

# I Have A Dream: Waqf Market in Addition to Islamic Banking, Takaful and the Islamic Capital Market

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## INTRODUCTION

Malaysia can make a difference and a breakthrough in the history of waqf and the Islamic financial market by creating a waqf market. Waqf is undoubtedly a very powerful concept which has a sound structure and flexible features, that create within it a smooth and dynamic mechanism in designing products and services that serve the interests of this world and the Hereafter. There are two major aspects of waqf: the first is related to fixed properties such as land and houses while the other aspect is cash which has the feature of liquidity. However, for waqf to match or merge with the Islamic financial market, I would like to divide it into two types: tangible assets and liquid or non-

tangible assets. This classification will ease the operation of waqf according to the marketplace, whereby the tangible assets will come under the management and services portfolio, while the liquid or non-tangibles such as cash and Intellectual Property (IP) will come under the financial market portfolio.

## THE IDEA OF WAQF MARKET AND PROPOSED STRUCTURE

The idea is about having waqf as an additional market segment in the composition of a comprehensive Islamic financial market in addition to Islamic banking, Takaful and the Islamic capital market. The waqf market should be structured like the current Islamic

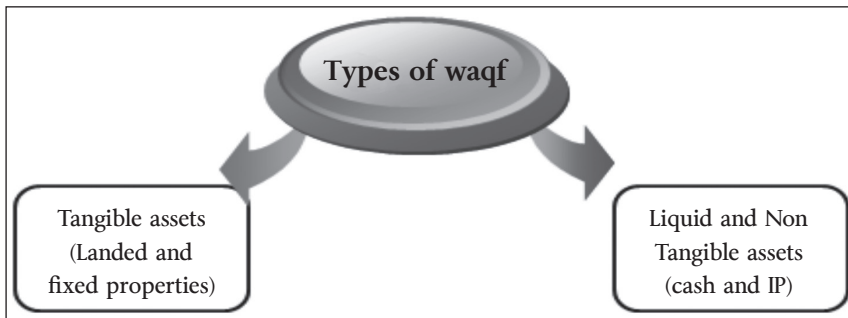
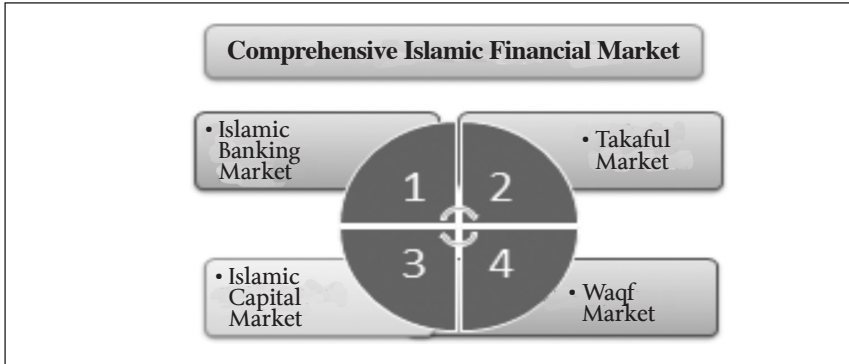


Figure 1: Types of Waqf

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**Figure 2: Proposed Financial Market Structure**

financial market where regulation is under the purview of the Central Bank and the Securities Commission along with the religious department. The regulatory body will assume the role of supervising, monitoring, issuing guidelines, standards and other related mandates that govern the business operation of the waqf market. The supervisory body should not be involved directly in handling the waqf business and operation in the waqf market, unless the matter is related to the general public and is mandated by the government. Even in such a case, the supervisory body should not be involved directly in the management of the waqf but appoint a third party to manage it.

The waqf market should be opened up to the private sector where every entity will have the right to establish a waqf entity business operation under its own management subject to the licensing granted by the regulatory body (i.e. BNM, SC, religious department). The

granted licence shall allow the private sector to embark and operate within the waqf market where more innovations, products and services will be offered to the market targeting many economic and social sectors such as healthcare, education, poverty alleviation, rural development, etc.

