

Zeti Akhtar Aziz: The development of Islamic finance

Welcoming address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Global Islamic Finance Forum 2010, Kuala Lumpur, 25 October 2010.

* * *

These are defining moments in the development of Islamic finance. In this current global economic environment of extraordinary challenges and uncertainties, Islamic finance is becoming very much a part of the journey to bring the world towards a new level of stability, prosperity and international integration that is inclusive. Whilst Islamic finance has come a long way and is set to continue its growth trajectory, new capabilities and strategies are needed to tap the immense opportunities from the growing internationalization of Islamic finance.

It is my great pleasure and honour to welcome you this morning to this Global Islamic Finance Forum (GIFF) 2010. Allow me to express our gratitude to Duli Yang Teramat Mulia Raja Dr. Nazrin ibni Sultan Azlan Shah for gracing and addressing our gathering today, and to the Honourable Prime Minister of Malaysia, Yang Amat Berhormat Dato' Sri Mohd Najib bin Tun Haji Abdul Razak for officiating this important forum.

Since the dawn of this 21st century, Islamic finance has undergone the most dramatic transformation to its landscape. This period in the history of Islamic finance is remarkable for its many significant milestones and for the rapid growth that has been sustained. An important development in this decade has been the growing significance of the international dimension of Islamic finance and its increased role in the international financial system. Islamic finance has, during this period, been expanding steadily at a double digit pace of growth. The total Islamic financial assets size is estimated to be more than US\$1 trillion. Such dynamic growth has been driven by two key factors: firstly, the pace of innovation in Islamic finance has been able to provide the extensive range of financial solutions to households, businesses and governments with attractive pricing and innovative structures; and secondly, the resilience derived from its inherent features which has provided the foundations for financial stability in the Islamic financial system.

The advancement that has been achieved in the sukuk market in particular, testifies to the ability of Islamic finance in meeting the requirements of today's differentiated demands of the modern economy. The Sukuk epitomises the very ingenuity in Islamic finance. This important segment of Islamic finance has seen a dynamic stream of cutting edge products and structures. Sukuk is distinct in its role as a platform upon which international inter-linkages are fostered. The sukuk market has demonstrated its ability to effectively intermediate funds across borders and thus contribute towards the efficient allocation of funds in the international financial system. On the supply side, it has drawn the participation from corporations, sovereigns and multilateral agencies. On the demand side, it has now become part of mainstream asset allocation strategies for investors seeking greater risk diversification. Today, the sukuk market has become an important avenue for international fund raising and investment activities with the sukuk becoming a truly global product, generating significant cross-border financial flows.

The internationalization of Islamic finance is also evidenced by the growing presence of Islamic financial institutions that now operate beyond their own jurisdictions and the increased number of international foreign financial institutions that offer Islamic financial products and services. Indeed, increasingly, Islamic finance has become part of the growth strategies of a growing number of the global financial players. In addition, the traditionally domestic-focused Islamic financial institutions are now venturing abroad. These developments have resulted in the increased international participation in Islamic financial markets. New horizons are also fast emerging, as seen by the concrete efforts for legislative

and regulatory changes in several non-traditional markets to facilitate the introduction of Islamic finance in these markets.

The rapid internationalization in Islamic finance has also been underpinned by the massive flow of knowledge, ideas, technology and people across borders, a process which fosters a greater international understanding on the practices in Islamic finance. This is taking place through the strong international cooperation in the area of human capital development and the development of global ancillary service providers that specialize in Islamic finance. This has resulted in the proliferation of programmes and certifications that focus on Islamic finance around the world and the development of Islamic indices, information repositories, and the provision of professional consultancy services. More recently, there has also been an increased global engagement in Shariah matters among scholars, practitioners and regulators through international platforms. This is a remarkable achievement, given that much of these developments have taken place amidst the tumultuous global financial environment.

In parallel with the rapid internationalization of Islamic finance, this recent decade has seen the increased emphasis being given to the development of the international financial infrastructure relating to financial stability in Islamic finance. This is another important area in which significant milestones have been achieved. In 2002, we saw the establishment of the Islamic Financial Services Board (IFSB) as the international prudential standard setting body for the Islamic finance industry. The work of the IFSB has been crucial to support the orderly global expansion of Islamic finance thus ensuring a cohesive cross-border regulatory framework and international best practices for the Islamic financial system.

A more recent initiative to support the role of the IFSB in promoting the financial stability of Islamic finance is the landmark establishment of the Islamic Financial Stability Forum (IFSF). Formed with the mandate to serve as a platform for information exchange and engagement between the authorities responsible for financial stability in the Islamic financial system, the Forum has a major role in promoting effective cross-border cooperation, an aspect which has become crucial in the context of maintaining financial stability in a rapidly globalizing marketplace. Today, another important milestone is being achieved with the establishment of the International Islamic Liquidity Management Corporation (IILM), a liquidity management infrastructure to enhance the capacity of Islamic finance in facilitating efficient cross-border flows. This represents another major breakthrough for the Islamic financial services industry. [It will enable more effective liquidity management not only for the Islamic financial institutions but also for the management of Islamic financial portfolios.] This development is also significant as it demonstrates an international collaboration among the Central Banks. The greater collaboration among regulators seen in this decade cumulatively serve to contribute towards the continued resilience of the global Islamic financial system.

The foundations for the sustainable development of Islamic finance has raised the potential for the industry to have a greater role in the global landscape. As we usher into a new decade, it is timely for the industry to reflect on its existing strengths and build new capabilities to create new engines of growth in this next wave of market opportunities that are before us. This Global Islamic Finance Forum (GIFF) 2010 is designed to discuss these potentials. Following the success of the inaugural GIFF in 2007, GIFF 2010 has drawn more than 1000 participants from across the globe for the opportunity to have meaningful and catalytic engagement on issues concerning the future of global Islamic finance. This year's gathering is taking place in the aftermath of the worst global financial and economic crisis of the modern era. Amidst this changing global landscape, Islamic finance must continue to evolve to address the emerging issues and new challenges and leverage on the emerging opportunities in this increasingly more globalised environment.

With the theme "Islamic finance: Opportunities for tomorrow", the Global Islamic Finance Forum 2010 follows from the massive global interest and the widening sea of opportunities in Islamic finance that has come from its growing internationalization and global expansion. The

Forum aims to provide an opportunity for the global Islamic finance communities to share experiences and discuss key developments in Islamic finance and to explore the way forward for the international Islamic financial system. The Forum will feature plenary talks and multi-track sessions, which include the Regulator's Forum, the International Shariah Forum and the Islamic Liquidity Management Workshop. On the side of this Forum, the inaugural IILM Board Meeting will be convened to pave the way for its operationalisation. Another important meeting taking place is the ISRA Council of Scholars Meeting which gathers eminent Shariah scholars from around the world. This gathering of minds will importantly contribute towards greater global understanding and harmonisation in the field of Shariah. A series of high-level meetings and several important signings of MoUs will also be taking place, highlighting increased international cooperation. Also taking place in conjunction with this Forum is the ceremony for the inaugural "The Royal Award for Islamic Finance" under the auspices of Bank Negara Malaysia and the Securities Commission, to commemorate the contribution of the world's most outstanding individuals in global Islamic finance.

Let me conclude by taking this opportunity to record our appreciation to the many distinguished speakers for their contribution to GIFF 2010. Let me also once again, express our deep gratitude to the Prime Minister, Yang Amat Berhormat, Dato' Sri Mohd Najib bin Tun Haji Abdul Razak and to Duli Yang Teramat Mulia Raja Dr. Nazrin ibni Sultan Azlan Shah for gracing this Forum.

Thank you.