

Muhammad bin Ibrahim: Enhancing the quality of Malaysia's Islamic finance education

Speech by Mr Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the launch of the Educator's Manual on Shariah Standard Murabahah, Kuala Lumpur, 15 August 2016.

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We are here today to witness the launch of the Educator's Manual on Shariah Standard Murabahah. The Manual is a pioneering effort. Translating the Shariah standard and operational requirements into a user-friendly format for adoption in the academic syllabus of our local universities will go a long way in enhancing the Islamic finance syllabus by educational establishment.

This is a great team effort. I would like to congratulate the panel of authors that have tirelessly contributed towards the production of this teaching guide. The Shariah Advisory Council (SAC) members, researchers from the International Shari'ah Research Academy (ISRA), representatives from the Islamic Banking and Finance Institute Malaysia (IBFIM), the academic fraternity and the industry players. The dedication of the team has produced a manual that will make the overall learning experience more comprehensive, exciting and interactive.

My congratulations and appreciation to Universiti Sains Islam Malaysia (USIM) and the International Islamic University Malaysia (IIUM) for being visionary to participate in this pilot project. There is a wealth of benefits to be gained. It is our aspiration that other universities would be a part of this initiative that would contribute towards enhancing the quality of our Islamic finance education.

For the past three decades, Islamic finance in Malaysia has undergone a journey that is marked with various significant milestones. I would like to highlight three major achievements of the industry in term of its development since inception. Firstly, Islamic finance in the country has become a key segment in the financial system. What was once a novelty is now mainstream. This is a consequence of continuous initiatives to build a solid foundation, focusing on infrastructural, institutional and capacity building measures, as well as robust regulatory and supervisory framework. These measures are the cornerstones of Islamic finance industry's growth.

From less than four Islamic banks and takaful players before year 2000, there are now 27 players that offer over 100 financial products beyond the basic financial offerings. The industry is characterised by increasing competitiveness and innovation. The recently launched Investment Account Platform (IAP) is the latest initiative where the industry has cooperated to further enhance the offerings of Islamic banks. The IAP provides an online marketplace to match potential investors with viable ventures. Islamic banking assets have also grown beyond the targeted 20% as originally intended in Bank Negara Malaysia's Financial Sector Masterplan.

It now stands at more than a quarter (27%) of the total banking system. Islamic finance also provides financing to all segments of society irrespective of beliefs, race and gender. There is also greater acceptance of takaful with its increased penetration rate to 14.8% of the population. For over 3 decades, Islamic finance has grown and developed and contributed significantly to the development of the real economy.

Secondly, enhanced integration with the global market has enabled greater trade and financial linkages. Malaysia is now positioned at the forefront of international developments with increasing connectivity between financial centres, and more cross-border Islamic financial transactions. Our sukuk market constitutes more than 50% of global sukuk outstanding for the past 16 years. Malaysia as an international Islamic finance marketplace offers an attractive and facilitative platform for foreign issuers to tap our domestic sukuk market. There have been

various issuances of multicurrency sukuk in US Dollar, Singapore Dollar, Chinese Renminbi and Japanese Yen. There are also stronger bilateral ties with various countries such as the United Kingdom, Hong Kong, Turkey, Indonesia and Japan.

These interlinkages open up greater opportunities to introduce and strategically position Islamic finance services globally while providing opportunities for meaningful participation of our local players as lead arrangers for some of the global sukuk issuances. The gains are also extended to our ancillary service providers that were able to establish greater connections with the international market.

Thirdly, Malaysia's pioneering initiatives and thought leadership in Islamic finance has enabled the country to advance innovation in the Islamic finance industry. On the regulatory front, the modernisation of the regulatory framework through the Islamic Financial Services Act 2013 (IFSA) provides an opportunity and space for Islamic financial institutions to offer new products and services.

The launch that we are witnessing today is a major initiative, the development of a Shariah standard that is integrated with details on operational requirements. This approach ensures a transparent basis of Shariah rulings by the SAC, and provides a convergent in understanding between Shariah scholars and industry practitioners. In judiciary matters, where the SAC serves as a reference point in analysing muamalat cases, the court can also draw on these comprehensive and transparent Shariah standards as basis in arriving at a court ruling. The adoption of the standards by learning institutions will pave the way for greater understanding and acceptance of these standards as a global starting point of reference for the Islamic finance community.

