

Unlocking Islamic Finance Opportunities in the Philippines

November 2024

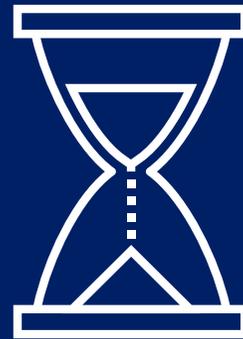


IFAAS

The objective of today's presentation is to highlight
The Islamic Finance Opportunities in the Philippines



Geography/Demography
The Philippines is the **RIGHT**
place



Timing is optimal
Today is the **RIGHT** time



Support from the government authorities
The **RIGHT** support is there

Agenda

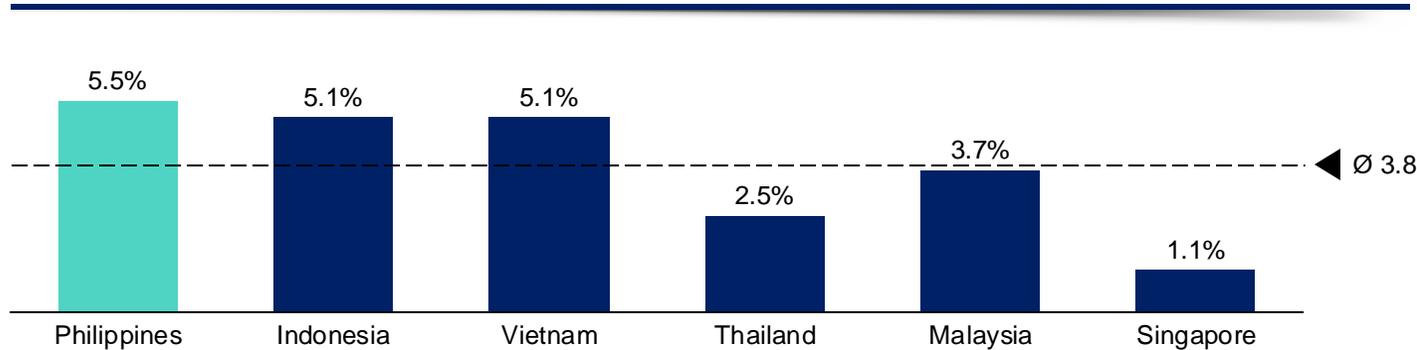
- 01** The Philippines is the right location
- 02** Contextualizing Islamic Finance in the Philippines
- 03** Now is the right time
- 04** Support is readily available
- 05** Strategic initiatives are in progress
- 06** Opportunities abound for investors

1

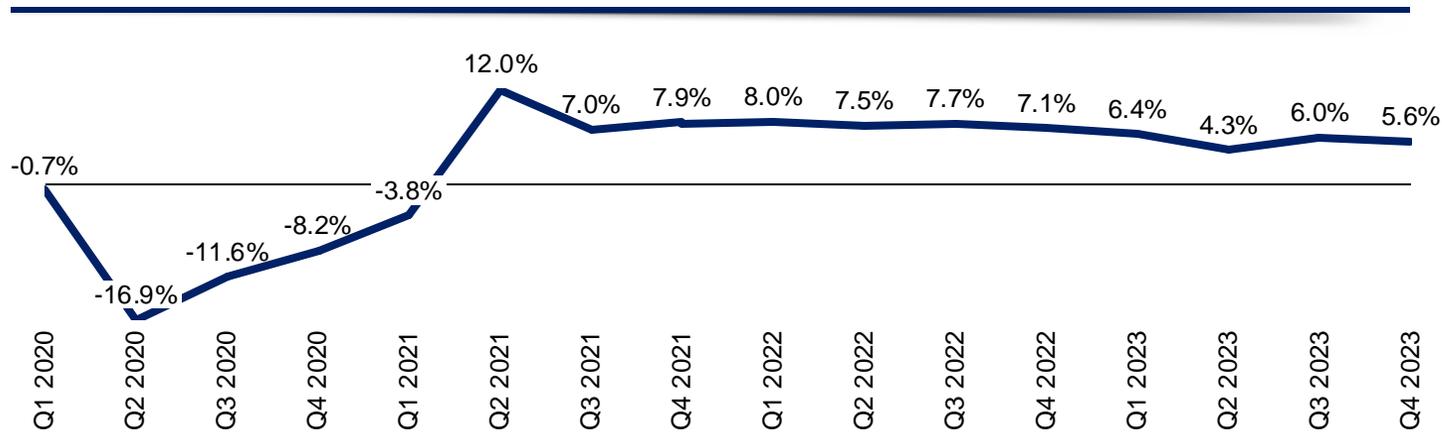
The Philippines is the right location

Macro-economic Trends

Real GDP growth rate, as of Q4 2023



GDP, Year-on-Year growth rates, Q1 2020 - Q4 2023



Key highlights

- ◆ The Philippines has the **highest GDP growth rate** among the **ASEAN 5 countries** at **5.5%** (1.7% higher than average), indicating a **strong economic performance**.
- ◆ A steady rise in domestic consumption, driven by a growing middle class and increasing household incomes.
- ◆ There was a **decline in GDP growth** in Q1 2020, due to the **COVID-19 pandemic**.
- ◆ The country made a strong recovery from the third quarter of 2021, peaking at 12% in 2021.
- ◆ The growth rate further declines but stabilizes and **remains positive**, indicating a positive environment for investment.

