islamic finance in the Philippines. It explores the government's commitment to fostering this sector, highlighting initiatives like establishing the Philippine Amanah Bank in 1973 and amending laws and regulations to ensure an enabling regulatory environment. Key milestones in the industry's growth are also examined, including the launch of the first Islamic Banking Unit (IBU) and the government's issuance of the first sovereign Sukuk. Furthermore, the report highlights the efforts made by different government stakeholders to promote Islamic finance and future plans to advance the sector in the Philippines.

SECTION 1: MARKET ANALYSIS



Philippines is Southeast Asia’s 2nd most populated country with over 118.9 million people, giving the country a competitive edge with abundance of human resources that are young, English-speaking and well-educated.

This market analysis section delves into the vibrant economic ecosystem of the Philippines, offering valuable insights for both domestic and foreign investors. It will begin by providing a comprehensive overview of the Philippine economy, highlighting its current state and projected growth trajectory, and other crucial indicators. This will be followed by an examination of the country’s robust financial sector, detailing its size, key players, and performance across various segments like banking, insurance, capital markets, and the burgeoning fintech industry. Finally, market research data and additional insights will be leveraged to explore the promising potential for Islamic finance within the Philippines, identifying the factors that make this market ripe for significant growth. Through this comprehensive analysis, the overarching aim is to equip the reader with the knowledge and understanding necessary to make informed investment decisions in the Philippines.

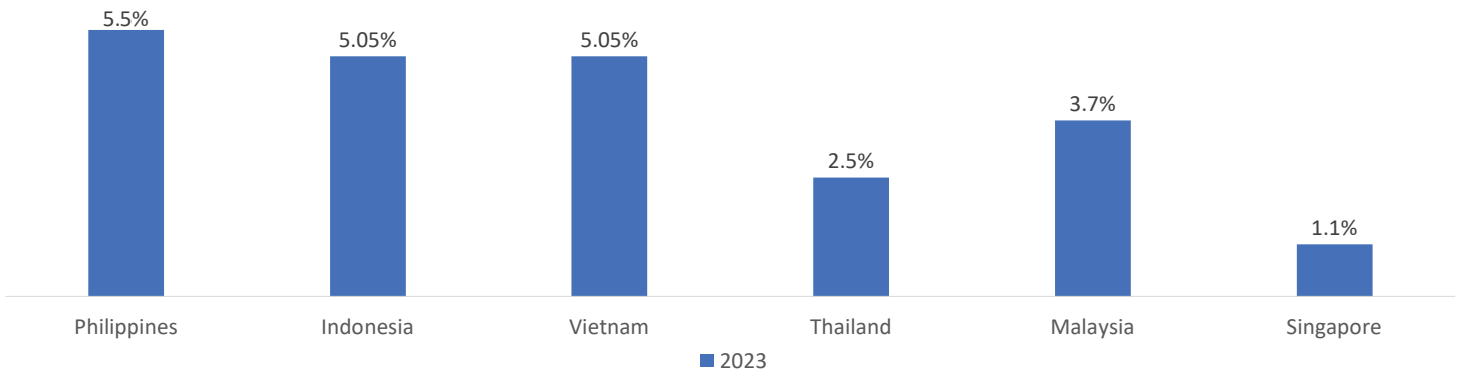
1.1. Economic Overview

The Philippines, an archipelago nation with over 7,000 islands scattered across 300,000 sq km, is Southeast Asia’s 2nd most populated country, with over 118.9 million people.⁶ The Philippines is administratively divided into 17 regions: 8 in Luzon, 3 in Visayas, and 6 in Mindanao, serving primarily for administrative purposes with a designated central city in each region housing regional offices of national government agencies.

A member of the ten-nation Association of Southeast Asian Nations (ASEAN), the Philippines contributed to the region’s economic strength, with a combined GDP of USD 3.63 trillion in 2022 representing around 3.6% of world GDP.⁷ The Philippines is second only to India in business process outsourcing and boasts a strong industrial sector, especially in electronics thanks to its workforce, which is young with median age of 26, English-speaking and well-educated, and rich natural resources like chromite, nickel, and copper.⁸

The Philippines’ economy is projected to defy the global slowdown, achieving annual growth of 4% or more in the coming years, having been Southeast Asia’s fastest growing economy in 2023 and achieving around USD 440 billion nominal GDP.

Figure 1: Real GDP Growth Rate, as of Q4 2023



Source: Official Government Statistics

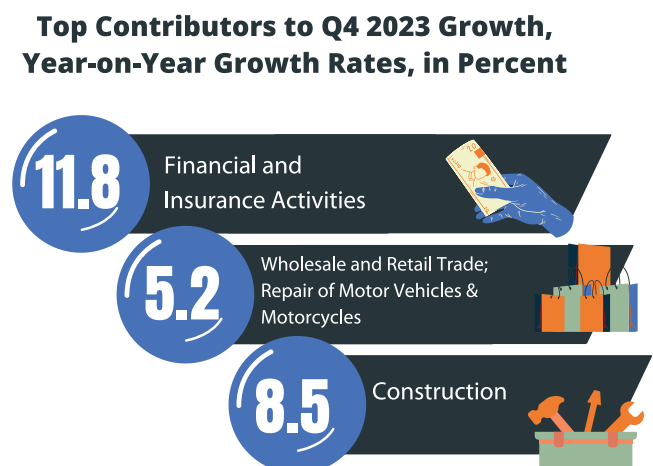
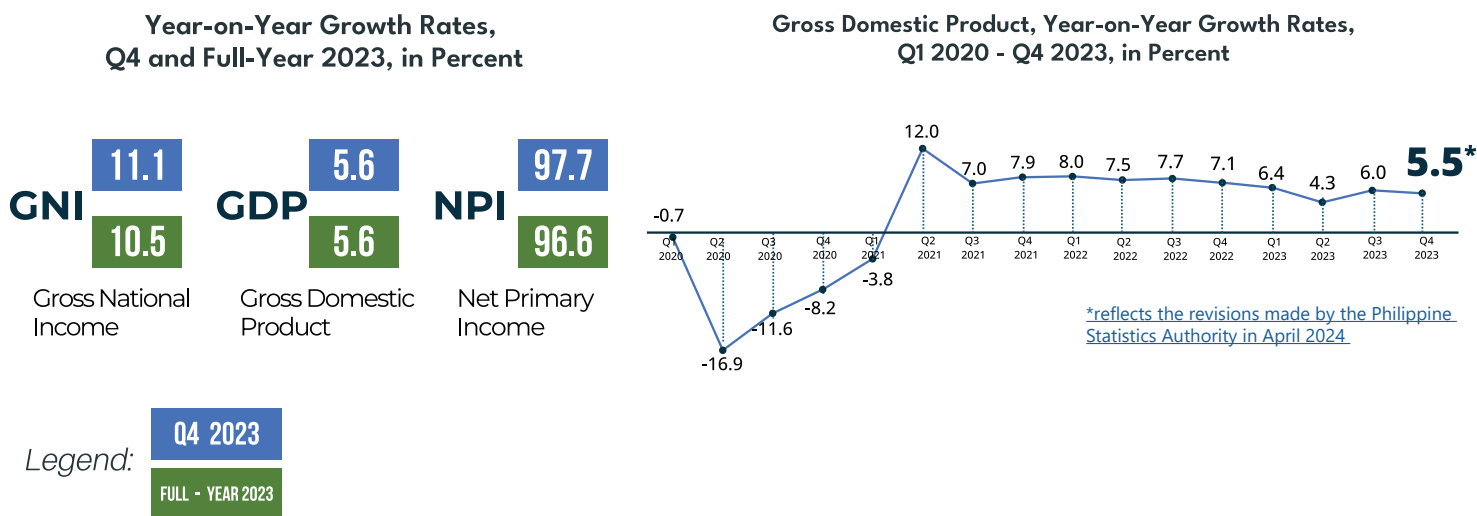
⁶ Statista, 2024, [ASEAN countries GDP 2028](#)
⁷ HSBC, 2023, [Philippines A Growing Opportunity for Foreign Investment](#)
⁸ Worldometer, 2024, [Philippines Population](#)

Lowest debt-to-GDP ratio among ASEAN-5 countries (Indonesia, Thailand, Malaysia, Vietnam and Philippines) at just 28.1% by Q3 2023.

Powered by a revival of commerce, government infrastructure projects, and a surge in digital finance, the Philippine economy in 2023 witnessed robust growth, with transportation and storage (13%), financial and insurance services (11.8%), construction (9%) leading the charge.⁹

The Philippines is experiencing a strong economic upswing. The job market is thriving, with record-low estimated unemployment reaching 3.1% in December 2023—the lowest since 2005 with projected rate of 4.0% in April 2024.¹⁰ Financial technology adoption is booming, with nearly 70% of adults having financial accounts and digital payments poised to exceed half of all transactions. Furthermore, the Philippines boasts a reasonable external debt situation, with the lowest debt-to-GDP ratio among ASEAN-5 countries (Indonesia, Thailand, Malaysia, Vietnam and Philippines) at just 28.1% by Q3 2023, whereas Indonesia, Malaysia and Thailand respectively reported 28.9%, 69% and 38.4%.¹¹

Figure 2: Selected Economic Performance Indicators for 2023



Source: [Philippine Statistics Authority, 2024, Economic Performance of Philippines](#)

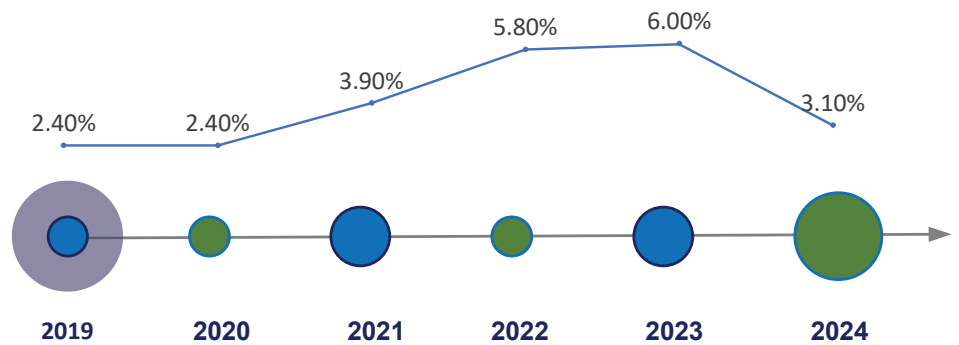
⁹ [Philippine Statistics Authority, 2023, Database – Economic Accounts](#)

¹⁰ [Philippine Statistics Authority, 2024, Labor Force Survey](#)

¹¹ [Bagong Pilipinas - Department of Finance, 2024, Philippines: Paving the Way to a Robust Economic Future](#)

As depicted in the graph below, inflation has remained manageable in the Philippines over the last few years, reaching around 3% in early 2024 in line with the BSP target range of 2–4%.¹² The previous year’s increase was attributed to factors like transportation costs, higher electricity rates, and rising food prices due to strong El Nino episode, a natural phenomenon that exhibits irregular quasi-periodic variation in winds and sea surface temperatures over the tropical Pacific Ocean. While potential risks like El Niño could put upward pressure on inflation, government measures aim to counter these challenges.¹³

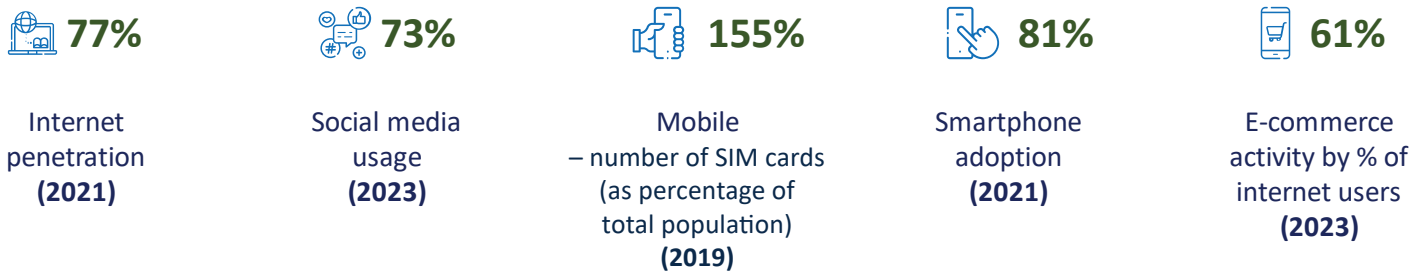
Figure 3: Inflation Trend, 2019 – early 2024



Source: [Philippine Statistics Authority, 2024, Consumer Price Index and Inflation Rate](#)

The Philippines boasts high digital connectivity in early 2021, with around 77% of the population having internet access and with nearly the same proportion using social media in early 2023.¹⁴

Figure 4: Selected Digitalization Trends



Source: [Bangko Sentral ng Pilipinas, 2023, Financial Inclusion Dashboard – 2023](#)

MSMEs form:

- 99.5% of registered establishments
- 62.4% of total employment
- 36% of the country’s GDP
- 25% of total exports

The Philippines’ economic engine is fueled by MSMEs. These ubiquitous businesses, forming the vast majority (99.5%) of registered establishments, are the backbone of the nation’s workforce. Contributing a staggering 62.4% of total employment, MSMEs also drive innovation and trade, generating 36% of the country’s GDP and a significant 25% of total exports.¹⁵

¹² [Philippine Statistics Authority, 2024, Consumer Price Index and Inflation Rate](#)

¹³ [Bangko Sentral ng Pilipinas, Pilipinas, 2024, Monetary Policy Report – 2024](#)

¹⁴ [Bangko Sentral ng Pilipinas, 2023, Financial Inclusion Dashboard – 2023](#)

¹⁵ [Socioeconomic Research Portal for the Philippines, 2024, Micro, Small, and Medium Enterprises](#)

1.2 Macroeconomic Outlook Forecast

GDP doubling from USD 400 billion in 2022 to USD 800 billion by 2030 and reaching a staggering USD 1 trillion by 2033.

GDP per person has skyrocketed from under USD 1,000 in 2000 to USD 3,500 in 2022, and is expected to surpass USD 6,000 by 2030.

Forecasts predict a rise in GDP growth rate from 5.5% in 2023 to 5.8% in 2024.

The Philippines is poised for an economic boom. With projected GDP doubling from USD 400 billion in 2022 to USD 800 billion by 2030 and reaching a staggering USD 1 trillion by 2033, the Philippines is set to become a major player in the global market. This growth is fueled by a surge in domestic spending, powered by rising urban incomes. This trajectory will solidify the Philippines' position as a leading emerging market in the Asia-Pacific region and globally. Moreover, the average annual GDP per person has skyrocketed from under USD 1,000 in 2000 to USD 3,500 in 2022, and is expected to surpass USD 6,000 by 2030, reflecting a significant rise in living standards.¹⁶

The Philippines, aiming to become an upper-middle-income nation by 2024 as envisioned by President Ferdinand Marcos Jr., is experiencing a strong economic upswing. Forecasts predict a rise in GDP growth rate from 5.5% in 2023 to 5.8% in 2024. This momentum is fueled by a robust labor market, stable remittances from overseas Filipinos (8 million), and a thriving services sector.¹⁷ The tourism industry's revival, coupled with the consistent performance of information technology and business process outsourcing, is expected to create jobs, raise incomes, and further benefit consumption and tourism-related businesses.

The Philippines is undergoing a legislative transformation to attract foreign investment and become a more attractive business destination. Landmark reforms include the Public Services Act, allowing full foreign ownership in sectors like airports and telecommunications, and amendments to the implementing rules and regulations of the Renewable Energy Act, allowing foreign ownership of renewable energy projects. Similarly, the Retail Trade Liberalization Act simplifies entry for foreign retailers. The Foreign Investment Act opens doors across all business sizes, from micro-enterprises to large corporations. Other government initiatives are aimed to foster competition in digital services, expand internet access, and promote financial inclusion through digitalization.

The recent government's proactive measures have pushed inflation down from 6% in 2023 to 3.1% in 2024, aligning well with the BSP target inflation rate within the 2–4% range. This downward trend is expected to continue, with a target range of 3.0% ± 1.0 percentage points set for 2024–2028,¹⁸ which is likely to stimulate consumer spending and investments in the coming years.

By implementing various government programs and projects aligned with the [Philippine Development Plan \(2023-2028\)](#) and fostering a business-friendly environment, the Philippines can confidently pave the way for a robust economic future, empowered by a confluence of favorable conditions. Buoyed by optimism from key multilateral institutions such as ADB and World Bank, the Philippines is forecasted to be a top performer in Southeast Asia's economic growth race in 2024 (as shown on Figure 5). Underscoring this economic confidence are the Philippines' investment-grade credit ratings. In November 2023, both [S&P Global](#) and [Fitch Ratings](#) reaffirmed the country's strong position with 'BBB+' and 'triple-B' respectively, both representing Stable Outlook.

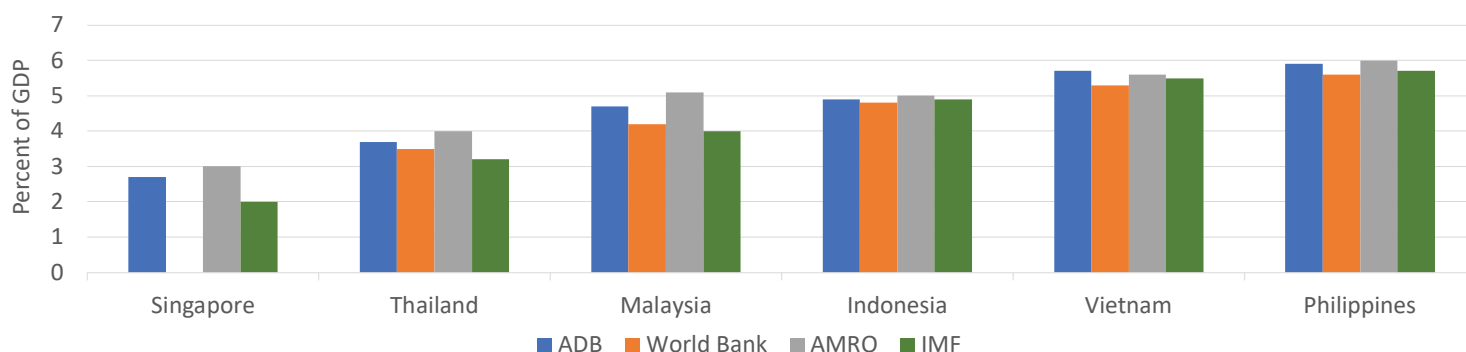
Government's proactive measures pushed inflation down from 6% in 2023 to 3.1% in early 2024, aligning well with the BSP target inflation rate within the 2–4% range.

¹⁶ [S&P Global Market Intelligence, 2024, Philippines on Track to Become One Trillion Dollar Economy by 2033](#)

¹⁷ [HSBC Insights, 2023, The Philippines: a growing opportunity for foreign investment](#)

¹⁸ [Bangko Sentral ng Pilipinas, 2024, Monetary Policy Report – 2024](#)

Figure 5: Economic Outlook Estimates for Selected Southeast Asian Countries



Source: ADB, World Bank, Macroeconomic Research Office (AMRO), and International Monetary Fund (IMF)
 Note: World Bank has no available economic outlook estimate for Singapore

1.3. Financial Sector of the Philippines

1.3.1. Banking Sector

The Philippines is making strides towards financial inclusion under the leadership of BSP. The number of Basic Deposit Accounts (BDAs¹⁹) surged to 22 million in 2023, and formal bank account ownership skyrocketed from 29% in 2019 to 56% in 2021. This progress highlights the growing importance of banks within the Philippine financial system, which accounted for over 83.3% of total financial resources as of December 2023.²⁰

Philippine banks are experiencing a growth spurt with their assets surge by 9.2% year-on-year to a hefty PHP 25.2 trillion (USD 453 billion²¹) in December 2023, surpassing the previous year's growth of 7.8%. Notably, loans fueled a significant portion of this growth, accounting for over half of all assets (53.3%) and were primarily funded by deposits. By December 2023, banking sector reported a net profit of PHP 356.5 billion (USD 6 billion) with Return on Asset (RoA) and Return on Equity (RoE) ratios of 1.5% and 12.3% respectively. In addition to this growth, loan quality remains high, with a low non-performing loan (NPL) ratio of 3.2% and a robust NPL coverage ratio equaling 101.7% as of December 2023.²²

Assets surge by 9.2% year-on-year to a hefty PHP 25.2 trillion (USD 453 billion) in December 2023.

