

Mohd Razif bin Abd Kadir: Brief overview of Islamic banking and finance

Speech by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, at the Official Launch of Kuala Lumpur International Islamic Finance Expo 2006, Kuala Lumpur, 24 November 2006.

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It is indeed an honour to be here this morning at the launching of the Kuala Lumpur International Islamic Finance Expo 2006, organized by the Association of Islamic Banking Institutions Malaysia (AIBIM). It was exactly five years ago that all of us witnessed the launching of the first Islamic Banking and Takaful Week by the then Deputy Prime Minister, Dato' Seri Abdullah Ahmad Badawi. And now, after those years, Alhamdulillah, we are pleased with the positive impact of the comprehensive awareness campaign in the year 2001 as it has paved the way to subsequent nationwide annual campaigns on financial awareness in Islamic banking and finance. In this regard, I wish to congratulate all financial institutions involved for providing their unwavering support in this virtuous endeavour.

Before I proceed, allow me to take this opportunity to welcome our exhibitors, both local and foreign, who will be participating in the Kuala Lumpur International Islamic Finance Expo 2006. We believe that your participation will benefit the patrons to this expo. I hope you will exploit this platform to disseminate as much information on Islamic banking and finance as possible so as to provide an opportunity for the public to learn more on the products, services and benefits of Islamic banking and finance.

This year's Islamic financial expo presents a different appeal altogether with various differentiated activities and events organised for the diversified target groups and consumers. I note that various activities have been arranged for the next five days including Islamic banking and finance exposition, the annual Islamic Finance Forum, colloquium on Islamic finance, convention on takaful and Islamic unit trust advisors and Muzakarah for Shariah advisors. This is indeed an excellent opportunity for exchanging ideas as well as providing relevant information to the public on Islamic finance. It is also timely and augurs well with the recent announcement of the initiatives to position Malaysia as the international Islamic financial centre.

The Islamic financial industry in Malaysia has experienced rapid transformations particularly in the past ten years. The Malaysian Islamic banking system registered strong performance with higher profitability and positive trends in all key indicators. Profitability surpassed the RM1 billion mark for the first time in 2005, and this year the industry will again register good profit as for the first half of 2006, the amount of profit generated was already RM800 million. The total assets of Islamic banking currently stands at RM122 billion. The performance of the Malaysian Islamic financial market in particular the capital market has been encouraging. The Islamic corporate bonds stands at RM121 billion, which constituted 55 percent of the total corporate bond market in Malaysia. More recently, a total of 26 new corporate sukuk issues with an aggregate value of about RM23 billion were announced in the first half of 2006, representing 71 percent of the Malaysian domestic market's rated corporate bond issues for that period.

The operating environment of Islamic finance in Malaysia has also evolved dramatically. The product range has now expanded into broad array of innovative instruments using contracts beyond murabahah or Bai Bithaman Ajil (BBA). In past few years, several new Islamic financial products were introduced which included residential mortgage backed securities, commodity based financing, as well as investment and equity linked product based on musyarakah, mudarabah and ijarah. Recent issuance of Khazanah's exchangeable sukuk is based on musyarakah contract. Malaysia has strong potential to be the centre for sukuk origination as over 60 per cent (USD32 billion) of the outstanding sukuk issuance globally was originated from Malaysia. We have also seen that multi-lateral agencies have begun to tap the Malaysian market and our recent move to liberalise foreign currency denominated financial instruments to be issued out of Malaysia provides a strong catalyst in facilitating the international sukuk market. I would like to urge the industry players to take this opportunity and establish strategic alliance and form syndicates to market these products particularly in view of the growing infrastructure and construction projects being undertaken in the Middle East.

Government facilitative policies are also an important enabler to accelerate the growth and support the development of the industry. Apart from establishing strong legal and Shariah framework, the Government has also laid down conducive tax legislative that accords tax neutrality treatment for

Islamic finance transaction. The recent initiative to position Malaysia as an International Islamic Financial Centre, will further spur the business environment thus contribute to create more conducive landscape. This initiative will bring in more players, enhance competition and encourage new diversified products and services, especially in international currencies.