Sources: Official Government Statistics

Opportunities for Islamic Finance

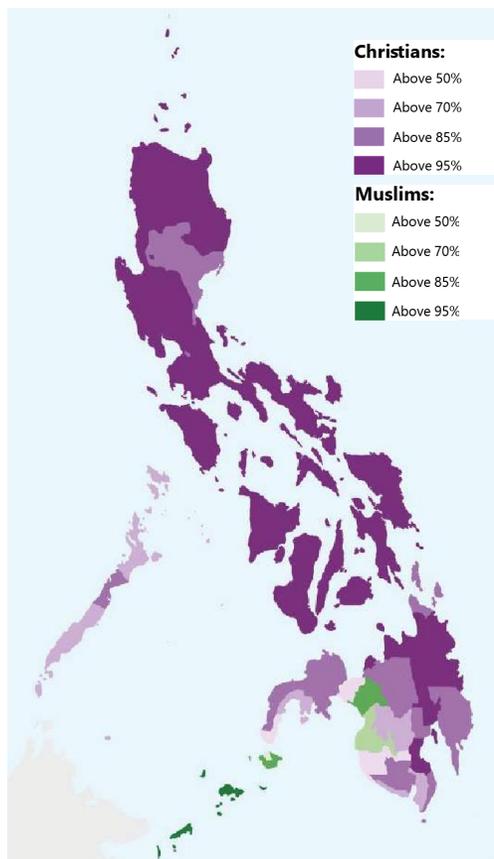
Bucket	Description	Opportunity	Impact	Readiness
<p>MSME Financing</p>	<ul style="list-style-type: none"> MSMEs—constituting 95.5% of businesses, contributing 36% to the GDP, and employing 62.4% of the workforce—face severe financing gaps. Over 77% have not secured adequate funding in the past five years. 	<ul style="list-style-type: none"> Enhancing MSME financing options through targeted financial products and support programs could significantly boost local economic growth. 	<ul style="list-style-type: none"> Limited access to finance severely restricts MSME growth and slows economic progress. 	<ul style="list-style-type: none"> MSME loans accounted for just 6.2% of total business loans as of Q2 2023, indicating that there is room for increased support for MSMEs.
<p>Islamic Finance Potential</p>	<ul style="list-style-type: none"> BSP sees Islamic finance as an important tool to boost financial inclusion, with a Muslim population concentrated in underserved rural areas. Muslim community bank account ownership is 36%, below the 56% national average, highlighting underservice. It also highlights the potential for Islamic financial services among the Muslim minority population. 	<ul style="list-style-type: none"> Expansion of Islamic banking could meet financial needs of rural communities, providing a new segment for growth in financial services. 	<ul style="list-style-type: none"> Offering Islamic finance options could foster greater economic inclusion for the Muslim population and others in rural areas. 	<ul style="list-style-type: none"> Islamic finance remains underutilized, suggesting room for market development and growth.

2

Contextualizing Islamic Finance in the Philippines

Geographic and Demographic Factors

Religious majority according to 2020 Census



Key highlights



Population

119.1 million in 2024, with a growth rate of 1.53% and a median age of 26 years.



Religion

Predominantly Christian, Islam is the second most followed religion, with about 7 million, or ~11% of the population.



Muslims Habitation

Mainly Mindanao region, especially the BARMM, where 91% of the 4.9 million are Muslim. 29% of cities and municipalities in the Philippines remain unbanked, with BARMM as the most unbanked region (92% or 110 out of 119 cities % municipalities)



Presence of Islamic Banks/Islamic Banking Units

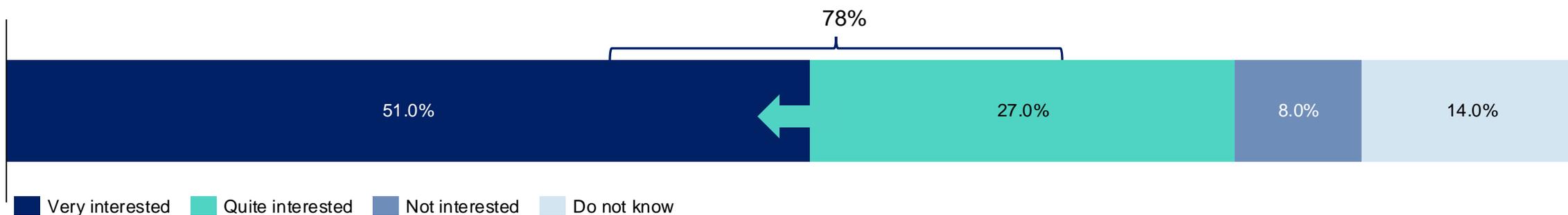
Only three Islamic banking players in the country

Implications

- ◆ For introducing Islamic finance into the Philippines, understanding these geographic and demographic factors is crucial.
- ◆ The significant Muslim population in the BARMM and its concentration in specific provinces highlight the potential for growth and acceptance of Islamic finance in these areas.
- ◆ The geographical spread and the demographic distribution suggest that targeted initiatives in these regions could effectively address the needs of the local Muslim population.