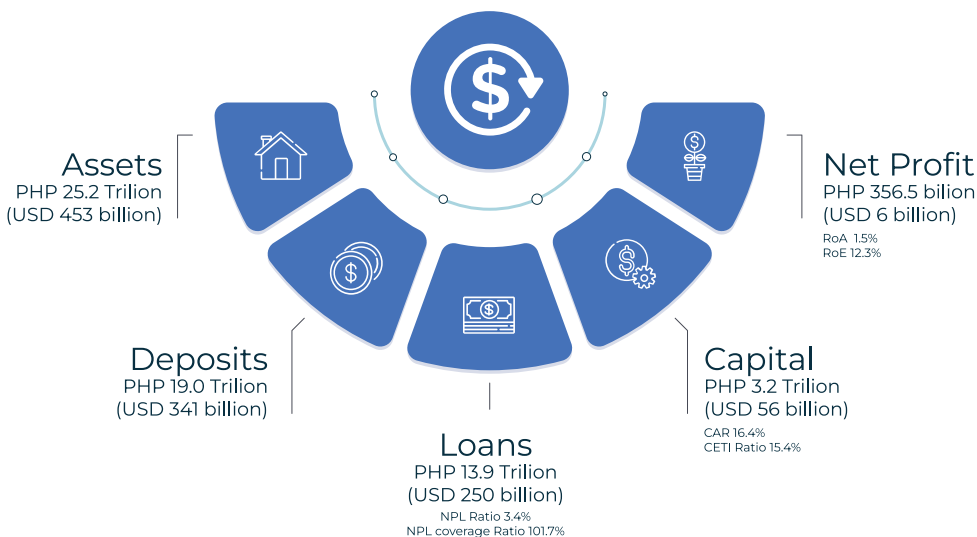
¹⁹ A basic deposit account, whether interest- or non-interest-bearing, is designed to facilitate financial inclusion by providing Filipinos, particularly the unserved and underserved, with the ability to receive and make payments, store value, and enjoy ease, accessibility, convenience, and reasonable costs, featuring simplified KYC requirements and no dormancy charges.

²⁰ [Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 2nd Semester of 2023](#)

²¹ USD calculations are based on corresponding monthly or yearly official average exchange rates unless otherwise stated

²² [Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 2nd Semester of 2023](#)

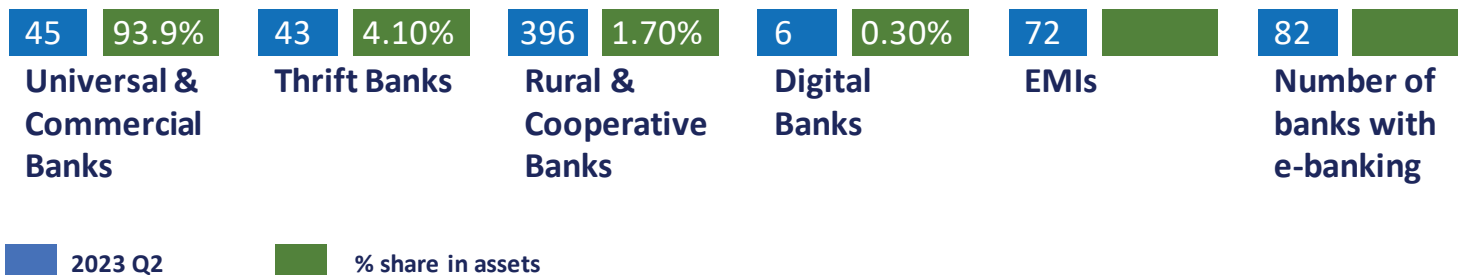
Figure 6: Selected Banking Statistics, as of Q4 2023



Source: Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 2nd Semester of 2023

Universal and commercial banks (UKBs) dominated the landscape, holding a commanding 93.9% share of total assets.²³ Financial services are reasonably available across the Philippines, with existing banks boasting a wide network of 13,335 offices with 490 head offices and 12,845 other offices. Bank offices remained highly concentrated in Luzon, with the National Capital Region (NCR) having the greatest number of bank offices (3,808, 28.7%), followed by CALABARZON (1,919, 14.4%), and Central Luzon (1,380, 10.4%). The BARMM has the fewest bank offices (42, 0.3%) which represents a significant untapped potential for Islamic banking and finance providers. Additionally, 23,307 ATMs conveniently located nationwide provide easy access to these services.²⁴

Figure 7: Number and Market Share of Banking Services Providers



Source: Bangko Sentral ng Pilipinas, 2023, Financial Inclusion Dashboard as of 2nd quarter of 2023

²³ Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 1st Semester of 2023

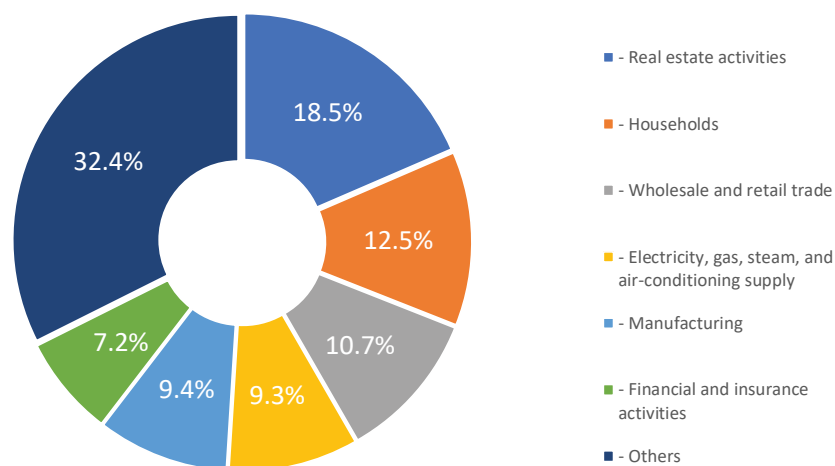
²⁴ Bangko Sentral ng Pilipinas, 2023, Financial Inclusion Dashboard – 2023

The Philippines’ domestic economy fueled a positive credit climate in recent years. Banks saw a significant rise in loans, with a year-on-year increase of 9.8% to PHP 13.9 trillion (USD 250 billion) as of December 2023. The expansion was mostly driven by loans granted to households (12.5% of total loans) which showed 24.6% increase as of December 2023. Also, the lending growth was supported by a broad range of productive sectors: real estate (18.5%); wholesale and retail trade (10.7%); electricity, gas, steam, and air conditioning supply (9.3%); as well as financial and insurance activities (7.2%). Collectively, loans to households and these four productive sectors accounted for 58.2% of the total loans.²⁵ BSP statistics also show that banks allocated PHP 502.2 billion (USD 9 million) in credit to MSMEs by December 2023.²⁶

In December 2023, lending rates of UKBs rose further due to the BSP maintaining high policy rates, with the overall mean and median weighted average interest rates (WAIR) reaching 8.4% and 7.2%, respectively, surpassing previous figures from 2020 and 2022.²⁷ Additionally, all loan types experienced an increase in mean and median WAIR compared to the previous year, with agri-agra loans²⁸ and loans to private corporations having the lowest rates, while microenterprise loans and loans to individuals had the highest rates.

In December 2023, overall mean and median weighted average interest rates (WAIR) reached 8.4% and 7.2%.

Figure 8: Loan Categories (as of Q4 2023)



Source: [Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 1st Semester of 2023](#)

²⁵ [Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 1st Semester of 2023](#)

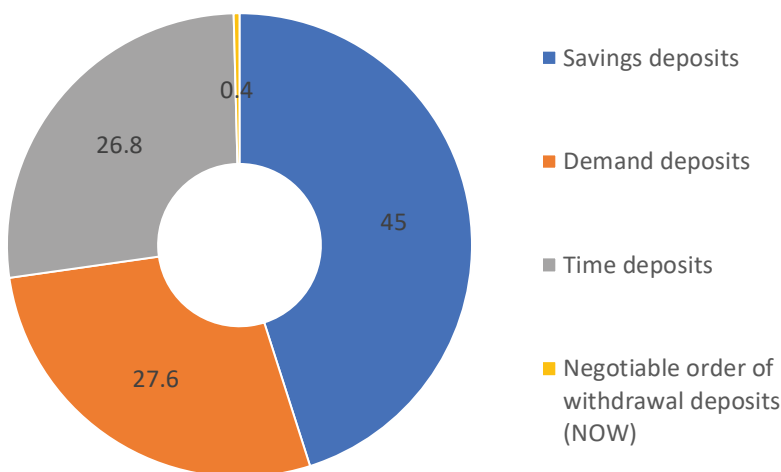
²⁶ [Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 1st Semester of 2023](#)

²⁷ [Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 1st Semester of 2023](#)

²⁸ Agri-agra loans refer to loans granted to agrarian reform beneficiaries for agricultural and agrarian reform purposes in accordance with the Agri Agra Credit Reform Act of 2009. Additionally, recently issued Republic Act 11901, or the Agriculture, Fisheries and Rural Development Financing Enhancement Act of 2022 imposes a new credit quota or a minimum mandatory agricultural and fisheries financing requirement of at least 25% of total loanable funds on all banking institutions, whether government or private, except newly established banks, for a period of five years from the date of commencement of the banks’ operations.

Deposits reached a hefty PHP 19 trillion (USD 341 billion) by December 2023, reflecting a 7.1% year-on-year increase. This trend suggests an increasing number of Filipinos are placing their money in banks. Around 83.9% of total deposits were in PHP, with resident individuals owning 47.1% and resident private corporations holding 32.9%. Savings deposits comprised majority of deposits consisting of 45% of total deposits, with demand deposits and time deposits representing 27.6% and 26.8% of the total banking deposits.²⁹

Figure 9: Deposit Categories, as of Q4 2023

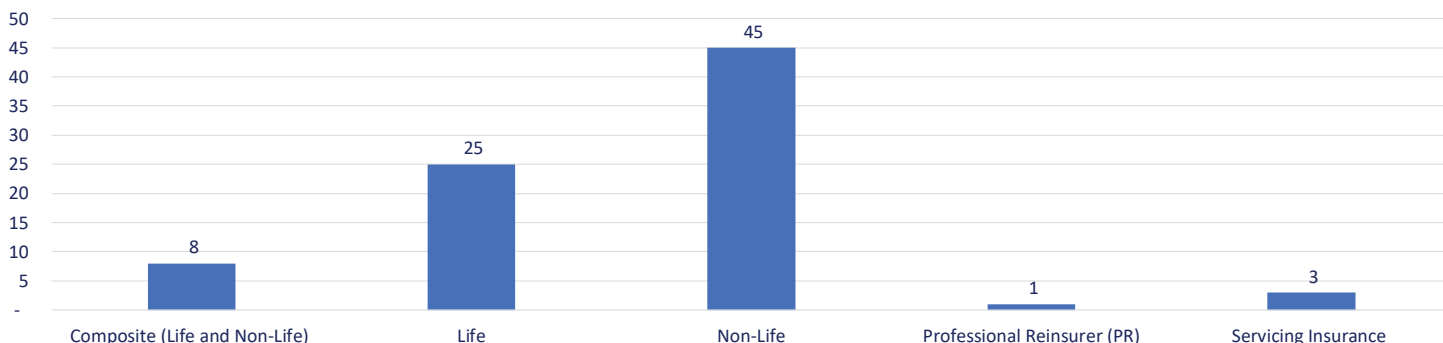


Source: [Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 1st Semester of 2023](#)

1.3.3 Insurance Market

A total of 25 life insurance and 45 non-life insurance service providers are operating in the country as of April 2024.³⁰ According to the latest available statistics, the Philippine insurance industry boasted total assets of PHP 1.96 trillion (USD 35 billion) in 2022, with life insurers holding the dominant share (86%) compared to non-life insurers (13%).

Figure 10: Insurance Sector Market Players, as of April 2024



Source: [Insurance Commission, 2024, Key Data](#)

²⁹ [Bangko Sentral ng Pilipinas, 2023, Report on the Philippine Financial System – 1st Semester of 2023](#)

³⁰ [Insurance Commission, 2024, Key Data](#)

1.3.4 Capital Market

The Philippine capital market is exhibiting positive trends, suggesting a maturing and dynamic landscape with the total market capitalization PHP 16.5 trillion (USD 296 billion).

Figure 11: Equity Market Statistics (as of 2022)

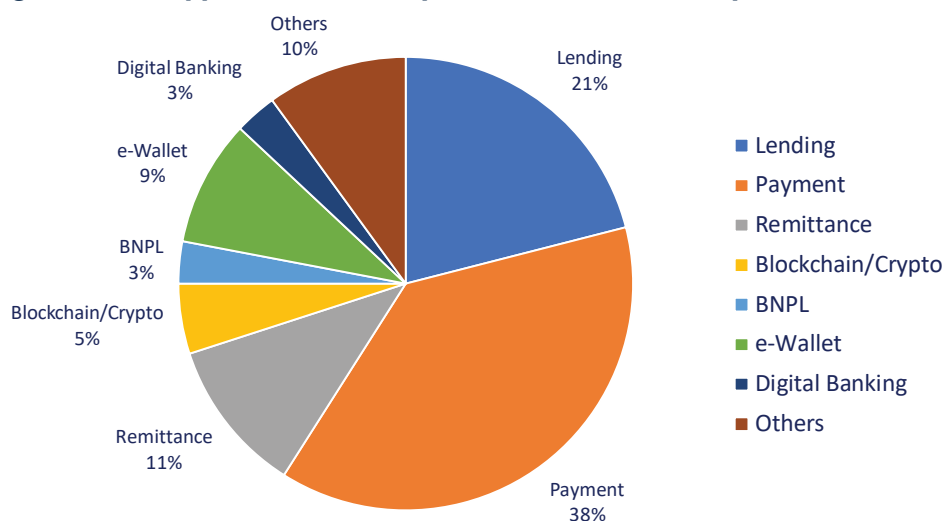
| Index | Market capitalization (PHP millions) | Trading value (PHP millions) | Trading volume (millions of shares) | Number of listed companies | Number of IPOs |
|-------|--------------------------------------|------------------------------|-------------------------------------|----------------------------|----------------|
| | 16,528,000 | 1,783,055 | 328,628 | 276 | 6 |

Source: [Asian Development Bank, 2023, Asia SME Monitor 2023](#)

1.3.5 FinTech

The Philippines is experiencing a surge in digital financial services. By the second quarter of 2023, the number of digital banks had jumped from 4 to 6, while the number of banks offering e-banking services rose from 79 to 82.³¹ Furthermore, a report published in August 2023 highlights the dominance of payment, remittance, and e-wallet companies within the Philippine fintech startup scene. These sectors boast 107, 31, and 27 companies, respectively, collectively accounting for 58% of all Filipino fintech startups. While payments and e-wallets lead the way, lending and buy now, pay later (BNPL) services are also gaining traction, representing 24% of the fintech landscape with 69 companies. Other emerging areas include blockchain and cryptocurrency (5%), WealthTech (3%), and InsurTech (3%).³²

Figure 12: Philippines FinTech Map 2023 (Number of Companies %)



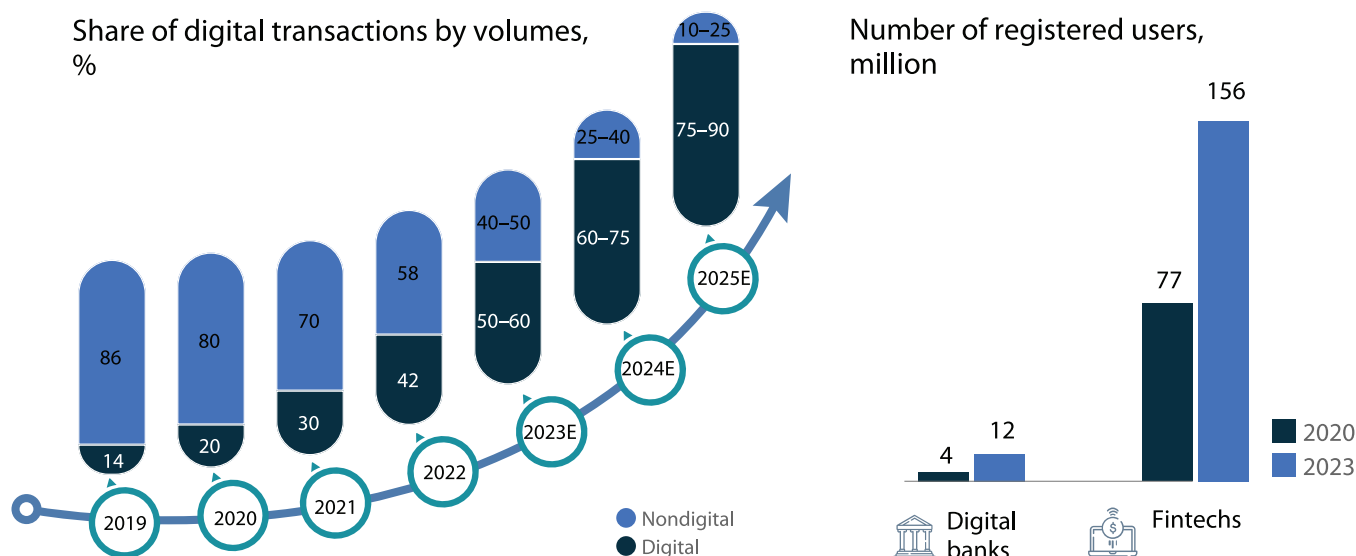
Source: [FinTech Philippines Report, 2023, Fintech Map Philippines 2023: Unpacking the Industry's Growth](#)

³¹ [Bangko Sentral ng Pilipinas, 2023, Financial Inclusion Dashboard – 2023](#)

³² [FinTech Philippines Report, 2023, Fintech Map Philippines 2023: Unpacking the Industry's Growth](#)

BSP data reveals a skyrocketing demand for digital financial services. The number of registered users with digital banks and fintech companies more than doubled in 2023 compared to 2020, reflecting Filipinos' growing embrace of digital finance.³³

Figure 13: Demand for Digital Financial Services (as of 2023)



Source: McKinsey, 2024, *The Philippines economy in 2024: Stronger for longer?*

As of July 2023, six applications have been submitted to the BSP for participation in the sandbox program.

Aligned with the goal of fostering innovation and creating an inclusive digital financial ecosystem, the BSP established the Regulatory Sandbox Framework.³⁴ This framework mirrors a key initiative outlined in the [National Strategy for Financial Inclusion \(2022-2028\)](#) and allows both supervised financial institutions and non-traditional players to test innovative financial products and services in a controlled environment. As of July 2023, six applications have been submitted to the BSP for participation in the sandbox program.³⁵

1.4 Market Potential for Islamic Finance in the Philippines

This part of the report delves into the factors that demonstrate the potential for Islamic finance in the Philippines. It examines the country's demographics and identifies the regions of high concentration of Muslim population. Furthermore, it highlights the findings of a comprehensive market study conducted by the Asian Development Bank in 2023, which sheds light on the public's awareness and interest in Islamic finance, as well as their preferences for various types of Islamic financial products, among other things.

