

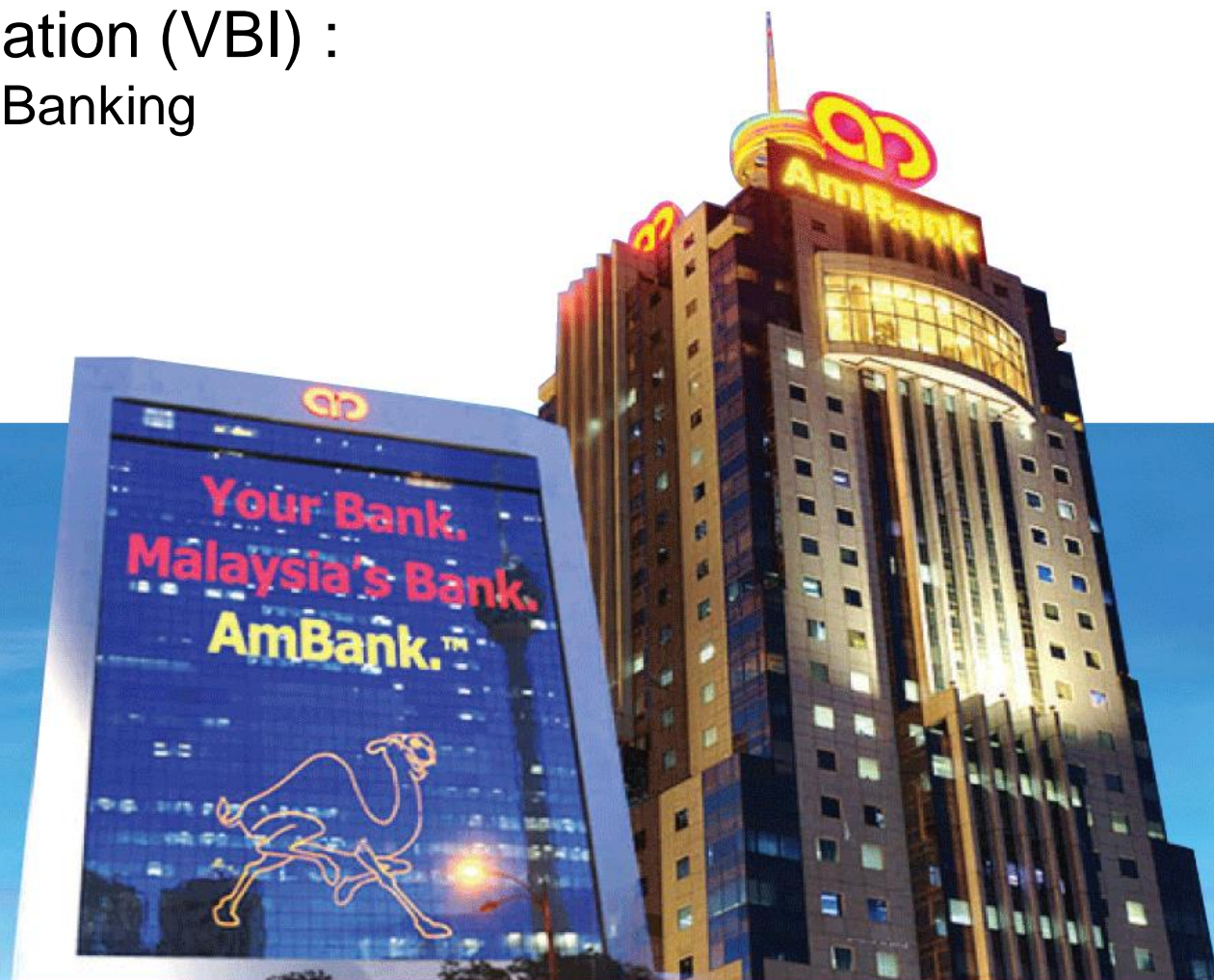


AmBank Islamic

IFN FORUM
INVESTORS
2018

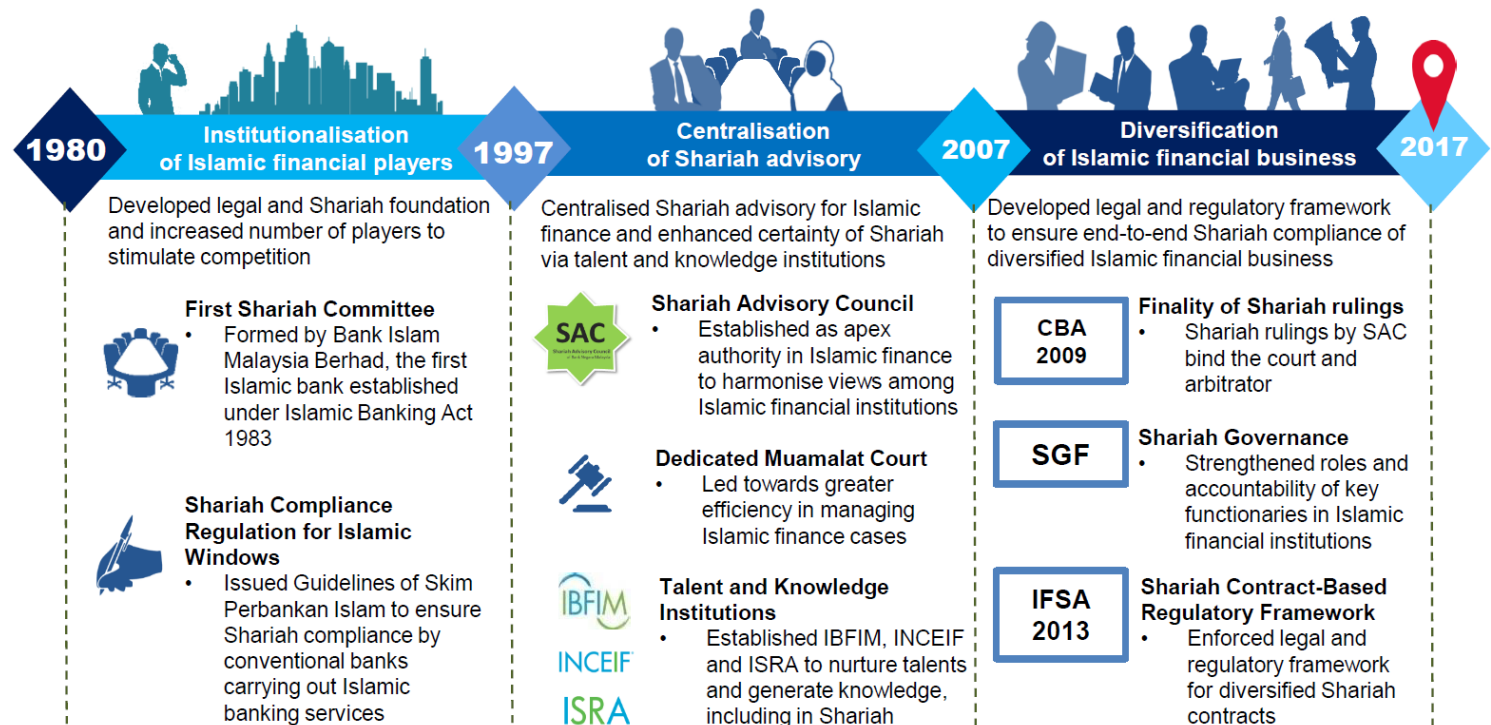
Value Based Intermediation (VBI) : The Next Phase of Islamic Banking

14 November 2018



Background of Islamic Finance : Ensuring Shariah Compliance

- In Malaysia, the Islamic finance industry is well supported by comprehensive market infrastructure, robust regulatory framework and dynamic market participants as the industry's key growth drivers.
- **Compliance to Shariah has been the focus** in ensuring legitimacy of Islamic financial products and services.
- The market share of total Islamic banking assets in Malaysia increased by 7.1% from 2010 to 28% in 2016.
- However, **the decline in its annual growth rate from a double-digit in 2011 (24.2%) to 8.2% in 2016** signals that the Islamic financial industry **needs to further explore new opportunities for sustained growth.**



Source: BNM Strategy Document on Value-based Intermediation: Strengthening the Roles and Impact of Islamic Finance dated 12 March 2018

Value based Intermediation (VBI) is a Bank Negara Malaysia (BNM)-led initiative in moving the Islamic financial industry to the next level of growth whereby the underpinning thrust would be 'Shariah beyond compliance'

VBI : Beyond Profit/ Shariah Beyond Compliance

What is VBI?