Interest Levels in Islamic Finance: Retail vs. Business Clients

Interest level in Islamic finance among retail clients

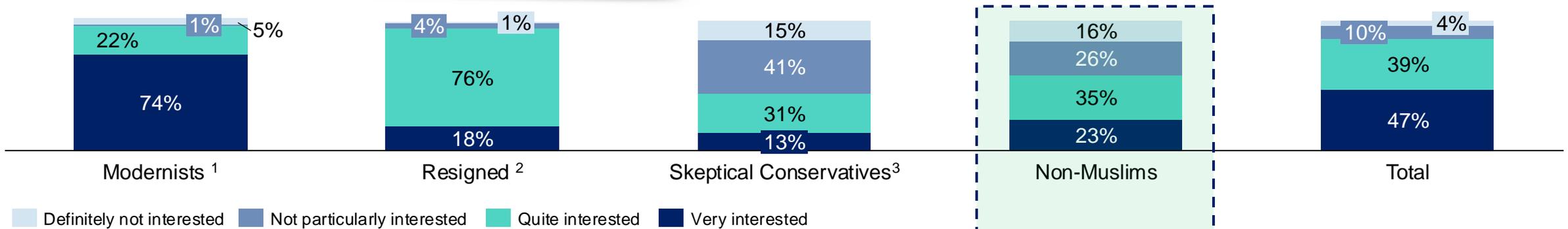


Interest level in Islamic finance among business clients

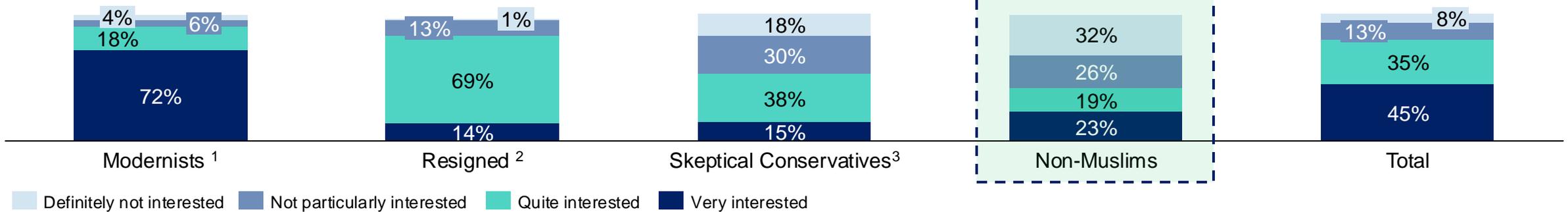


Interest Levels in Islamic Finance among Retail Clients by Religious Segments

Interest in Islamic savings accounts by retail client segments



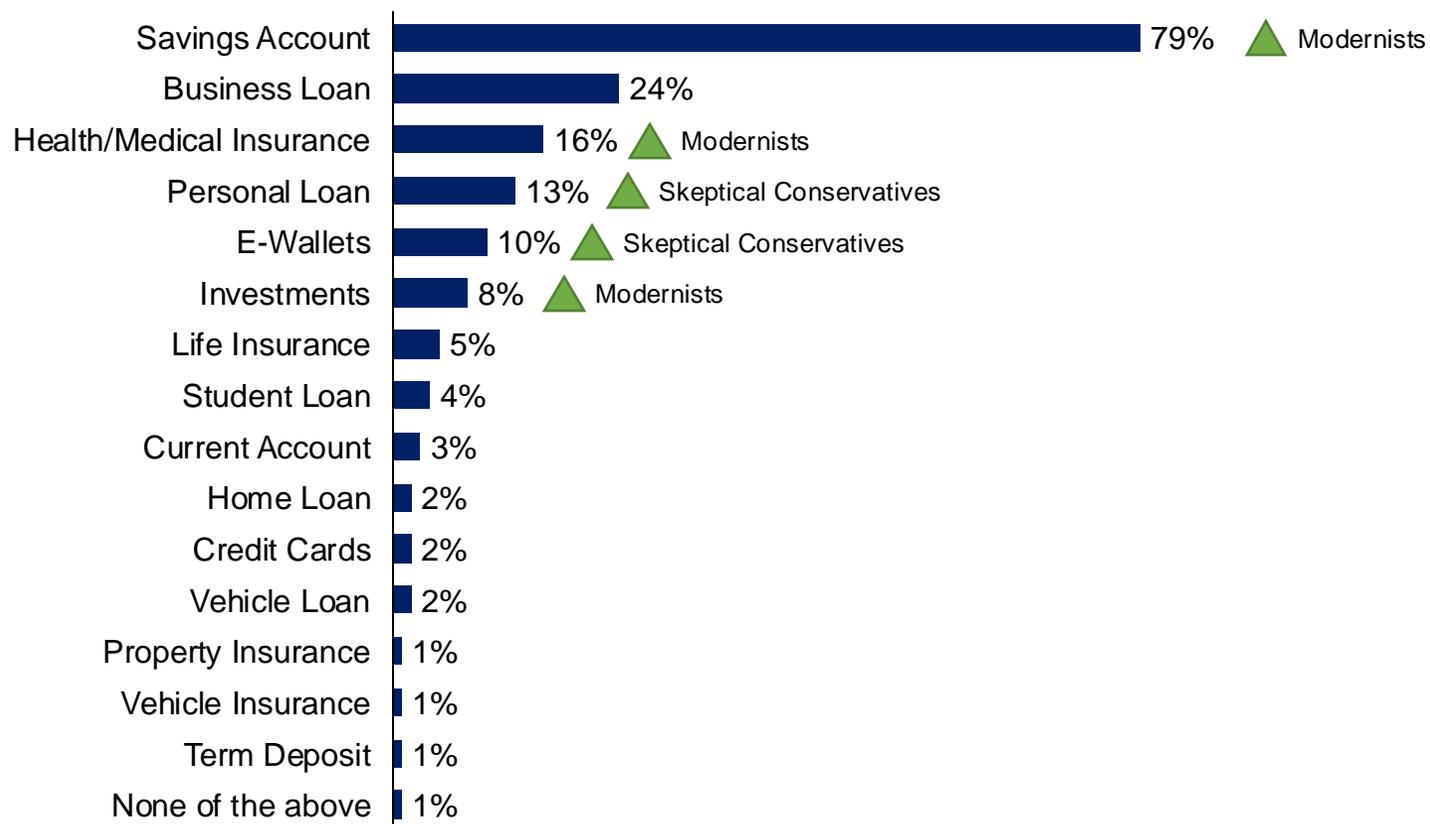
Interest in Islamic financing by retail client segments



1) Islamic religiosity category, least strict 2) Islamic religiosity category, moderately strict 3) Islamic religiosity category, most strict Source: Asian Development Bank

