

Zeti Akhtar Aziz: Brief overview of the Islamic financial system

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the launch of Commerce Tijari Bank Berhad, Kuala Lumpur, 15 April 2005.

* * *

Bismillahirrahmanirrahim
Y.Bhg. Dr. Rozali Mohamed Ali,
Group CEO, Commerce Asset-Holding Berhad (CAHB)
Ladies and Gentlemen,

“Significant milestones have been achieved in our endeavour to build a comprehensive, efficient, dynamic, robust and resilient Islamic financial system. The Islamic financial landscape is now at the threshold of a new level of dynamism. The entry of foreign Islamic banking players, the transformation of Islamic banking windows into Islamic subsidiaries, the increasingly more vibrant Islamic financial markets, the enhanced inter-linkages with the global financial system, the enhanced consumer awareness, the strengthened regulatory, legal and Shariah infrastructure as well as the more conducive tax environment have culminated to open up new frontiers for the Islamic financial services industry in Malaysia, promising significant opportunities that will further enhance wealth creation and the potential for growth and development of the nation.”

Ladies and Gentlemen,

It is my pleasure to be here today to commemorate the official launch of “Commerce Tijari Bank Berhad”. Indeed, the emergence of Commerce Tijari Bank Berhad in the Islamic financial landscape will further enhance the diversity of the players in the Islamic financial system and will contribute to spur the growth of the Islamic financial services industry.

The rapid and profound changes that have occurred in the Islamic financial system in the recent five years have strengthened its position as an integral component of the overall financial system, as has been envisaged in the Financial Sector Masterplan. The strong growth in Islamic financial assets has been sustained to constitute 10.5% of the total assets of the banking system today. The Islamic financial system has now entered into the third strategic phase of institutional development where a number of domestic banking groups are now in the midst of strategically participating in the transformation process from Islamic banking windows into Islamic subsidiaries. The entry of foreign Islamic banking players will also contribute toward further increasing the level of innovation and competition in the Islamic financial system.

Indeed, Islamic financial products have become more diversified to include variable rate and equity based mechanisms as well as hedging instruments that strengthen the risk management capabilities of Islamic financial players. The participation of multilateral institutions in the issuance of Islamic securities further diversifies the asset classes and the investment alternatives available to investors, expanding the breadth and depth of the Islamic financial market and enhancing its liquidity. The comprehensive Shariah and legal infrastructure that has been put in place has also increased the level of confidence in conducting Islamic financial transactions. In addition, the conducive tax regime which accords neutrality in treatment between Islamic and conventional financial products sets the stage for greater innovation to take place to support the progressive development of the Islamic financial services industry going forward.

With this strengthened Islamic financial infrastructure now being firmly achieved in the first phase of the Financial Sector Masterplan, the Islamic financial services industry is poised to tap new growth opportunities and maximize the full potential of Islamic banking and finance. The entry of Commerce Tijari Bank Berhad into the Islamic financial services industry at this juncture is indeed timely. The challenge that lies ahead calls for strategic positioning to maximise the potential that a universal Islamic banking licence accords in tapping new growth areas. While Islamic retail, corporate and investment banking product offerings have grown in sophistication, financial activities such as private equity investments, real estate investments, private wealth and fund management are now rapidly gaining prominence. There is therefore a need to allocate adequate resources to build distinct capabilities in these newly emerging areas. The move into these strategic niche markets would also increase the diversity of new asset classes for Islamic investment. This would not only contribute to further enhance the effectiveness and efficiency of the financial intermediation process in the Islamic

financial system but also enhance Malaysia's potential as an attractive international hub for Islamic finance.

In addition to tapping the vast growth opportunities that reside within the domestic environment, the enhanced economic and financial linkages between Malaysia and the rest of the world has also opened up the potential for new opportunities by venturing abroad and thereby strengthen the global integration process.

On this note, it is my pleasure to congratulate the Commerce Group on this occasion of the official launch of Commerce Tijari Bank Berhad. Significant potential exists for Commerce Tijari Bank Berhad to achieve a quantum leap by leveraging on the integrated financial services and operating infrastructure of the Commerce Group. I wish Commerce Tijari Bank Berhad every success in this endeavour and I look forward to its contribution to the further development of the Islamic financial services industry in Malaysia.

Ladies and Gentlemen,

Dengan lafaz Bismillahirrahmanirrahim, saya dengan sukacitanya merasmikan pelancaran "Commerce Tijari Bank Berhad".

Terima kasih.