

Mohd Razif bin Abd Kadir: Malaysia's position as an international Islamic financial centre

Closing keynote address by Mr Mohd Razif bin Abd Kadir, Deputy Governor of the Central Bank of Malaysia, at the Malaysian Islamic Finance - Issuers and Investors Forum 2006, Kuala Lumpur, 15 August 2006.

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It is my pleasure to be here at the end of the two-day Malaysian Islamic Finance - Issuers and Investors Forum 2006. The joint hosting of this Forum by Bank Negara Malaysia, the Securities Commission, Labuan Offshore Financial Services Authority (LOFSA) and Bursa Malaysia is testimony to the strong cooperation and close collaboration of the key regulatory and market authorities in the financial services sector in Malaysia. I would regard the Forum as a successful one. The 14 sessions and the 54 distinguished panellists and 8 moderators from various backgrounds and experience have deliberated and focused on issues that are relevant to both the issuers and investors, who are among the key stakeholders of Islamic finance.

My closing remarks today will centre on summarising the issues and suggestions that have been put forward to further enhance Malaysia's position as an international Islamic financial centre, and to reiterate and reaffirm the strong commitment of the Government and the relevant regulatory agencies to spearhead this MIFC initiative.

In many of the sessions, Malaysia has been recognised as having in place a strong foundation and the right pre-requisites to become an effective and efficient Islamic financial hub. Among them are:

- i. 23 years of experience in regulating and developing the Islamic financial system.
- ii. strong Islamic financial institutions comprising 12 Islamic banks. Of this, 3 are foreign Islamic financial institutions and 7 are Islamic subsidiaries of banking groups. There are also several Islamic windows of conventional banking institutions which are also lead arrangers of Islamic financial instruments. In the takaful industry, there are 9 takaful operators.
- iii. a strong Islamic capital market with 89 Islamic unit trust funds, 85 percent of Bursa Malaysia's counters are Shariah approved counters and 46 percent of the corporate bond market are Islamic bonds or sukuku.
- iv. a well established and comprehensive regulatory and Shariah governance framework in accordance with best practices, together with a tax neutrality policy.
- v. a comprehensive legal and Shariah infrastructure.
- vi. well endowed with the critical mass and a wide array of Islamic products and services.
- vii. Talent development infrastructure.
- viii. a vibrant and active secondary market trading of the Islamic money and capital markets equipped with the state-of-the-art technology.

We are now at the cross-road in the development of Islamic finance. We realise that we are strong at the domestic level, and we now need to strategise to elevate the industry to the next phase of development. During the keynote address yesterday, Governor has launched **Malaysia International Islamic Financial Centre (MIFC)** for the offering of Islamic financial products and services in international currencies from anywhere in Malaysia. These ground-breaking initiatives are aimed at providing operational flexibility, cost effectiveness and conducive environment for Islamic finance business in international currencies :

- i. grant approval under the existing Islamic banks and takaful licence to set up International Currency Business Units within these institutions.
- ii. issuance of new conditional licences for the setting up of International Islamic Banks and International Takaful Operators under the Islamic Banking Act and Takaful Act respectively to qualified foreign and Malaysian financial institutions to conduct business in international currencies.

- iii. Labuan offshore Islamic banks and the Islamic divisions of offshore banks as well as offshore takaful operators have been given greater flexibility in their business operations to open operation offices anywhere in Malaysia with minimal presence in Labuan.

The Government is finalising an attractive tax package to ensure our competitiveness in the global market place. This policy should be capitalised by the existing Islamic financial institutions in Malaysia, as well as for the new players to take the opportunity to establish their presence in Malaysia.

We realised that a successful Islamic financial centre cannot depend on low cost alone but much depending on the overall efficiency in the delivery system. To ensure this, the MIFC Executive Committee comprising a high-powered group of 28 top officials from the relevant Ministries, Government Departments and Agencies, the key financial and market regulators, and industry representatives from the banking and takaful sectors has been set up.

This committee will provide direction and address any impediments in a speedy and cohesive manner. It will function as a one-stop body and will leverage on all the Government machineries and apparatus to facilitate the smooth implementation of the MIFC initiatives. The secretariat to this MIFC Executive Committee is Bank Negara Malaysia.

I like to share with you some of the initiatives that we are going to take to address and confront the issues on converging Shariah interpretations. All of us must endeavour to promote the harmonisation of Shariah interpretations as this will greatly enhance the markets, products and liquidity. Continuous dialogues need to be stepped up, and Bank Negara Malaysia stands ready to provide leadership in this area. We have convened strategic dialogues among scholars within this region and globally. The next international dialogue will be held in November this year. To further promote talent, depth of research in emerging issues and greater product innovation, scholarships and research grants will be awarded. In this regard, the RM200 million Shariah Scholars Fund that was established last year will be capitalised.

On convergence of Shariah interpretation, let me reiterate what the Governor has said at the keynote address yesterday. The MIFC will adopt a stance of mutual recognition and appreciate the differences in ijthad or reasoning based on analysis and logical inference so long as it is approved by recognised Shariah advisers. Convergence should not be taken as a single step towards harmonisation of interpretation. At the same time, we must also allow diversity in Shariah interpretation as to support product innovations to meet the needs of the industry.

Over the last two days, we have heard about the need to accelerate talent development, which is key to the future progress of the industry. In this respect, the International Centre for Education in Islamic Finance or INCEIF offers the world's first professional certification program in Islamic finance. The response has been over-whelming. To complement talent development, a set of incentives will be formulated to attract the best foreign talents to work in the MIFC.

The adoption of best practices in the regulatory standard by the Islamic financial institutions will be key in sustaining their soundness and resilience. In this regard, IFSB has developed the required regulatory and prudential standards, in which Malaysia will adopt these standards, and continue to provide the leadership in the implementation of these standards.

Malaysia's strength in the Islamic capital market can be further leveraged upon by issuers and investors as a platform for origination, trading and distribution of Islamic financial instruments.

The benefits of being a financial centre are tremendous. Besides enhancing services sector contribution to GDP, it will create job opportunities, contribute towards promoting greater cross border investment and trade flows, better quality and diversified products and services, and strengthen further the global economic and financial inter-linkages among countries.

Malaysia has come a long way since it first introduced Islamic finance in the 1980s. We are now embarking on the next stage of development. The MIFC initiatives that were announced yesterday would propel Malaysia into becoming a vibrant, innovative and competitive international Islamic financial services industry supported by high calibre human talent, world-class infrastructure and best international standards. Building on what we have, we need to create a global brand to be promoted more aggressively in the global arena. This will be key to penetrate markets as well as to attract global players to our shores, henceforth enhancing the viability and sustainability of Malaysia's Islamic financial system. Malaysia will embark on more strategic promotional and marketing efforts through greater collaboration and smart partnership. **MIFC WILL BE OUR GLOBAL BRAND.**

On this note, on behalf of the hosts and organisers, I would like to thank the distinguished panellists and moderators, media and the respected audience for making this Forum a success, and

I hereby declare the forum officially closed.

Thank you.