

Zeti Akhtar Aziz: The global Islamic financial services industry

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Launch of Kuwait Finance House Research, Dubai, 14 May 2007.

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Let me first of all congratulate Kuwait Finance House on the establishment of the Kuwait Finance House Research. It is my great pleasure and honour to officiate its launch. The establishment of this research entity is timely to meet the more intense demands of operating in a dynamic and highly competitive environment where new challenges and opportunities are continuously emerging in this era of globalisation and change.

In the recent five years, there has been a rapid evolution and expansion of the global Islamic financial services industry. Islamic finance has now been accepted as a viable and competitive mode of financial intermediation, not only in Muslim countries but also beyond the Muslim world, which offers a wide range of financial products and services to meet the highly differentiated demands of the new economy. The continued progression in the economic and financial landscape has presented many opportunities for new products, services and innovations.

With the accelerating pace of financial integration, financial institutions are presented with prospects to expand beyond domestic borders to capture opportunities from regional and global markets. Nevertheless, these opportunities cannot be fully realised without sound research and development efforts. Successful financial services players must leverage on expertise and knowledge to deliver superior products and services. The challenge is to enhance efficiency and reduce costs, respond to market and regulatory demands and, most of all, gain competitive advantage through innovative products and services.

The overall Islamic financial system, comprising financial institutions, markets and the financial infrastructure, has demonstrated its viability and robustness as a form of financial intermediation. Its growing role in mobilising and channelling funds to productive investment activities across borders brings significant benefits to global economy. Building stronger financial markets and greater intermediation through knowledge sharing especially, forms an important part of this process to facilitate greater international and investment flows. Much in the same way that national strategies are developed to remain competitive in the new, knowledge-based economy in a globalised environment, institutions in the public, private or non-profit sectors, have come to recognise that "knowledge" can play an important role in enhancing the effectiveness of their operations. In addition to investments in human capital and leveraging on the role information technology, considerable attention has been devoted to harnessing the explicit and tacit knowledge they possess.

Ladies and Gentlemen,

I have previously made two references to the New Silk Road. The first was made at the 2nd World Islamic Economic Forum (WIEF) on "Unleashing the Potential of Emerging Markets" in Islamabad, Pakistan in November 2006, while the second reference was during a special address at the Global Islamic Finance Forum - Investors and Issuers Forum in March 2007.

Like the 14th century Silk Road, the current emergence of Islamic financial products and services has brought together financial services providers across continents to trade on this new route. The emergence of the New Silk Road reflects the increasing and evolving economic and financial relationships and interlinkages, with Islamic finance well positioned to further facilitate these linkages to offer mutually-reinforcing benefits to those who participate in it. The economic and financial linkages between Asia and the Middle East are growing through a significant expansion in trade and investment between the two regions and opportunities to leverage on the high level of savings and resources both these regions have been endowed with. Indeed, the New Silk Road opens up the prospect of exciting opportunities for greater economic progress and prosperity for us.

The New Silk Road has created linkages that build on the comparative advantages between Asia and the Middle East. For example, Middle East domestic infrastructure requirements are estimated to total USD500 billion for the next 5 years, and Asian companies have demonstrated the capacity to provide the technology, expertise and human capital to meet these infrastructure demands. Indeed, the New Silk Road has facilitated the development and effective use of talent and expertise across the two

regions. In addition, the New Silk Road has reinforced the rapidly evolving Islamic financial industry and the growing significance of Islamic financial markets and institutions.

To meet the escalating demand for new products and services, top-tier financial institutions are known for their commitment in research and development to enhance innovation, especially in process and product innovation in order to remain competitive. In the process, such financial players will be able to better position themselves to be part of the global financial community. As such, human intellectual capital has become an important factor in sustaining the performance and competitiveness of the Islamic financial industry. Indeed, the fast pace of innovation in global financial services in general and in the Islamic financial services sector in particular, demands new expertise and skills.

Since research and development remains at the forefront of any well-acclaimed international financial framework, the same is true for any player in the Islamic finance industry. At a time when global economic development plays a decisive role in determining how markets perform, the accessibility to accurate and concise market information is crucial. Kuwait Finance House's initiative, in this regard, as the first Islamic Bank worldwide to possess an Economics & Investment Banking Research arm based in Malaysia, is a major advancement on this front.

The establishment of the Research Unit will facilitate information sharing amongst the Islamic financial institutions and other key stakeholders. The setting up of the Research Unit provides vital information which can be shared. The promotion of information sharing and exchange of knowledge will encourage better understanding and spur global collaboration among the financial players. Through in-depth market knowledge of the financial services industry, it will without doubt spur greater innovation in Islamic financial services, leading to cutting-edge products and services.

Equally important, it is also expected to enhance linkages between the Middle East and Asian regions, acting as a conduit to promote greater economic integration and encourage deeper intermediation of Islamic markets. This further underscores the economic integration of both the Middle East and Asian regions and further enhances linkages in the New Silk Road, a manifestation of the thriving global Islamic finance market.

Ladies and Gentlemen,

On this occasion of the official launch of Kuwait Finance House Research, it is with pleasure that I congratulate Kuwait Finance House for its forward-looking outlook and commitment to contribute to the success of Islamic finance by allocating resources in having a dedicated research entity to drive its Islamic banking business forward. It is my hope that Kuwait Finance House will continue to play a major role in the initiatives to further develop Islamic banking both here and in Asia. I wish Kuwait Finance House Research every success in its endeavours.

In the name of Allah, Most Gracious, Most Merciful, it now gives me great pleasure in officiating the launch of Kuwait Finance House Research.

Thank you.