Interested Islamic Financial Services: Retail Clients

Islamic financial services interested in among retail clients

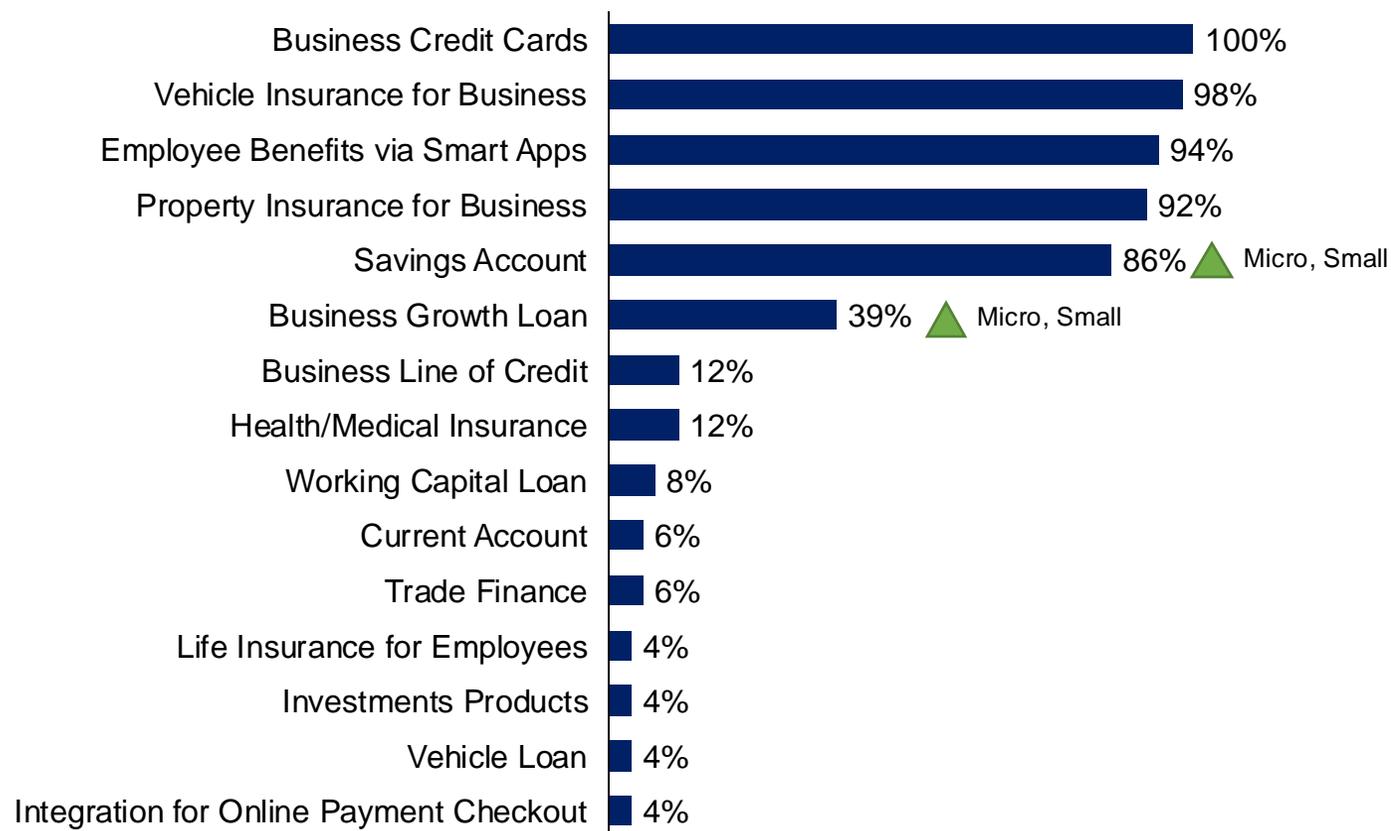


Key highlights

- ◆ Strong initial interest in foundational Islamic financial products like savings accounts and e-wallets highlights a solid entry point.
- ◆ Modernists are open to a broad range of products, including investments and insurance.
- ◆ Skeptical Conservatives are interested in personal loans, indicating that targeted product development could be successful.

Interested Islamic Financial Services: Business Clients

Islamic financial services interested in among business clients.



Key highlights

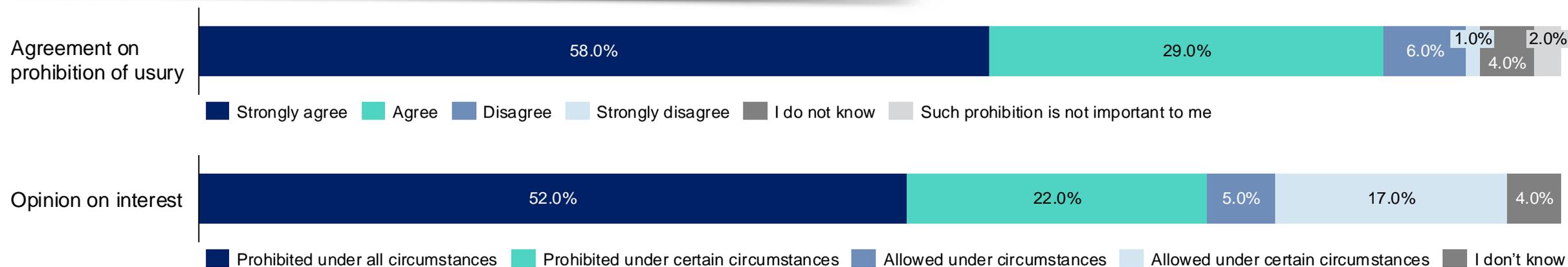
- ◆ Universal 100% interest in business credit cards suggests a significant opportunity for Shariah-compliant alternatives.
- ◆ High interest in Islamic vehicle and property insurance among businesses (98% and 92%, respectively) indicates a strong potential market for Takaful products.
- ◆ While 86% of businesses are interested in basic services like savings accounts, there is considerable interest in specialized products like business loans (39%) and lines of credit (12%).
- ◆ These insights reveal a diverse demand for Islamic financial services.

3

Now is the right time

Sentiment on Interest and Interest-based Products: Retail Clients

Agreement on prohibition of usury and opinion on interest among retail clients



Reasons for using interest-based products among retail clients

30%

They are Haram (prohibited); hence, I do not use them at all.

▲ Top jumpers

32%

▲ Mindanao

They are Haram (prohibited), but I use them only when I have no choice.

24%

▲ The BARMM

They may be Haram (prohibited), but I have to live my life.

7%

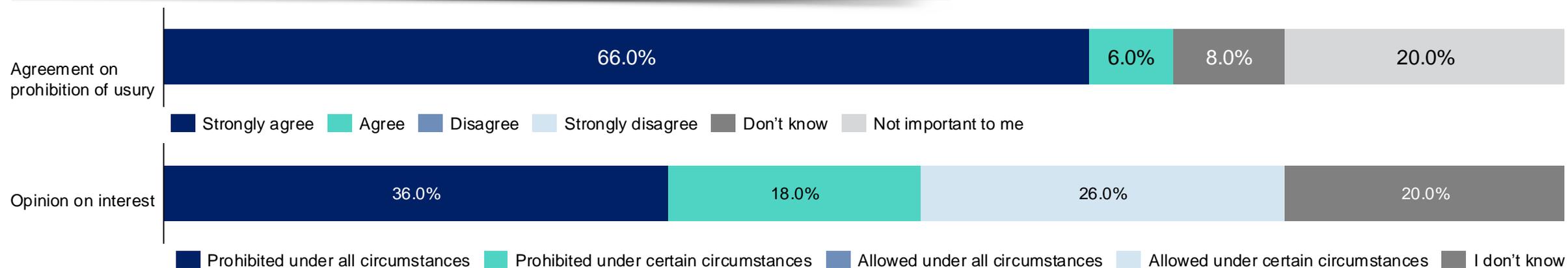
I think they are not Haram (prohibited).

