

Prospects of Islamic Finance in Thailand

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Abstract

As demand in Shariah-compliant financial services grows both domestically and internationally, Islamic finance in Thailand is expected to experience significant expansion. This study aims to examine the status, future, and challenges of Islamic finance in Thailand. Domestically, the demand for Islamic banking and financial goods is being driven by the growing knowledge among Muslims in Thailand, especially in the southern districts. Market accessibility is further improved by government assistance through regulatory frameworks and programs like the Islamic Bank of Thailand. The study showed that three financial sectors—Islamic banking, Islamic insurance, and the capital market—represent Islamic finance in Thailand. Thailand is positioned as a possible center for cross-border Islamic financial services due to its advantageous ASEAN location and strong relations with neighboring countries with a majority of Muslims, namely Malaysia and Indonesia. Thus, Thailand might take advantage of the opportunity to become a regional and international hub for Islamic finance. The chances for foreign investment are also improving, as more Middle Eastern investors show interest in Southeast Asian opportunities that are Shariah-compliant. Furthermore, as Islamic finance inherently prioritizes social justice, transparency, and ethical considerations—principles that both Muslim and non-Muslim investors are increasingly seeking—responsible investing and ESG-aligned finance present encouraging opportunities. Thailand can establish itself as a competitive participant in the global Islamic finance ecosystem and promote financial inclusion and sustainable economic growth by leveraging these convergent trends.

Keyword: Islamic Finance, Thailand, Responsible Finance, Takaful, Sukuk

1. Introduction

Islamic finance, based on Sharia law principles, has gained momentum globally as an ethical and alternative financial system. In Thailand, Islamic finance has seen gradual growth, primarily within the Muslim-majority southern regions, yet its potential is still underexplored at the national level. This paper aims to examine the current status of Islamic finance in Thailand, highlighting its key developments, challenges, and prospects for growth.

Islamic finance refers to financial activities that comply with Islamic law, or Sharia. It is built on principles of fairness, transparency, and risk-sharing, prohibiting interest (riba), excessive uncertainty (gharar), and unethical investments. Instead, Islamic finance promotes profit and loss sharing, where capital is invested in assets, and returns are based on actual economic activity (Mirakhor and Zaidi, 2007).

The key components of Islamic finance include Islamic banking, Takaful (Islamic insurance), and Islamic capital markets (Iqbal and Mirakhor, 2011). Islamic banking operates by providing loans and investment products based on equity participation rather than charging interest. Takaful provides insurance based on mutual risk-sharing, and Islamic capital markets allow for investments in Sharia-compliant securities, such as Sukuk (Islamic bonds).

Globally, Islamic finance has witnessed remarkable growth, fueled by an increasing demand for ethical finance solutions, particularly from the Muslim population. Its principles align well with the global movement toward socially responsible investing (SRI) and sustainable finance. While the Middle East and Southeast Asia remain the core markets for Islamic finance, its reach is expanding globally, including into markets such as Europe, the Americas, and sub-Saharan Africa.

In Thailand, Islamic finance is still in a developmental phase but has shown significant potential. This paper will explore the current status of Islamic finance in Thailand, the challenges faced, and the prospects for its growth within the country's broader financial sector.

Global Overview of Islamic Finance: Growth and Future Prospects

Islamic finance has become a rapidly growing sector within the global financial system. According to the Islamic Finance Development Report 2024, the global Islamic finance market reached USD 4.925 trillion in 2023, with a growth rate of 11% (ICD-LSEG, 2024). This growth is primarily driven by rising demand for Sharia-compliant financial products, a desire for ethical investment opportunities, and the increasing integration of Islamic finance into the global financial system.

The key players in Islamic finance are the Middle East and Southeast Asia, particularly Saudi Arabia, Malaysia, and Indonesia, which account for over 70% of the global Islamic finance assets. Malaysia is considered a global leader in Islamic finance, with its well-established legal and regulatory framework that supports Islamic banking, capital markets, and insurance. Saudi Arabia is another major player, being home to the largest Islamic banks and Islamic capital markets in the world.

