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Islamic Finance in Thailand: Prospects and Challenges

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The key indicators of population and housing in Thailand from 1990-2010 (whole kingdom) reveal that in 2010, about 4.9% of the population in Thailand are Muslims. Given that there are approximately 66 million people in the country, it means that there are about three million Muslims in Thailand. Although a minority, the number of possible investors is still substantial. It seems that there is a large gap for financial product providers to fill in order to serve customers who are committed to Shariah principles. ANAKNONG (BRIDGET) CHAIYASRI writes.

Currently, Islamic finance remains a new territory in the general financial market in Thailand. However, in recent years, there have been several developments in financial products which are in line with the Islamic practice in Thailand. The momentous turning point of Islamic finance in Thailand was when the Islamic Bank of Thailand Act B.E.2545 (2002) was enacted, followed by the establishment of the Islamic Bank of Thailand. After that, many companies have taken part in creating financial products which are appropriate for Muslim investors.

Since it was first introduced in 2011, Muang Thai Life Insurance has consistently extended its Takaful products. The company offers general life Takaful, personal accident Takaful, and recently collaborated with the Islamic Bank of Thailand to issue savings Takaful which allows long-term savings and life planning, similar to common savings insurance but without the risk of breaching any Shariah laws. These products adhere to the principle of no uncertainty (Gharar) and no gambling (Maisir) under Shariah laws and the products are overseen by a Shariah advisory board to ensure full compliance with the Islamic doctrine.

Smaller players in the insurance industry are also taking an interest in Islamic insurance, such as the South East Group which offers Takaful and Philip Life Assurance which also partnered with the Islamic Bank of Thailand to offer various Takaful products, such as Takaful for Hajj, Takaful for family and Takaful for education.

In the capital market, Sukuk have already caught the attention of the Securities and Exchange Commission of Thailand. The Capital Market Supervisory Board under the commission has released provisions on the issuance for sale of Sukuk since 2011. Newly issued Sukuk can be offered for sale publicly or by private placement or to investors in foreign countries. Sukuk issuances mainly focus on attracting institutional investors. Non-institutional individual investors can invest in mutual funds, especially long-term equity funds and retirement mutual funds.

Since investing in a fund will effectively mean owning the businesses in which the fund is investing, it is crucial for Muslims to ensure that the funds they invest in comply with Shariah laws. The investment of the funds must be religiously appropriate and not have any characteristics that are prohibited under Shariah laws.

As interest (Riba) is not allowed, Shariah funds cannot invest in shares of commercial banks and leasing companies. Shariah funds also cannot purchase shares of general insurance companies as their businesses are based on uncertainty which is prohibited.

Investment in businesses which contradict Islamic principles such as those involving alcohol, casinos/ gambling, certain types of entertainment, weapons or a swine-related business is generally restricted as well.



At present, there are three long-term equity funds (LTFs) and only one retirement mutual fund (RMF) which are considered Shariah compliant funds. MFC Asset Management pioneered the market with its MFC Islamic Fund. The future of the Shariah compliant fund sector was secured when big players issued funds, for example, KrungThai Asset Management which issued the Krung Thai Shariah LTF (KSLTF) and the Krung

Thai Shariah RMF (KSRMF). Both the KSLTF and KSRMF focus on investment in equity instruments that have passed the selection benchmark according to Islamic principles and possess good operating results and a tendency for growth. The latest Shariah fund was introduced in 2016 by ONE Asset Management called the One Shariah LTF which strategizes its investment by mainly investing in securities that are certified Shariah compliant and are generally allowed under Islamic principles. The fund may invest in derivatives for the purpose of hedging but cannot invest in structured notes which contain prohibited elements under Shariah laws.

With the government's ongoing measures to allow tax deduction for investing in LTFs and RMFs, the market for investment in these funds can continue to increase. Shariah LTFs have shown positive results in the last three years. The only Shariah RMF has also displayed a steady increase in performance since its registration in 2006.

Although the growth is not dramatic, there is definitely more room to grow in the Shariah fund sector and the Takaful market. Private financial operators should be encouraged to design more new financial products that are Muslim-friendly. The government sector can also contribute to promoting Islamic finance products to attract investment from Thai and foreign Muslims. Given that there are a few million potential Muslim investors in Thailand, the development of Shariah-certified products will enable funds to be accessed from the Muslim population and at the same time, benefit them in other ways, such as tax deduction.

As the growth of Shariah compliant financial products escalates, it will effectively attract non-Muslim investors, which in turn will boost investment and fortify the Islamic finance market in Thailand.

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