7%

It is not a matter of concern for me.

Sentiment on Interest and Interest-based Products: Business Clients

Agreement on prohibition of usury and opinion on interest among business clients



Reasons for using interest-based products among business clients

34%

They may be Haram (prohibited), but I have to live my life.

▲ Top jumpers

26% ▲ Micro, Small

They are Haram (prohibited), but I use them only when I have no choice.

22% ▲ Micro, Small

They are Haram (prohibited); hence, I do not use them at all.

14% ▲ Large

I think they are not Haram (prohibited).

4%

It is not a matter of concern for me.

Sovereign Sukuk Launch

Launch details

Issue date	December 2023	Sukuk type	5.5 yr. Dollar Sukuk under Ijarah and Wakalah, with a Commodity Murabaha component
Amount Raised	USD 1 billion	Listed in	Nasdaq Dubai

Market Reception

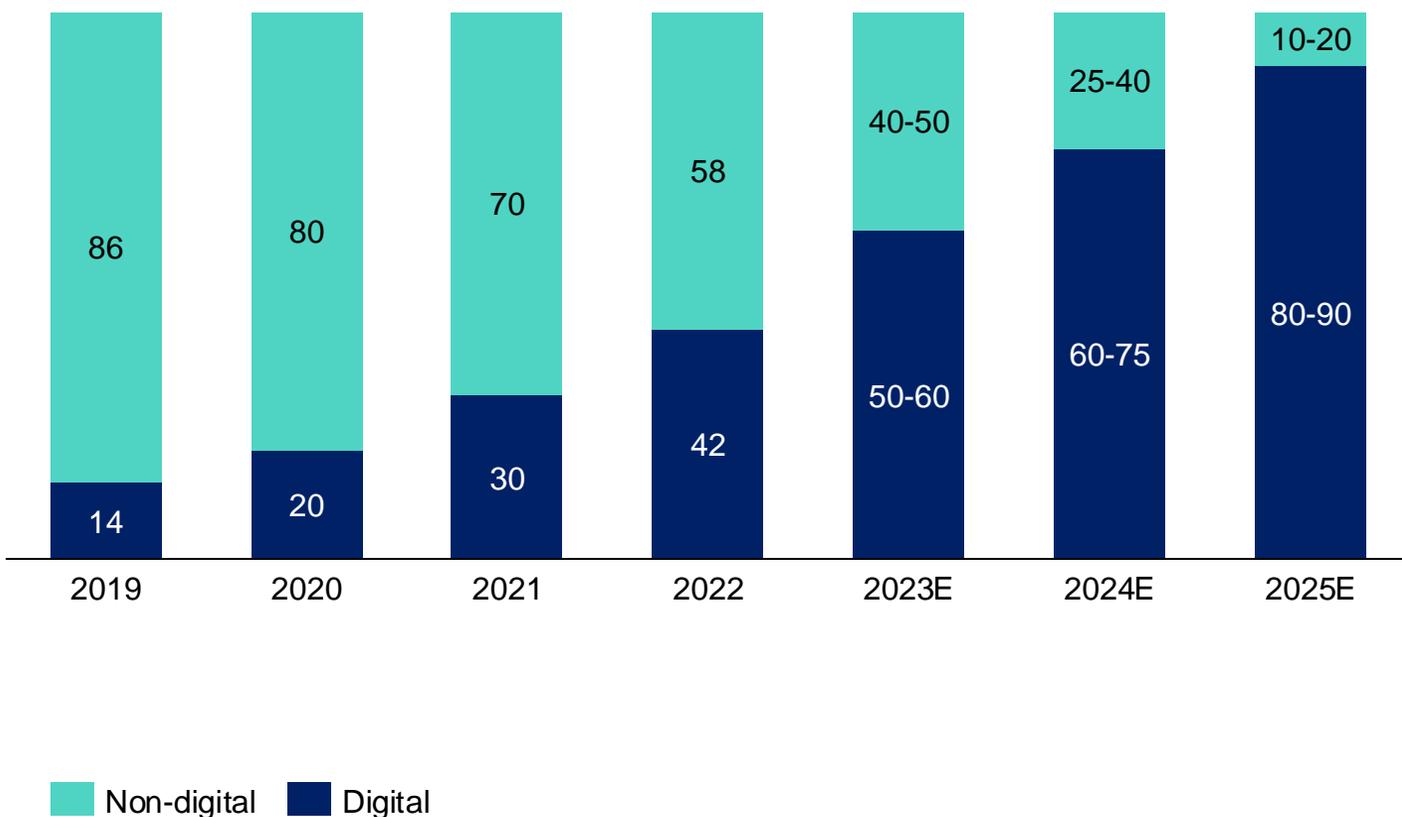
Oversubscription Rate	4.90x 	Profit Rate	5.045%
Fitch Ratings	BBB+	Moody's Investors Corp	Baa2

Key highlights

- ◆ The Sukuk issuance was highly successful, achieving an oversubscription rate of 4.90x, indicating strong investor demand.
- ◆ The Sukuk was well-received by credit rating agencies, receiving a BBB+ rating from Fitch and a Baa2 rating from Moody's, reflecting confidence in the Philippine economy.
- ◆ The 5.5-year Sukuk offered a competitive profit rate of 5.045%, making it an attractive investment for both domestic and international investors.