Asia-Pacific has been an essential growth region, with countries such as Pakistan, Bangladesh, Turkey, and United Arab Emirates (UAE) also seeing growth in Islamic banking assets and products. While the Islamic finance industry is highly developed in certain countries, there are still large untapped markets in regions such as Africa and Latin America, where Muslim populations are growing.

The future of Islamic finance looks promising, with major trends indicating growth in digital Islamic finance, the development of green and sustainable financial products, and the

potential for Islamic fintech to disrupt traditional banking and insurance models. Projected Islamic finance market size by 2028 is 7.5 trillion (ICD-LSEG, 2024). Countries with significant Muslim populations are increasingly adopting Islamic finance as part of their financial sector development strategies, and global investors are showing a growing interest in Sharia-compliant investment opportunities.

Current Status of Islamic Finance in Thailand

Islam is considered a patronage religion in Thailand. Muslim constitutes about 5.41% of total population of Thailand (National Statistics Office, 2023). Thailand's Muslim population, concentrated primarily in the southern provinces, has created a local demand for Islamic financial products. Besides, non-muslim investors are being interested to the Islamic finance products for strict compliance to the ethical guidelines.

Islamic finance in Thailand has seen steady progress, though it remains a relatively small segment within the broader Thai financial system. It has evolved in Thailand over the past few decades, with significant contributions from both the public and private sectors. Since 1998 the kingdom is actively sponsoring different forms of Islamic finance facilities to assist transactions and investment according to the sharia principles. The establishment of the Islamic Bank of Thailand (IBank) in 2003 marked a pivotal moment, providing a government-backed platform for Sharia-compliant banking services. This was followed by inauguration of takaful operation in 2005, introduction of sharia index in stock market in 2009, establishment of Amanah leasing company in 2010 to provide leasing services and issuance of Royal decree on Sukuk in 2011 (Hama, Waehama, & Assalihee, 2024). As of 2023, IBank has expanded its offerings, including personal and business financing products, and has seen a steady growth in market share, albeit in a niche segment compared to conventional banks (Islamic Bank of Thailand, 2023).

In addition to IBank, several commercial banks, such as Siam Commercial Bank (SCB) and Kasikornbank, have introduced Islamic banking windows, offering products like Islamic mortgages, car loans, and investment funds that comply with Sharia law. These efforts demonstrate the growing interest in Islamic finance, particularly among Thailand's Muslim population.

Banking segment

The largest share of Islamic financial assets is held by the Islamic banking sector. The overall assets of the Islamic banking sector increased by 4.55% in 2022 compared to the previous year. At THB 80,110 million, these assets accounted for 62.18% of the total assets in the Islamic banking industry. The Islamic Bank of Thailand, a fully-fledged Islamic bank, provides 95.13% of the total assets of Islamic banking in Thailand, which is largely supported by its assets (IBank, 2023). Furthermore, 4.87% of the total assets of Islamic banking in the nation come from the Bank for Agriculture and Agricultural Cooperative's Islamic windows.

Islamic Insurance

The total assets of takaful increased by 0.78% in 2022 compared to the previous year. With a total value of THB 10,427 million, these assets made up 8.09% of all Islamic financial assets. Between 2018 and 2022, Takaful's total assets increased steadily, reaching THB 8,037 million, THB 9,053 million, THB 9,597 million, THB 10,346 million, and THB 10,427 million for each year.

Capital Market

Equity market: A significant component of the larger financial system is the Islamic capital markets. Purchasing shares gives investors a stake in a business and the possibility of earning profits based on how well the business does in the future, so long as the shares are used for Shari'ah-compliant purposes (ISRA, 2015). Over the past ten years, there has been a notable increase in both the number and size of Shariah-based stock funds. Currently, 150 firms make up the index, representing roughly 48.4% of the 310 companies overall (FTSE Russell, 2023).