This rapid growth and positive performance achieved thus far signifies one of our major accomplishments over the last two decades in Islamic banking and finance. The robust growth of Islamic finance industry today augments the collaborative efforts within the industry to move in tandem to strengthen the position of Islamic finance in Malaysia. As Islamic banking and finance in Malaysia journeys towards global integration and international acceptance, there are key areas in the banking industry that needs to be enhanced to progressively support future development moving forward. Of importance, is the need to effectively engage other stakeholders through various means and approaches including promotional activities and strategies. It is imperative that the approaches adopted to be dynamic and innovative so as to ensure consistency and relevancy with the rapid development of the industry.

The KLIIFEX 2006 is well-positioned to be the platform to effectively engage with key stakeholders; i.e. consumers, relevant agencies, scholars and intermediaries. Communication and direct interface with these key stakeholders will advance towards effective dissemination of information to promote greater awareness and appreciation on Islamic finance to create a more literate society on the virtues and benefits of Islamic banking and finance.

The organising of KLIIFEX 2006 has some embedded key values and essence that need to be strengthened moving forward. The most significant is the strong alliance among the players within the industry as well as with the relevant institutions including educational, training and research institutions, knowledge centres and other professional bodies in promoting the development of the industry. Islamic finance will achieve greater heights with the collaborative efforts of all relevant parties, especially those outside the industry. The existence of these networks and linkages is a catalyst towards strengthening the landscape for future innovations and advancements in Islamic banking and finance at the domestic and international fronts.

The second essence of KLIIFEX 2006 is the involvement of international players, particularly with the participation of foreign exhibitors in this year's event. As the cross border trades and international Islamic finance activities intensify, strong interlinkages among the domestic and international players are crucial. Leveraging on the significant inroads and growing global recognition enjoyed by Malaysian players, this event will accord opportunities for the players to understand each other's strength and capabilities that would lead to more strategic alliance in the area of Islamic finance. This is certainly relevant in our effort to enhance the position of Malaysia as an international Islamic financial centre (MIFC). The players should seize the opportunity to increase interactions towards finding the right partners and exploring strategies and that are able to capitalise on tax incentives and other operational flexibilities accorded under MIFC to position Malaysia as 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.

Thirdly, KLIIFEX 2006 also provides opportunities to present relevant, pertinent and timely information on Islamic finance to different levels of key stakeholders. In the era where customers are becoming more discerning and demanding greater product differentiation and value added services, it is imperative for the Islamic financial institutions to provide information that is beyond the features of the specific product. The information must be timely, easily comprehensible and at an appropriate depth so as to comply with the disclosure requirements required under the corporate governance practices for Islamic financial transactions as well as to facilitate comparability of products by the consumers. It is our collective responsibility to enhance the public's understanding and appreciation on the features of Islamic banking and takaful products and the Shariah wisdom associated with them. All players need to capitalize on these initiatives for the financial industry to achieve sustainable success and unleash the potential gains of the Islamic finance in Malaysia and abroad.

I wish that the KLIIFEX 2006 and subsequent years will be the platform to fully realise the essence and aspirations and propagations that I have mentioned earlier.

I also wish that our commitment to achieve future success of the industry as reflected in this event by the joint efforts and collaboration of the regulators, the industry, the market participants and the relevant parties will be further enhanced moving forward. In this regard, I would again congratulate AIBIM on its continuous effort undertake the initiatives in promoting Islamic finance, particularly by organizing this event.

On this note, I wish you a successful and eventful week.

Dengan lafaz Bismillahirrahmanirrahim, saya dengan sukacitanya merasmikan pelancaran "Kuala Lumpur International Islamic Financial Expo 2006".

Thank you.