

THE OPPORTUNITIES AND CHALLENGES FACED BY THE ISLAMIC UNIT TRUST INDUSTRY IN MALAYSIA

The unit trust industry in Malaysia has been experiencing a phenomenal pace of growth since last decade. It is evidenced by the growth in terms of net asset value (NAV), which has increased 18% annually from RM43.3 billion in 2000 to RM226.8 billion in 2010. Islamic unit trusts experienced a more robust growth given its smaller base; its NAV increased from RM1.7 billion in 2000 to RM24 billion in 2010.

Based on the Capital Market Masterplan 2 (CMP 2) released by the Securities Commission (SC) in April 2011, the NAV of the entire unit trust industry is projected to reach RM827.9 billion in 2020 while the estimate for Islamic unit trusts is RM158 billion in 2020. In this regard, the CMP2 aspires to promote the Islamic unit trusts as a key pillar for the growth of the overall unit trust industry.

In line with the SC's aspiration under the CMP2 and as part of the Federation of Investment Managers Malaysia's (FIMM) activities to promote the investments in Islamic unit trusts, FIMM organized its inaugural industry dialogue titled, "Islamic Unit Trusts: Opportunities and Challenges" on July 11, 2011 at the Sime Darby Convention Centre. The objective of the dialogue was to bring together the various stakeholders to explore the opportunities and challenges within the Islamic unit trust industry.

To ensure that all parties had their share of the dialogue process, the event was divided into two sessions, with the morning session attended by participants from Unit Trust Management Companies (UTMCs), while the afternoon session had participants predominantly from Institutional Unit Trust Advisers (IUTAs) and Corporate Unit Trust Advisers (CUTAs). The two dialogues attracted Chief Executive Officers and the senior sales and marketing personnel from the UTMCs, IUTAs and CUTAs.

The keynote speech for the morning session was delivered by En. Zainal Izlan, the Executive Director of the Islamic Capital Market of the SC, while the afternoon session had its keynote speech delivered by En. Mohd. Radzuan, the Deputy General Manager and Head of Islamic Capital Market Department of the SC. Both sessions were moderated by Prof. Dr. Saiful Azhar Rosly and Mr. Mike Lee. Prof. Dr. Saiful is the Professor of Islamic Economics and Banking and Head of Islamic Banking Department at International Centre for Education in Islamic Finance (INCEIF) and also serves as the Chairman of Industry Development Committee of FIMM. Mr. Mike Lee is the founder and Managing Director of CTLA Financial Planners Sdn. Bhd., a registered CUTA of FIMM. Also present was Mr. Lee Siew Hoong, the Chief Executive Officer of FIMM.

The Benefits of Education and Awareness

Despite the growth of the Islamic unit trust industry over the last decade, experts are still concerned that the penetration rate is still somewhat below other financial and investment products available in the market place, as Islamic unit trusts only accounted for slightly over 10% of the total unit trust industry NAV. Overall, participants still believe that there is potential for growth in this segment.

It was noted that quite a number of the participants were of the view that there is a need to increase investors awareness and understanding about Islamic unit trusts and its benefits. Another point of contention is the differences in the compliance requirements among the various jurisdictions, which make the marketability of Islamic unit trusts difficult or less appealing. In addition, the current constraints also make it difficult for the investing public to obtain critical information such as the Shariah indices, the underlying investments of Islamic unit trust funds etc, to make informed decisions.

While the Islamic banking has generated strong interest and appeal among Muslims and non-Muslims, the participants generally felt that the Islamic unit trust industry has not reached the level of the Islamic banking industry. Hence, SC and FIMM should do more on promoting Islamic unit trust industry.

Although some of the participants opined that unit trust consultants (UTC) need to be equipped with Shariah knowledge and competency, they were generally not in favour of additional mandatory examinations being imposed either by FIMM or others, for certification purposes before UTC are allowed to market Islamic unit trusts.