1.4.1 Demographics

The estimated population of the Philippines in 2024 is approximately 119.1 million, with a growth rate of around 1.53% compared to the previous year and a median age of 26 years.³⁶ The population is predominantly Christian, with Islam being the second most followed religion, comprising 6.4% of the population or approximately

³³ McKinsey, 2024, *The Philippines economy in 2024: Stronger for longer?*

³⁴ Circular No. 1153, September 2022)

³⁵ National Economic and Development Authority, 2023, *Philippine Development Report 2023*

³⁶ HSBC, 2023, *Philippines A Growing Opportunity for Foreign Investment*

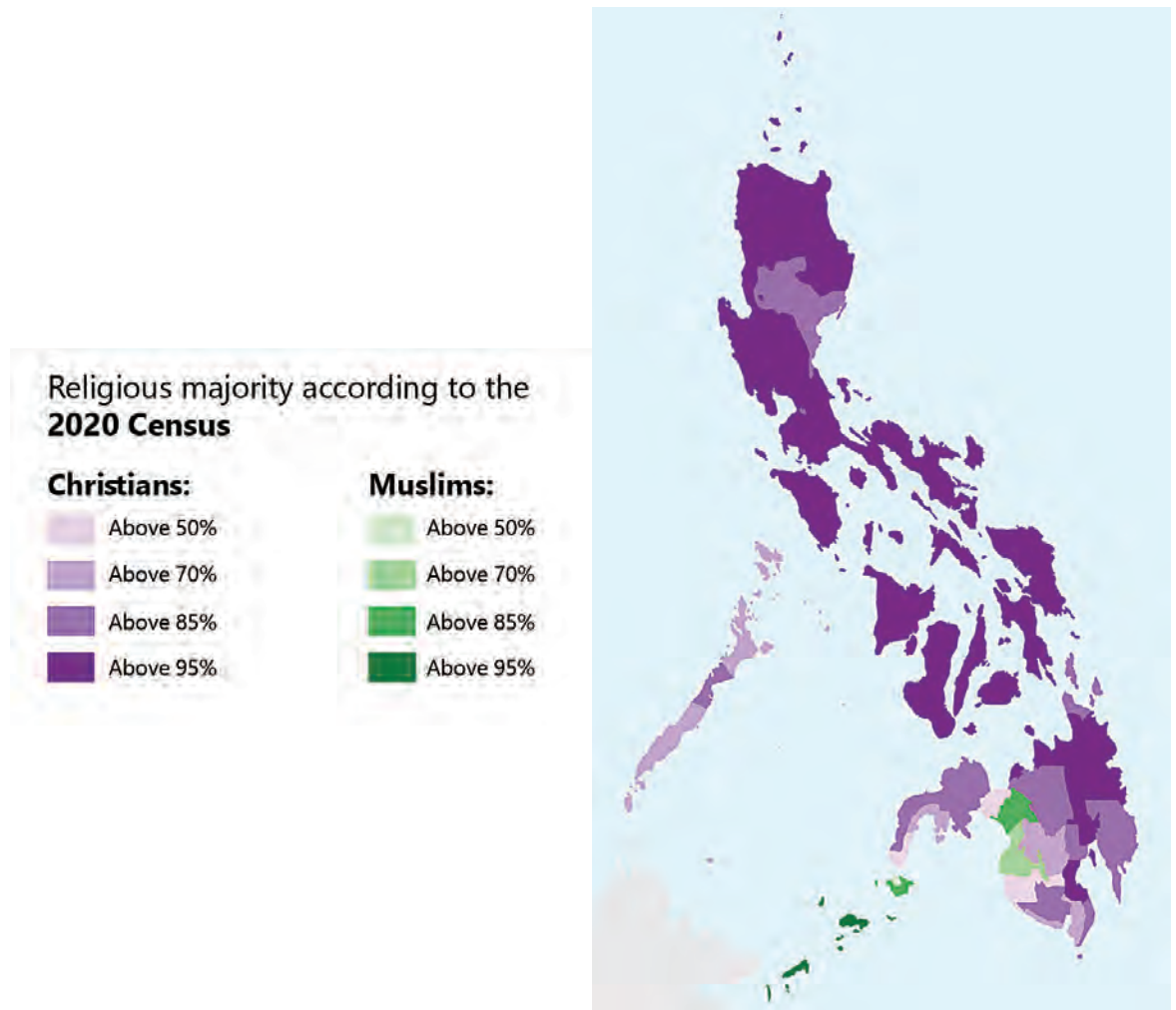
7 million individuals in 2020.³⁷ However, the National Commission for Muslim Filipinos (NCMF) estimates 10% to 11% in 2022.³⁸

The majority of the Muslim population is concentrated in the Mindanao region, particularly within the BARMM, which includes the provinces of Basilan (excluding Isabela City), Lanao del Sur, Maguindanao, Sulu, and Tawi-Tawi. The BARMM has a predominantly Muslim population, constituting 91% of its approximately 4.9 million inhabitants, making it the area with the highest concentration of Muslims in the country.

Within the BARMM, Maguindanao (including Cotabato City) has the largest Muslim population, followed by Lanao del Sur, Sulu, Tawi-Tawi, and Zamboanga del Sur. Maguindanao alone accounts for 19.37% of the Philippines’ Muslim population, while Lanao del Sur and Sulu contribute 17.02% and 13.77%, respectively.

The map below shows the distribution and concentration of Muslims within the Philippines.

Figure 14: Mapping of Religions in the Philippines



³⁷ Philippine Statistics Authority, 2020, Religious Affiliation in the Philippines)

³⁸ Office of International Religious Freedom, 2022, Report on International Religious Freedom: Philippines)

A study conducted by the Asian Development Bank (ADB) investigated the potential of Islamic finance in the Philippines by studying a group of 450 individuals and 50 business owners and decision-makers. Of the group, 92% of the individuals and 80% of business owners and decision-makers were Muslim. It featured a mixture of MSMEs and corporations from various industries. The study, which was conducted from September to November 2023, has been used as the basis for the market potential analysis in this report.

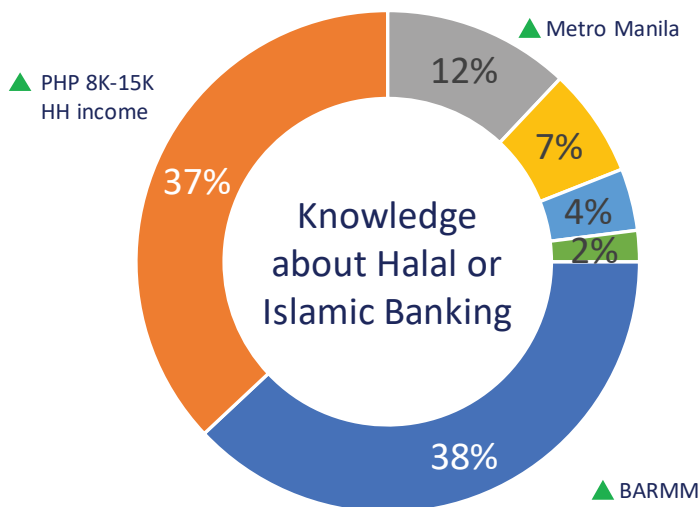
Muslim respondents were divided by level of religiosity ranging from Modernist to Resigned to Skeptical Conservatives, ranging from liberal to conservative respectively. Further details on the sample group are included in the appendices (Appendix 2).

1.4.2 Analysis for Retail Client Segment

To assess the public’s comprehension of Islamic financial services, the study conducted surveys that inquired about their familiarity with Islamic banking and finance, their attitudes toward interest-based products, their current utilization of financial services, their interest in Islamic finance, and their preferred types of Islamic financial products. The analysis of data is displayed below:

A. Awareness of Islamic Banking and Finance

Figure 15: Knowledge about Halal or Islamic Banking among Retail Clients



- I heard about Islamic banking but don't know what it is
- I never heard about Islamic banking
- I have limited knowledge of Islamic banking
- It is not a topic of interest to me
- I have some knowledge about Islamic banking
- I know everything about Islamic banking

A significant portion of the respondents were aware of Islamic banking, with 38% having heard of it but lacking understanding, and 37% completely unaware of it; addressing this knowledge gap is crucial for long-term adoption.

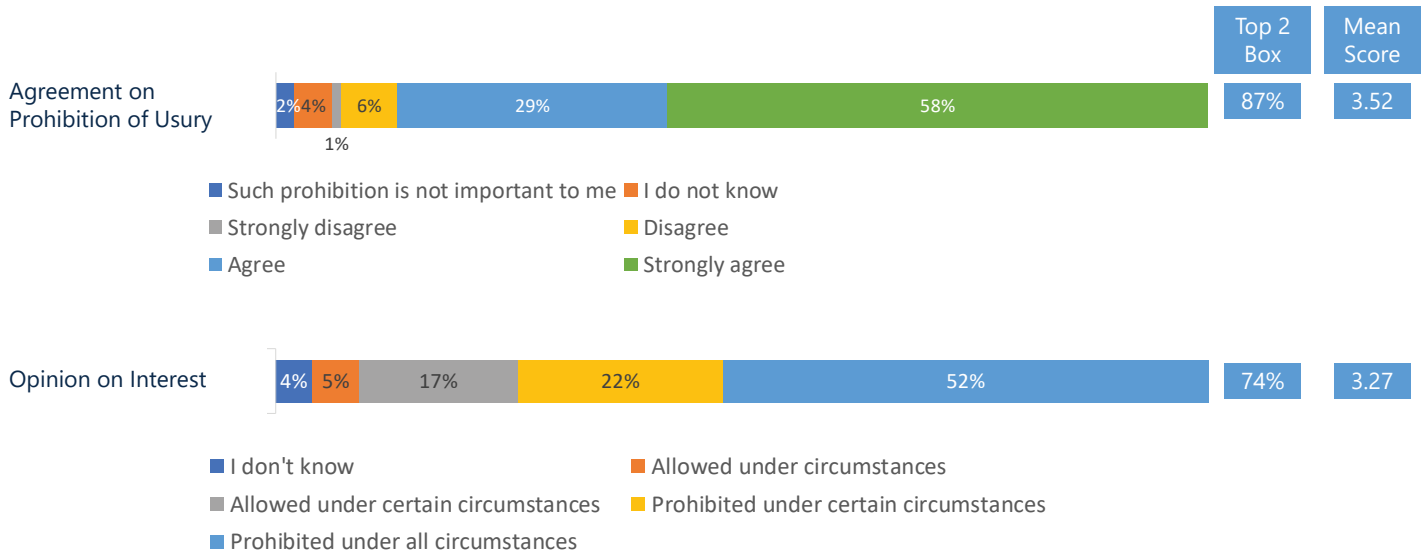
At the inception of the ADB study, a significant portion of the respondents were aware of Islamic banking, with 38% having heard of it but lacking understanding, and 37% completely unaware of it. Only a minority claim to have substantial knowledge, while some consider the topic irrelevant. Demographic disparities are evident, as a greater percentage of BARMM retail clients are familiar with Islamic banking but lack clarity on its concept, whereas lower-income households are more likely to be uninformed about it. In Metro Manila, a small but notable segment of retail clients possesses some knowledge of Islamic banking. Addressing this knowledge gap is crucial for long-term adoption. Market education should be tailored to be relatable yet innovative, surpassing the familiarity of conventional banking experiences.

B. Attitudes Toward Interest & Interest-Based Products

Figure 16: Reasons for Using Interest-Based Products among Retail Clients



Figure 17: Agreement on Prohibition of Usury and Opinion on Interest, Retail Clients



Top 2 Box - % sum of the top two points in the scale
 Mean - sum of all points divided by the number of responses

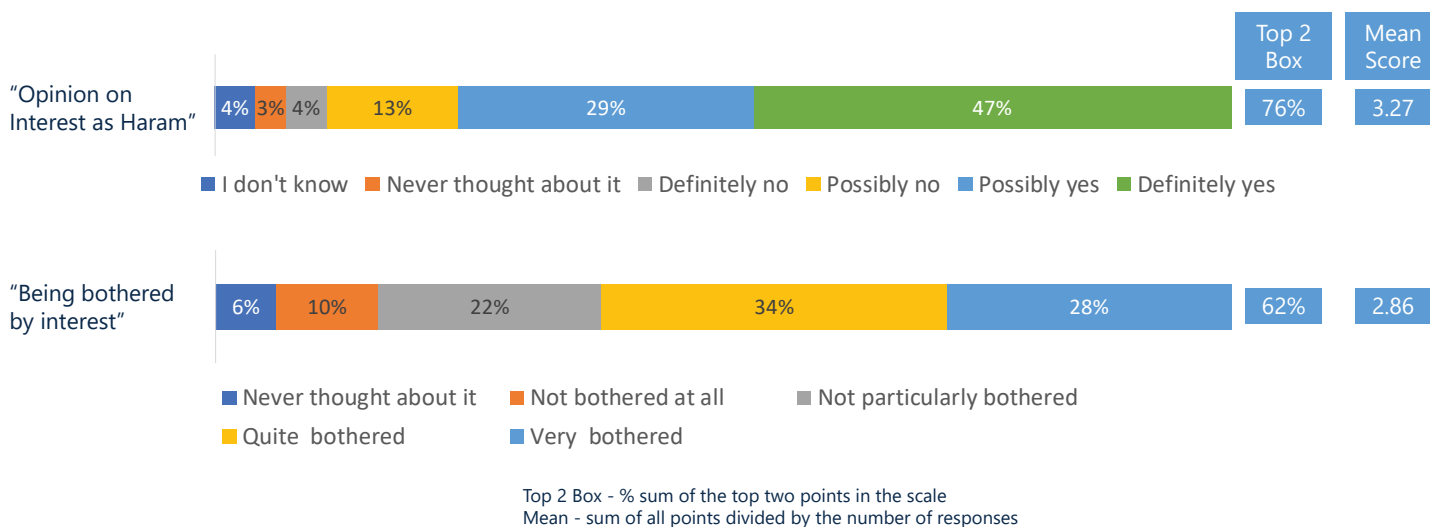
In the Philippines, the use of interest-based products is driven by necessity rather than disregard for religious beliefs.

Overall, only 30% of respondents completely avoid interest-based products due to their Haram status, which corresponds to the same proportion of individuals not using any financial service. In the Philippines, the use of interest-based products is driven by necessity rather than disregard for religious beliefs. 32% of respondents resort to these products only when left with no choice, and 24% believe they are essential for their livelihood. This necessity is more pronounced among individuals in Mindanao and BARMM.

Usury, or the charging of interest, is considered prohibited by 87% of respondents, with 74% personally viewing interest as something that should be prohibited.

Qualitative research findings indicate a nuanced understanding that, while interest-based products are Haram, many feel compelled to use them due to limited access to non-interest-based banking options. Some rationalize their actions by distinguishing between receiving and providing loans with interest, or seek forgiveness from Allah, justifying their actions as necessary for their family’s well-being. Usury, or the charging of interest, is considered prohibited in the Holy Quran and The Last Testament by 87% of the respondents, with 74% personally viewing interest as something that should be prohibited.

Figure 18: Opinion on Interest as Haram and Being Bothered by Interest, Retail Clients



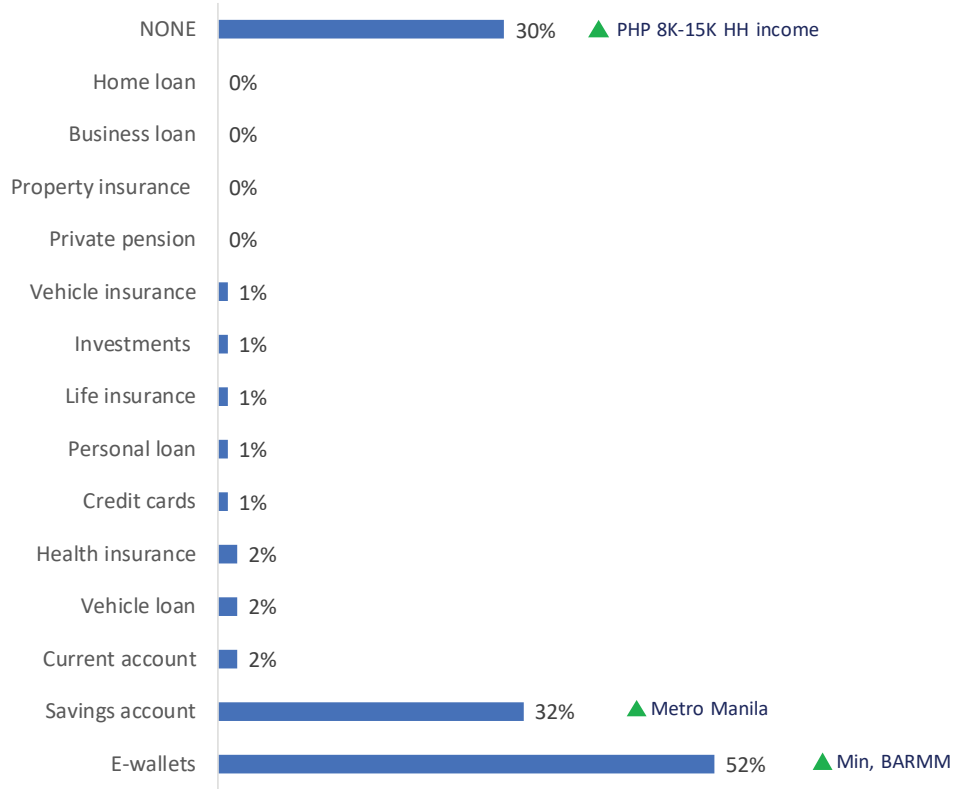
The reluctance to use interest-based products is counterbalanced by the need for financial services and the lack of viable alternatives, presenting a unique opportunity for Islamic banks to offer Shariah compliant products.

Moreover, 76% of retail client respondents believe that bank interest is Haram, with 62% explicitly expressing discomfort with interest charges. These figures collectively suggest that interest-bearing products from conventional banks conflict with personal beliefs. However, the reluctance to use interest-based products is counterbalanced by the need for financial services and the lack of viable alternatives, presenting a unique opportunity for Islamic banks to offer Shariah compliant products.

Based on these findings, it is apparent that many Filipinos, especially those who are of the Muslim faith, would prefer to utilize Islamic financial services, which presents a great opportunity for potential investors looking to offer such services in the Philippines.

C. Type of Financial Services Availed by Retail Clients

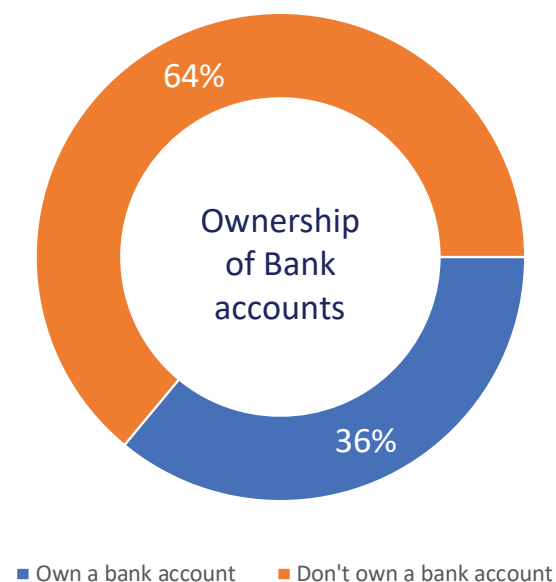
Figure 19: Financial Services Currently Availed by Retail Clients



Currently, 70% of the respondents utilize financial services, with a significant portion residing in Metro Manila, Mindanao, or the BARMM. The remaining 30% who do not engage with any financial service typically belong to households with lower monthly incomes ranging from PHP 8,000 to PHP 15,000. E-wallets (52%) and savings accounts (32%) are the most popular services due to their accessibility and versatility in transactions. It is important to note how some individuals stated concerns regarding the security of their deposits in a bank, as well as insecurities arising from infrequent and small deposits.

D. Ownership of bank accounts among retail clients

Figure 20: Ownership of Bank Account among Retail Clients



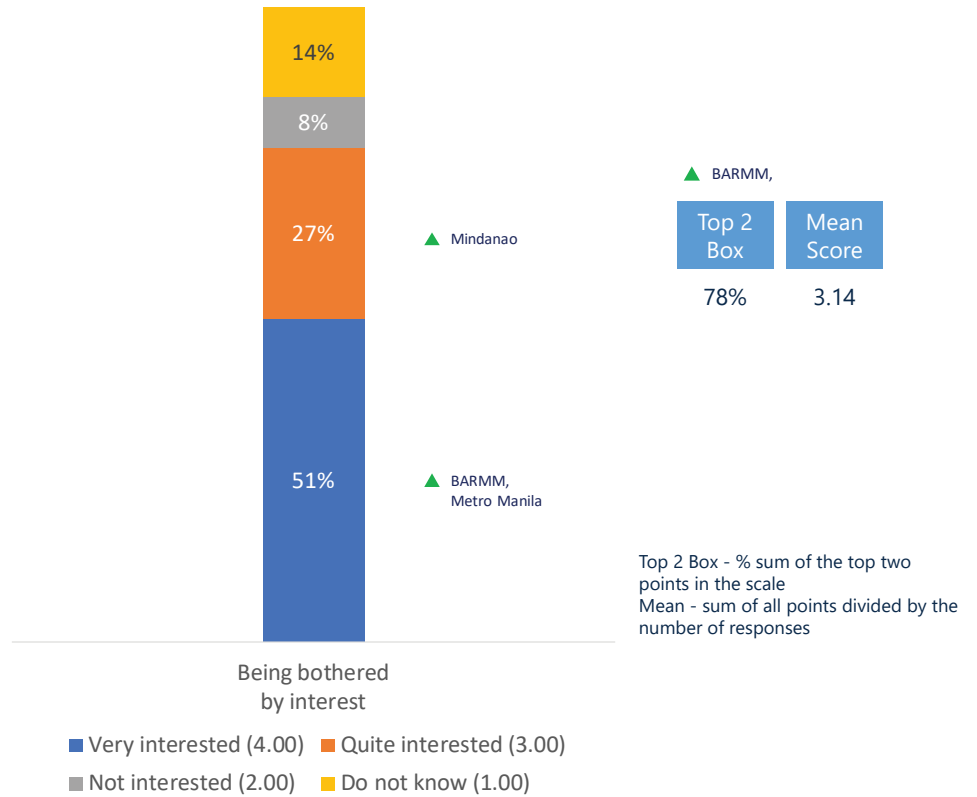
36% of respondents owning a bank account signifies the extent to which Muslims in the Philippines are underserved compared to the general population and the opportunity available for potential investors in Islamic finance.

