Malaysia has long dominated the global Sukuk market. As at the end of September 2021, it remained at the forefront of the global Sukuk market with issuance totaling US$51.02 billion, which represents 40.1% of total market share (Figure 1).

Malaysia’s Sukuk market, although deep and mature, was accessible only to institutional investors and high-net-worth individuals until September 2012 when Securities Commission Malaysia (SC) launched its retail bonds and Sukuk framework.

Alongside the framework, direct retail participation in the bond and Sukuk market was facilitated by Bursa Malaysia’s Exchange Traded Bonds and Sukuk (ETBS) platform or over-the-counter trades via appointed banks. The framework was introduced in two phases to enable retail investors to understand and gain familiarity of this asset class.

In September 2018, the SC issued a liberalized regulatory framework introducing the Guidelines on Seasoned Corporate Bonds and Sukuk and amendments to the Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors, the Guidelines on Sales Practices of Unlisted Capital Market Products and Division 2 of the Prospectus Guidelines. A resultant key change was the significantly reduced investment size of RM1,000 (US$238.66), which lowered the barriers to entry for retail investors.

Despite a favorable regime and readily available information on Bursa Malaysia’s and the Bond and Sukuk Information Exchange Malaysia’s websites, efforts to create a retail bond and Sukuk market failed to gain traction. As at the end of December 2021, the ETBS platform offered only two corporate Sukuk facilities.

Cost efficiency in retail issuances — which require smaller lot sizes — remains a main structural market impediment. In the primary market, institutional investors have little incentive to deal in smaller lot sizes relative to the desired investible size.

Conversely, financial arrangers looking to sell are unlikely to invest time and resources to market to retail investors for thinner profit margins, given the established institutional investor base.

Unlike traded shares, retail investors are less aware of how fixed income securities are priced. Furthermore, retail investors’ search for higher yielding assets means exposure to higher credit risks, contrary to the high investment grade profile of the typical Sukuk issuer.

A mismatch between their shorter investment horizon and the longer Sukuk tenors seen in the market adds to the conflict. The lack of liquidity in the bond and Sukuk market additionally compounds the challenges in spurring retail participation.

Nonetheless, the success of Sukuk Prihatin — Malaysia’s inaugural digital Sukuk, accessible exclusively to retail investors via the digital banking platforms of 27 banks — in September 2020 illustrated how rapid technological advancements and fintech adoption could be used to reach scale more efficiently and cost-effectively, with enhanced transparency.

Investor readiness to explore alternative investment products, as seen in the exponential growth of peer-to-peer and equity crowdfunding platforms especially in the COVID-19 era, suggests that the Malaysian bond and Sukuk market could be ripe for a reset, reigniting renewed interest in and optimism for a vibrant retail Sukuk market. With the right education, a comparable level of retail participation in the Sukuk and bond market can be achieved.

The SC’s Capital Market Masterplan 3 reiterates the need to facilitate bond and Sukuk market access for retail issuers by capitalizing on disruptive innovations. It will be interesting to see, therefore, how the Malaysian Sukuk market evolves.

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Figure 1: Global Sukuk issuance by region

<table>
<thead>
<tr>
<th>Region</th>
<th>2013</th>
<th>2020</th>
<th>YTD 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCC</td>
<td>26</td>
<td>45</td>
<td>83</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4</td>
<td>27</td>
<td>60</td>
</tr>
<tr>
<td>Malaysia</td>
<td>22</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Sources: Eikon Thomson Reuters, OJK, BPAM, RAM Ratings