Digitalization Trends

Share of digital transactions by volume



Key highlights

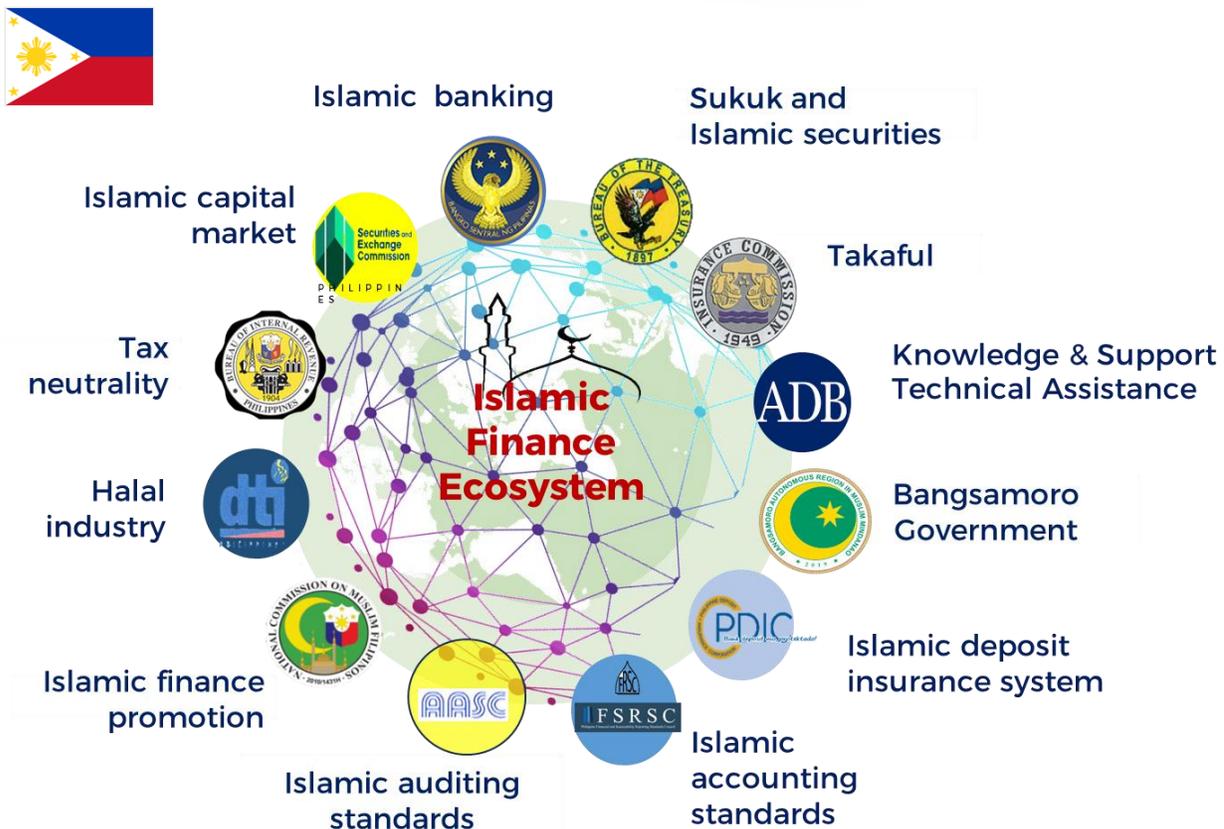
- ◆ A significant shift towards digital transactions is seen, rising from 14% in 2019 and projected to reach 80-90% by 2025, indicating a strong trend towards digital banking solutions.
- ◆ This growth presents opportunities for Shariah-compliant fintech solutions.
- ◆ Investors could capitalize on this by developing digital platforms suited for Islamic finance.

4

Support is readily available

Philippine Islamic Finance Ecosystem

Whole-of-Government Approach



BSP's Single Regulatory Framework



Conventional regulations apply to Islamic banks.



Regulations are adjusted and supplemented to address unique features of Islamic banking.

The objective is to create an enabling environment where Islamic banks and Islamic banking units can operate alongside conventional banks.

Legal and Tax Reforms Supporting Islamic Finance (1/2)

Law/Reform	Year	Overview
Inter-agency Working Group on Islamic Banking and Finance	2017	<ul style="list-style-type: none"> • Consists of 10 government bodies, chaired by the Bangko Sentral ng Pilipinas (BSP) • Reconstituted in August 2022 into a high-level forum known as the Islamic Finance Coordination Forum (IFCF)
Organic Law for the BARMM 	2018	<ul style="list-style-type: none"> • Mandated Bangsamoro Government, Department of Finance, National Commission on Muslim Filipinos, and BSP to promote Islamic finance • Set up of Shariah Supervisory Board to issue Shariah opinions upon request • Authorized BARMM to grant Tax Incentives and ensure Tax Neutrality in the BARMM

Legal and Tax Reforms Supporting Islamic Finance (2/2)

Law/Reform	Year	Overview
Amendments to the New BSP Charter 	2019	<ul style="list-style-type: none"> Authorized BSP to extend Shari'ah-compliant facilities to Islamic banks
Islamic Banking Law	2019	<ul style="list-style-type: none"> Enabled BSP to issue broader set of rules and regulations, including on the licensing of IBs/IBUs Mandated the government to provide programs for increased consumer awareness and capacity building on Islamic banking and finance Required the government to achieve tax neutrality.
Islamic Deposit Insurance 	2022	<ul style="list-style-type: none"> Modified the PDIC charter to establish Shari'ah compliant deposit insurance scheme. Allowed the creation of separate insurance funds
Tax Incentives in the BARMM 	2023	<ul style="list-style-type: none"> Offers tax holidays & reduced duties for registered IBs Implementation of the provision of Bangsamoro Organic Law

Tax Neutrality and Incentives



Tax Neutrality

- ◆ In 2020, the Bureau of Internal Revenue (BIR) issued regulations on Tax Neutrality to implement the provision of the Islamic Banking Law.
- ◆ The BIR released circulars for the tax treatment for Murabahah and Tawarruq, in 2022, and for Sukuk in 2024.
- ◆ The BIR is currently preparing circulars to outline tax treatments for other Islamic banking and finance contracts.

Rationale

Ensuring Islamic financial institutions operate on equal footing with conventional financial institutions.

Tax Incentives

- **Income Tax Holidays:** granted to registered IBs/IBUs to stimulate initial investment and growth.
- **Reduced Duties and Tariffs:** of imported capital requirements.
- **Local Tax Exemptions:** Providing tax exemptions from local taxes imposed by provinces, cities, and municipalities.
- **BARMM Specific:** A new bill by the BARMM government to provide tax exemptions to duly registered IBs/IBUs operating in the BARMM from regional tax imposed on banks and other financial institutions.

Impact and Expectations:

- **Investor Attraction** for investors interested in Shariah-compliant banking.
- **Economic Development** for broader economic development goals within the BARMM
- **Long-term Stability** for growth of Islamic finance.