## REGULATORS AND MARKET PLAYERS

Under this structure, the regulator has the mandate to issue licences to waqf institutions subject to terms and conditions that should be met to ensure a robust and stable waqf market and operation. The regulator which oversees the waqf market is an official body that comprises BNM, SC and the Islamic religious department. The Islamic religious department can get involved either as part of the regulator or appoint the Shariah Advisory Council (SAC) of BNM and SC to act on their behalf and represent them as they have qualified scholars and advisors

who are eligible to perform the same functions and responsibilities like those of the Islamic religious department. The SAC can be entrusted to handle the task alone or invite additional members from the Islamic religious department to team up with the SAC and constitute a national council; hence, it will be a combination of SAC and the Islamic religious department. Among the responsibilities of the regulator is to grant licences, enact the laws governing operations of the waqf business, issue waqf standards and guidelines as well as other related governing laws to accommodate and ease the transaction of the waqf business operation in the new market established.

As for the market players, they will comprise corporations, companies, organizations, high net-worth individuals, and others that fit the requirements set by the regulators to establish a waqf business operation. The operation of the waqf institution will be subject to the same requirements of Islamic financial institutions in terms of a Shariah committee, board of trustees, governance, Shariah audit and other related aspects in accordance with BNM and SC guidelines to ensure the safety of the waqf market system. The proposed framework is shown in Figure 3 below:

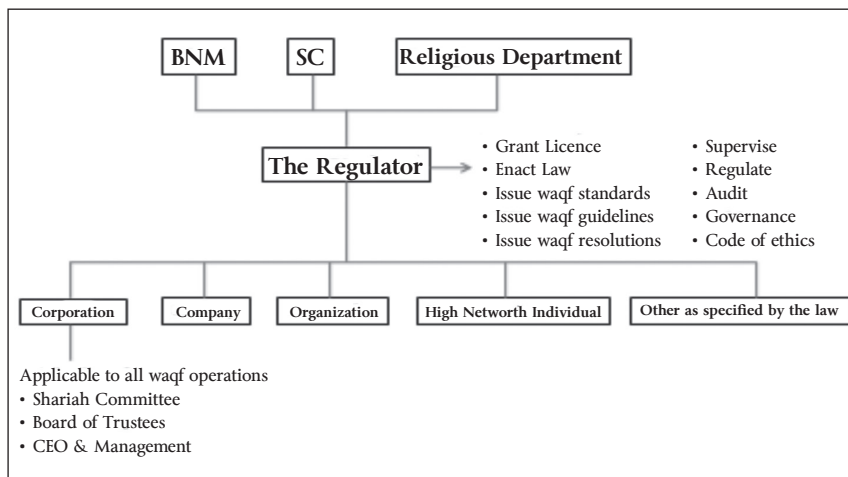


Figure 3: Proposed Framework for Waqf Market

## WAQF MARKET COMPETITION AND INNOVATION

When the waqf market is established under a sound regulatory framework

and proper guidelines and standards, the market will operate in a very efficient and effective manner where competition exists followed by innovation and business expansion. The market will



be more integrated as it will target the interests of both this world and the Hereafter, and as such, the impact of the market will benefit society at large. In this market, commercial interest and social interest will meet, and Value Based Intermediation (VBI) initiated by BNM will be realized.

## APPROVAL OF PRODUCTS AND SERVICES OFFERED IN THE WAQF MARKET

Many products and services can be offered to the market under the waqf portfolio. The following are some examples of the products and services that can be offered to the market. Among others are deposits and financing facilities under banking business activities which cover personal financing, debt financing, equity financing and trade financing. There can also be a cash waqf instrument offered in takaful, Re-takaful and micro-takaful. As for investment purposes, the possible products in waqf cover waqf properties investment fund and BOT (Build-Operate-Transfer). In addition, as in the Islamic capital market, there are also some products that can be offered in the waqf market, namely waqf shares, waqf in micro financing, waqf sukuk, Islamic waqf-based business which includes financial planning services, asset management services, custody and safekeeping services, estate management services, Shariah advisory services and others. The list is open for innovation.

