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IAP: Marking a Milestone of Islamic Finance in Malaysia	Money Compass		June 2016

Special Interview

In recent years, the field of Islamic finance grew rapidly, becoming global to the extent that it is retransforming the global finance market. As a leading Islamic financial centre, Malaysia is at the forefront in promoting innovation and development of Islamic finance.

In 2015, Raed Holdings Sdn Bhd, a holding group formed by several domestic Islamic banking institutions in Malaysia, successfully founded a bank-intermediated Shariah-compliant investment platform known as the Investment Account Platform (IAP), marking another milestone for Malaysia's Islamic finance journey.

In an exclusive interview with *Money Compass*, Mohamed Izam Mohamed Yusof, CEO of IAP who is tasked with the mission of developing and operating IAP Integrated, highlighted that IAP is a "matchmaking" platform that facilitates channelling of funds from investors to finance viable ventures.

The Only Bank-Intermediated Platform in Malaysia

Unlike other online investment platforms, IAP's competitive advantage lies in the fact that it is the only platform in the market that is intermediated by participating Islamic banking institutions. Through IAP, ventures are able to pitch their financing requirements to several banks simultaneously. In extending financing to the ventures, banks mobilise funds which are sourced from the corporate, institutional and retail investors through the medium of investment account (IA) products.

IAP is made up of six Islamic banking institutions as its shareholders, namely Affin Islamic Bank Bhd, Bank Islam Malaysia Bhd, Bank Muamalat Malaysia Bhd, Maybank Islamic Bhd, Bank Kerjasama Rakyat Malaysia Berhad, and Bank Simpanan Nasional. These banks are not only shareholders of IAP Integrated but also act as the intermediary bank or "sponsoring bank" in IAP's funding flow channels.

Izam explained the roles undertaken by IAP in the analogy of a matchmaker. For ventures that have good proposals wishing

to raise funds, they can apply for financing directly on the platform's website. As a centralised medium, IAP will then channel such financing requests and proposals to the banks. After having a preliminary assessment of the proposals, the banks will decide whether or not to meet up with the ventures to proceed further. By doing this, it does not only simplify the process but save both time and energy. IAP to a certain extent, addresses information asymmetry by introducing standardised financing application requirements at the point of submission by the ventures, and reduce the hassles of submitting separate proposals to each individual bank. The latter proposition leads to a higher chance for the ventures to be evaluated by more than one bank at any one time, which allows them to potentially attain best financing offers through negotiations with the banks.

Building Trust and Confidence

"The banks have vast experiences in evaluating proposals and ventures. In addition, financing raised through IAP has to go through an independent risk assessment by a reputable local rating agency, i.e. RAM. This can be of a significant value to the investors as they now can leverage on the expertise of the banks and the rating agency to carry out assessment on the ventures. And as for the ventures, IAP can be a one-stop platform where they come to the platform with their financing proposals – and what the platform can do upon receipt of the financing proposals is to channel them to the participating banks – and then the banks can decide. It's like a pitching program", said Izam

Compared to the alternative models of raising fund namely the established equity market or the equity crowdfunding, ventures that opt for fund raising via IAP do not have to give up their equities or shares in their quest for business growth. With the investment being in the form of IA to be opened with the sponsoring bank, everyone, from banks to corporate investors and from the high net-worth individuals to the general public, has the opportunities to invest in ventures and gain competitive returns without assuming the business risk as opposed to holding direct shares in the ventures.



"What we offer will create confidence and trust among the investing community. Having the banks reviewing the proposals and conducting all the screenings, followed by continuous monitoring on the ventures and mandatory quarterly reporting to the investors as part of the banks' fiduciary duties among others, we believe that the proposals which will be listed on IAP will be credible proposals with associated risks and returns."

IAP's vision is to become the leading multi-bank platform. Although IAP already has six domestic Islamic banks in its stable, Izam is aiming for more Islamic banks to join the platform. Having more banks coming onboard, IAP will become an even more efficient platform that could provide investors with more investment choices.