Prudential Regulatory Reforms (2/2)

Regulatory Guideline	Year	Overview
Guidelines for Reporting Islamic Banking and Finance Transactions/Arrangements	2022	<ul style="list-style-type: none"> Guidelines for reporting Islamic banking and finance transactions, ensuring a level playing field for IBs and conventional banks
Baseline Regulatory Framework for Takaful Undertakings	2022	<ul style="list-style-type: none"> Baseline regulatory framework for Takaful undertakings, defining compliance with Shariah rules, governance, solvency requirements, among others.
Modified Minimum Capitalization of Conventional Banks with IBU	2023	<ul style="list-style-type: none"> Modified Minimum Capitalization for Conventional Banks with IBUs to provide flexibility without additional capital requirements for a transitional period
Consolidated Guidelines for Takaful Window Operation	2024	<ul style="list-style-type: none"> Consolidated Guidelines for Takaful Window Operation, providing licensing and documentary requirements, and other guidelines for Takaful window operators.

Prudential Regulatory Reforms (2/2)

Regulatory Guideline

Year

Overview

Guidelines for Reporting Islamic Banking and Finance Transactions/Arrangements

2022

- Guidelines for reporting Islamic banking and finance transactions, ensuring a level playing field for IBs and conventional banks

Baseline Regulatory Framework for Takaful Undertakings

2022

- Baseline regulatory framework for Takaful undertakings, defining compliance with Shariah rules, governance, solvency requirements, among others.

Modified Minimum Capitalization of Conventional Banks with IBU

2023

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Consolidated Guidelines for Takaful Window Operation

2024

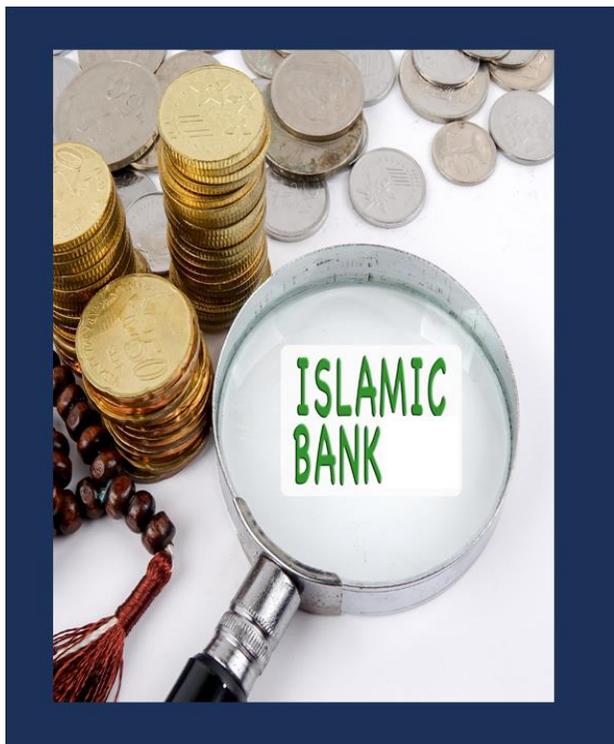
- Consolidated Guidelines for Takaful Window Operation, providing licensing and documentary requirements, and other guidelines for Takaful window operators

Tax Treatment of Sukuk (Islamic Bond) as Islamic Banking Arrangement

2024

- Tax Treatment of Sukuk as Islamic Banking Arrangement, providing the tax implications of sukuk pursuant to the tax neutrality provision of the Islamic Banking Law

Modes of Entry of Foreign Banks



By **acquiring, purchasing or owning** up to 100% of the voting stock of a domestic bank.

By investing in up to **100%** of voting stock of a **NEW BANKING SUBSIDIARY** incorporated under Philippine laws.

By establishing a branch and sub-branches with full banking authority.

NOTE: For non-banks, ownership ceiling is 40 percent, and 60 percent if the bank to be acquired is a rural bank.

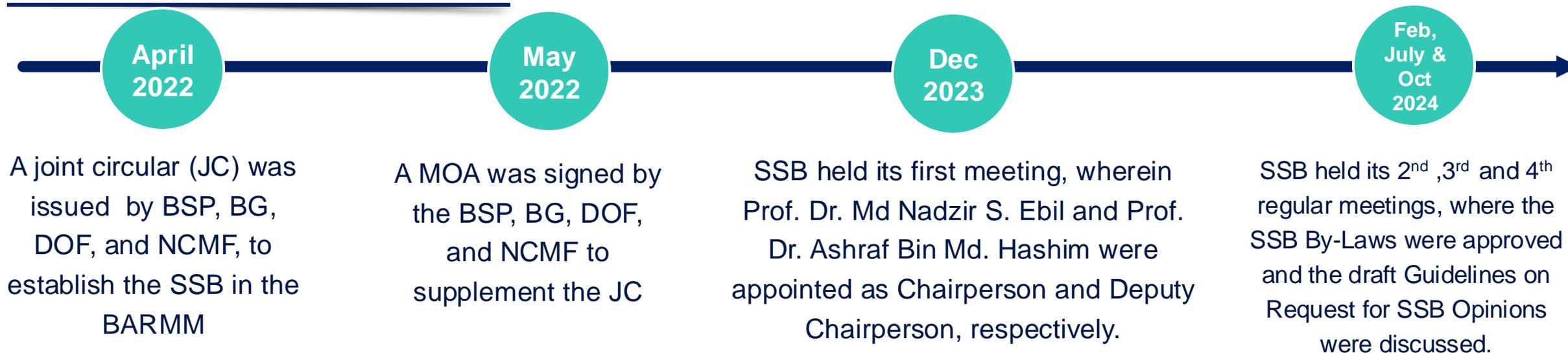


Shariah Supervisory Board in the BARMM (Islamic Banking and Finance)

Overview

- 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 in and help maintain integrity of the Philippine Islamic banking and finance industry.
- SSB is responsible for issuing Shariah opinions on Islamic banking transactions and products in the BARMM when requested by the BSP, financial institutions, and other stakeholders.

