

Zeti Akhtar Aziz: Further strengthening of the institutional structure for Islamic banking business operations

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the launch of RHB Islamic Bank Berhad, Kuala Lumpur, 1 March 2005.

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"Building on the strong foundations of a well-developed, comprehensive Islamic financial system and strengthening its international inter-linkages and thus its global integration, has enhanced Malaysia's potential to be an international centre for Islamic finance. Our first Islamic bank, established in 1983, marked the beginning of the Islamic banking and finance chapter for our country. The opening of Islamic banking windows by financial institutions in 1993 paved the way for a more effective and efficient distribution channel for Islamic banking services to achieve the critical mass on a nationwide scale. These developments have been reinforced by the progress achieved in the establishment of the Islamic financial infrastructure, including the money and capital markets, the regulatory and supervisory structure, and most importantly, the legal and shariah framework. Today marks the emergence of a new era, with the establishment of an Islamic subsidiary of a banking group as Islamic banking in our financial system enters into the third strategic phase of the institutional development of Islamic banking and finance in Malaysia".

Ladies and Gentlemen,

It is my pleasure to be here this morning on the occasion of the official launch of RHB Islamic Bank Berhad. Indeed, today, we are witnessing the first transformation of an Islamic banking window to an Islamic subsidiary. This transformation reflects the coming-of-age of the Islamic banking industry after more than two decades of development. The move grants legal status to the Islamic banking business of the new entity, which is accorded a licence for its operations under the Islamic Banking Act 1983. The underlying philosophy of the incorporation of an Islamic subsidiary is primarily aimed at further strengthening the institutional structure for Islamic banking business operations. The Islamic subsidiary will also be able to assimilate the developments in the regulatory and supervisory standards governing the Islamic banking operations. It is envisaged that greater strategic focus and resources as well as higher autonomy and governance will be accorded to the Islamic banking business. The Islamic subsidiary will be led by a chief executive and a board of directors solely dedicated for the Islamic bank. Placed under the commercial banking arm of the group, the Islamic subsidiary will continue to leverage on the synergies and operating infrastructures of the group, thus achieving cost optimisation for the Islamic subsidiary and the group as a whole. For bank customers, the Islamic banking products and services will continue to be available at the existing branches of the conventional commercial banks.

Given that it is a subsidiary with a more focused vision and business strategies, the potential that can be unleashed for the Islamic subsidiary will enhance value to its stakeholders. Being wholly-owned, the incorporation of the Islamic subsidiary will provide an opportunity to the group to enlarge the Islamic banking market to potential institutional investors, both domestic and foreign, who wish to participate in the Islamic financial activities through direct equity participation. The divestment of shares in the Islamic subsidiary allowable up to 49%, is subject to the condition that the Islamic subsidiary will remain as a subsidiary of the commercial bank. This option will provide the banking group with the opportunities to find a strategic partner for the Islamic subsidiary, thus diversifying the range of players available in the Islamic financial market. Indeed, foreign participation in the Islamic subsidiary would enable the group to tap on the regional and international business opportunities.

In going forward, the move to issue new licences and accord legal status to the existing Islamic banking operations of the conventional banks is expected to accelerate the positioning of Malaysia as an attractive Islamic financial hub to the international financial community. In this regard, the Islamic financial players of other banking groups that have achieved the critical mass and strength are encouraged to explore the strategic advantage of the incorporation of an Islamic subsidiary, and in elevating the industry to a more dynamic and advanced phase of development including ventures abroad. There is a large business potential to be tapped in an environment of strong and rapid economic and financial development in the country and the region.

Ladies and Gentlemen,

On this occasion of the official launch of RHB Islamic Bank Berhad, it is with pleasure that I congratulate the RHB Group. With this structure, the management team of RHB Islamic Bank will now have the potential to maximise the full advantage of the universal Islamic banking licence issued, which allows a wide range of business to be undertaken ranging from retail and corporate banking to investment banking and fund management. Such Islamic subsidiaries are expected to exploit new growth areas such as wealth management and profit and risk sharing ventures, which are newly emerging as rewarding banking activities. In this connection, it is vital that, at the onset, the business strategies are aligned with the right people by developing a pool of the required skills and talent, and putting in place the proper risk management systems and good corporate governance practices. I welcome the initiative to establish the Islamic subsidiary by the RHB Group and look forward to the contributions of RHB Islamic Bank to the growth of the Islamic banking industry.

This advance forward is the first step that brings us to the third strategic phase of the institutional development of Islamic banking and finance in the country. I wish RHB Islamic Bank every success in this endeavour. I trust that the Islamic financial community would look forward to benefit from this new development.

Ladies and Gentlemen,

Dengan lafaz Bismillahirrahmanirrahim, saya dengan sukacitanya merasmikan pelancaran RHB Islamic Bank.

Sekian, terima kasih.