Although savings accounts are widely used, only 36% of the respondents possess a bank account, often limited to a single account at their preferred bank. The remaining 64% who are unbanked cite several reasons: 37% believe they do not need a bank account, 27% lack the necessary requirements for account opening, 16% find the costs prohibitive, and 12% do not have the budget to open an account. These factors act as obstacles for both existing and potential new banks, pushing consumers towards alternative financial services. Considering the bank account ownership rate across the Philippines was 56% in 2021,³⁹ 36% of respondents owning a bank account signifies the extent to which Muslims in the Philippines are underserved compared to the general population and the opportunity available for potential investors in Islamic finance.

³⁹ BSP, 2021, Financial Inclusion Survey

E. Interest Level for Islamic Finance

Figure 21: Interest Level for Islamic Finance among Retail Clients

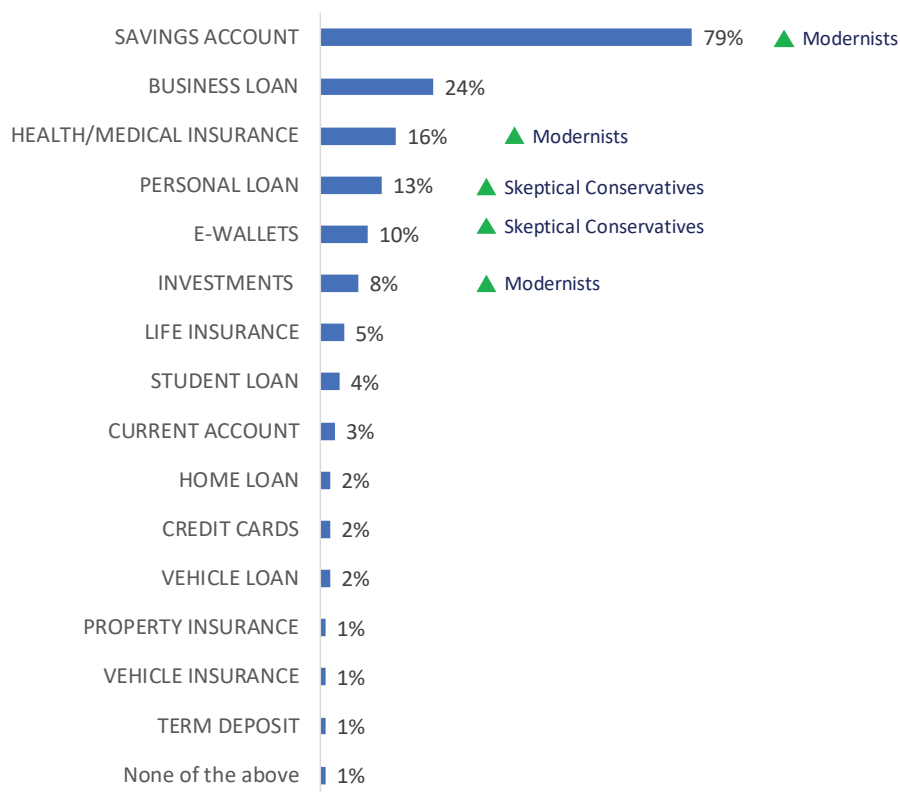


78% of respondents expressed interest in Islamic Finance, indicating significant market curiosity about its potential benefits compared to conventional banks.

ADB surveyed respondents on their interest in Islamic financial services if they were made available in the Philippines. 78% of respondents expressed interest in Islamic Finance, indicating significant market curiosity about its potential benefits compared to conventional banks. Demographically, the highest interest in Islamic Finance is observed in BARMM and Metro Manila, making these regions key targets for attracting early adopters. The motivations for interest in Islamic finance vary between respondents from BARMM, who are more focused on savings and adherence to Islamic principles, and those respondents from Mindanao, who are intrigued mainly by the processes and benefits of Islamic finance.

F. Preferred Types of Islamic Financial Services Among Retail Clients

Figure 22: Islamic Financial Services Interested in among Retail Clients



Among total who are interested in Islamic Financial Services, n=429

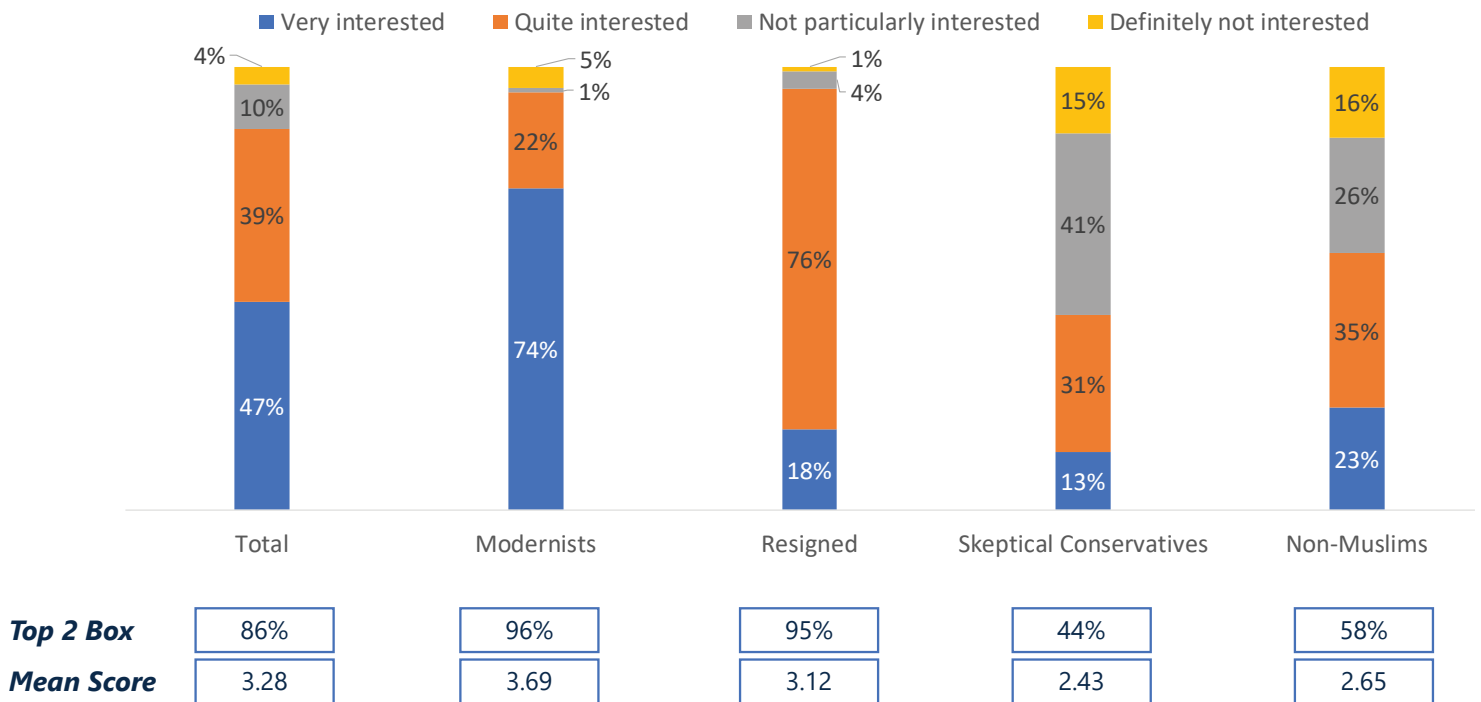
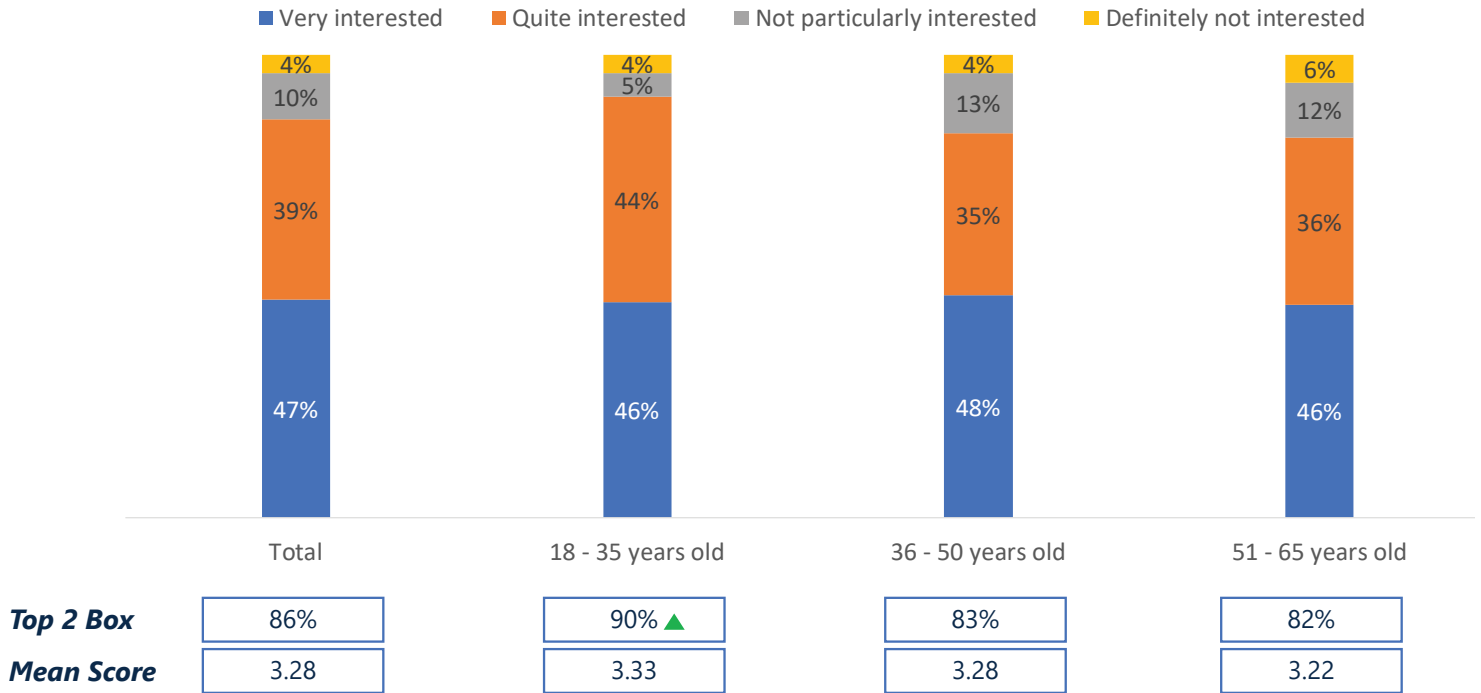
The market is predicted to initially prefer basic and accessible products such as savings accounts and e-wallets.

Regarding specific Islamic financial services, the market is predicted to initially prefer basic and accessible products such as savings accounts and e-wallets. However, there is some openness to other offerings like loans and health or medical insurance. Modernists, with a broader range of product usage, are likely to explore additional Islamic financial services. Skeptical Conservatives, despite their belief that banking is Haram, show openness to personal loans and e-wallets, possibly influenced by the increasing availability of services like GCash⁴⁰ and the rise of microfinance institutions offering Islamic financing, such as ASA Philippines Foundation, Inc.

Nevertheless, both Skeptical Conservatives and the Resigned exhibit a greater reluctance towards insurance products, attributed to concerns about potential interest charges, the perception of gambling against fate by insuring against death and accidents, and the belief that insurance indicates a lack of trust in Allah’s plan.

⁴⁰ GCash is a Filipino mobile payments service that is extremely popular in the region, claiming to have 81 million active users as of May 2023.

Figure 23: Interest in Islamic Savings Account by Age Group and Retail Client Segment



Top 2 Box - % sum of the top two points in the scale
 Mean - sum of all points divided by the number of responses

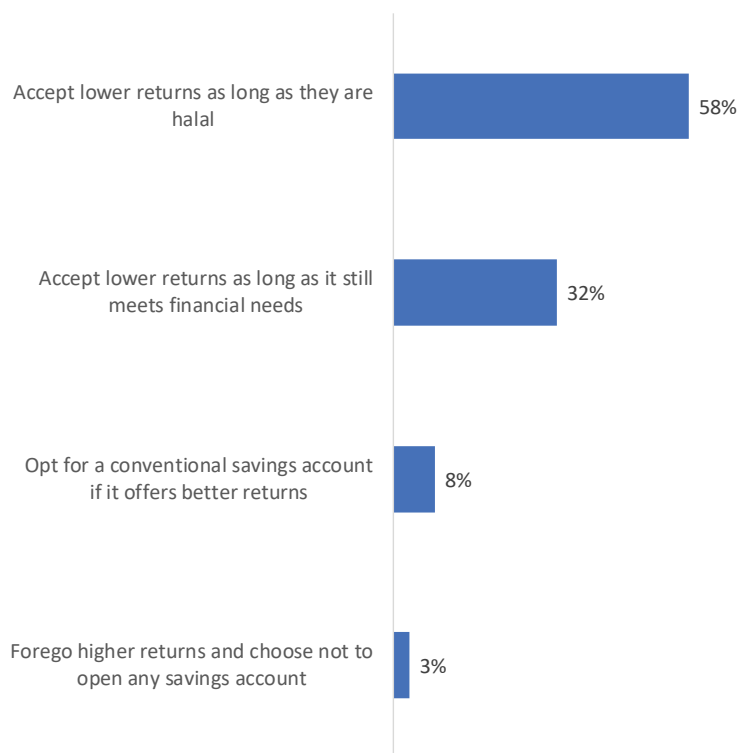
When presented with the option of an Islamic Savings Account, 86% of the respondents expressed interest, with a significant portion being highly interested.

Modernists exhibit the highest interest in Islamic Savings Accounts, with 96% expressing interest.

When presented with the option of an Islamic Savings Account, 86% of the respondents expressed interest, with a significant portion being highly interested. Notably, younger retail clients aged 18-35 demonstrated greater interest (90%). Therefore, while Islamic Savings Accounts attract interest across all age groups, developing bespoke Islamic Savings Accounts that target younger population may accelerate adoption, as clients in this age bracket are less likely to have established preferences for conventional banks.

Among retail client segments, Modernists exhibit the highest interest in Islamic Savings Accounts, with 96% expressing interest (Top 2 Box) and 74% being very interested, suggesting quicker adoption and longer-term account retention. The Resigned segment shows potential, although stronger incentives may be required to bolster interest and expedite application. Promoting Islamic Savings Accounts to Skeptical Conservatives and Non-Muslims, however, is anticipated to be challenging. Having said that, considering the size of the non-Muslim population of the Philippines, a 58% interest in Islamic finance is still quite significant.

Figure 24: Action by Retail Clients if Islamic Savings Account is not Beneficial



Among total who are interested in Islamic Financial Services, n=410

58% of respondents are willing to accept reduced returns provided the accounts are Halal.

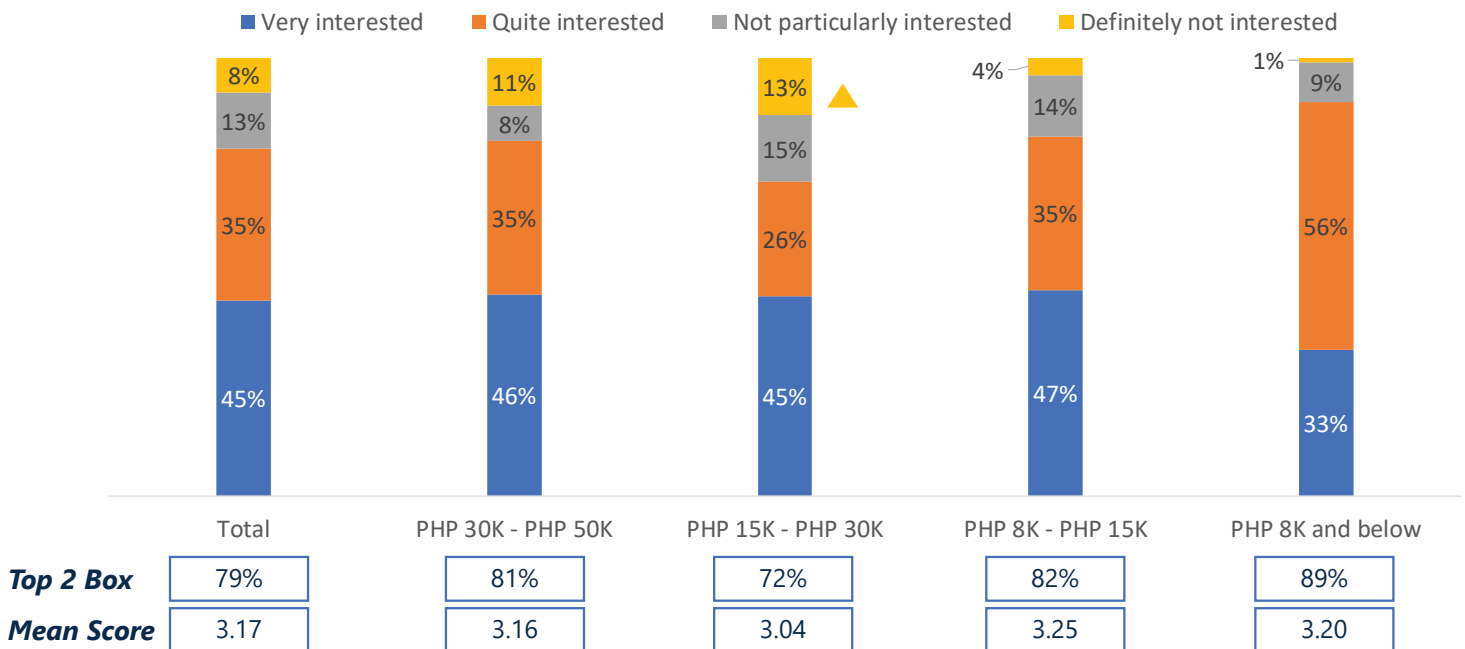
If Islamic accounts offer lower returns compared to traditional savings accounts, 58% of respondents are willing to accept reduced returns provided the accounts are Halal. Modernists, who are more inclined to maintain both Islamic and conventional bank accounts, show greater acceptance of lower returns from Islamic Savings Accounts, as long as they adhere to Islamic principles. Additionally, a larger proportion of clients aged 18–35 are more receptive to lower returns compared to older demographics. Resigned individuals, who utilize fewer financial services, display a pragmatic approach, accepting lower returns from Islamic savings accounts if they meet their financial needs. Few may opt for conventional savings accounts with better returns. Overall, this demonstrates a commitment to obtaining halal income even if it means sacrificing potentially bigger profits when compared to non-halal investments.

The table below presents additional details on potential actions that could be pursued upon the availability of Islamic Savings Accounts in the market.