As we launch the Educator's Manual, which is the first of 14 series of manuals, I would like to share my thoughts on our approach in developing the Shariah standards, and would also like to emphasise the importance of embracing diversity and mutual respect in Shariah interpretations. I shall deliberate on two additional areas that stakeholders need to consider to maximise the benefits of having the Manual; reconfiguration of academic programmes and strategising talent deployment.

The future growth of Islamic finance, especially cross border, is very much dependent on the harmonisation and mutual recognition of Shariah views and rulings across the globe. It is critical if cross border trades are to be strengthened. Numerous efforts are being pursued to narrow the opinion gaps between scholars through symposiums, roundtables as well as bilateral dialogues. However, narrowing of Shariah opinions is preferable but not critical. The fact is, differences in views and opinions among scholars are a historical fact, and an accepted facet in the area of Shariah, particularly in matters relating to fiqh muamalat (jurisprudence). In fact, my own view is that great Islamic civilisation of yesteryears was possible and the envy of many because of our diversity, tolerance and mutual respect of each other's view.

In the context of the Shariah Standards, the dynamic process of its development involves the act of harmonising the differences and embracing diversity. We respect views of others which are different from ours by looking into the wisdom of earlier scholars from all recognised schools of thought (Mazhabs). We are also willing to arrive at new rulings where it is appropriate. This broadens the reference scope for Shariah scholars to have an enriching debate on the best application of Shariah in contemporary finance, based on the customs, legal and operational framework of each market. This is an important principle, as it increases the depth of fiqh research that leads to greater understanding of practices in Muamalat through the times while recognising the influence of local tradition, as well as domestic business practices. The act of balancing the authenticity and practicality of the different Shariah interpretations is an important component in seeking a solution for the benefits and welfare of the ummah.

In this respect, the guiding philosophy of the SAC has always been to formulate a collective *ijtihad* or Shariah rulings that are comprehensive, inclusive and pragmatic, without sacrificing the sacred objectives of Shariah.

I very much believe in the importance of embracing diversity in Shariah interpretations within the academic community. Students who are exposed to the teachings of all schools of thought from the very beginning would get to appreciate the intellectual differences and value the flexibility arising from differing opinions. This provides an opportunity to open and sharpen their minds and widen their thinking by exploring issues from multidimensional perspectives. Through this way, the talent that we nurture and produce would not only be equipped with Shariah know-hows, but also with intellectual courage that can articulate contemporary Shariah issues in the context of domestic customs and business environment.

I would like to expand my thoughts on the two additional areas that, if pursued could further enhance stakeholder gains from the Educator's Manual:

- First, is the reconfiguration of academic programmes to nurture talent with enhanced employability; and
- Second, strategising talent deployment to reduce time to competency.

Reconfiguration of academic programmes

Continuous enhancements of curriculums in universities are critical to increase the employability factor of our students. These include reconfiguration of the academic programmes at universities and enhancements to the learning tools and methods of teaching. This adds to the traditional pedagogy to ensure its dynamism through evolving times, while providing the right learning environment that can challenge the minds and sharpen the skills and experience of our students. One such addition is experiential learning.

The adoption of experiential learning opens the window of opportunity for students to go beyond theory-based teaching. Examples include industry-wide internship, real life problem solving assignments and apprenticeship programmes for students. These methods create greater connection between classroom learning with the real world. I believe this form of experiential learning is a strong stimulant to knowledge acquisition that encourages students to develop their skills while experiencing responsible decision making in real-time. Experience in real life situations differentiates experiential learning from cognitive and behavioural learning. This provides the students with a competitive edge and increases the probability of success for graduates at entry-level into the workforce.

Islamic finance industry can contribute significantly towards experiential learning. Malaysia, with its long history that includes the development of Islamic finance over three decades is content rich and ideal for case study research. There are many matters and areas that require in-depth research and solutions. The case study method is another popular learning tool that has proven to be effective in enhancing and strengthening critical appraisal and understanding among students. The case study method also provides an opportunity to discuss multiple perspectives in dealing with issues.