The innovation comes on the ground whenever there is an operation, competition and need for invention, since innovation does not come out of theory, but must be developed according to future expectations driven by the need and evolution of the market and technology.

It is important to note that the products and services stated earlier should be approved by the Shariah Committee of the approved entity that runs the waqf operation and the regulator who grants the licence before the instruments are offered in the waqf market.

Waqf returns can be channelled in various ways. Figure 4 on the next page shows some examples of where the profits of waqf can be channelled or utilized.

## JUSTIFICATION OF THE PROPOSAL

The justifications that make the above proposal doable are as follows:

- Malaysia has a comprehensive marketplace comprising Islamic banking, Takaful, the Islamic capital market, wealth management, private equity, venture capital, Shariah-compliant stock, financial advisory, etc. The comprehensiveness of the existing market can welcome the new market segment.
- Malaysia has a sound legal infrastructure that accommodates the waqf market. This includes IFSA 2013, trust law, and other legal aspects. However, whenever there is a possible

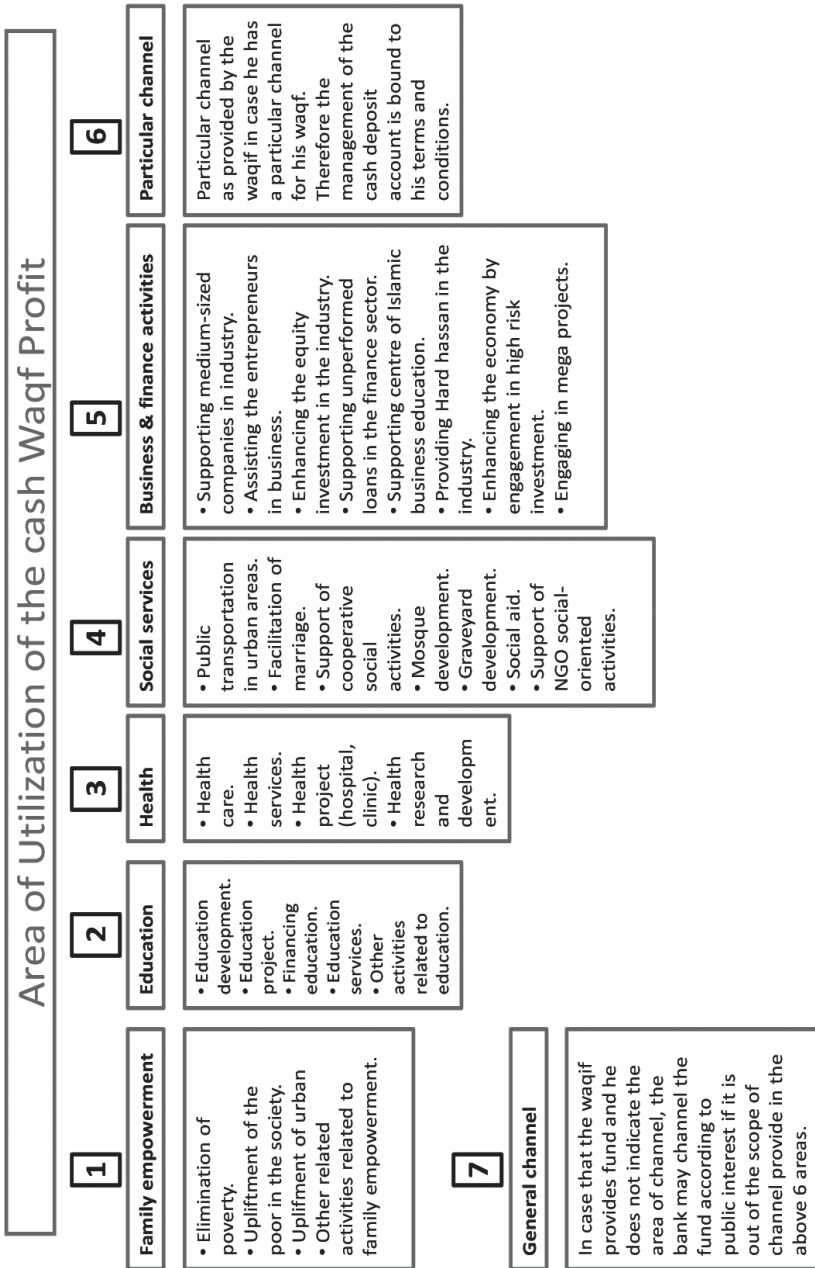


Figure 4: Possible Utilization of Cash Waqf Profit



challenge, it can be overcome through some amendments and enhancements. The Malaysian experience has shown the willingness and commitment of the government and regulators to embark on such amendments when needed to make the market more comprehensive and sophisticated within a safe financial system. The enactment of IFSA 2013 and the harmonization of law committee are a strong evidence of that commitment.

- Malaysia has a solid financial infrastructure and a sound regulatory shelter that includes acts, governing laws, strong corporate governance, standards and guidelines that can provide a sound platform to welcome the new waqf market.
- The availability of expertise and talent in Islamic finance and Shariah in Malaysia will make the country possess the right environment for such a market.
- The internationalization feature that Malaysia has, as it represents a hub in Islamic finance and is a global centre, will attract many international market players such as international institutions and international high-net-worth individuals to choose Malaysia as platform to offer products and services in the waqf market.

## THE INCENTIVES OF THE ABOVE PROPOSAL

There are some incentives for the above proposal. I summarize them briefly as follows:

- Move towards comprehensiveness of the Islamic financial market.
- Strengthen the Islamic financial market with an additional marketplace.
- Support social and ethical banking and their financial activities.

- Realize value-based intermediation (VBI) in the market through the waqf market.