Figure 25: Likely Usage of Islamic Savings Account by Retail Client Segment

| | | TOTAL | MODERNISTS | RESIGNED | TRADITIONALISTS | NON-MUSLIMS |
|--|-------------------|-------|------------|----------|-----------------|-------------|
| When they'll open the savings account | Within 1 month | 13% | 20% | 4% | 6% | 8% |
| | Within 3 months | 18% | 21% | 11% | 13% | 27% |
| | Within 6 months | 31% | 38% | 32% | 8% | 19% |
| | Within 12 months | 18% | 13% | 23% | 29% | 19% |
| | After 12 months | 20% | 8% | 31% | 44% | 27% |
| How long they'll keep money in the account | Up to 3 months | 3% | 2% | 4% | 4% | 8% |
| | 3 – 6 months | 3% | 4% | 3% | 4% | 4% |
| | 6 – 12 months | 10% | 8% | 12% | 15% | 12% |
| | 1 – 2 years | 27% | 31% | 19% | 25% | 35% |
| | 2 – 5 years | 20% | 18% | 25% | 21% | 12% |
| | More than 5 years | 36% | 37% | 37% | 31% | 31% |

Figure 26: Interest in Islamic Financing by Monthly Household Income, Retail Clients



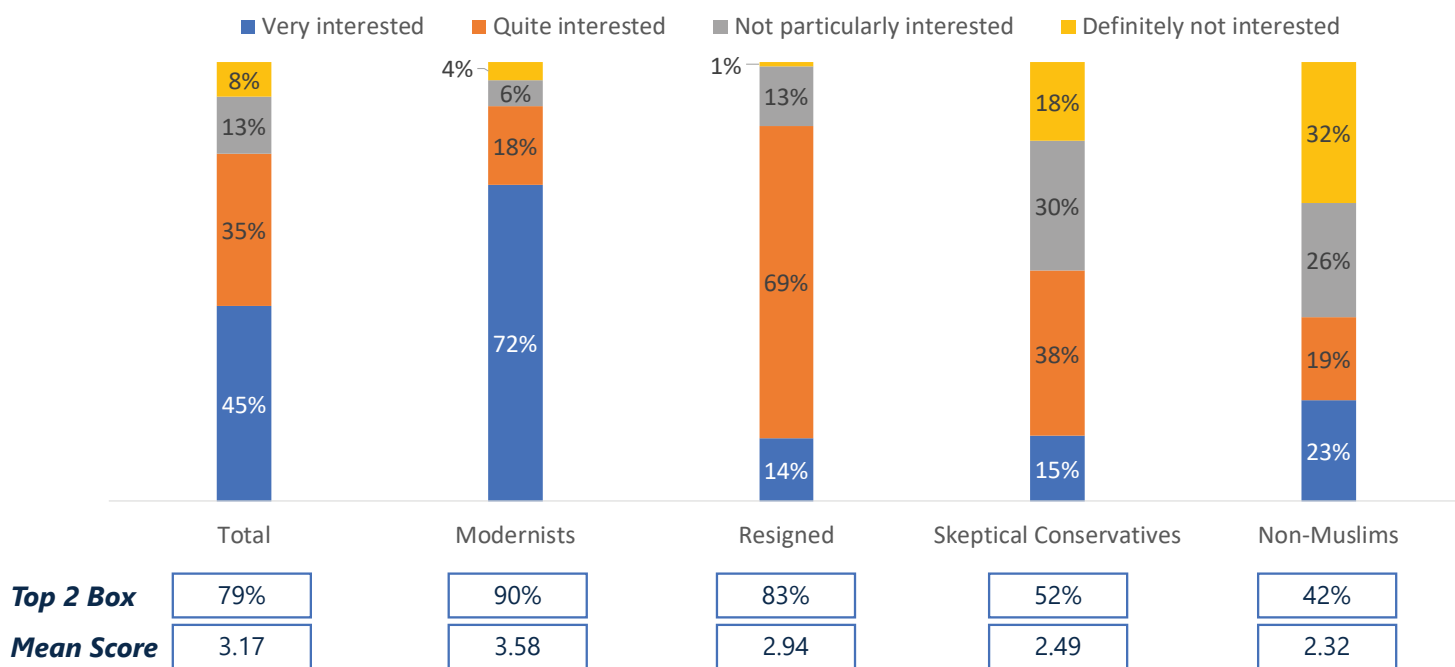
Top 2 Box - % sum of the top two points in the scale
 Mean - sum of all points divided by the number of responses

When presented with the option of Islamic Financing, 79% of the retail respondents showed interest.



When presented with the option of Islamic Financing, 79% of the retail respondents showed interest, with 45% being very interested. A significant variation is observed based on monthly household income, with clients earning between PHP 15,000 and PHP 30,000 showing a higher tendency to be definitively uninterested compared to other income groups. This income range aligns with the country's minimum wage, covering basic necessities without necessitating bank loans.

Figure 27: Interest in Islamic Financing by Retail Client Segment



Top 2 Box - % sum of the top two points in the scale
 Mean - sum of all points divided by the number of responses

Interest in Islamic Loans or Financing is notably higher among Modernists, who are likely to apply earlier than other segments. This group is particularly attracted to vehicle loans, new business loans, and student loans. The Resigned segment also shows good interest in Islamic Loans or Financing, albeit to a lesser extent than Modernists. Skeptical Conservatives and Non-Muslims exhibit relatively less interest in these financial products.

The following table provides further insights into potential actions that may be taken once Islamic Financing Facilities become available in the market.

Figure 28: Likely Usage of Islamic Financing by Retail Client Segment

| | TOTAL | MODERNISTS | RESIGNED | TRADITIONALISTS | NON-MUSLIMS | |
|--|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| When take out Islamic Financing | Within 1 month | 12% | 16% | 5% | 12% | 10% |
| | Within 3 months | 15% | 19% | 9% | 10% | 24% |
| | Within 6 months | 32% | 38% | 26% | 18% | 29% |
| | Within 12 months | 21% | 18% | 25% | 34% | 10% |
| | After 12 months | 19% | 9% | 35% | 26% | 29% |
| Islamic Financing Interested In (Average Rank) | Vehicle loan | 1 st | 1 st | 4 th | 2 nd | 3 rd |
| | Business loan (new) | 2 nd | 3 rd | 1 st | 1 st | 4 th |
| | Student loan | 3 rd | 2 nd | 2 nd | 4 th | 1 st |
| | Personal loan | 4 th | 6 th | 3 rd | 3 rd | 2 nd |
| | Business loan (existing) | 5 th | 4 th | 5 th | 6 th | 6 th |
| | Home loan | 6 th | 5 th | 6 th | 5 th | 5 th |

1.4.3 Analysis for Businesses Client Segment

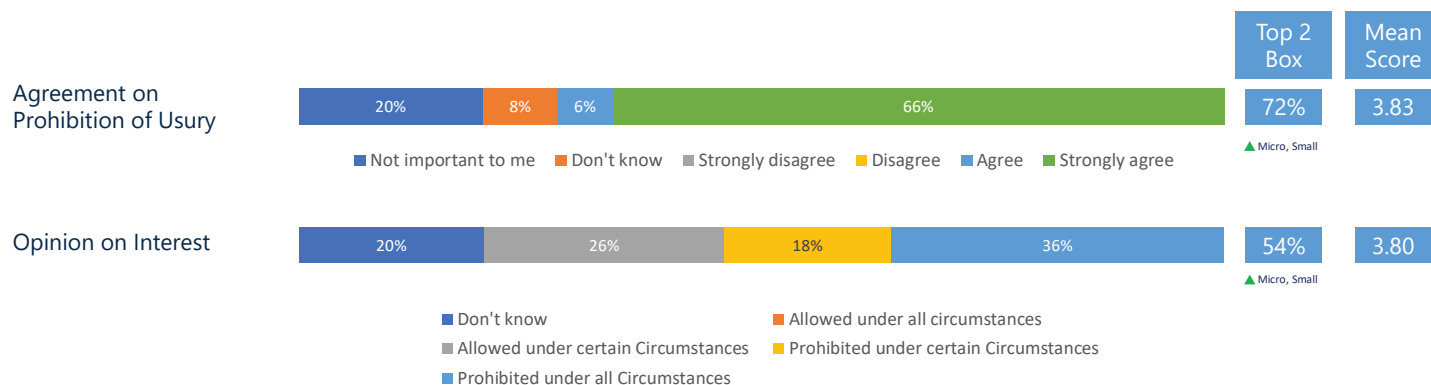
As part of the study, business clients were also surveyed, including micro, small, medium, and corporate business owners, or decision-makers. The survey focused on several key areas, including their current usage of financial services, their attitudes towards interest-based products, their level of interest in Islamic finance, as well as their preferred types of Islamic financial products. The data analysis is presented below.

A. Attitudes Toward Interest & Interest-Based Products

Figure 29: Reasons for Using Interest-Based Products among Business Clients



Figure 30: Agreement on Prohibition of Usury and Opinion on Interest, Business Clients



Top 2 Box - % sum of the top two points in the scale
 Mean - sum of all points divided by the number of responses

Business decision-makers utilizing interest-based financial products do so out of necessity rather than disregard for religious principles.

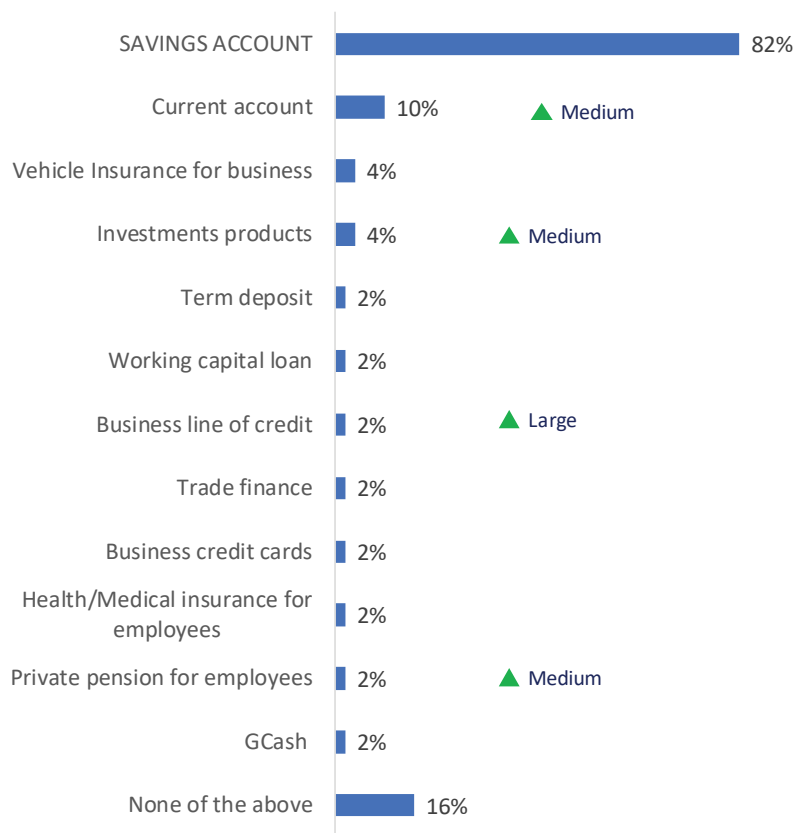
72% of the business client respondents believe that usury is prohibited in the Holy Quran and The Last Testament.

Business decision-makers utilizing interest-based financial products do so out of necessity rather than disregard for religious principles. 34% acknowledge that while such products are Haram, they are essential for their livelihood, and 26% resort to them due to limited alternatives. According to the study, 72% of business client respondents believes that usury is prohibited in the Holy Quran and The Last Testament, with 54% viewing interest as inherently prohibitive and 56% considering the interest charged by banks as Haram. Furthermore, less than half (46%) express discomfort in using interest-bearing products.

The data indicates a clear preference for Islamic financial services among business owners and decision-makers, particularly among those who are Muslims. This presents an excellent opportunity for potential investors who are interested in offering such services in the Philippines.

B. Type of Financial Services Availed by Business Clients

Figure 31: Financial Services Currently Availed among MSME/Corporate Clients

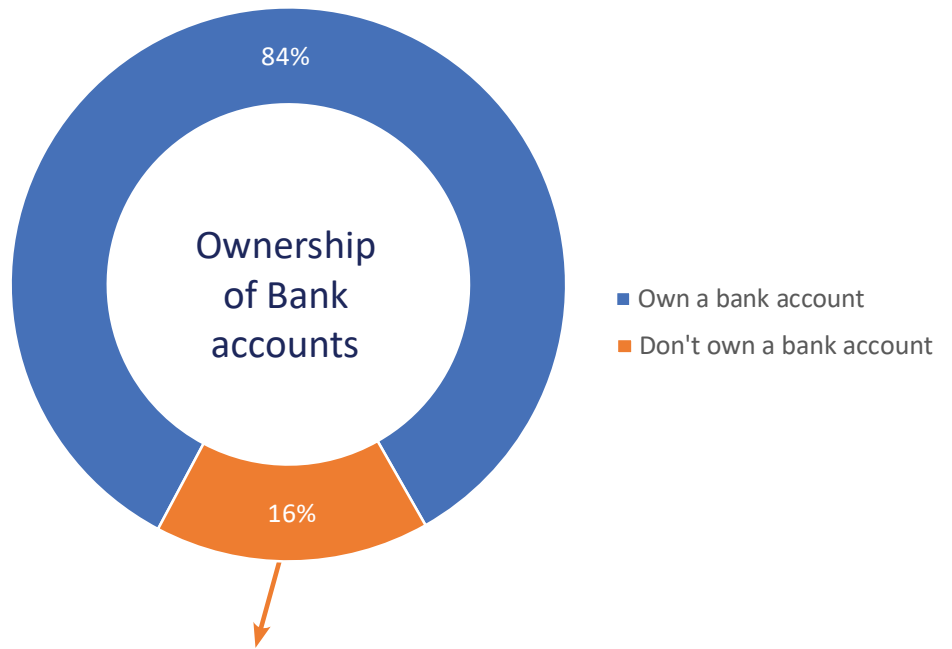


84% of the surveyed businesses use financial services, predominantly savings accounts.

Currently, 84% of the surveyed businesses use financial services, predominantly savings accounts (82%), followed by current accounts (10%). Notably, 16% of business decision-makers do not utilize any financial products. This preference for savings accounts is expected, as the market is primarily composed of MSMEs, which often operate similarly to retail clients in terms of savings. Medium-sized businesses, with assets ranging from PHP 15M to PHP 100M, tend to explore additional financial services like current accounts, investment products, and private pensions for employees. Large businesses, with revenue exceeding PHP 100M, have a broader range of financial services but show a particular interest in business lines of credit.

C. Ownership of bank accounts among businesses

Figure 32: Ownership of Bank Account among Business Clients

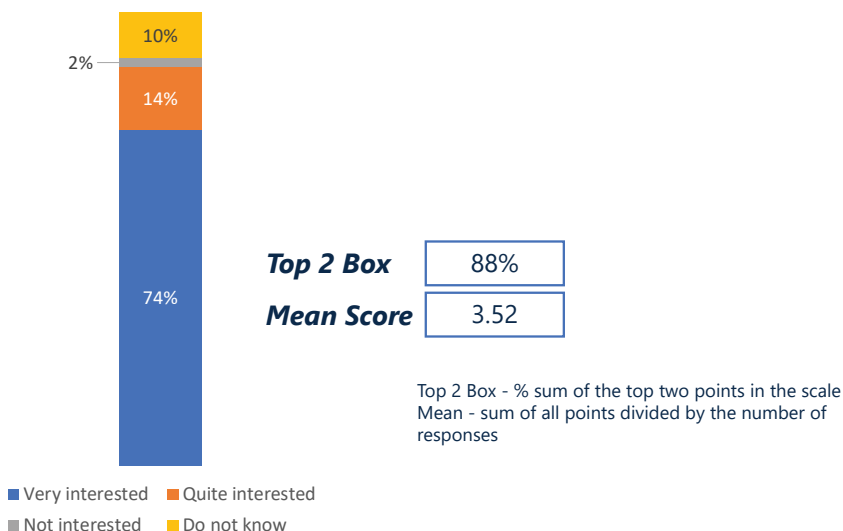


| Reasons For Not Having Bank Account | |
|---|----------|
| Total | 6 |
| Prefer cash transactions for business operations | 4 |
| Opening a business account is complex | 2 |
| I use my personal account for business purposes | 2 |
| I have limited business activities requiring banking services | 2 |
| I do not trust banks | 2 |
| I believe banking is Haram (Prohibited) | 2 |
| Business banking products are very expensive | 2 |
| Bank provides poor service | 2 |

Despite the widespread use of bank accounts, the same 16% of the market that avoids financial services also lacks a bank account. The reasons for this aversion include a preference for cash transactions (6%) and the perception that opening a business account is complex (4%). These reasons are more prevalent among microbusinesses and small businesses, especially in rural areas. The preference for cash is driven by the desire for financial security, convenience in business operations, and motivation from seeing physical cash accumulate. Microbusinesses and small businesses in rural areas are less likely to be banked due to limited banking experiences and a lack of necessary documentation, such as valid IDs or birth certificates.

D. Interest level for Islamic Finance

Figure 33: Interest Level for Islamic Finance, Business Clients



When queried about their interest in Islamic financial services, an overwhelming 88% of business decision-makers expressed interest and enthusiasm.

This scenario presents a distinct opportunity for Shariah-compliant business offerings in the Philippines.

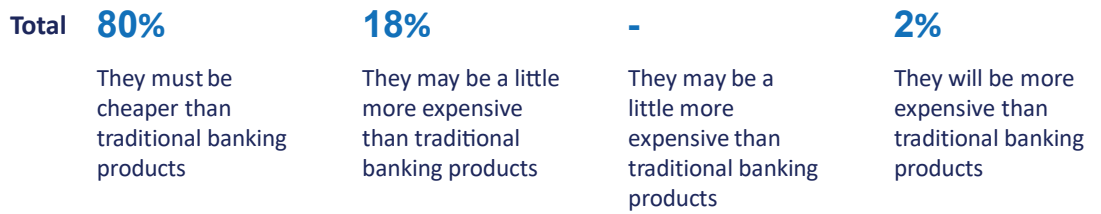
When queried about their interest in Islamic financial services, an overwhelming 88% of business decision-makers expressed enthusiasm, with 74% being highly interested. These figures align with the trends observed in the analysis of retail client, affirming a singular notion that interest-bearing products from conventional banks conflict with personal beliefs and they are deemed prohibited. However, the reluctance to use interest-based products is overshadowed by the necessity for financial services and the lack of alternatives. This scenario presents a distinct opportunity for prospective Islamic banks to distinguish themselves with Shariah-compliant offerings.

Figure 34: Impact on Current Banking Preference among Business Clients



Upon the availability of Islamic banking, 62% of business decision-makers express an interest in learning more, while 32% are eager to open an account for concurrent use with their existing ones. Most interviewed decision-makers show interest in Islamic banking, primarily due to the expectation of Shariah compliance, but remain cautious about the competitiveness of the products and services offered. Key concerns include the pricing of loans, returns on deposits and investments, and transaction fees, with a desire for these to be more competitive than conventional banking.

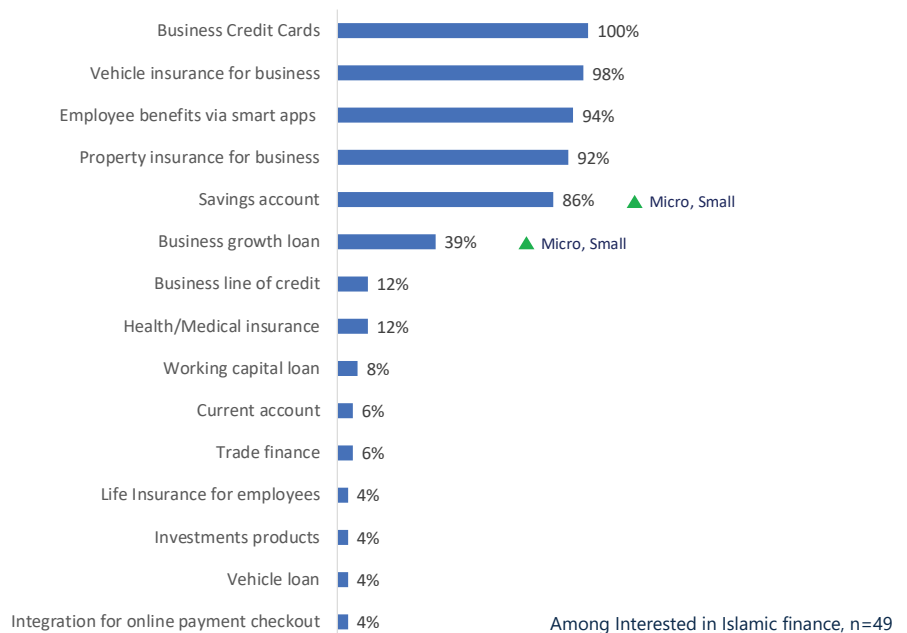
Figure 35: Expectations on Pricing among Business Clients Interested in Islamic Financial Services



Expectations regarding the pricing of Islamic financial products are significant, with 80% of interested business clients believing these products should be more affordable than conventional banking, while only 18% think that the price of these products should be comparable to conventional banking products. This sentiment is linked to the belief that interest is Haram, and therefore, Islamic banking products should not include interest. However, except for more religiously conservative business owners, there is an acknowledgment that banks are businesses and therefore need to generate revenue, with respondents suggesting potentially through higher transaction fees, highlighting their strong desire to utilize Islamic financial services despite their suggestions not being Shariah compliant, further strengthening the notion that respondents are not knowledgeable on Islamic finance but are still interested.

