

Mohd Razif bin Abd Kadir: Further development of the Islamic financial services industry in Malaysia

Speech by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, at the official launch of HSBC Amanah Takaful (Malaysia) Sdn. Bhd., Kuala Lumpur, 12 September 2006.

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Bismillahir Rahmanir Rahim

It is indeed an honour to be here this morning to commemorate the launching of HSBC Amanah Takaful (Malaysia) Sdn. Bhd. This occasion chalks up another accomplishment in the takaful industry in Malaysia, as we position ourselves towards achieving a dynamic, competitive and efficient Islamic financial system that is able to contribute to the overall development of our economy, and to enhance the integration of our Islamic financial system with the global market. The launching of HSBC Amanah Takaful (Malaysia) Sdn. Bhd. marks another significant milestone in terms of our strategy towards developing a progressive takaful industry, that is able to adapt to the increasingly challenging and competitive environment as well as adjust to the forces of change that has redefined the domestic and international financial landscape.

Ladies and gentlemen,

Over the past two decades, the takaful industry in Malaysia has grown progressively, underpinned by the holistic and pragmatic approach in the development of the Islamic financial industry. Indeed, we have witnessed an orderly development of the takaful industry. The takaful industry continues to exhibit good financial results each year, as reflected in the three-fold increase in total assets to RM6.5 billion in June 2006, as compared to RM1.9 billion five years ago. More significantly, average double-digit growth rate of 18.9% for net contributions of combined family and general takaful in the past three years, demonstrated the high potential of the industry. Whilst sustaining the current pace of development, there still exists high growth prospect for the takaful sector, in view of the large untapped potential, with the market penetration rate recorded at merely 6.1% in June 2006.

Ladies and gentlemen,

Bank Negara Malaysia has laid down a number of initiatives to further enhance the competitiveness and growth momentum in the development of the takaful industry. These initiatives emphasised on enhancing operational efficiency, strengthening corporate governance and risk management as well as improving the market practices and consumer awareness. All players need to capitalize on these initiatives for the takaful industry to achieve sustainable success and unleash the potential gains of the Islamic finance in Malaysia and abroad.

Allow me to share some significant developments that may shape the future direction of the takaful industry moving forward.

Firstly, as the prudential framework evolves towards a predominantly principle-based and risk-based regulatory approach, there will be a greater emphasis on risk management, corporate governance and transparency so as to maintain investor confidence and public trust. Commensurate with the diversity and complexity of takaful operational framework, products and services, the continuous upgrading of risk management practices, with improvements in governance standards and enhancements of information management systems will be critical. Under this environment, it is envisaged that takaful operators, individually or collectively, will play a bigger role in enhancing risk management practices, developing market conduct standards, fostering fair market practices and improving financial literacy among consumers. This will be even more important with the implementation of the risk-based regulatory regime, whereby the responsibility for the implementation of sound risk management and market conduct governance, as well as assessment of risks and management of the financial condition of a takaful operator, will rest increasingly with the Board of Directors and Senior Management of the takaful operators. Moving forward, a differentiated regulatory approach will increasingly be adopted, where companies that exhibit strong corporate governance and risk management practices will be given greater regulatory flexibility and may enjoy greater capital savings.

Secondly, it is vital to have in place an efficient and cost-effective delivery channel for the takaful business, strategically aligned to fulfil the participants' reasonable expectation.

Bancatakaful strikes as an attractive value proposition that enables takaful operators to tap into banking institutions' large customer base and attract the existing clientele of the latter to have access to integrated financial service offerings in the most cost effective manner. Strategic alliance in the bancatakaful arrangement has indeed shown a significant improvement in the takaful contributions over the past few years. This is evident with the significant three-fold increase in contributions of the product marketed through bancatakaful in 2005 which accounted for 20.4% of total contributions. Bancatakaful has contributed considerably to the increased penetration in the family takaful business, especially for single contribution takaful plans. We envisage significant inroads in the penetration rate of bancatakaful in future years in line with the positive trend shown by the conventional counterparts, where the bancassurance captured 45.3% of the new life insurance business premiums generated in 2005.

Through efficient cost structures of bancatakaful and with the entry of joint-venture takaful operators involving banks and savings institution with extensive nationwide branch network, the takaful industry should maximize the potential of this alternative distribution channel.

