

## **Muhammad bin Ibrahim: Evolving the next frontier of Islamic finance development through innovation**

Speech by Mr Muhammad bin Ibrahim, Assistant Governor of the Central Bank of Malaysia, at the Mock Cheque Exchange Ceremony between the International Centre for Education in Islamic Finance (INCEIF) and Bank Islam, Maybank Islamic and Affin Islamic, Kuala Lumpur, 15 June 2010.

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Thank you for inviting me to witness the mock cheque exchange ceremony for the allocation of zakat contributions from Bank Islam, Maybank Islamic and Affin Islamic to the International Centre for Education in Islamic Finance (INCEIF). This act of giving signifies an exemplary commitment on the part of these Islamic financial institutions to support human capital development in Islamic finance. As a leading provider of advanced education in Islamic finance, INCEIF plays an important role to position Malaysia as a center for innovation and thought leadership in this field. But INCEIF alone would not be able to achieve this objective without the continuous efforts and support by all stakeholders within the industry.

Let me make a few remarks on innovation. Few would argue on the role of innovation as the connerstone to sustaining growth and securing competitive advantage for any organization, industry, economy and nation. As we have seen in the more recent decades, innovation has fundamentally transformed the global financial landscape at a very rapid pace. Innovation in the financial services industry has enabled financial institutions to obtain better insight into customer needs and correspondingly, develop new and better products to match their diverse needs, make significant improvements in operational efficiency by improving processes and business models as well as ensure more effective risk management. It has facilitated greater financial inclusion by allowing broader access to financial services in many emerging and developing countries. But the abilities to innovate will very much depend on the ability to get the necessary talent: the creativity to develop new ideas, the capacity to absorb knowledge and the capacity to acquire the new skill to turn ideas into results. This requires a talented workforce as the driving force of innovation. Building such a workforce would thus become a constant challenge for the Islamic financial services industry.

In the context of Islamic finance, human capital development is all the more important given that the Islamic finance industry is still relatively in a nascent development phase. There is no doubt that the Islamic financial services industry in Malaysia has experienced an exciting and phenomenal growth. The proliferation of competitively priced Islamic financial products to match the diverse and discerning needs of customers particularly in this recent decade is quite evident. But we cannot be complacent. What has served us well in the past is unlikely to serve us well into the future.

We must be mindful that being innovative in this environment of constant change and heightened complexity in itself is a challenge. Along with technological advancements which bring about more efficient ways of conducting financial services, globalisation and liberalization of markets are amongst today's major forces of change that are transforming the global financial landscape, blurring the geographical borders in doing business and increasing competition in the financial sector. Moreover, the recent global financial crisis has brought about several important developments that are shaping the global financial landscape. One that is relevant is the increasing awareness and appreciation amongst the international financial community on the distinct nature and inbuilt strengths of Islamic finance. The crisis thus has provided an opportunity for Islamic finance to strategically position itself as a stable form of financial intermediation. A few challenges stood before us – ongoing global reform that is going to change the contour of financial regulation, challenges associated with a general public distrust on the financial sector, general suspicion on

financial innovation, and constant competition from other financial centers aspiring to take advantage of opportunities in Islamic finance as a new area of growth.

Against these developments, we need to rise above these challenges whilst transitioning into the next level of its development. This will require rethinking of existing product structures and formulating new ones. New products being developed must also be competitive, meet the greater sophistication of customers' needs and distinct from financial solutions offered by conventional banks.

As new players enter the industry, the competition for the best talent would become more intense. Demand will increase for talents in the Islamic financial services industry who are not only conversant in both fields of finance and Shariah but must also possess soft skills such as managerial expertise, leadership and effective communication. Thus education and learning providers must constantly relook at the methodology of teaching, learning contents and the contemporary skills requirements of the industry. Forging greater collaboration between industry and academia is also an important aspect to align the training and development and the business requirements of the industry. We should all be mindful about the employability of our graduates.

The industry-academia partnership could come in various forms. For example, there could be more reciprocal dialogues and strategic alliances to explore areas with the aim to provide real solutions to contemporary issues that are key to progressive development of the Islamic financial services industry. We should capitalize on our extensive experience in industry development which makes Malaysia a fertile learning ground on Islamic finance. For example, our Islamic financial market is vibrant and progressive, whilst our Islamic financial institutions are innovative and dynamic. Islamic financial institutions could complement INCEIF's education programmes by offering practical training at their organization. The opportunity for an attachment at our institutions is an added value to INCEIF's programmes, and an attractive value proposition for foreign students. On this note, the strong industry support has indeed been commendable and contributed to the progress of INCEIF. Efforts by INCEIF to forge strategic alliances with entities from all over the world must also continue.

Today's allocation of zakat contribution to INCEIF by the three Islamic banks is another commendable act of industry in support of learning. INCEIF has received monetary contributions from several other Islamic financial institutions since 2007. This has enabled INCEIF to continuously enhance its internal capacity as the leading provider of Islamic finance education and knowledge. The contributions are being utilized to create the provision of scholarships, research and facilities development. In this regard, INCEIF has recently been accorded the "Project of National Interest" (Projek Berkepentingan Nasional) status. This status, which accords contributors with tax benefits in the forms of tax rebates for zakat contributions and tax deductions for non-zakat contributions, will incentivize more individuals and institutions in providing monetary support to INCEIF. The contributions will indeed go a long way towards the growth and development of Islamic finance in Malaysia and beyond.

Thank you.