E. Preferred Types of Islamic Financial Services Among Business Clients

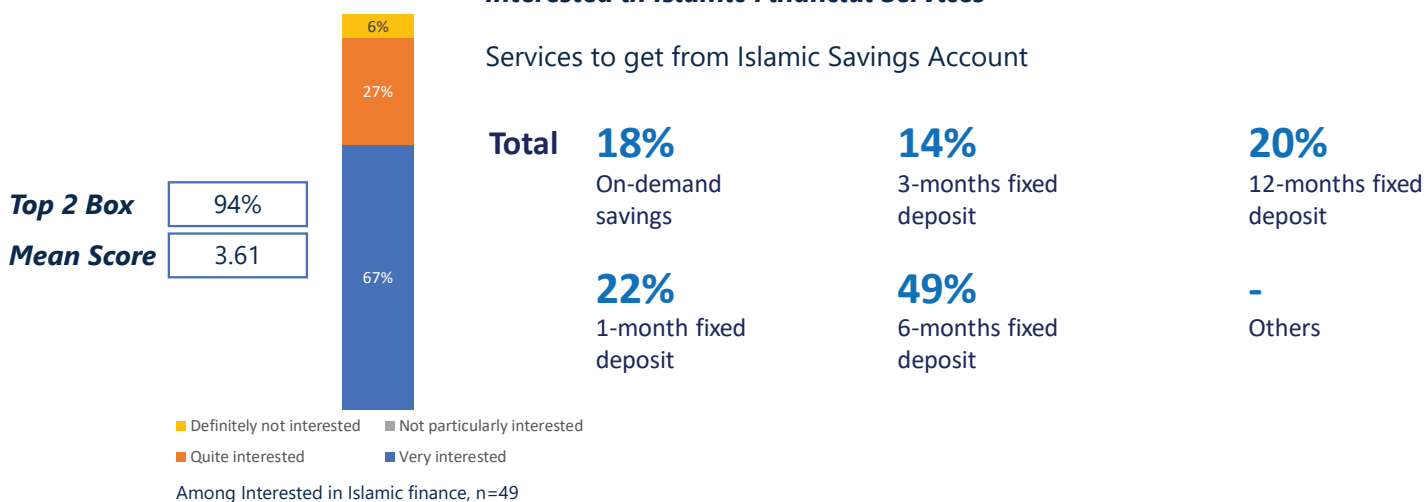
Figure 36: Islamic Financial Services Interested in among Business Clients Interested in Islamic Financial Services



Business owners show strong interest in a range of Islamic financial products, including credit cards, insurance, smart apps, and Islamic savings accounts, with 86% of the market finding the latter appealing, especially micro and small businesses. Islamic business growth loans are also attractive to these segments, possibly due to perceived ease of application and advantages over informal lenders.

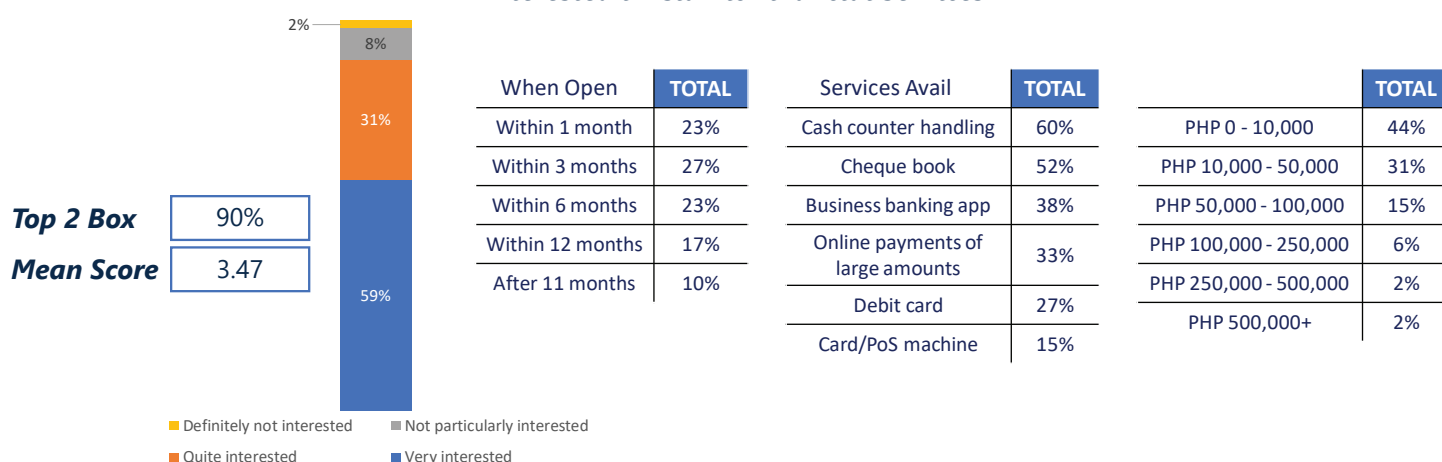
The interest in opening an Islamic banking account is evident, although respondents claim it was not a priority when they initially chose bank partners. The lack of familiarity with Islamic banks like Al-Amanah Islamic Bank and limited branch accessibility are cited as barriers. Business clients prioritize branches dedicated to Islamic banking services, followed by branches offering both Islamic and conventional banking services.

Figure 37: Interest for Islamic Savings Accounts among Business Clients Interested in Islamic Financial Services



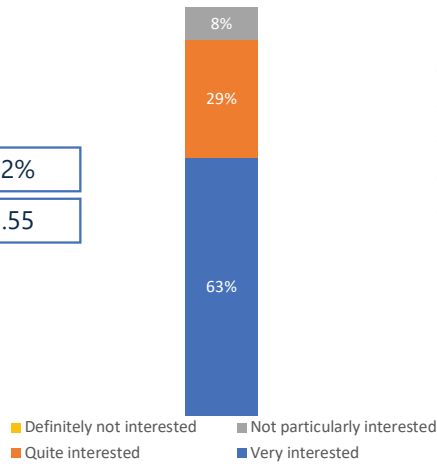
94% of business decision-makers are interested in Islamic savings accounts, and 90% are inclined to apply for an Islamic Current Account. Specifically, 94% of business decision-makers are interested in Islamic savings accounts, and 90% are inclined to apply for an Islamic Current Account, preferably with cash counter handling and a chequebook, maintaining a balance of PHP 100,000 or less (the vast majority intend to open Islamic accounts within six months of their availability).

Figure 38: Interest for Islamic Current Accounts among Business Clients Interested in Islamic Financial Services



Islamic financing is appealing to 92% of business decision-makers, with 78% willing to avail of Islamic business financing within six months of availability.

Top 2 Box 92%
Mean Score 3.55



Islamic financing is appealing to 92% of decision-makers, with 78% willing to avail of Islamic business financing within six months of availability, prioritizing financing that supports business growth or operations.

Figure 39: Interest for Islamic Financing among Business Clients Interested in Islamic Financial Services

| When Open | TOTAL | Islamic Financing interested in (Ave. Rank) | RANK |
|------------------|-------|---|------------------|
| Within 1 month | 24% | Property/real estate financing | 1 st |
| Within 3 months | 27% | Business growth financing | 2 nd |
| Within 6 months | 27% | Business line of credit | 3 rd |
| Within 12 months | 12% | Startup financing | 4 th |
| After 11 months | 10% | Supply chain financing | 5 th |
| | | Agriculture financing | 6 th |
| | | Factoring/invoice financing | 7 th |
| | | Trade finance | 8 th |
| | | Equipment financing | 9 th |
| | | Working capital financing | 10 th |
| | | Vehicle loan | 11 th |

Almost a third (29%) of the population remains unbanked, especially in rural areas and 4% of Filipinos rely on banks for financing, presenting a great potential for Islamic banking market

Majority (57%) turn to informal sources.

1.5 Financial Inclusion and Funding Gap

While the overall banking sector revenue is expected to triple by 2030, almost a third (29%) of the population living in cities and municipalities (472) remains unbanked, with BARM as the most unbanked region (110), followed by Eastern Visayas (74), highlighting the need to improve financial inclusion in the country.⁴¹ Having one of the fastest population growth rates globally, the number of people able to use banks (the bankable population) is expected to jump by 30% in just 8 years going from 65 million in 2022 to 85 million in 2030.⁴²

However, the Philippines has a low banking penetration rate (only 56%) compared to other emerging markets. This means a significant portion of the population does not have access to banking services. Rural areas, where nearly half the population lives, are particularly lacking in banking infrastructure, as many people in these areas simply do not have a physical bank branch nearby.

A [survey](#) conducted by the BSP in 2021 reveals only 31% of Filipinos actually save their money in banks, while a much larger portion (52%) keep their savings at home. The trend continues with borrowing, where just 4% of Filipinos rely on banks for financing of their needs; instead, the majority (57%) turn to informal sources.⁴³ The Philippines' booming population offers a vast opportunity for financial institutions, but a focus shift is needed to reach the unbanked majority, especially in rural areas, who rely less on formal banking. The BSP sees Islamic finance as an important tool to boost financial inclusion. With a growing Muslim population (around 6.4% in 2020) concentrated in underserved rural areas, Islamic banking and finance services could tap into a new market segment and bring much-needed financial services to these communities.⁴⁴

⁴¹ [McKinsey, 2023, Philippines' unmet banking needs](#)

⁴² [McKinsey, 2023, On the verge of a digital banking revolution in the Philippines](#)

⁴³ [Bangko Sentral ng Pilipinas, 2023, Financial Inclusion Dashboard – 2023](#)

⁴⁴ [S&P Global, 2022, Islamic Finance Outlook – 2022](#)

Over 77% of MSMEs in the Philippines have not been able to secure enough, or any, funding in the past five years.

Total MSME loans comprised just 6.2% of total business loans as of second quarter of 2023.

The Philippines, like many Southeast Asian nations, depends heavily on MSMEs as the backbone of its economy. These MSMEs make up a whopping 99.5% of registered businesses in the country, significantly contributing 36% to the GDP and employing a massive 62.4% of the workforce.⁴⁵

However, despite their crucial role, MSME growth is hampered by lack of financing facilities. A recent report by Mambu, a cloud banking platform, revealed that over 77% of MSMEs in the Philippines have not been able to secure enough, or any, funding in the past five years.⁴⁶ Official statistics presented by BSP also support this gap—just approximately only 20% of MSMEs applied for a business loan in 2021. Total MSME loans in the country were valued at PHP 4641.6 billion (USD 8.32 billion) as of first second quarter of 2023 (32.61% increase compared to first second quarter of 2022) which comprised just 6.2% of total business loans.⁴⁷

The Philippines' underbanked population and financing-starved MSMEs create a significant funding gap, an opportunity ripe for domestic and foreign investors.



⁴⁵ Socioeconomic Research Portal for the Philippines, 2024, [Micro, Small, and Medium Enterprises](#)

⁴⁶ Fintech News Philippines, 2022, [Three Quarters of Filipino MSMEs Unable to Secure Funding in the Past 5 Years](#)

⁴⁷ Bangko Sentral ng Pilipinas, 2023, [Financial Inclusion Dashboard – 2023](#)

SECTION 2: LANDSCAPE OF ISLAMIC FINANCE IN THE PHILIPPINES



This section of the report provides a comprehensive overview on the development of Islamic finance in the Philippines. It showcases the support provided by the government towards its growth and the enabling environment created for its potential expansion. It describes how Islamic finance started in the country and briefly summarizes the reforms made to legislation and regulations to accommodate Islamic finance. This section also highlights key milestones in the development of Islamic finance in the country.

2.1 The Political Will and Government Support for Islamic Finance

The government of the Philippines has identified the development of Islamic finance as one of its priorities to promote financial inclusion and stimulate economic growth. The interest and commitment shown by the government and private sector stakeholders towards developing Islamic finance in the country are due to several factors.

One of the main reasons is the recognition of the needs of the Filipino Muslim community, which currently lacks access to Shariah-compliant financial products and services that align with their religious beliefs. Another factor is the importance of further integrating with fellow ASEAN member countries such as Indonesia and Malaysia. The Philippines aims to expand economic ties with neighboring countries and view the regional and global Halal market as an essential aspect of its ASEAN integration strategy.

In order to facilitate the development of Islamic finance in the Philippines, an Inter-agency Government Working Group on Islamic Banking and Finance was established in 2017.

In addition to that, there is a great opportunity to tap into global financial markets for resource mobilization and investment diversification through Sukuk and equity markets. Overall, the growth of Islamic finance in the Philippines has the potential to diversify the country's financial sector, create more job opportunities, and contribute to the overall economic prosperity of the nation.

In order to facilitate the development of Islamic finance in the Philippines, an Inter-agency Working Group on Islamic Banking and Finance was established in December 2017. This Working Group was led by the BSP and sought to foster collaboration and coordination among different government agencies to establish a thriving Islamic banking and finance ecosystem that can operate alongside the conventional system.

More recently, in August 2022, this group was reconstituted as the Islamic Finance Coordination Forum (IFCF). The IFCF serves as a high-level central forum to facilitate dialogue, cooperation, and collaboration between its members in the promotion and development of Islamic banking and finance. In addition, the IFCF is responsible for coordinating the regulatory policies, initiatives and efforts of its members related to Islamic banking and finance.

The IFCF is composed of the BSP, Securities and Exchange Commission, Philippine Deposit Insurance Corporation, Insurance Commission, the Bureau of the Treasury, Bureau of Internal Revenue (BIR), Philippine Financial and Sustainability Reporting Standards Council, Department of Trade and Industry, National Commission on Muslim Filipinos (NCFM), the Asian Development Bank (ADB), Bangsamoro Government, and the Auditing and Assurance Standards Council.

Islamic finance in the Philippines began in the early 1970s, when the first Islamic bank in the country, the Philippine Amanah Bank, was established in 1973.

2.2 Brief Historical Background

Islamic finance in the Philippines started in 1973 when the first Islamic bank in the country, the Philippine Amanah Bank, was established under Presidential Decree (PD) No. 264. This paved the way for the development of Islamic finance in the Philippines. The bank was established after studies and surveys showed the need for expansion of the credit and banking system in Mindanao.

The bank was mandated to provide credit, commercial banking, development banking, and savings facilities at reasonable terms to Muslim provinces in Mindanao, particularly Cotabato, South Cotabato, Lanao del Sur, Lanao del Norte, Sulu, Basilan, Zamboanga del Sur, Zamboanga del Norte, and Palawan. The aim was to contribute to the economic development of these areas by promoting financial inclusiveness and accessibility.

In 1974, PD No. 542 amended PD No. 264 to ensure that the bank's primary functions were more aligned with Islamic principles and beliefs. In addition, the profits earned by the government through dividends from the bank, as well as bank's net profits after payment of dividends to other stockholders, were directed to the Muslim Development Fund of the Philippine Amanah Bank, rather than being placed in the Treasury of the Philippines as they were before.

The bank has undergone various transformations since it was first established, including a rebranding to Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP) in 1990 and acquisition by the Development Bank of the Philippines (DBP) in 2008 (further details about AAIIBP are provided in section 2.8.1 below).

2.3 Legal and Taxation Reforms to Accommodate Islamic Finance

In addition to legislation issued to facilitate the establishment and operation of AAIIBP, the government of the Philippines has issued other laws to create an enabling environment for the development of Islamic finance and for the establishment of other Islamic financial institutions in the country. The new legislation and reforms can be summarized as follows:

2.3.1 The Organic Law for the BARMM Region

In 2018, the Philippine the government signed into law Republic Act (RA) No. 11054, which is also known as the Organic Law for the BARMM. This law allows for the creation of a political entity in the region and lays out its basic structure of government. Article XIII, Section 32 of RA No. 11054 mandates the Bangsamoro Government, the Department of Finance (DOF), the NCMF, and the BSP to work together closely to jointly promote the development of Islamic banking and finance in BARMM. This collaboration aims to support the growth of Islamic finance in the region and increase financial inclusion for local communities.

Additionally, the law provides for the establishment of a central Shariah Supervisory Board at the regional level and the promotion and development of Shariah-compliant financial institutions. The operation of Islamic banks, Shariah-compliant financial institutions, and other institutions performing similar functions shall be subject to the supervision of the BSP. The law also mandates the promotion of Islamic banking and finance, through granting tax incentives and ensuring tax neutrality of Islamic finance transactions in the BARMM.

Republic Act No. 11054 mandates the BARMM parliament to enact laws that enable the growth of Islamic finance, such as those that promote tax incentives and ensure tax neutrality in the BARMM.

2.3.2 Amendments to The Central Bank Act

In February 2019, RA No. 11211, or an Act Amending The New Central Bank Act, was enacted. The law included a new section which provides the BSP with the authority to formulate rules and regulations for the extension of financial facilities to Islamic banks considering their unique features.

2.3.3 Islamic Banking Law

In August 2019, the landscape of Islamic finance in the Philippines was further enhanced with the approval of the Islamic Banking Law, as embodied in Republic Act No. 11439. This law recognizes the significant role of Islamic banking and finance in facilitating greater financial inclusion for the underserved Muslim population, and in supporting the funding requirements of small and medium-sized businesses and large government infrastructure projects through financial arrangements that emphasize risk sharing as a key element.

The law contained different sections which defined, among other things, the following key areas:

- **Establishment of Islamic Banking:** granting BSP the power to authorize the establishment of Islamic Banks (IBs) and Islamic Banking Units (IBUs) of conventional banks, as long as IBUs have a system in place to segregate the transactions of the IBU from the conventional bank business. The law also authorizes BSP to grant license to foreign Islamic banks to establish Islamic banking operations in the Philippines under any of the modes of entry provided under RA No. 7721, as amended, or The Liberalization of Entry and Operations of Foreign Banks Act.
- **Supervision and Regulation by BSP:** granting BSP with clear authority to exercise regulatory powers and supervision over the operations of Islamic banking and to issue a broader set of tailored rules and regulations.
- **Shariah Advisory Councils (SACs):** imposing a requirement on IBs and IBUs to establish Shariah advisory councils composed of qualified persons to ensure that Islamic banking products and transactions comply with Shariah principles.
- **Current Accounts for Islamic Banking:** granting the BSP with the authority to open current accounts for IBs and IBUs for settlement and other purposes as the Monetary Board may prescribe. The BSP may charge administrative and other fees for the maintenance of such facilities, as may be allowed under Shariah principles.
- **Financial Facilities for Islamic Banking:** granting the BSP with the authority to formulate rules and regulations to extend financial facilities to IBs and IBUs taking into consideration the peculiar characteristics of Islamic banking.
- **Tax Neutrality:** mandating the government to achieve neutral tax treatment for Islamic banking transactions and equivalent conventional banking transactions.
- **Consumer Awareness and Capacity Building Program:** mandating the government to provide programs for increased consumer awareness and capacity building required by the expanded Islamic banking system.

In 2019, the landscape of Islamic finance in the Philippines was further enhanced with the approval of the Islamic Banking Law.

The Islamic Banking Law calls for the government to achieve neutral tax treatment between Islamic banking transactions and equivalent conventional banking transactions.

With the amendment of the PDIC charter, deposits in IBs and IBUs will be covered by deposit Insurance.

In 2020, the Bureau of Internal Revenue issued regulations on tax neutrality to mandate equal tax treatment between Islamic banking transactions and equivalent conventional banking transactions.

2.3.4 Islamic Deposit Insurance

In June 2022, Republic Act No. 11840 lapsed into law and amended the charter of the Philippine Deposit Insurance Corporation (PDIC). The amended PDIC charter allows PDIC to provide insurance coverage for deposits in IBs and IBUs, and to take into consideration the peculiar characteristics of Islamic banking when:

- I. establishing separate insurance funds and insurance arrangements or structures or takaful; and
- II. formulating rules and regulations for the extension of financial assistance to IBs.

This legal framework serves to strengthen the Islamic banking industry in the Philippines by providing greater protection to depositors and enhancing the overall stability of the financial system.

2.3.5 Tax Neutrality

As indicated previously, the Islamic Banking Law, passed in 2019, provides the legal basis for the government to achieve neutral tax treatment between Islamic banking transactions and equivalent conventional banking transactions. BIR has been working, in coordination with BSP, to mainstream the implementation of tax neutrality provisions under this law.

In June 2020, the BIR issued Revenue Regulation No. 17-2020 on tax neutrality. The regulations are based on the basic principles that the tax treatment of Islamic banking arrangements should be based on their economic substance rather than their legal form. Where an Islamic banking arrangement is economically equivalent to a conventional bank product, the tax treatment of the two should be the same. The regulations cover transactions of IBs, either domestic or foreign, and IBUs in the form of a division, department, office, or branch of a conventional bank.