Strengthening the roles and impact of Islamic Finance by delivering the intended outcomes of Shariah through **practices, conduct and offerings** that generate positive and sustainable impact to the **economy, community and environment**, consistent with the **shareholders' sustainable returns** and long-term interests

Source: BNM Strategy Document on Value-based Intermediation: Strengthening the Roles and Impact of Islamic Finance dated 12 March 2018

Emphasis of VBI

Whilst VBI shares the universal values of **ESG, SRI, ethical investment, etc.**, VBI encapsulates:

Shariah as the moral compass

Focus on the real economy

Networking and cross-fertilisation



VBI : Benefits

Benefits of VBI

Financial Performance

- Does not compromise financial objectives over the long run
- Generate stable earnings since avoid lumpsies
- Attract new market segments (e.g. millennials with increasing consciousness, SMEs)
- Spur product innovation to meet demand

Compliance

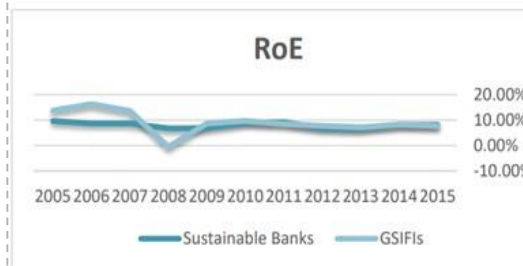
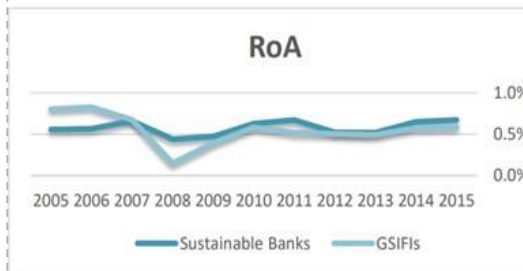
- Behave, since considers stakeholders' interests in decision-making
- Avoid misselling
- Avoid regulatory action

What Goes Around Comes Around

- Islamic banks do not live in a vacuum
- Avoid indirect cost of doing business in the future by minimising negative externalities

Contributes to overall financial and monetary stability

Empirical Study



Return on Assets		
5y (2011-2015)		
	Average	St. Dev.
SFBs	0.64%	0.19%
GSIFs	0.53%	0.19%

10y (2006-2015)		
	Average	St. Dev.
SFBs	0.65%	0.26%
GSIFs	0.53%	0.35%

Return on Equity		
5y (2011-2015)		
	Average	St. Dev.
SFBs	8.0%	2.3%
GSIFs	7.8%	3.3%

10y (2006-2015)		
	Average	St. Dev.
SFBs	8.3%	4.9%
GSIFs	8.7%	7.7%

SFB: Sustainability Focused Banks

GSIFI: Global Systemically Important Financial Institutions

Source: Real Economy – Real Returns: A Continuing Business Case for Sustainability focused Banking 2016
Research Report by the Global Alliance For Banking On Values

The SFBs generated more resilient financial returns than GSIFIs over the last ten years, with lower levels of volatility

AmBank Islamic : Putting VBI Into Practice

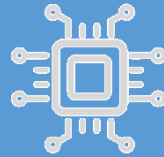
1 Customer Satisfaction



2 Ethics, Governance & Compliance



3 Data security, IT Infra & Digital Transformation



4 Employer of Choice



5 Community Investment & Development



AmBank Group's current priorities in relation to **VBI aspiration**

6 Environmentally and Socially Responsible Investment



7 Financial Inclusion and Responsible Lending



8 Responsible Sourcing and Procurement



9 Responsible Marketing, Product & Service Design



10 Energy, Water and Waste Management



Whilst VBI encompasses *inter alia* AmBank Group's 10 material sustainable matters,  would **prioritise material sustainable matters 6 and 7** in relation to its **VBI aspiration**

AmBank Islamic : Putting VBI Into Practice (cont'd)

Environmentally and Socially Responsible Investment

Offerings :

- Credit card – points towards endowment fund
- Collection solution via JomPAY for religious bodies



