

## **Zeti Akhtar Aziz: Fostering leadership role in Islamic finance**

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the launching of Hong Leong Islamic Bank Berhad - "Fostering Leadership Role in Islamic Finance", Kuala Lumpur, 19 July 2005.

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Bismillahirrahmanirrahim

Y.Bhg. Tan Sri Quek Leng Chan,

Chairman of Hong Leong Bank and Hong Leong Islamic Bank

Encik Daud Abdullah, Managing Director, Hong Leong Islamic Bank

Ladies and Gentlemen,

It is my pleasure to be here today to commemorate the official launch of "Hong Leong Islamic Bank Berhad". This establishment of the Islamic subsidiary represents the on-going institutional transformation in the Islamic banking system in our Islamic financial system. The underlying philosophy for the incorporation of an Islamic subsidiary is for the further strengthening the institutional structure for Islamic banking business operations. The emergence of Hong Leong Islamic Bank in the Islamic financial landscape will further increase the diversity of players in the Islamic financial system and enhance its potential to contribute to the further development of our Islamic financial services industry.

Ladies and Gentlemen,

Today, the Islamic financial services industry in Malaysia has emerged as a viable and competitive component of the financial system that contributes towards enhancing wealth creation and the nation's economic development. The advancement and progress that have been achieved thus far have opened new frontiers for the Islamic financial services industry. The broad strategies that have been adopted as outlined in the Financial Sector Master Plan and the actions and initiatives taken leading to the rapid development and growth of the domestic Islamic banking industry have all contributed to the achievements we have realised today.

Indeed, the recent two years have seen the Islamic financial landscape being significantly redefined - the establishment of Islamic subsidiaries, the issue of new licences to foreign players, and the initiatives of our domestic institutions to venture abroad. These developments have increased the potential for international integration of our Islamic financial system. The liberalisation of our domestic bond market to allow multilateral and multinational corporations to raise Ringgit denominated instruments in our market has also expanded the volume of Islamic instruments in our financial markets. More recently, an Islamic equity index was introduced increasing further the potential for the deepening of the domestic capital market.

In the area of Shariah, Bank Negara Malaysia has introduced the Shariah governance framework in April this year as one of the initiatives to strengthen the role and involvement of the Shariah scholars in the development of Islamic finance. Today, a larger pool of Shariah scholars has been created to better serve the needs of the industry and the plan is to further develop them to emerge as prominent Scholars who can serve both domestic and international Islamic financial communities. Recently, Bank Negara Malaysia also organized a closed-door Shariah Scholars Dialogue attended by fifty prominent local and foreign scholars. This dialogue will now be held annually to serve as a platform for cooperation among the Shariah scholars to promote greater understanding on emerging developments across the world in the area of Islamic finance. This is to promote a greater understanding on the approaches taken by different jurisdictions in their Shariah interpretations. To support the Shariah scholars' activities especially in the areas of research and capacity building, Bank Negara Malaysia has also allocated a RM200 million endowment fund to meet the financing requirements of the Shariah Scholars' Dialogue research activities and the provision of scholarships. It is hoped that this will contribute towards greater understanding in the process of harmonizing the international implementation of Shariah in Islamic finance.

These initiatives have contributed to the success in the creation of a robust Islamic financial environment. It is further supported by the requisite financial infrastructure that includes the financial markets and that is reinforced further by a comprehensive regulatory, prudential, legal and accounting

framework. These elements have provided an enabling environment that increases the potential for Malaysia to evolve as an Islamic financial centre. These measures, however, need to be reinforced by efforts by the Islamic financial institutions to take on a more active role in promoting Islamic finance.

Indeed, the rapid progress of Islamic banking over the last two decades would not have been possible without the pioneering efforts of the Islamic financial institutions in building up a successful and vibrant industry. In conjunction with the 30th Meeting of the Board of Governors of the Islamic Development Bank in June this year, an initiative was taken to develop a ten-year Master Plan for the Islamic Financial Services Industry. The Master Plan for the global development of Islamic finance is now being finalised by the Committee established by the Islamic Development Bank and the Islamic Financial Services Board. The Plan will provide the strategic direction envisioned for the development of Islamic financial services, looking beyond the near term and taking a longer-term perspective into the needs and requirements of the future. Islamic financial institutions thus need to adopt a positive approach in re-inventing themselves to meet the emerging issues, challenges and opportunities.

In the domestic Islamic financial sector, despite the achievements that have been achieved thus far, the need remains for the Islamic financial institutions to strive to further enhance their capacity and capability so that they will be on par with global Islamic players in terms of efficiency, effectiveness and financial soundness. As we enter into an increasingly challenging environment, the ability of the Islamic financial institutions to compete by creating innovative and differentiated products, and by adopting strategic positioning to increase unique and tangible value to their customers will be the key to determining performance and relevance. It is imperative that players in the Islamic financial industry reposition themselves to create a unique and sustainable competitive position in responding to the changing environment.

Islamic financial institutions may now also take the opportunity under these new institutional arrangements to explore opportunities for building strategic partnerships to acquire new expertise and develop new value added activities. The move toward strategic partnerships would create potential for greater innovation and expansion of the market. Such strategic partnerships would also enable Islamic financial institutions to tap the best talents from a broad range of fields.

With the experience that has been built up in Islamic banking and finance over the years, it is timely and desirable to extend our wings beyond our shores. New markets need to be identified to expand business operations, especially in the Asia-Pacific region, which offer considerable opportunities. There is a vast business potential to be tapped as several regional countries are progressively opening up their economies to greater foreign participation. Islamic financial institutions are strongly encouraged to continue their efforts by taking the lead to establish collaborative partnerships and develop new approaches for financing facilities in this region. To succeed, adequate resources would need to be allocated to build distinct capabilities in these areas and to put in place the proper risk management systems and sound corporate governance practices.

It is equally critical that institutions play their role effectively and efficiently to generate improvements and growth in Islamic finance. Of importance, is the firm commitment towards performance and capacity enhancements with the readiness to invest in talent and skills to spearhead the development of Islamic financial industry. Therefore, it is important for the Islamic financial services industry to continually promote human capital development and expertise to create a larger pool of experts and high calibre professionals. This involves attracting not only the existing talent pool, but also building a robust pipeline of skilled human resources for the future. This is vital to drive the development of the industry to greater heights.

Ladies and Gentlemen,

On this occasion of the official launch of Hong Leong Islamic Bank Berhad, it is with pleasure that I congratulate Hong Leong Bank Berhad for its interest and commitment to contribute to the success of Islamic finance by allocating resources in having a dedicated subsidiary to drive its Islamic banking business forward. The establishment of the Islamic subsidiary is a positive step forward in the aspiration of making Malaysia as a leading and attractive integrated Islamic financial hub.

I wish Hong Leong Islamic Bank Berhad every success in its endeavours.

Ladies and Gentlemen,

Dengan lafaz Bismillahirrahmanirrahim, saya dengan sukacitanya merasmikan pelancaran "Hong Leong Islamic Bank Berhad".

Terima kasih.