The regulations also accommodate for tax neutrality in respect to disposal or lease of an asset, in accordance with Islamic banking arrangements as defined by the BSP, to ensure that the resulting tax effect on the Islamic banking arrangement would be similar to that applicable to the corresponding conventional banking transaction.

In March 2022, the BIR issued Revenue Memorandum Circular No. 35-2022, which provides the tax treatment of Murabahah (Profit-Disclosed Sale) and Tawarruq (Commodity Murabahah)⁴⁸ as Islamic banking arrangements, pursuant to the tax neutrality provision of R.A. No. 11439 and as implemented by Revenue Regulations No. 17-2020.

In addition to this, BIR is currently working to issue separate Revenue Memorandum Circulars to provide the specific tax treatment of Sukuk and other Islamic banking and finance contracts/arrangements, such as Salam, Ijarah, Mudarabah, Wakalah, Istisna, and Musharakah.⁴⁹

2.3.6 Tax Incentives at the BARMM Regional Level

To promote Islamic banking, BARMM authorities are providing fiscal incentives to Islamic banks operating in the region. Islamic banks in the BARMM can register their operations with the regional Bangsamoro Board of Investment to avail of fiscal incentives, such as income tax holiday and reduced duties or tariffs of

⁴⁸ Please refer to appendix (6) for the definitions of Murabahah and Tawarruq (Commodity Murabahah)

⁴⁹ Please refer to appendix (6) for the definitions of Salam, Ijarah, Mudarabah, Wakalah, Istisna, and Musharakah

To promote Islamic banking in the BARMM region, the “Bangsamoro Local Governance Code” (BLGC), was passed in 2023. This contains tax exemptions for registered Islamic banks from the local tax imposed by local government units.

imported capital requirement. The Bangsamoro Autonomy Act No. 49, passed in 2023, contains exemptions for registered Islamic banks from the local tax imposed by local government units (i.e., provinces, cities, municipalities, barangays) of the BARMM.⁵⁰

In addition, the Bangsamoro Transition Authority is currently considering Bangsamoro Bill No. 286, or the “Bangsamoro Revenue Code” (BRC), which covers the taxing powers of the BARMM government. The proposed bill establishes a tax regime to promote the growth of Islamic banking and finance within the BARMM region. It also provides exemptions to duly registered Islamic banks doing business in the BARMM from the regional tax imposed on banks and other financial institutions.

2.4 Prudential Regulatory Reforms

The regulatory and supervisory authorities in the Philippines have been actively working to support the growth and development of Islamic finance. To that end, authorities have issued various regulatory guidelines to foster a supportive environment for Islamic finance. The BSP and the Insurance Commission have issued a series of relevant circulars and guidelines such as:

2.4.1 Guidelines on the Establishment of Islamic Banks and Islamic Banking Units

In December 2019, BSP issued Circular No. 1069, which laid out regulations and guidelines, including the licensing requirements, for the establishment of domestic and foreign IBs as well as IBUs. The circular provides detailed regulations on various key areas that must be adhered to, including rules on stockholding limits, capital requirements, and governance. Per the regulations, IBs and IBUs must implement a Shariah governance framework to ensure their operations are strictly in accordance with Shariah principles. Section 2.9 of this report provides a brief summary of the capital and regulatory requirements for establishing an Islamic bank in the Philippines.

2.4.2 Shariah Governance Framework for Islamic Banks and Islamic Banking Units

BSP also issued Circular No. 1070 on the Shariah Governance Framework (SGF) for IBs and IBUs in December 2019. The guidelines aim to strengthen corporate governance and protect consumers and other stakeholders by requiring an IB or an IBU of a conventional bank to have an effective SGF. The guidelines define SGF and lay down the essential components of the framework, which include the following:

- Effective Board of Directors and management oversight over Shariah compliance.
- Establishing an independent and effective Shariah Advisory Council.
- Establishing independent and effective Shariah compliance and internal audit functions.

2.4.3 Frequently Asked Questions (FAQs) on Islamic Banking

In June 2020, BSP issued Memorandum No. M-2020-052 on Frequently Asked Questions (FAQs) on Islamic banking. The FAQs address common questions on the implementation of R.A. No. 11439 (Islamic Banking Law), and provide

In 2019, BSP issued Circular No. 1069, which laid out regulations and guidelines for the establishment of domestic and foreign IBs as well as IBUs.

BSP also issued a circular on Shariah Governance Framework for IBs and IBUs in 2019.

⁵⁰ For more details on the tax exemption given under this law, please refer to section 167 (f) of the [Bangsamoro Autonomy Act No. 49](#)

simplified and concise discussions on Islamic banking fundamentals. They cover the following major points:

- Core features of the Islamic banking law;
- Accessibility of Islamic banking to both Muslims and non-Muslims;
- Key distinctions between conventional and Islamic banking; and
- Requirements for establishing IBs or IBUs in the Philippines.

2.4.4 Guidelines on Liquidity Risk Management

In May 2021, BSP issued Circular No. 1116, which provides guidelines for IBs and IBUs on managing liquidity risk. These guidelines require IBs and IBUs to have written policies on liquidity risk management, and for IBUs to segregate their assets and liabilities from their parent bank and establish separate liquidity management arrangements. Additionally, the guidelines set out the requirements for maintaining Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). As BSP adopted a single regulatory approach, the same Basel III framework on liquidity standards are applicable to IBs and IBUs, with additional guidelines provided to cover the specificities of Islamic banking operations.

2.4.5 Guidelines for Reporting Islamic Banking and Finance Transactions/Arrangements

In March 2022, BSP issued Circular No. 1139 on the Guidelines for Reporting Islamic Banking and Finance Transactions/Arrangements. The guidelines, which highlight the BSP's single regulatory and supervisory framework, provide regulatory guidance for IBs and IBUs on the segregation of books and records of the IBU from its parent conventional bank, as well as accounting and reporting of Islamic finance transactions in accordance with the Philippine Financial Reporting Standards (PFRS), to ensure a level playing field for Islamic and conventional banks.

2.4.6 Modified Minimum Capitalization of Conventional Banks with IBU

In April 2023, BSP issued Circular No. 1173 on the Modified Minimum Capitalization of Conventional Banks with IBU to afford conventional banks flexibility to establish IBUs in the country. The guidelines, which incentivize conventional banks to test, explore, and develop the market for Islamic banking products and services, support the entry of Islamic banking players in the country and expand access to Shariah compliant banking products and services for all Filipinos.

The regulations allow qualified conventional banks, (i.e., commercial banks or subsidiary banks of universal or commercial banks), which comply with the minimum capital requirements applicable to their respective banking category, to operate an IBU (**without additional capital requirements**), within a reasonable transitory period not exceeding five (5) years.

Operation by the conventional bank of the IBU after the transitory period may be allowed subject to compliance with the minimum capitalization requirement for a universal bank, which shall be based, as a prudential relief, on the number of branches used in IBU operations.

This prudential relief allows conventional banks to expand their services and cater to a wider range of customers who prefer Shariah-compliant financial products and services.

BSP requires IBUs to segregate their assets and liabilities from their parent bank, and establish separate liquidity management arrangements.

Conventional banks in the Philippines can take advantage of the latest regulations by BSP, which allow them to establish IBUs without additional capital requirements, within a reasonable BSP-approved transitory period not exceeding 5 years.

2.4.7 Baseline Regulatory Framework for Takaful Undertakings

In 2022, the Insurance Commission (IC) issued a circular providing the baseline regulatory framework for Takaful undertakings.

In January 2022, the Insurance Commission (IC) issued Circular Letter (CL) No. 2022-04, which provides the baseline regulatory framework for Takaful undertakings. The guidelines are applicable to all existing and authorized insurance companies and mutual benefit associations that wish to set up a Takaful window. The guidelines provide takaful operators with the IC's baseline expectations covering, among others, the following key areas: (i) Compliance with Shari'ah Rules and Principles; (ii) Governance Policy; (iii) Anti-Money Laundering/Combating the Financing of Terrorism; (iv) Product Approval; (v) Solvency and Capital Adequacy Requirements; (vi) Reporting Standards; (vii) Reserve Liabilities; (viii) Investment Strategy; (ix) Transparency in Financial and Non-Financial Reporting; (x) On-Site Inspection and Off-Site Examination; (xi) Complaint Handling; and (xii) Enforcement.

In May 2024, the Insurance Commission further expanded the abovementioned regulatory framework through the issuance of CL No. 2024-13 on the Consolidated Guidelines for Takaful Window Operation. The guidelines also provide, among others, the IC's licensing framework and documentary/specific requirements for a company to engage in takaful business operations as a takaful window operator.

2.5 The Establishment of Shariah Supervisory Board in the BARMM

The central Shariah Supervisory Board in the BARMM region will foster the development of Islamic finance and boost public confidence in the Philippines.

The establishment of a central Shariah Supervisory Board (SSB) at the regional level is a significant milestone for the advancement of Islamic finance in the Philippines, as it promotes confidence among investors and customers in the industry. In April 2022, a joint circular was issued by the BSP, BG, DOF, and NCMF, to establish the SSB in the BARMM to implement relevant provisions of RA No. 11054.

The joint circular outlines the duties and composition of the SSB. It also sets the minimum qualifications required for SSB members to ensure the effective and efficient fulfillment of their mandate. Aligned with the government's strategy to provide an enabling regulatory environment for Islamic finance to flourish in the country, the establishment of the SSB will provide the essential Shariah compliance oversight framework on Islamic banking and finance, which will help maintain the integrity of the Philippine Islamic banking and finance industry.

Overall, the SSB is responsible for issuing Shariah opinions on Islamic banking transactions and products in the BARMM, and when requested by the BSP, financial institutions, and other stakeholders. The SSB may also act as an advisor to the BSP. Additionally, the SSB may also conduct Shariah compliance assessments, if BSP deems it necessary.

As of December 2023, there are about 50 securities in the PSE classified as Shariah-compliant equities.

On December 2023, the SSB held its inaugural meeting. During the meeting, the BG announced the appointments of Prof. Dr. Muhammad Nadzir S. Ebil and Prof. Dr. Ashraf Bin Md Hashim as SSB's Chairperson and Deputy Chairperson, respectively.⁵¹

2.6 Shariah Stock Market Program

In 2013, the Philippine Stock Exchange (PSE) started a new initiative to screen listed companies in the exchange, in accordance with Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Shariah standards, in order to classify the stocks of these companies as Shariah-compliant when they satisfy the relevant Shariah screening criteria.

⁵¹ [Manila Bulletin, 2024, Shari'ah body kickstarts Islamic finance in PH](#)

Over the past few years, BSP and other key stakeholders have been strengthening their capacity to support the growth and development of the Islamic finance industry in the country.

PSE, through the Shariah stock market program, aims to achieve several goals including aligning its objectives with the NCMF in increasing participation of Islamic finance in the local business community; providing a resilient and sound investment option for investors (including Muslim Filipinos) who wish to invest solely in Shariah-compliant investments; and attracting over USD 1 trillion worth of global Islamic funds to invest in the Philippine economy's growth. As of 25 March 2024, there are about 53 securities listed in the PSE classified as Shariah-compliant equities .

2.7 Capacity Building Efforts

The BSP has partnered with international organizations, such as ADB and the Islamic Financial Services Board (IFSB), to co-organize various workshops and webinars on Islamic finance. These events are designed to foster a better understanding of Islamic finance among stakeholders and the public, and to strengthen the capabilities of those involved in the industry. Such efforts are critical for creating a competitive, dynamic, and inclusive Islamic financial system in the Philippines that can meet the growing demand for Islamic banking products and services.

In 2020, IFAAS was appointed by ADB to deliver the Islamic Finance for the Philippines capacity building program. The program aimed to provide public and private sector stakeholders with the needed training to build their internal capacity and equip them with the requisite knowledge for the establishment and expansion of the Islamic finance sector in the country. The trainings sessions covered a wide range of topics related to Islamic finance foundations, banking and microfinance, Takaful, and Islamic capital markets. Overall, there were 47 cohorts of training conducted over a total of 107 days with a total of 1,139 delegates.

In 2022, in addition to its other efforts towards the development of Islamic finance in the Philippines, the BSP collaborated with Indonesian authorities such as *Otoritas Jasa Keuangan* (Financial Services Authority) and Bank Indonesia (Central Bank), to gain insights on their supervisory and oversight processes for IBs and IBUs. Learning from the experiences of other countries helped BSP to identify and address potential challenges in the implementation of Islamic finance in the Philippines.

In collaboration with ADB, BSP has partnered with the Islamic Banking and Finance Institute Malaysia (IBFIM) to have personnel of relevant agencies/stakeholders under the IFCF participate in the Associate Qualification in Islamic Finance (AQIF) program, an online on demand program designed to equip practitioners with basic knowledge in Islamic finance. Additionally, a growing number of personnel have enrolled in IBFIM's advanced programs on Islamic Banking and Finance, namely the Intermediate Qualification in Islamic Finance (IQIF)–Banking and the Certified Qualification in Islamic Finance (CQIF)–Banking courses.

In 2022, the BSP launched an introductory E-Course on Islamic Banking, which was created for the BSP's Professional Excellence Program for Bank Supervisors (BSP-PEPS). The IBS E-Course, which is continuously updated for developments in the Philippine Islamic banking and finance ecosystem, provides fundamental understanding on (i) the principles and foundation of Islamic banking and finance; (ii) basic structures of Islamic banking products and services; (iii) current and future trends, and architecture of Islamic banking and finance; and (iv) domestic legal and regulatory framework for Islamic banking in the Philippines.

As of Q1 2024, the IBS E-Course has successfully completed six (6) offerings. Participating in such training initiatives helps ensure that BSP personnel remain informed and up-to-date with latest industry developments, fostering a dynamic, competitive, and inclusive Islamic finance ecosystem in the Philippines.

2.8 Key Milestones in the Development of the Islamic Finance Industry in the Philippines

The development of Islamic finance in the Philippines has seen several key milestones over the years, highlighting the achievements in the sector. Some of these milestones include:


2.8.1 The Establishment of Philippine Amanah Bank

As indicated earlier, the Philippine Amanah Bank was established in 1973 via Presidential Decree No. 264, with the aim to provide Shariah-compliant financial products and services to the Filipino Muslim community. This was a pivotal moment in the onset of Islamic finance in the Philippines. The bank started with an initial capital of PHP 100 million and was envisioned to become a development bank that could invest around 75% of its total loanable funds in medium- to long-term credit facilities for people in Muslim provinces in Mindanao.

In 1990, the Philippine Amanah Bank underwent several changes, when Republic Act (RA) No. 6848 was passed to ratify the bank's charter and rename it to Al-Amanah Islamic Investment Bank of the Philippines (AAIIBP). This law enabled the AAIIBP to become a universal bank, with the power to establish branches, agencies, and other offices locally and internationally in accordance with the laws, rules, and regulations of the Central Bank. The bank was also recapitalized under this law with an initial capitalization of PHP 1 billion. AAIIBP sought to expand the presence of Islamic banking in the country and enhance its operations to serve the Muslim community. In 2008, DBP took full control of AAIIBP's operations.

2.8.2 The Establishment of CARD Bank, Inc.'s Islamic Banking Branch

In June 2023, BSP granted the first IBU license to an incumbent conventional bank called **CARD Bank, Inc.**, a microfinance-oriented rural bank established on September 1, 1997 in San Pablo City, Laguna. The license gives the bank the authority to engage in Islamic banking operations through Islamic banking branch/es.


In January 2024, the first Islamic branch of Card Bank started its operations in Cotabato City in the BARMM.

In January 2024, the first Islamic branch of Card Bank started its operations in Cotabato City in the BARMM region. The launch of the IBU by Card Bank marks a significant milestone in the growth and development of Islamic finance in the Philippines. This is particularly important as Card Bank is the first local conventional bank in the country to establish an IBU, setting a precedent for other banks to follow suit. With this development, more banks can now consider applying for an IBU license and getting involved in the Islamic banking sector.

The branch offers a wide range of financial products and services aligned with Islamic finance principles. These include Wadiah Deposit accounts such as Wadiah Basic Savings, Wadiah Regular Savings, and Wadiah ATM Savings; Term Investment Deposit under "Mudharabah"; Micro-Agri Financing and Micro-Enterprise Financing under "Murabahah" or "Musharakah" contract; and Supplemental Commodity Financing under "Murabahah 2",⁵² all in compliance with Islamic finance principles.

⁵² Please refer to appendix (6) for the definitions of Wadiah, Mudharabah, Murabahah and Musharakah

In December 2023, the Republic of the Philippines made its successful debut in the global Islamic financial markets with the issuance of a USD 1 billion sovereign Sukuk using real estate assets.

The Sukuk was listed in Nasdaq Dubai and was met with strong demand, with the orderbook's oversubscription peaking at 4.90x.

The sukuk received investment grade ratings from Fitch Ratings (BBB+) and Moody's Investors Corp (Baa2).

2.8.3 Debut of the Philippine Sovereign Sukuk

In 2022, the Philippine Department of Justice confirmed that Sukuk under a Commodity Murabahah arrangement can be issued under existing laws, and that the Sovereign Sukuk may also be executed following an Ijarah and Wakalah⁵³ structure. This is considered a significant and positive development for the Philippine Islamic capital market, as it affirms that the Republic of the Philippines can validly execute Sukuk under existing laws.

In December 2023, the Republic of the Philippines made its successful debut in the global Islamic financial markets with the issuance of a USD 1 billion sovereign Sukuk using real estate assets under Ijarah and Wakalah, with a Commodity Murabaha component. The Philippines' 5.5 Year Dollar Sukuk, which was listed in Nasdaq Dubai on 8 December 2023, was met with strong demand with the orderbook's oversubscription peaking at 4.90x. This allowed the Republic to price its 5.5-year Sukuk at T+80 bps, with a profit rate of 5.045%, representing a 35-bps compression from the initial price guidance of T+115bps area. The sukuk received investment grade ratings from Fitch Ratings (BBB+) and Moody's Investors Corp (Baa2).

The landmark maiden Sukuk issuance is part of the Republic's agenda to promote the development of Islamic banking and finance in the country. The Sukuk issuance allows the Philippines to diversify its global investor base and tap Islamic-focused investors across the Middle East. It also marks the establishment of an active, liquid reference curve for other Philippine issuers to access the Sukuk market in the future.

The landmark debut of the Philippine sovereign Sukuk was preceded by the Investor Roundtable in Doha and the Philippine Economic Briefing in Dubai held in September 2023, as well as successful roadshows held on 27–28 November 2023.

2.9 Regulatory Requirements for Establishing an Islamic Bank in the Philippines

BSP adopts a single regulatory framework, where the same regulations are applied to both Islamic and conventional banks, with supplemental guidelines to address the unique features of Islamic banking. This single regulatory framework aims to create a level playing field where Islamic banks can operate alongside conventional banks. BSP has issued a summary guide for Islamic bank license applicants interested in setting up an Islamic bank. The document provides detailed guidelines covering, among other things, the bank's power and authority, minimum capital required, modes of entry, stockholding limits, and Shariah governance framework.

⁵³ Please refer to appendix (6) for the definitions of Ijarah and Wakalah

The minimum capital requirements for an Islamic bank and are as follows:

Figure 40: Minimum Capital Requirements of Islamic/Universal Banks in the Philippines

| | In PHP (billions) | In USD (millions) ⁵⁴ |
|--------------------------------|-------------------|---------------------------------|
| Head Office (HO) only | 3.0 | 52.69 |
| HO with up to 10 branches | 6.0 | 105.39 |
| HO with up to 100 branches | 15.0 | 263.46 |
| HO with more than 100 branches | 20.0 | 351.28 |

Modes of Entry:

The BSP has prescribed three different methods for foreign banks to enter the Philippine market after obtaining approval from the Monetary Board. The three modes of entry are:

1. Acquiring, purchasing, or owning up to 100% of the voting stock of an existing domestic bank.
2. By investing in up to 100% of the voting stock of a new banking subsidiary incorporated in the Philippines.
3. By establishing a branch and sub-branches with full banking authority.

Stockholding Limits:

A foreign individual or non-bank corporation may each own or control up to forty percent (40%) only of the voting stock of an Islamic bank: Provided, that the aggregate foreign-owned voting stock owned by foreign individuals and non-bank corporations shall not exceed forty percent (40%) of the voting stock of the bank. The stockholding limit of forty percent (40%) shall likewise apply to Filipinos and domestic non-bank corporations. Meanwhile, qualified foreign banks may own or control up to 100 percent (100%) of an IB pursuant to Republic Act (R.A.) No. 10641.⁵⁵

⁵⁴ USD/PHP Exchange Rate: 1 USD = 56.93 PHP (16/04/2024)

⁵⁵ [Official Gazette, 2014, Republic Act No. 10641](#)

Shariah Governance Framework:

BSP requires IBs and IBUs to have a Shariah governance framework that is commensurate with the size, complexity, and risk profile of the institution. As indicated in section (2.4.1), IBs and IBUs are required to have an independent and effective Shariah Advisory Council and Shariah compliance and internal audit functions.