Mr. Lee Siew Hoong explained that education programmes organised by FIMM include topics on Islamic investments. In addition, he mentioned about further certification standards offered by Securities Industry Development Corporation (SIDC), Islamic Banking and Finance Institute Malaysia Sdn. Bhd. (IBFIM), Financial Planning Association of Malaysia (FPAM) and INCEIF. He agreed that better education will ensure distributors have sufficient knowledge on Islamic unit trusts and thus being able to diversify their offerings to investors.

The Critical Factor of Product Innovation and Differentiation

The moderators opined that constant growth, innovation and differentiation are important factors that help to stimulate the performance of the industry. The keynote speaker also highlighted the merits of these factors. He believed that these two factors play important roles to attract investors into the industry. He indicated that one of the main features of Islamic unit trust funds is its compatibility with Socially Responsible Investing (SRI), a feature that benefits those who subscribe to this investment philosophy. Due to the selection criteria of the underlying investments, Islamic unit trust funds appeal to investors seeking for products which espouse ethical investing. SRI-based funds have gained significant traction in the more developed markets, such as the U.S., with an estimated total asset under management worth some US\$3.07 trillion.

The Importance of Creating Value to Investors

One of the keynote speakers mentioned that often manufacturers are divorced from the distributors. In addition, investors are often induced into buying something they do not need. He believed distributors need to charge reasonable fees to investors as they are more learned today and can choose to exercise their purchasing rights through the Internet or other investment channels.

The moderator urged the participants to encourage their investors to understand the importance of Dollar Cost Averaging and how it makes a difference in generating better long-term returns. He believes investors should be educated to focus more on investment methodology and approach, rather than principles.

Improving Fund Performance and Increasing the Product Range

In order for Islamic unit trust funds to be accepted by the investing public, the participants unanimously agreed that the funds should at least do well or outperform the Shariah Index. The moderator added that regardless of whether the fund is a conventional or Islamic, the respective performances would be quite similar, as both types of funds invest in similar asset classes, including equities, fixed income securities and commodities, with difference being the Shariah compliance status of the individual securities.

Another point highlighted by the participants during the dialogue was the general inclination of Islamic fund investors to focus on dividends distributed, rather than NAV growth when determining performance of the unit trust funds. It is believed that this misconception came about due to their familiarity with the existing success stories such as Amanah Saham Nasional (ASN), Amanah Saham Bumiputra (ASB) or Tabung Haji.

In order to reap better opportunities, an expanded variety of funds in the Islamic space is required to provide investors with more choices. This brought about the opinion that fund managers should be encouraged to invest in International markets as well.

The moderator summed up by suggesting that distributors promote the product under a basket of funds for investors - consisting of at least two Islamic funds out of a total of five funds. He urged them to explain clearly that the funds are investing in the same asset classes as conventional funds; therefore the returns should be in the same price range. He also added that there was a need for distributors to explain to investors, the wide universe of Islamic investments; as well as its SRI features.

A General Summary

Participants in the dialogue were generally in favour of cross border distribution of Malaysian funds, but agreed that it could only be possible if the Islamic guidelines imposed by regulators in the various jurisdictions are harmonized. Therefore, a uniformed Shariah standard applied between countries would make it easier for distributors. The brand of the fund and its perceived quality is equally of importance to facilitate domestic or cross border distribution.

In addition, most of the participants would like to see regulators playing a greater role by organising more seminars and conferences to educate the benefits of investing in Islamic unit trusts.

The dialogue came to an end and was aptly summarised by Mr. Lee Siew Hoong. He concluded that at the end of the day, performance was still the key factor when determining investment decisions, be it for Islamic or conventional funds. He therefore agreed that more effort need to be done on creating awareness and enhancing the knowledge and expertise on Islamic unit trust funds, among distributors and investors alike.

To round up the session, Mr. Lee Siew Hoong reiterated that costs must be reasonable to encourage investments in unit trust funds, be it Islamic or conventional. He also believed that there is a paramount need for harmonising Islamic compliance standards to encourage investors to invest in Islamic unit trust funds, across the spectrum. On a final note, he acknowledged that regulators such as FIMM and SC should play a greater role in promoting the industry, similar to the success achieved by the banking industry in promoting the benefits of Islamic finance.

Event Photos