Finally, on the global front, Islamic finance has made significant inroads and has achieved growing global recognition. Another significant milestone in the progress of Islamic banking and finance as recently announced by Bank Negara Malaysia is the initiative to enhance the position of Malaysia as an international Islamic financial centre (MIFC). With the vibrant domestic Islamic financial industry that has become an integral component of the financial system, Malaysia is now well positioned to be an international centre of origination and issuance of Islamic financial instruments, fund and wealth management, Islamic financial activities in international currencies and takaful and retakaful businesses.

As at year 2005, the total gross contributions from takaful business outside Malaysia recorded an insignificant proportion of the total contributions of the industry. The relatively low participation of takaful operators in international business, is however set to change with the recently announced MIFC initiatives, to allow qualified local and foreign financial institutions to conduct the full range of Islamic banking and takaful businesses in foreign currencies. It was also announced in the recent budget that attractive tax packages in terms of 10 year tax holiday are given to all takaful operators on their international currencies takaful business. In addition, MIFC accords greater operational flexibility for the Islamic financial institutions to conduct Islamic financial services in foreign currencies from anywhere in Malaysia. To ensure effective delivery system under MIFC initiatives, the MIFC Executive Committee, with Bank Negara Malaysia as secretariat, has been set up to provide directions and drive implementation of policies and strategies to foster effectiveness and efficiency of the MIFC.

Well capitalised and reputable financial institutions that possess sound track record are encouraged to set up international takaful operation in Malaysia to conduct out-out takaful and retakaful businesses. The Malaysian takaful operators should seize the opportunity to venture into out-out takaful business establishing an international currency business unit to offer takaful business in international currencies.

Ladies and gentlemen,

In tandem with the rapid changes and expansion of the Islamic financial sector, it is vital for us to have a strong, continuous support in talent management and development. Towards this end, several initiatives in regards to sustaining and improving the level of expertise in the industry have been put in place. Earlier this year, Bank Negara Malaysia has launched the International Centre for Education in Islamic Finance (INCEIF), an institute providing internationally recognised certification and programmes with the aspiration to strengthen the pool of specialists in Islamic finance. INCEIF offers an international professional certification programme for Islamic financial practitioners that includes a dedicated module on takaful. This complements Islamic Banking and Finance Institute Malaysia (IBFIM) and International Centre for Leadership in Finance (ICLIF) in providing adequate training at all levels to the industry players and technical programmes in Islamic finance. In addition, Bank Negara Malaysia has recently announced the Shariah Scholarship Award that is offered to local and foreign candidates to pursue post-graduate studies in the field of Shariah relating to *fiqh muamalat* (Islamic commercial jurisprudence) in recognised universities as well as to obtain the Certified Islamic Finance Professional offered by INCEIF. The Bank also offers Shariah Research Grant to research organisations and institutions of higher learning, both local and foreign, to undertake research in the areas of Shariah relating to Islamic finance, takaful and the Islamic capital market. All these initiatives are aimed to enhance the pool of talents, knowledge and research capacity in the field of Shariah relating to Islamic banking, takaful and the Islamic capital market.

Ladies and Gentlemen,

The growth and development that have been achieved thus far have provided takaful operators with greater opportunities or avenues to progress, both at domestic and international levels. HSBC Amanah Takaful (Malaysia) Sdn. Bhd. and HSBC Bank Malaysia Berhad, with the group's strong international network and experience, are well positioned to make Malaysia as their regional and global hub for Islamic banking and takaful. HSBC Amanah Takaful (Malaysia) Sdn. Bhd. should also leverage on the strengths of its shareholders i.e. HSBC, Jerneh Insurance Berhad and Employees Provident Fund, to further accelerate the growth of the takaful business. On this note, it is my pleasure to congratulate HSBC Insurance (Asia Pacific) Holdings Limited, Jerneh Asia Berhad, and EPF on this momentous occasion of the official launch of HSBC Amanah Takaful (Malaysia) Sdn. Bhd. I wish HSBC Amanah Takaful (Malaysia) Sdn. Bhd. every success in its endeavours and look forward to its contribution towards further development of the Islamic financial services industry in Malaysia.

Dengan lafaz Bismillahir Rahmanir Rahim, saya dengan sukacitanya merasmikan pelancaran HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

Terima kasih.