Islamic Funds: As of right now, MFC Asset Management PCL is the manager of six Islamic funds, including the MFC Global Sukuk Fund, MFC Islamic Long Term Equity Fund, and MFC Islamic fund. Krung Thai Asset Management PCL also offers the Krung Thai Shariah Retirement Mutual Fund and the Krung Thai Shariah Long Term Equity Fund (KSLTF). Last but not least, DAOL Investment and Securities Thailand recently purchased the One Shariah Long Term Equity Fund, which was managed by ONE Asset Management LTD (Hama, Waehama, & Assalihi, 2024). The total assets of Islamic funds increased significantly by 44.93% in 2022. These funds, which accounted for 1.67% of all Islamic financial assets, totaled THB 2,145 million (Securities and Exchange Commission Annual Report 2022).

Prospects and Future Growth of Islamic Finance in Thailand

Looking ahead, the prospects for Islamic finance in Thailand are promising, given the global shift towards ethical investing and the growing interest in socially responsible financial practices. The Thai government's commitment to Islamic finance is a crucial factor in driving the sector's growth. Thai government's recent initiative like making SEC a trustee of sukuk transactions (Notification 18/2553), establishment of Islamic Bank Asset Management Company (IAM) in 2016, issuance of SEC guidelines for mutual fund in 2023, and so on could create more favorable environment for Islamic finance. Year on year growth rate of different areas of Islamic finance, as mentioned above, in Thailand shows a brighter future of this sector in Thai financial market.

Domestic Market

From a market demand perspective, the increasing awareness of Islamic finance among young Muslims in Thailand, combined with the rise of digital banking platforms, presents a unique opportunity for Islamic financial products to expand beyond the traditional market. The Islamic financial system's growth and operation will serve as substitutes for traditional finance. This allows prospective investors or entrepreneurs to access a growing pool of Islamic funds and other products.

Moreover, the government may raise funds for developing infrastructure like roads, railroads, electricity and so on using Islamic finance tools especially in southern part of Thailand. The sukuk fund can be an excellent alternative of regular infrastructure funding scheme. It is also less expansive compared to traditional loans when it comes to funding long-term infrastructure projects.

Foreign Investment

The development of Islamic finance in Thailand has the potential to attract significant foreign investment, which could play a crucial role in the country's economic development. As global demand for Sharia-compliant financial products grows, foreign investors, particularly from the Middle East and Southeast Asia, are increasingly looking to expand their portfolios

in markets with established Islamic finance infrastructure. Thailand could follow Malaysian footsteps in this regard, through investor (specially investment banks and financial institutions) friendly policies it has attracted huge amount of foreign fund contributing to the development of Malaysia's financial sector (Nor, Muhammad, & Yakub, 2016).

Furthermore, by fostering a strong Islamic finance ecosystem, Thailand could position itself as a center for Islamic fintech and Sukuk issuance, attracting capital from international markets. The issuance of Sukuk bonds, in particular, could open avenues for foreign capital inflows, as countries like Malaysia and the UAE have already shown the profitability and demand for such instruments (Thomson Reuters, 2023). The development of Islamic finance could also spur innovation in sectors such as real estate, trade finance, and infrastructure, ultimately contributing to broader economic growth.

By aligning with global trends toward ethical finance, Thailand could attract long-term foreign investment, thereby boosting its financial sector and supporting sustainable economic development (Securities and Exchange Commission [SEC], 2023).

Regional Hub

Regional cooperation with neighboring countries, such as Malaysia and Indonesia, could enhance Thailand's position as an Islamic finance hub in Southeast Asia. Malaysia, a leader in Islamic finance, has played a crucial role in the region's growth, and Thailand could benefit from partnerships, knowledge exchange, and investment opportunities with its neighbors.

By using the ASEAN network Thailand can collect funds and reinvest that for regional development by taking long-term projects which would be beneficial for the member countries. It will also facilitate cooperation between countries which will eventually increase strength of this zone.

Promising Takaful Market

Takaful, which embraces the idea of risk-sharing rather than risk-transfer as traditional insurance does, has become popular option for protection over time for both individual and business clients. Takaful industry is very promising because it provides similar insurance services with better benefit. Full sharia compliance is also another important characteristic for the consumers.

