

## **Zeti Akhtar Aziz: Launch of the Investment Account Platform in Malaysia**

Keynote address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Launch of the Investment Account Platform (IAP), Sasana Kijang, Kuala Lumpur, 17 February 2016.

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It is my great pleasure to be here this morning for the launch of the Investment Account Platform (IAP), a centralised multi-bank platform that is likely to have significant implications on the role of financial intermediation in the Islamic financial system. This platform is more than just a new and innovative medium for Shariah-compliant investments and fund raising initiatives. It signifies a fundamental shift towards providing solutions that addresses the prevailing gap in the current risk-transfer financial regime to one that now allows for financial institutions to include a wider range of investment intermediation activities that emphasises risk-sharing and thus facilitate a stronger linkage of finance and the real economy.

Islamic finance in Malaysia has journeyed through different phases of development and has now evolved into a complete Islamic financial ecosystem that operates alongside the conventional financial system. Underpinning its growth has been the infrastructure and institutional development, product development that is reinforced by increased competition, and supported by a robust Shariah, legal and regulatory framework. Its development has also been strongly anchored by the investment in human capital development. The industry has now not only achieved a market share beyond the target of 20 percent by the year 2010 as was envisioned in the Financial Sector Masterplan, but it has also met the increasing and differentiated demands of the economy through the range of financial product offerings in Islamic banking, takaful and Islamic capital market segments.

The initiatives taken to develop the Islamic financial system has aimed to build a comprehensive financial sector that operates at the highest efficiency and with an outreach that would extend beyond domestic and regional markets and thus facilitate greater cross border economic linkages. In advancing to the next level of growth and development, the Islamic Financial Services Act 2013 (IFSA) now provides the industry with the foundation to transition into its next stage of development. The Act takes into account the specificities of Islamic finance while ensuring a robust governance of an end-to-end Shariah compliant regulatory framework. It also provides an enabling environment for Islamic banks to diversify their business through the offering of investment accounts as an alternative means of raising funds from the public. With this, Islamic banks are allowed to pursue their role as investment intermediaries in which the alternative modes of risk-sharing contracts can be applied for the investment account.

This new categorisation of deposits under the new Act has now been fully observed since mid-2015 with the effective reclassification of deposits to either being Islamic deposits or investment accounts. Following this exercise, the proportion of investment accounts to total funding for Islamic banks has increased from 7 percent in August to 10 percent as at December 2015, indicating a positive response towards this new product offering. This platform for the investment account is an evolutionary breakthrough that is uniquely designed for and driven by the industry. It will become a means by which both investors and enterprenenurs can experience and benefit from the new risk-rewards concepts embedded in the investment account. As an internet based investment platform, the IAP provides convenience and facilitates greater access thus allowing for the efficient channelling of funds from investors to viable economic ventures and business activities.

Its robust risk management infrastructure, with a high degree of transparency and disclosure differentiates the IAP from other technology-based fund-raising platforms. Islamic banks in performing their intermediation role in the operationalisation of the investment accounts that are being offered on this platform, would rigorously undertake the credit assessment and

screening of the listed ventures. The IAP would also require ratings on the listed ventures by rating agencies reinforced by the requirement for such ventures to comply to the disclosure standards thus enabling investors to make informed decisions. Integral to the platform is a mechanism for regular monitoring of the progress of the ventures, thus allowing for assessments to be undertaken by the sponsoring banks of any emerging risks associated with the ventures.

The value proposition and benefits of the IAP are multi-fold. It has the potential to spur the generation of new economic strengths through the promotion of entrepreneurship and job creation while also promoting greater financial inclusion and thus enhanced prospects for balanced growth. The IAP enables investors to directly finance a broad range of economic activity of their choice, therefore diversifying their investment portfolio with exposures to various types of projects and industries that yield potential returns that are based on the performance of the underlying chosen ventures. For businesses, the IAP provides a new source of funding for activities, with more competitive financing terms in a range of financing structures. Ventures and entities of varying types, size and industries, including SMEs, listed firms and multinational companies can raise funds on this platform. Given its greater visibility, the IAP will also provide access to a broader range of individuals and institutional investors.

For Islamic banks, the IAP creates a differentiated product that presents a new source of income and funding profile. There is also the potential for institutions with specific mandates including Government agencies to strategically collaborate with the IAP and Islamic banks to form public-private partnerships to facilitate the efficient channelling of grants or funding and to facilitate financing opportunities for identified strategic ventures.

The role of the IAP that is launched today is envisaged to transcend beyond our domestic borders to become an effective channel to further enhance financial interlinkages in the regional and global economy. It can also be enhanced to become a multi-currency investment platform to provide a marketplace for local and international investors to invest in real economic activity and projects denominated in various currencies and financed by Islamic banking institutions from different jurisdictions. This will be a first of its kind shared global platform for Islamic finance. In facilitating cross-border transactions, the IAP will also contribute towards drawing new foreign investors while also allowing for participation in the financing of projects outside the country.

The IAP, together with the existing components of financial intermediation will form a more complete, and yet mutually complementary financial ecosystem. To ensure its success, there has to be greater awareness and understanding on the key features of the IAP and its embedded mechanisms by all the stakeholders. Of importance is for Islamic banks, investors and entrepreneurs to have a clear understanding on the risk and return relationships that are embedded in the variations of Shariah contracts used in such investment account products. Expectations need to be aligned with the various approaches adopted to managing these relationships according to the contractual and operational requirements.

It is also paramount for Islamic banks to uphold the best practices in the conduct of discharging their fiduciary duties and in performing its administration. Of importance is the required due diligence, performance monitoring, suitability assessment and investment management. This would ensure that the IAP is always a trusted medium of investment that is transparent and competitive in providing a seamless experience for investors. This would address the concerns of investors on the risks associated with the asymmetry of information. Such features would contribute towards strengthening the ability of the IAP to attract a wider range of investors, therefore enabling the platform to cater for different types of risk profiles of the different ventures.

This shared infrastructure for advancing the delivery of the investment account product offerings represents an important platform to take this proposition forward. I wish to congratulate the six financial institutions that include four Islamic banks and two development financial institutions on their collective effort to initiate this platform. I understand there is

interest from other Islamic banks to take part in this platform. This platform will have the potential to create a more extensive network of sponsoring banks to meet the more diversified demands of investors and ventures. This would further enhance the potential for the value proposition of the IAP as a Shariah compliant investment vehicle and a fund raising avenue that would bring benefits to the economy.

On that note, it is my great pleasure to officially launch the IAP. I wish it every success. Thank you.