

## **Zeti Akhtar Aziz: New opportunities for growth and development in Islamic financial markets**

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the official ceremony for the completion of the Share Subscription Agreement between BIMB Holdings Berhad, Bank Islam Malaysia Berhad, Dubai Financial LLC & Lembaga Tabung Haji, Kuala Lumpur, 16 October 2006.

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This occasion marks the successful completion of the share subscription agreement between BIMB Holdings Berhad, Bank Islam Malaysia Berhad, Dubai Financial Limited Liability Company (LLC) and Lembaga Tabung Haji. It also sets a new chapter in Bank Islam's drive to chart its future direction in meeting new challenges and in exploiting the new opportunities for growth and development in the Islamic financial markets, both in the domestic and global market place. The participation of such key foreign and local institutions in the new share issuance by Bank Islam Malaysia Berhad signifies an important turning point in the history of Bank Islam which has been the pioneer Islamic bank in Malaysia.

The partnership between BIMB Holdings Berhad, Dubai Financial LLC and Lembaga Tabung Haji is significant in several important ways. Firstly, it reflects the confidence and trust that international and domestic investors have in the investment and business climate in Malaysia, and in the Malaysian Islamic financial sector in particular. Indeed, the Islamic financial services industry in Malaysia has experienced robust growth in addition to being reinforced by enhanced market discipline and transparency, and the vibrancy of the Islamic financial market developments in Malaysia. The latest financial indicators show that the Islamic banking industry remains well-capitalised with a risk-weighted capital ratio of 14.8% as at end-August 2006, while the net non-performing financing ratio has declined to 4.2%. Clearly, therefore, the industry is strong, resilient and well-positioned to meet emerging challenges and to capitalise on new opportunities for the mutual return of its stakeholders.

Secondly, this partnership comes at a significant juncture when Malaysia is enhancing the international dimension of its Islamic banking and financial market, with the introduction of increased foreign participation. In line with the aspiration to position Malaysia as an international Islamic financial centre (MIFC), new licences and business divisions to conduct international currency Islamic banking business, tax and other incentives have been introduced to attract global Islamic financial institutions to make Malaysia the hub for their regional business operations. These measures and incentives are also expected to attract international investors, including from the Middle East, to leverage on Malaysia as an investment gateway to tap the rapidly growing investment opportunities in the East Asian region.

Thirdly, this partnership also serves to enhance Malaysia as a centre of product innovation in Islamic finance. Indeed, conscious efforts have been made to ensure a conducive environment for innovation in Malaysia, including the development of the necessary pool of expertise and talent to drive such innovation. Within Bank Islam itself, there is a track record and brand name for innovation, with the development of new business models and product offerings. This partnership would thus contribute towards accelerating this process and towards serving as a bridge to strengthen the relationship of the Islamic financial markets as well as the investment and trade ties between the West Asian and North African regions, with East Asia.

Strengthening the capital of a financial institution, however, is not the only factor that will determine its capacity and potential to perform. Equally important is the quality of its talent, the systems that it has in place, in particular, its risk management and ICT systems and its governance structure, its leadership and its corporate culture. Thus, while this capitalisation exercise will put Bank Islam in a stronger position to tap new opportunities, all the other elements also need to be in place to enable the institution to realise its true potential.

Sound corporate governance and effective management of banking institutions are vital to ensure their effective and sound functioning. In particular, significant shareholders are expected to play an active role to ensure that capable individuals are appointed on the Board and senior management of banking institutions.

Bank Negara Malaysia had as early as 2001 required the Board and management of Bank Islam to undertake remedial actions on several operational and control weaknesses. When the weaknesses

were not adequately addressed, the process of reconstituting the Board and management of Bank Islam was initiated in 2003. In such an exercise, key shareholders are expected to be proactive in making prudent and responsible action to remove any member or employee that is found to be unsuitable or not having the required calibre so as to avoid a prolonged process in the reconstruction of the Board and management of the bank. It needs to be recognized that the responsibility for the safety and soundness at the institutional level rests primarily with the Board and the management of each banking institution and the key stakeholders such as the significant shareholders. Institutional investors should also have an active role and make swift and bold decisions in ensuring that only capable individuals are appointed and remain on the Board and senior management of banking institutions.

Currently, virtually all the directors and key executives of Bank Islam are new, with diverse banking experience. In accelerating the provisions and in instituting the measures to address the bank's system, processes and business culture, it has now paved the way for drawing in new shareholders. It can now offer a valued proposition. And indeed, the participation of a new strategic investor will in fact further strengthen the bank. This has allowed the existing and new shareholders to focus taking the bank to the next level and to capitalize on the new opportunities the environment offers.

Indeed, the bank can gainfully advance to venture abroad to explore new business opportunities in the regional markets. The growth prospects will also be further strengthened by the overall performance of the industry and the sound and mutually reinforcing inter-linkages of the various market components in the Islamic financial system.

In closing, I would like to take this opportunity to congratulate BIMB Holdings Berhad, Bank Islam Malaysia Berhad, Dubai Financial LLC and Lembaga Tabung Haji for their contributions in the successful completion of the share subscription agreement for Bank Islam. I wish Bank Islam and its shareholders every success in taking the Bank to greater heights in its future endeavours.

Thank you.