Within the Islamic finance realm, prospective cases studies can include amongst others the application of Shariah Standards by Islamic banks and its effects on product structuring and pricing strategy, legal aspects, risk management, oversight function and governance process of the banks. For the takaful sector, case studies on microtakaful for example can lead to the development of protection schemes that can be offered at affordable prices. I trust the academia has enough resources to produce such case studies and generate new research findings and breakthroughs, given the knowledge and expertise of their academic faculties.

In essence, we need to be more exploratory and brave to rigorously investigate or examine real life situations and complex scenarios and benefit from hindsight and learnt lessons that can give new solutions for future growth.

The initiative to develop the Educator's Manual is in itself a good starting point to encourage universities to move towards experiential learning. Students will be exposed to Shariah and operational requirements covering areas such as product structuring, legal, accounting as well

as risk management. The transparent nature of the standards would enable students to critique and form their own views and conclusions. It is a leap forward to change the paradigm on the theoretical and operational aspects of Shariah applications. This initiative is certainly a game-changer for our Islamic finance education programme.

This initiative is also an important milestone in terms of academia-industry cooperation in equipping our students with industry relevant and contemporary application of Shariah contracts in Islamic financial products and services.

Given the new content on the subject matter, a pre-condition to successfully implement the learning guide is to train and expose lecturers to multiple disciplines of subject matters. Particularly, as the applications of the Shariah and operational requirements cover various fields that include legal, accounting, risk management and information technology. Developmental training is a critical component as it enables the imparting of knowledge effectively.

Strategising talent deployment

While it is acknowledged that the role of learning institutions is essential to develop talent with higher skill sets, the industry also has an important role to ensure effective deployment of graduates as they enter the workforce. The number of graduates is indeed increasing at a rapid rate. The general feedback of Shariah graduates however is the lack of opportunities for employment. But the reality is that the industry still grapples with shortage of the right talent that can lead and energise innovation. A solution is to reconcile the expectation gaps of the industry and graduates. Talent enrichment program is one area where we can pursue to bring out the best of student talent. Enrichment programmes in areas beyond Shariah, such as leadership training at the early stage of recruitment would strengthen the confidence of Shariah students and provide the required exposure for them to understand and appreciate the intricacies of business environment.

Over the years, the Bank established specialised institutions to enrich the talent ecosystem. These institutions, namely INCEIF, ISRA, IBFIM, the Chartered Institute of Islamic Finance Professionals (CIIF) and the Association of Shariah Advisors in Islamic Finance Malaysia (ASAS) have collectively contributed towards sustainable development of professionals and expertise in the industry.

I am pleased to note that the industry has significantly benefitted from the contribution of these institutions. INCEIF is now widely recognised as a global university in Islamic finance and has enrolled more than 2,000 students from 80 countries and produced over 1,000 graduates to date. ISRA plays an instrumental role as a dedicated Shariah research arm as well as a knowledge repository for Islamic finance. It is known as one of the key players in Islamic finance research globally and has emerged as the top contributor in Islamic finance research between 2011–2013. IBFIM, which is the industry training arm, has also made significant achievements with over 6,400 participants attending its training programmes in 2015. In raising the bar of professionalism, the Chartered Institute of Islamic Finance Professionals as the first professional body in Islamic finance seeks to promote the highest standards of professional practice amongst Islamic finance practitioners. Two standards on the admission of members and accreditation of institutions have been issued in November last year and two more are anticipated in 2016. ASAS, with prominent scholars as its members, has also embarked on various initiatives that have contributed towards its objective of inculcating the highest level of professionalism of Shariah advisors.

Despite all these achievements, we must admit that there is no room for complacency. We must continue to establish new grounds and set new thresholds for our organisations towards greater success. In this context, I am pleased to inform that the Bank will be forming a Steering Committee made up of representatives from both industry and academia to undertake an in-depth review of the strategic positioning of these important organisations. It is as part of our efforts to re-energise and reinvent the Islamic finance talent development landscape.

Conclusion

The collective efforts of everyone here today will determine the path of Islamic finance moving forward. A simple yet meaningful event to witness the launching of the Educator's Manual today will be an important learning tool for many of our future students. I wish to record again our sincere thanks for the contribution and commitment of many people, particularly from the panel of authors and members of academia and wish everyone continuous success for the upcoming series of the future manuals.

Dengan lafaz Bismillahirrahmanirrahim, saya melancarkan Educator's Manual on Shariah Standard Murabahah.

Thank you.