

Zeti Akhtar Aziz: Islamic finance

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the official launch of Affin Islamic Bank Berhad, Kuala Lumpur, 6 June 2006.

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Islamic finance has become one of the most dynamic growth areas in international finance. While Islamic finance has become an increasingly important form of financial intermediation in several countries, more recently, we have seen the international dimension gain significance. The Malaysian Islamic financial system is now well positioned to become internationally integrated with the international Islamic financial system. The progress and development of the Islamic financial services sector in Malaysia is evidenced by:

- the rapid expansion in new and innovative Islamic financial products and services;
- the enhanced competitive environment in which Islamic finance has developed;
- the progressive development of the prudential, regulatory and supervisory framework for Islamic financial institutions;
- the active issuance of both corporate and sovereign Islamic financial instruments;
- the progressive liberalisation for foreign participation; and
- the strengthened financial and non-financial institutional infrastructure, including the development of the domestic money and capital markets, and the establishment of institutions to promote human resource development in Islamic finance to ensure the pool of talent that is necessary to sustain the long term growth of the industry.

Our domestic Islamic financial system is one of the most developed, with its diversity of players and financial products and services in Islamic banking, takaful and the Islamic capital market.

Today, we are witnessing the establishment of another dedicated Islamic banking subsidiary that will contribute towards further strengthening the Islamic financial institutional infrastructure in Malaysia - the launch of Affin Islamic Bank Berhad as an Islamic banking subsidiary of Affin Bank Berhad.

With the domestic Islamic financial infrastructure in place, the emphasis is now to become more internationally integrated with the international Islamic financial system, thus increasing our economic and financial linkages with other parts of the world. Our efforts are to position Malaysia as an international Islamic financial centre and thus facilitate this international integration process. In this regard, the establishment of an Islamic subsidiary also increases the opportunity for entering into strategic partnerships with foreign interests, thereby increasing the potential for greater interface with more extensive markets beyond our domestic borders.

On the domestic front, while tremendous progress has been achieved, much more needs to be done. The Islamic financial industry needs to allocate more resources toward investment in research and development to create more innovative products. Consumer awareness and consumer education also needs to be enhanced to support the growth of the Islamic financial industry. In a financial environment that is transitioning towards greater deregulation and towards more market-based rules, it is important that the Islamic financial institutions inculcate a high level of confidence among consumers not only on the Shariah-compliance aspects of the Islamic financial products offered, but also on their business operations.

Concerted efforts by the industry to develop standardized documentation and features of Islamic financial contracts would enhance the level of public understanding of the different types and concepts of Islamic financial products. Islamic financial institutions also need to provide consumers with the information that accurately represents the unique features, risks and returns associated with the Islamic products and services. Enhanced financial literacy on Islamic financial products will facilitate the process for consumers to make well-informed and effective decisions on their financial transactions, with a clear understanding and appreciation of the unique characteristics and features of Islamic finance and its real economic value.

Indeed, the strengthening of the range of Islamic products and services needs to be accompanied by an improved market understanding of the Islamic financial products. This requires well trained staff

who are equipped with the required skills and knowledge in Islamic finance that are able to provide quality advice to the customers. Correct terminologies need to be used with an ability to highlight the distinguishing features of the products and services. This is particularly important in a dual financial environment where both conventional and Islamic financial system are operating in parallel.

The regulatory framework governing market practices by the Islamic financial institutions can also be strengthened further to ensure its continued soundness. This will involve the implementation of the prudential standards that have been issued by the Islamic Financial Services Board, the IFSB. Greater transparency through the observance of minimum disclosure requirements needs to be adopted by the industry. Good business practices need to be embedded in all aspects of Islamic financial operations, not only as part of good governance and corporate social responsibility, but also as part of brand building. Market efficiency in conducting Islamic business activities can also be enhanced further to ensure its sustained competitiveness as an intermediation process.

As we are advancing into the third phase of the Financial Sector Master Plan, where the environment will become increasingly more liberalised and dynamic, we now have to look beyond the 2010 strategies. A key feature of the new environment is increased competition. The benefit of this trend will be to the consumers and businesses in terms of better prices, better range of products and services that are of a higher quality. This in turn would contribute to the overall performance of the economy. To be at the leading edge of competition, continuous efforts have to be intensified to enhance business efficiency and innovation. In this regard, the Islamic subsidiaries, with their increased autonomy in business operations, would be better positioned to determine their own business strategies and to realise the vast growth potential in the Islamic financial industry. On this note, it is my pleasure to congratulate the Affin Group on the occasion of the official launch of Affin Islamic Bank Berhad. I wish Affin Islamic Bank Berhad every success in maximising the potential opportunities and contributing to achieving its objectives.

Akhir kata, dengan lafaz Bismillahir Rahmanir Rahim, saya dengan sukacitanya merasmikan pelancaran Affin Islamic Bank Berhad.

Terima kasih.