Current size of the takaful market is USD 30 billion, about 9% of the total Islamic financial market (Islamic Financial Services Board, 2023). Many Thai insurance company namely Dhipaya, Muang Thai Insurance, Southeast Insurance, Krungthai Panich Insurance, and Wiriayah Insurance introduces takaful insurance services (Hama, Waehama, & Assalihi, 2024).

Responsible investing

Recently, terms like sustainable finance or green finance became popular in financial industry. Financial tools and products that supports, promote and/or nurture sustainable development, ecological footprint, better environment refers to the green/sustainable finance (Climate Bond Initiative [CBI], 2018). Thus, green bond has become popular with proper regulatory support and environmental awareness; around US\$521 green bond issued during 2007 to 2018 (CBI, 2018).

Islamic finance practices certain prohibition such as interest and industries prohibited by religion to enhance the justice and welfare of the society (Obaidullah, 2017). Scholars argued that Islamic financial principles are inherently compatible with the green finance concept (Ahmed et al., 2015). Utilizing that opportunity, securities commission of Malaysia developed sustainable and responsible investment bond framework (SRI Sukuk framework) in July 2014 (SCM, 2014). SRI sukuk or green sukuk became operational after a successful partnership with World Bank.

As the environmental concern is increasingly growing all over the world including Thailand, green sukuk could be a very effective financial instrument for stronger Thai security market.

Key Challenges Facing Islamic Finance in Thailand

Despite its growth, Islamic finance in Thailand faces several challenges. A major issue is the limited understanding and awareness of Sharia-compliant financial products among the broader population. In terms of public acceptance and consumer awareness of Islamic finance, there is a lack of understanding, knowledge, and awareness. While the Muslim population in the southern provinces is significant, the demand for Islamic finance in other regions remains low due to a lack of education and familiarity with the system.

Additionally, the lack of infrastructure and legal as well as regulatory frameworks for Islamic finance remains a significant barrier. The current legal, regulatory, and governance structure is insufficient to adequately support the Islamic financial sector overall because of its infancy. Currently, the Cooperatives Act oversees and regulates Islamic cooperatives, and the Life Insurance and General Insurance Acts oversee and regulate Islamic insurance (Hama, Waehama, & Assalihi, 2024). Since Islamic finance needs its own legal framework to function, a comprehensive legal and regulatory framework is necessary for the industry's growth and seamless functioning. A number of similar current banking laws pertaining to Islamic banks must also be updated in order to conform to the efficiency and system of Islamic banking (Chantanusornsiri, 2024). While Thailand has made strides with the introduction of Islamic banking regulations, gaps in consumer protection laws and the absence of specialized Islamic financial institutions (such as Takaful providers) hinder the sector's ability to scale (SEC, 2023).

Furthermore, Standardization in the operation of Islamic banking, other Islamic finance institutions, the Islamic capital market, and the Islamic insurance sector has been hindered by the lack of a Central Shariah Advisory Council or Authority for Islamic finance. The obligation and appointment of Shari'ah Advisors or Committees for other Islamic financial institutions and the Takaful segment at the institutional level is also not currently covered by any laws or regulations. The creation of a Shari'ah advisory or supervisory board, which is intended to guarantee adherence to Islamic principles and offer direction to Islamic Financial Institutions, is one noteworthy aspect of Islamic finance (Mehmood, Oganisjana, & Lace, 2023).

There is also a lack of human resources with the necessary skills and a thorough understanding of financial services based on Shari'ah. A lack of creative financial product development is a result of this scarcity.

Moreover, competition from conventional banks presents another obstacle. The established dominance of conventional financial institutions, combined with their wider product offerings and customer trust, limits the ability of Islamic finance to attract a larger share of the market.

2. Conclusion

In conclusion, while Islamic finance in Thailand is still in its nascent stages, its growth trajectory is promising. With strong government support, the expansion of Islamic financial products, and a growing demand for ethical investments, the sector is poised for expansion. However, addressing challenges such as limited public awareness, regulatory gaps, and competition from conventional banks will be crucial for its success. As the Thai financial sector continues to evolve, Islamic finance has the potential to play an increasingly significant role in the country's economic development, positioning Thailand as a leader in the Islamic finance industry in Southeast Asia.

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