Credit Underwriting : Exploring the incorporation of the VBIAF



Financial Inclusion and Responsible Lending

Sectoral Focus : Grow SMEs by

- increasing the accessibility of banking solutions
- providing banking solutions which are suitable to customers' needs and financial capability

Networking & Cross-Fertilisation :

- AmBank BizCLUB
- AmBank BizCONFERENCE
- AmBank BizRACE



Socioeconomic Upliftment : Affordable Home Financing Scheme

Leadership

Communication

Roadmap

Capacity Building

Islamic Credit Intermediary → Value Based Intermediary

	<i>Islamic Credit Intermediary</i>	<i>Value Based Intermediary</i>
Shariah	To attain legitimacy	Drawing inspiration from Shariah to create positive impact
Mind-set	Focus on 'bankable' customers vis-à-vis repayment capabilities	Greater involvement in facilitating entrepreneurial activities through holistic offerings, which include financing and proactive support such as advisory and business network
Products & Services	Shariah-compliant products and services which are free of prohibited elements such as usury (riba) and speculation (maysir)	Shariah-compliant products and services which are beyond compliance, but towards positively impact not only banking customers, but the wider stakeholders
Customers	Business activities which are Shariah-compliant	Business activities which are Shariah-compliant, and do no harm to stakeholders (e.g. environment, society)
Community Empowerment	Leverages on CSR as the means to give back to society	Balanced consideration between commercial and social aspects in navigating strategic decisions, thus creating the practice of giving back to society, beyond CSR
Governance	Governance in practice has been driven primarily by regulations	Inculcating organisational discipline (self-restraint) and ensuring meaningful participation of all stakeholders in the governance framework
Conduct	Safeguards bank's interests (e.g. product-push)	Best conduct: practices that improve offerings, processes and treatments towards stakeholders (e.g. customers, employees), needs-based sales which minimise misselling
Disclosure	Existing disclosures mainly focus on financial performance	Enhanced transparency to include role and impact to wider stakeholders especially in the non-financial aspects such as facilitation of entrepreneurship and community well-being

VBI : What Next?

Key VBI Documents by BNM

VBI Strategy Document 12 March 2018



"Islamic finance has its roots in creating social justice and promoting a values based economy. This initiative championed by BNM will set a new global standard for value-based banking, and has the potential to create a platform for Islamic finance to lead the financial services industry into a new era."

Arsalaan Ahmed
HSBC Amanah Malaysia Berhad



"Islamic finance, with all its ingrained principles, remains relevant in a world that is increasingly focused on societal and environmental wellbeing which operates within systems of clear governance. Islamic finance is well-positioned to lead inclusive growth that leverages on ecosystem of responsible finance."

Khairul Kamarudin
Bank Islam Malaysia Berhad



"The time has now come for the Islamic finance to take the leadership role in ensuring all Shariah-compliant financing and solutions are also in line with sustainable development goals which are part of the higher objectives of Shariah. This transformation will further enhance the position of Islamic finance as a value-based financing."

Rafe Haneef
CIMB Islamic Bank Berhad



"Integrating value based principles into Islamic finance strong fundamentals, leadership and platform will complete the equation for an ethical and a more socially responsible banking environment."

Dato' Hj Mohd Redza Shah Abdul Wahid
Bank Muamalat Malaysia Berhad



"The inherent principles of fairness and social responsibility which are intrinsically linked to being Shariah compliant, are poised to support the demand for value-based banking. Financial stability, sustainable ecosystem, efficient use of resources and innovation to create new market opportunity resonate with the increase in society's consciousness and thus present an enormous opportunity for Islamic finance."

Ekhwan Mokhzanee bin Muhammad
Ambank Islamic Berhad



"Collectively, we have a responsibility to advocate value based governance and make lasting and impactful contributions to the society besides providing opportunities and growth for our business."

Dato' Mohamed Rafique Merican bin Mohd Wahiduddin Merican
Maybank Islamic Bank Berhad



VBI Scorecard

VBI Implementation Guide

VBI Assessment Framework

- The VBIAF provides guidance to facilitate the implementation of an impact-based risk management system for assessing the financing and investment decisions by Islamic banks in Malaysia
- The VBIAF also takes into consideration the current landscape and readiness of environmental and social sustainability practices in Malaysia, as well as adoption of national environmental and social regulations and policy priorities in the country

Thank You