Timeline



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

Milestone	Description	Impact
Establishment of Philippine Amanah Bank 	<ul style="list-style-type: none"> Established in 1973, renamed in 1990 as Al-Amanah Islamic Investment Bank, and further restructured in 2008, it aimed to serve the financial needs of the Muslim community. 	<ul style="list-style-type: none"> Pivotal for Islamic finance in the Philippines, supporting local development with Shariah-compliant funding.
Granting of IBU Licenses to CARD Bank, Inc. and Maybank Philippines, Inc  	<ul style="list-style-type: none"> In June 2023, CARD Bank, Inc., a microfinance-oriented conventional rural bank, received the first IBU license. It started operations on 22 January 2024 in Cotabato City. It aims to strengthen financial inclusion and eradicate poverty in the country. In July 2024, Maybank Philippines, Inc. became the first conventional commercial bank to receive an IBU license. The IBU was formally inaugurated on 14 August 2024 in Zamboanga City. IBU operations will be within its existing banking offices. 	<ul style="list-style-type: none"> Set a precedent for other banks to adopt Islamic banking, enhancing financial inclusion. Drives policy formulation and changes by the regulators
Debut of the Philippine Sovereign Sukuk 	<ul style="list-style-type: none"> In 2023, the Philippines issued its first sovereign Sukuk, utilizing real estate assets under Ijarah and Wakalah, which was listed in Nasdaq Dubai. 	<ul style="list-style-type: none"> Strengthened the Philippines' position in global Islamic finance, attracting investors/establishing a liquidity reference curve.
Granting of Takaful Operator Licenses to Pru Life and Etiqa  	<ul style="list-style-type: none"> In September 2024, Pru Life Insurance Corporation of U.K. became the first takaful operator in the Philippines. The company is set to introduce its inaugural takaful product in the first quarter of 2025. Following closely, in October 2024, Etiqa Life and General Assurance Philippines, Inc. was also granted a takaful operator license. 	<ul style="list-style-type: none"> Set a precedent for others to adopt a model for financial protection that is compliant with Shariah, operates on the principles of mutual cooperation and shared responsibility, and invests ethically

5

Strategic initiatives are in progress

Capacity Building Efforts

Collaborations

In collaboration with ADB, BSP partnered with the Islamic Banking and Finance Institute Malaysia (IBFIM) to train personnel of agencies/ stakeholders under the IFCF to participate in the Associate Qualification in Islamic Finance (AQIF) program, a program designed to equip practitioners with basic knowledge in Islamic finance. Seven personnel passed the IQIF-Banking advanced programs and are slated to complete the Certified Qualification in Islamic Finance (CQIF)–Banking.



Work in Progress

Key highlights

- The Philippine government is committed to expanding Islamic finance, following engagements with stakeholders and the sovereign Sukuk launch.
- The Bureau of the Treasury plans regular Sukuk issuances to benefit the local Islamic finance sector and incentivize private sector Sukuk issuance.
- Another company is planning to establish Islamic banking operations, with its application expected to be submitted soon.
- These initiatives aim to increase investment opportunities and strengthen the financial sector's role in economic development.

The Shariah Stock Market Program

Description

- The Shariah Stock Market Program, initiated by the Philippine Stock Exchange (PSE) in 2013, is a dedicated effort to align the trading of listed companies with globally recognized Shariah standards, specifically those set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- As of 25 March 2024, there are about 53 securities listed in the PSE classified as Shariah-compliant equities.
- This program screens and identifies companies whose operations and financial practices are compliant with Shariah law, ensuring they meet specific criteria related to business activities and financial ratios.

Key Objectives

- **Aligning Objectives with the NCMF:** Ensuring that the PSE's operations are in harmony with the National Commission on Muslim Filipinos' goals, particularly in promoting Islamic finance.
- **Increasing Participation:** Boosting the involvement of the local business community in Islamic finance by making the financial markets accessible and attractive to Muslim investors.
- **Providing Investment Opportunities:** Offering a robust and legally compliant investment environment for Muslim Filipinos and other investors interested in Shariah-compliant investments.
- **Attracting Global Funds:** Drawing significant investment from global Islamic funds to support and accelerate the growth of the Philippine economy through the stock market.

Collaborating Entities



Philippine Islamic Finance International Roadshow 2024

Key highlights

- An international roadshow was conducted by BSP and ADB teams in September 2024 in Jakarta and Kuala Lumpur
- Showcasing the developments and reforms pertaining to Islamic finance in the Philippines and presenting the findings of the independent market study
- Inviting the international Islamic finance players to invest in the burgeoning Islamic finance sector in the Philippines
- Indonesian and Malaysian players have highly praised the Philippine achievements to date and many of them have registered a significant interest in exploring the market opportunities and potential partnerships with local players
- Further expressions of interest received from potential investors in the Middle East







6

Opportunities abound for investors

Strategic Approach of the Philippines in
Promoting Islamic Finance Opportunities



Establishing Islamic Financial Institutions

This includes opening new Islamic banks or branches in the Philippines, taking advantage of the supportive regulatory environment



Partnering with International Financial Institutions

Investors can collaborate with existing conventional banks to open Islamic windows, which provide Shariah-compliant financial services alongside conventional offerings



Obtaining Funding Lines

Foreign investors may provide funding to local institutions offering Islamic financial products in the Philippines



Subscribing to Sukuk Issuances

The government and corporate entities in the Philippines have started issuing Sukuk, providing opportunities for international and local investors to participate

Key Opportunities (1/2)

Opportunity

Overview

Islamic Banking

- 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 international Islamic bank in the Philippines by securing an Islamic financing line or other business relationships

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

Sukuk

- Investing in Sukuk issued by the Philippine government or the private sector, or participating in Sukuk issuance by local financial or non-financial institutions in the market

Key Opportunities (2/2)

Opportunity	Overview
Digital Banking and FinTech	<ul style="list-style-type: none">As digital financial services adoption grows, investments in e-wallets, online payments, and Islamic finance platforms can be potentially lucrative.
Islamic Equities	<ul style="list-style-type: none">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.
MSME Financing	<ul style="list-style-type: none">Philippine market players can explore opportunities to provide Islamic financing solutions and other financial products tailored to MSMEs.



Open discussion

Downloads



Unlocking the Potential of Islamic
Finance in the Philippines
(Presentation File)



Unlocking the Potential of Islamic
Finance in the Philippines: A
Market Analysis and Landscape
Report

A large crowd of people walking, overlaid with a dark blue filter. The crowd is diverse in age and attire, with many women wearing hijabs. The text 'Thank you' is overlaid on the left side of the image.

Thank you

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