

Zeti Akhtar Aziz: Launch of Amlslamic Bank Berhad

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Official Launch of Amlslamic Bank Berhad, Kuala Lumpur, 18 May 2006.

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It is my pleasure to be here this morning on the occasion of the launch of Amlslamic Bank Berhad. This strategic move to establish the Islamic banking subsidiary that will operate under the more universal Islamic Banking Act will increase further the potential avenues for business expansion. It will also increase the potential to benefit from the rapid growth of Islamic banking and finance both in the domestic and international environment.

Ladies and Gentlemen,

On the domestic front, all sectors within the Islamic financial services industry, which includes Islamic banking, takaful and the capital and money markets, continue to register strong performance. To date, the Islamic banking assets amount to RM113.5 billion and the takaful assets stand at RM5.9 billion. The amount of approved Islamic bonds in 2005 exceed RM40 billion, while the Islamic money market has recorded sizeable monthly turnovers of RM135.2 billion. Similar progress has been achieved on the international front. There has been a significant increase in the number of Islamic financial institutions that have been established in the global financial system, and the funds seeking for Shariah-compliant investment avenues have also increased dramatically.

Ladies and Gentlemen,

For more than two decades, our efforts have been directed to put in place the pre-requisites for the development of an effective and competitive Islamic financial system. With the strategic components and domestic financial infrastructure in place, steps have now been taken to liberalise our domestic Islamic financial system - this has aimed to strengthen further our international financial and economic linkages. The liberalisation is evident on several fronts. This has diversified the players in our financial system with the issue of new licences to foreign players and the increase in the allowable foreign equity participation up to 49% in both Islamic banking and takaful industry. This initiative has also created a more competitive environment, thereby driving further progress in the development of the Islamic financial system. In addition, it has promoted innovation, increasing the range of products and services being offered. Efforts to develop the domestic bond market have been intensified to diversify the structure of the Islamic financial system. This has allowed greater flexibility by investors in the management of their funds while the ability of foreign corporations to raise ringgit-denominated papers in our domestic bond market has contributed towards enhancing its depth and breadth. With these developments, this has positioned Malaysia to evolve as an international financial centre for Islamic finance. In this regard, Islamic financial institutions have a significant role to play.

The investment in research and development would strengthen the capability for greater innovation by Islamic financial institutions. This would increase the potential for a more diverse range of products and services to meet the changing requirements in corporate, retail and investment activities.

Given the universal nature of the Islamic banking licence, the attention given to the capacity for innovation will become an important defining factor in the progress of Islamic finance.

With the rapid progress on the issuance of prudential and supervisory standards by the Islamic Financial Services Board (IFSB), Islamic finance is now governed by its own international best practices. The establishment of the Islamic Financial Services Board in 2002 was part of the efforts to strengthen the international Islamic financial architecture. Thus far, two standards have been issued, namely the standards for Capital Adequacy and the Guiding Principles for Risk Management for Islamic financial institutions. Bank Negara Malaysia will be implementing these IFSB standards for adoption by Malaysian Islamic banking institutions. The harmonisation of the prudential standards across borders will also enhance the process of global financial integration in Islamic finance.

The Islamic financial institutions are also able to benefit from maximising their balance sheet structure, by leveraging on the Profit Sharing Investment Accounts in addition to their own capital. Under the IFSB Capital Adequacy Standard, the total risk weighted assets funded by the Profit Sharing Investment Accounts will be deducted in the determination of the overall Risk Weighted Capital Ratio of the institutions. Apart from the Core Capital and Tier-2 Capital, Bank Negara Malaysia will consider the Profit Sharing Investment Accounts to be part of the overall Islamic banking capital fund for the purpose of determining the single customer limit.

Ladies and Gentlemen,

Thus far, there are 7 Islamic banking window arrangements that have been transformed into subsidiaries. Six have now commenced operations. Together with two full fledged Islamic banking institutions and the 3 new foreign Islamic banking players, Malaysia now has 12 Islamic banking institutions operating under the Islamic Banking Act. There are also 9 takaful operators, including the 4 new takaful operators that will commence business later this year. With this diversity of players and the larger number of institutions that has been established in the Islamic financial system, it is envisaged that the development of the sector will gain further momentum with new areas, such as fund and wealth management, also gaining increased significance. In the more recent period, domestic Islamic financial institutions have ventured on business opportunities beyond the domestic shores to tap the tremendous potential markets abroad, particularly, in the Asian region. Banking institutions therefore, need to build their capacity to be able to take advantage of these potential markets that are still relatively untapped.

Ladies and Gentlemen,

Against the backdrop of the rapid expansion of the Islamic finance sector, there is also the need to intensify efforts to provide adequate training at all levels - technical and frontline staff, middle management and senior management levels. This is important to ensure a sustained supply of human talent to support the long-term growth of Islamic finance. To meet this requirement, a complete training infrastructure has been established. Islamic Banking and Finance Institute Malaysia (IBFIM), which is an industry-owned training institute, will now focus on providing technical programmes in Islamic finance. The recently launched International Centre for Education in Islamic Finance (INCEIF) will provide professional certification as well as postgraduate programmes. The INCEIF flagship programme, the Certified Islamic Finance Professional certification programme, is scheduled to begin on 1 June 2006.

For leadership development programmes, ICLIF will play its role in developing leaders to serve the industry, providing facilities for education in Islamic finance to not only support the development of the domestic Islamic financial system, but to also position Malaysia as an international centre for education in Islamic finance. And in so doing, this will contribute towards the global development of Islamic finance. Industry players therefore have the opportunity to assist their staff to acquire the necessary skills at these institutions. The Islamic financial institutions also require forward-looking leaders to steer the industry in the more demanding and challenging environment.

Ladies and Gentlemen,

The huge potential in Islamic finance can only be realised if sufficient resources and drive are accorded to it. In conclusion, let me take this opportunity to congratulate the AmBank Group on the initiative to establish its own Islamic banking subsidiary and provide the necessary resources and support to ensure its success. It is our hope that Amlslamic Bank would be able to contribute effectively in the development of the Islamic financial system. I wish Amlslamic Bank Berhad every success in its endeavours.

Dengan lafaz Bismillahirrahmanirrahim, saya dengan sukacitanya merasmikan pelancaran Amlslamic Bank Berhad.

Terima kasih.