However, an IB or IBU may engage a competent Shariah adviser or consultant during the three-year period from the BSP's approval of its application, in lieu of an SAC. The IB or IBU may also outsource the Shariah compliance and audit functions during the first three years of Islamic banking business, upon approval thereof by the board of directors, and with prior notice to the appropriate supervising department of the BSP.

Appendix 5 provides more information on the stages, timelines, and requirements for obtaining an IB or IBU license.



2.10 Work In Progress

The Philippine government is committed to advancing Islamic finance in the country. Close engagements with stakeholders indicated the following market initiatives and commitments of different government agencies:

- After the successful launch of the Philippine government's maiden sovereign Sukuk, the Bureau of the Treasury appears to be looking at incorporating regular government Sukuk issuances in its financing strategy. The issuance of Sukuk will bring immense benefits to the local Islamic finance sector by enabling Islamic financial institutions to effectively manage their liquidity through investments in Shariah-compliant instruments. In addition, it will also incentivize private sector entities to issue Sukuk, further deepening the Islamic capital markets. Further Sukuk issuances will create new investment opportunities for investors interested in Islamic finance, promote broader participation in the market, and foster economic development.
- BSP has plans to issue more policies including prudential guidelines on (1) profit-sharing investment accounts, (2) Sukuk guidelines, and (3) examination procedures for IBs/IBUs.
- According to BSP, Maybank Philippines and a foreign company plan to establish Islamic banking operations in the country. Maybank Philippines' application has been submitted and is under consideration by the BSP as of June 2024. As to the latter, although the application to start operating an IBU has not yet been submitted to the regulator, it is expected that it will be submitted soon.⁵⁶

⁵⁶ A. Gonzales. 2024. [2 firms eye Islamic banking operations in PH](#). *Philippine News Agency*. 17 April.

CONCLUSION

Overall, the economic outlook for the Philippines is very positive, with a growing middle class and increasing demand for financial services. The country has a relatively low rate of banking penetration compared to other emerging markets, underscoring the enormous unmet demand for financial services.

Based on research and analysis of the opportunities available for the Islamic finance industry in the Philippines, there is a promising potential for market players and investors. The government's support of Islamic finance, combined with the strong preference for such services among Muslim Filipinos, creates a favorable environment for investment in the Islamic finance industry.

The industry has seen a noteworthy growth in recent years, with the issuance of the debut sovereign Sukuk by the Philippine government, and the establishment of the IBU of CARD Bank, Inc. The government has created the enabling environment by amending laws and regulations and providing tax neutrality provisions. These ensure a level playing field and support the long-term growth of the industry.

While the Philippines Islamic finance industry is nascent, it presents a significant growth opportunity, with the government's focus on promoting financial inclusion and a more diverse financial landscape.

Some potential channels for capitalizing on the underserved Filipino Muslim community include:

Islamic Banking: Entering the Islamic banking sector in the Philippines can take several forms, including:

- Taking an equity shareholder position in a bank that already provides Islamic banking products and services.
- Acquiring an existing conventional bank and converting the same to an Islamic bank.
- Establishing a new Islamic bank.
- Setting up an IBU of an existing conventional bank to offer Islamic banking products and services, leveraging on the experience and infrastructure of the parent bank. Existing banks can also take advantage of the relaxation of the minimum capitalization requirements for IBUs.
- Partnering with an Islamic bank or IBU in the Philippines by extending an Islamic financing line or placing long term deposits with them.

Sukuk: Investing in Sukuk issued by the Philippine government or the private sector, or participating in Sukuk issuances of local financial or non-financial institutions in the market.

Islamic Equities: Institutional investors seeking to invest in Shariah-compliant assets and wishing to diversify their portfolios, can invest in Shariah-compliant equities listed in the Philippine Stock Exchange.

Establishing Islamic funds and Islamic investment companies.

Takaful: Establishing a Takaful window in an insurance company to offer Islamic insurance products and services.

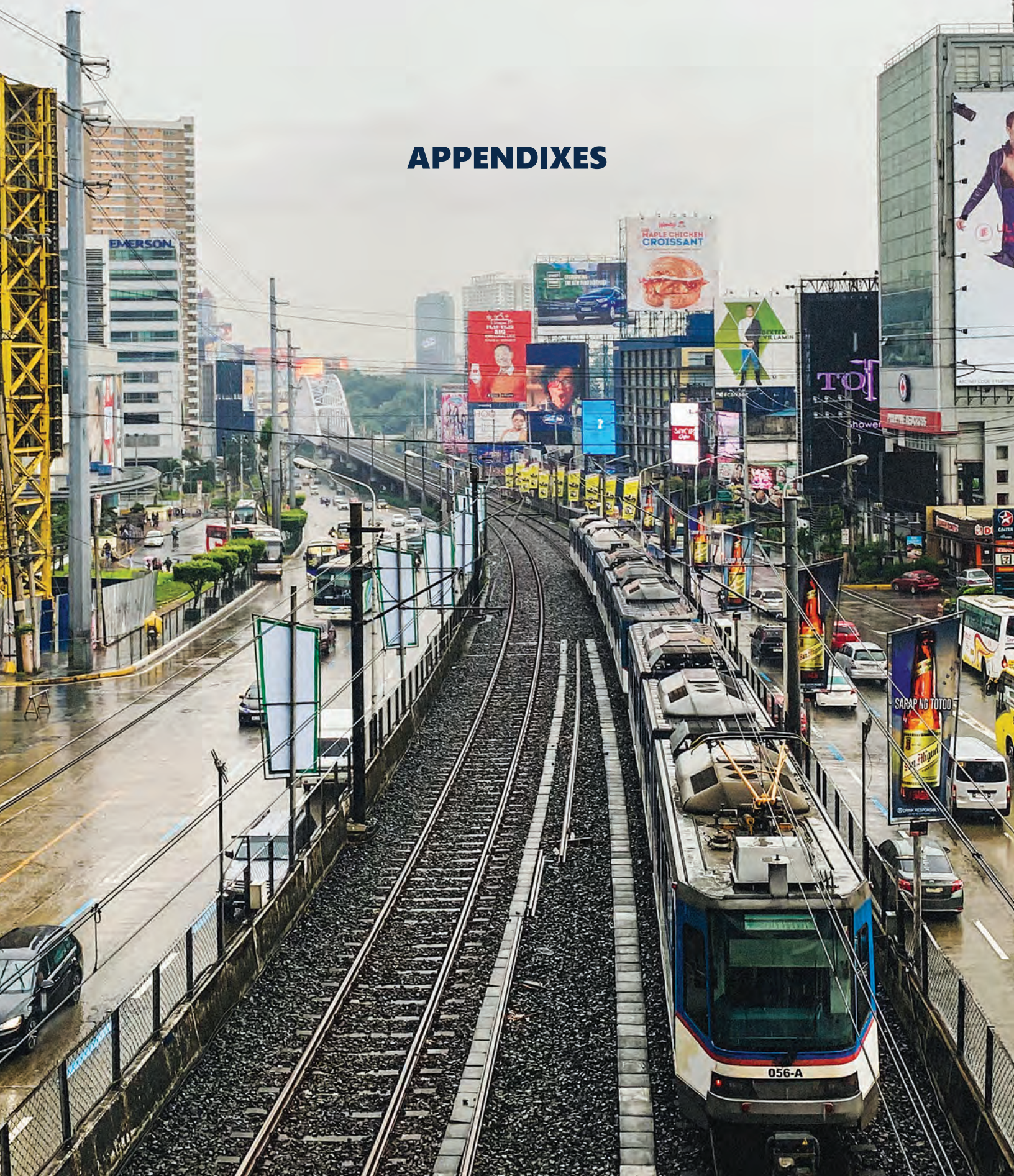
Acquiring an existing insurance firm and converting the same to a Takaful company.

Digital Banking and FinTech: As digital financial services adoption grows, investments in e-wallets, online payments, and Islamic finance platforms can be potentially lucrative.

MSME Financing: Philippine market players can explore opportunities in providing Islamic financing solutions and other financial products tailored to MSMEs.

Overall, tapping into the Islamic finance industry in the Philippines, whether as a local market player or international investor, presents a unique and exciting opportunity. Exploring the various channels available in the Philippines Islamic finance industry could lead to potential growth and profitability in the long run. This industry strengthening will foster the Philippines' position and trade relationships vis-à-vis other Muslim-majority countries, helping the country increase its financial inclusion and attracting more foreign direct investment.

APPENDIXES



Appendix 1: MSME Definition

| Total assets excluding land* | | |
|-------------------------------|---|---|
| Micro | Small | Medium |
| Up to P3,000,000 (USD 53,716) | More than P3,000,000 (USD 53,716 to P15,000,000 (USD 268,581) | More than P15,000,000 (USD 268,581) to P100,000,000 (USD 1,790,542) |
| Number of employees** | | |
| Micro | Small | Medium |
| 1–9 | 10–99 | 100–199 |

* Legislated definition of micro, small, and medium-sized enterprises as provided by the Small and Medium Enterprise Development Council Resolution No.01 Series of 2003 dated 16 January 2003.

** Definition used by the Philippine Statistics Authority

Note: Average exchange rate of 55.849 for March, 2024 is used to calculated USD figures

Appendix 2: Retail Client Segments

| | MUSLIM / ISLAM | | | CHRISTIANITY |
|--------------------|---|--|--|---|
| | THE MODERNIST | THE RESIGNED | THE SKEPTICAL CONSERVATIVES | |
| | “To thrive, we must adapt. I can use different financial products while also honoring tradition.” | “I know that interest is Haram but in a place where we are the minority, we have no choice.” | “Interest-based products are Haram so I avoid using them whenever possible.” | “I don’t know much about Islamic Finance but if it ends up being helpful, then I may just consider it.” |
| Sample size | n=223 | n=116 | n=77 | n=34 |

Modernists - The largest market segment and the most attractive. These individuals have the highest interest in Islamic banking and they tend to skew towards BARMM and Metro Manila areas. They account for the highest usage of financial services and banks, yet they remain attuned to their religious beliefs. While they do have apprehensions towards conventional banking, they’ve learned to adapt and are keen on achieving financial security and growth.

Resigned - The second largest and most viable market segment. Compared to Modernists, the Resigned are more reluctant to use interest-based products but feel that they have no other choice. As such, they have fewer financial products or banks in their repertoire, and would rationalize their use by believing that “Allah is merciful” and that they must do what they can to survive. Resigned individuals tend to skew in Mindanao areas.

Skeptical Conservatives - The smallest segment among Muslims in Philippines and currently the least engaged in utilizing financial services. Skeptical Conservatives would use fewer financial products or avoid them altogether as those are Haram. They use banks less and find alternative ways to avoid incurring interest, hence they do not feel the need to rationalize the use of interest-bearing products. If the use of such products is unavoidable, they’ll find alternative ways to avoid incurring interest. Higher proportion of Skeptical Conservatives is in the Visayas region.

Appendix 3: Quantitative Phase on Retail and Business Banking

QUANTITATIVE PHASE ON RETAIL AND BUSINESS BANKING

Methodology

Face-to-face tablet-assisted interviews were employed. All facets of data gathering were conducted by a team of researchers.

Retail Banking Sampling

Purposive Sampling of Muslims in communities and high-concentration networks (Muslim organizations, business districts, etc.). Multi-stage random sampling among non-Muslim households.

Business Banking Sampling

Purposive sampling among owners, managers, or key employees of Micro, Small, and Medium Enterprises (MSMEs) or Corporations.

Survey Area

In each region, areas studied include those with large populations and high concentration of Muslim communities: Metro Manila, North Central Luzon (NCL), South Luzon / Bicol (SLB), Visayas (VIS), Mindanao (MIN), and Bangsamoro Autonomous Region in Muslim Mindanao (BARMM).

Respondent Criteria

A. Retail Banking

- Males and females
- 18–65 years old
- Decision-maker on financial services
- 92% Muslim and 8% Non-Muslim Filipinos
- Age quotas were monitored to ensure representation of different life stages

B. Business Banking

- A combination of MSMEs and Corporations
- Businesses were classified based on total assets in Philippine Peso (PHP):
 - Micro - up to PHP 3,000,000
 - Small - PHP 3,000,001–15,000,000
 - Medium - PHP 15,000,001–100,000,000
 - Large - above PHP 100,000,000
- Good mix of business industries

Sample Size

A total of n=500 survey interviews were conducted with the following breakdown:

| | Total | RETAIL | | BUSINESS |
|--------------|------------|------------|-------------|-----------|
| | | Muslims | Non-Muslims | MSME/Corp |
| Metro Manila | 130 | 100 | 10 | 20 |
| NCL | 50 | 41 | 4 | 5 |
| SLB | 50 | 39 | 6 | 5 |
| VIS | 50 | 40 | 5 | 5 |
| MIN | 115 | 96 | 9 | 10 |
| BARMM | 105 | 100 | – | 5 |
| TOTAL | 500 | 416 | 34 | 50 |

Sampling distribution allows for analysis by area region, religion, and type of banking (i.e., retail, business). Distribution of MSME / Corporate categories includes 80% Micro, 10% Small, 6% Medium, and 4% Large businesses.

Data collection for the quantitative phase was conducted from October to November of 2023.

Appendix 4: Qualitative Phase on Retail and Business Banking

Methodology

The agency conducted individual online in-depth interviews and focus groups with the identified research participants. All interview sessions were livestreamed on a private link so that stakeholders could observe in real time. Sensitivity to Muslim culture was observed, such as having female moderators conduct interviews with female participants and ensuring that proper permissions were secured.

Respondents

Participants of this study consisted of the target retail banking customer profiles, as well as MSMEs and Corporate banking profiles. Each profile set was represented by Muslim participants from geographic locations with large Muslim populations.

In-depth Interviews – 10 participants (MSME business owners or decision-makers)

| Business Size | Religion | Gender | Business type |
|---------------|------------|--------|-----------------------------|
| Micro | Muslims | Female | Canteen |
| 130 | Muslim | Male | Cellphone and Gadgets store |
| 50 | | Female | Apparel Store |
| 50 | | Female | Farming and Jewelry |
| 50 | | Female | Apparel Store |
| 115 | | Female | Toy store |
| Small | | Female | Transportation Logistics |
| | | Male | Hollow Blocks Manufacturer |
| | | Female | Restaurant and Catering |
| Medium | Non-Muslim | Female | Supply Logistics |

Micro

- Up to 9 employees
- Assets up to PHP 3,000,000

Small

- 10–99 employees
- Assets PHP 3,000,000–PHP 15,000,000

Medium

- At least 100 employees
- Assets PHP 15,000,000–PHP 100,000,000

| Profile | SEC | Age | Financial Services Availed |
|-------------------------------------|-----|-----|---|
| Females, 25–55 years old | B | 27 | Conventional banking, Informal providers |
| | C1 | 33 | Conventional banking |
| | C2 | 36 | Informal Providers |
| | C1 | 43 | Islamic and Conventional Banking, Microfinance |
| | C2 | 29 | Conventional banking, Informal providers |
| Males, 25–39 years old | C1 | 30 | Islamic Banking |
| | C1 | 27 | Conventional Banking |
| | C2 | 29 | Informal Providers |
| | B | 31 | Microfinance |
| | C2 | 25 | Conventional banking, Islamic banking, Microfinance |
| Males, 40–55 years old | C2 | 40 | Conventional Banking, Informal Providers |
| | B | 41 | Conventional Banking |
| | C2 | 42 | Informal Providers |
| | C2 | 50 | Islamic Banking |
| | C1 | 44 | Informal Providers |

Socioeconomic Class (SEC) categorizes respondents based on a combination of factors, such as income level, occupation, education, and household characteristics or facilities, among others. Representation of different SECs allows for a wide range of contextual information relative to each respondent's living situation. SEC categories are as follows:

- AB – Upper class segment comprised of the wealthiest individuals in the Philippines.
- Upper C (C1) – Upper middle-class segment with comfortable incomes and lifestyles.
- Broad C (C2) – Middle to lower-middle class segment with access to basic necessities.
- D – Lower class segment with limited assets and access to basic necessities.
- E – Poor segment or those living in poverty with lack of access to basic necessities.

Data collection for the qualitative phase was conducted from September to November 2023.

Appendix 5: Application for Grant of Authority to Establish a New Bank

There are three stages in the bank license application process. These apply to all applicants regardless of the type of bank category being applied for.

- Stage 1 refers to the application for BSP approval to establish a bank. This has a processing time of 20 working days.
- Stage 2 refers to the application for the issuance of the Certificate of Authority to Register with the Securities and Exchange Commission (SEC) its Articles of Incorporation (AOI) and/or By-Laws (BL) indicating its purpose to establish a bank. This has a processing time of 15 working days; and
- Stage 3 refers to the application for the issuance of Certificate of Authority to Operate a bank, with processing time of 5 working days.

Application for Grant of Authority to Establish a New Foreign Bank Branch

The application for the Authority to Establish a Foreign Bank Branch constitutes a 2-stage process.

- Stage 1 refers to the application for BSP approval to establish a foreign bank branch, with processing time of 20 working days.
- Stage 2 refers to the application for the issuance of Certificate of Authority to Operate a foreign bank branch, with processing time of 5 working days.

Supplemental Requirement for an IB

The applicant shall submit a deed of undertaking to establish an SGF, as prescribed by the BSP, appropriate to the risk profile of the IB. Applications for Authority to Establish an IB/Foreign Bank Branch are subject to a processing fee of P0.5 million upon submission of the application (Stage 1) and a license fee of P25.0 million (under Stage 2).

Applicants who intend to engage in an IBU are required to comply with the following minimum requirements:

- a. The applicant must be compliant with the prudential criteria prescribed under Section 111 of the Manual of Regulations for Banks (MORB); and the applicant shall submit a certification stating that:
 - i. it has a system for segregating the IB transactions of the IBU from its conventional banking business; and
 - ii. it commits to establish an appropriate SGF as prescribed by the BSP.
- b. The applicant shall submit a corporate plan which describes the organizational and business model to be used in delivering IB products and services to its clients.

Appendix 6: Definitions of Islamic Finance Contracts

Wadiah: A contract for the safekeeping of assets on a trust basis and their return upon the demand of their owners. The contract can be for a fee or without a fee. The assets are held on a trust basis by the safekeeper and are not guaranteed by the safekeeper, except in the case of misconduct, negligence or breach of the conditions.

Mudharabah: A partnership contract between the capital provider (rabb al-mal) and an entrepreneur (muḍarib) whereby the capital provider would contribute capital to an enterprise or activity that is to be managed by the entrepreneur. Profits generated by that enterprise or activity are shared in accordance with the percentage specified in the contract, while losses are to be borne solely by the capital provider, unless the losses are due to the entrepreneur's misconduct, negligence, or breach of contracted terms.

Murabahah: A sale contract whereby the institution sells to a customer a specified asset, disclosing the acquisition cost of the asset and the profit margin. The murabahah contract can be preceded by a unilateral promise from the customer to purchase the assets once the bank owns them.

Musharakah: A partnership contract in which the partners agree to contribute capital to an enterprise, whether existing or new. Profits generated by that enterprise are shared in accordance with the percentage specified in the musharakah contract, while losses are shared in proportion to each partner's share of capital.

Ijarah: A contract made to lease the usufruct of a specified asset for an agreed period against a specified rental. It could be preceded by a unilateral binding promise from one of the contracting parties. As for the ijarah contract, it is binding on both contracting parties.

Wakalah: An agency contract where the principal appoints an agent (wakil) to carry out the business on his behalf. The contract can be for a fee or without a fee.

Istisna: The sale of a specified asset, with an obligation on the part of the seller to manufacture/construct it using his own materials and to deliver it on a specific date in return for a specific price to be paid in one lump sum or instalments.

Tawarruq (Commodity Murabahah): A murabahah transaction based on the purchase of a commodity from a seller or a broker and its resale to the customer on the basis of deferred murabahah, followed by the sale of the commodity by the customer for a spot price to a third party for the purpose of obtaining liquidity, provided that there are no links between the two contracts.

Salam: The sale of a specified commodity that is of a known type, quantity, and attributes, for a known price paid at the time of signing the contract, for its delivery in the future in one or several batches.



About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members —49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



IFAAS