- Create an integrated market to increase collaboration, efficiency, innovation and productivity.
- Innovate the marketplace.
- Attract new market players.
- Attract international market players.
- Fulfilment of religious obligations.
- Create more space for investment in the Hereafter.
- Reach non-bankable people.
- Increase corporate social responsibility in society.
- Contribute to the prosperity of society.
- Adjust the market direction by reducing the focus from profit maximization of the shareholder to the benefit maximization of the beneficiaries of the society at large.
- Provide the opportunity to every individual in society to be a part of the waqf market, where every single individual can contribute to this market to create (subject to the minimum cash amount as specified by the regulator; it can even be one Ringgit) a value added to some beneficiaries and secure his or her salvation in the Hereafter by creating a perpetual return to his or her Hereafter account after death.

## CAN THE DREAM COME TRUE? AND WHAT ARE THE STEPS?

The dream can come true through taking the following steps:

- Believe in the idea of a waqf market
- Initiate a steering committee that represents a pool of experts from regulators (BNM & SC), Shariah

scholars, lawyers and associations that represent the Islamic finance market and related parties in order to assess and evaluate the idea.

- Evaluate the idea and identify the challenges, the gaps and the risk.
- Draft a concept paper for discussion and deliberation in group discussions with the industry.
- Draft a comprehensive 10-year blueprint and route map.
- Establish a regulatory body that oversees the waqf market (BNM, SC, SAC & Islamic religious department).
- Approve the said proposal and start the execution progressively in stages and phases.
- Engage with ground work such as the enactment of waqf law, amendment of the existing law, issuance of waqf standards, issuance of waqf guidelines, issuance of the requirements for licensing and establishing a waqf operation or waqf operators.
- Grant licence to five entities from selected Islamic financial institutions, government-linked companies, agencies that have strong corporation to test the market for five years.

- After five years, open up the market to local market players where every entity or high-net-worth individual that meets the requirements can establish a waqf operation.
- After 10 years, open up the market to international market players who want to establish waqf operation in Malaysia.

## CONCLUSION

In conclusion, the waqf market needs to be introduced as part of the Islamic financial market as a new marketplace, and be highly regulated and governed with similar guidelines, standards and regulations as for the financial market. The easy way to establish this market is to map its structure against takaful operators, and map their business operations and portfolio against Islamic commercial and investment banks. ■