Open to All Ventures

Essentially, IAP is open to all ventures, be it SMEs or big corporations with a minimum funding size of RM500,000. However, Izam opined that SMEs should seize opportunities to utilize IAP as the avenue of choice to raise funds. This is because when SMEs submit proposals through IAP, they could potentially obtain financing offers from more than one bank and thus, can choose the offer structured in a way that best suits their funding needs.

Nevertheless, he revealed that this platform may not be suitable for startups for now because as a bank-intermediated platform, banks are leveraging on their existing procedures as well as credit and screening assessment methods which currently favour ventures with some track record at least financially. Hence, he encouraged those SMEs that are in the stage of growing or have been in business between 3 to 5 years to make full use of IAP to raise funds for their projects.

"Conventionally, when SMEs apply for financing with banks, only banks have access to their information. Through IAP, SMEs can learn to be more transparent when it comes to their financial records, company data and disclosure of relevant information, an important trait towards becoming successful corporations, possibly getting themselves prepared

for listing in the future. Here, visibility to potential investors at this early stage is indeed a way to ensure sustainable growth in the near future."

Izam emphasised that with the experience of the banks in screening the investors and the ventures, it can prevent potential cases of fraud and money laundering against those that are genuine and bankable. As a result, only genuine investors and ventures are able to undertake investment and financing activities via the platform – and at the same time drive the country's economic growth and build a sound and sustainable ecosystem.

Since the launch of IAP on 17 February 2016 by the previous Governor of Bank Negara Malaysia, Perak Transit Berhad which is an Ipoh-based public transportation company became the first venture to be listed on IAP. The company had successfully raised RM10.0 million from various investors via IAP within a two-week campaign period. The RM10.0 million term financing facility payable over three years is expected to generate a return of 6.5% per year to the investors.

Although the market acceptance of IAP at the beginning is expected to be slow, Izam estimated that there would be an average of four projects to be listed on IAP every month. In the foreseeable future, it is estimated that there will be between 25 to 30 projects to be listed on IAP.

For its services, IAP will charge the ventures a fee (listing fee) depending on the amount of funds raised. A small portion of the listing fee is payable upfront upon listing and the balance is payable only upon successful fund raising.

Simple Application Procedure for Investors

For investors, Izam revealed that anyone can participate in any investment projects on IAP and to do that, they need to first and foremost register as an IAP user. The whole process is relatively simple and once registered, investors can browse information on any chosen investment or project, investment return details, financing terms approved to the ventures, details of the venture's shareholders and key personnel, rating rationale and other related information on the website.

When individual investors are interested in a particular investment project, they must undertake an assessment which consists of 14 questions that will determine which category of investors they belong to and their risk tolerance.

"If the investment project chosen by investors suits their risk profile, investors will proceed to the next step of the investment. If the investment project they choose does not match their risk profiles, they can do so after consultation with the banks."

Moving forward, IAP will enhance the platform to improve the processes for the benefits of investors and ventures. Izam hopes to attract more Islamic banks to join the platform so that more ventures can raise financing via the platform offering investors with more choices.

In addition, he also anticipated IAP to attract foreign investment projects to raise funds via the platform within the coming two to three years. IAP does have a plan to expand into other Asian countries to duplicate the same platform and system. **M**

Simple steps in raising funds

1. Submit application online (subsequent follow-ups by Islamic banks).
2. Islamic banks to conduct due diligence and screening on venture's application.
3. Negotiation and acceptance of financing terms and conditions.
4. Independent rating on venture.
5. Islamic banks to float venture on IAP for fund raising.
6. Islamic banks to disburse funds upon successful fundraising.

Simple steps for investment

1. Register as an IAP user.
2. View and select venture.
3. Undertake suitability assessment.
4. Islamic bank to facilitate payment of the investment.
5. Islamic bank to create Investment Account for investors.
6. Receive periodical report on venture.
7. Receive profit and principal.