Encik Adnan Zaylani Mohamad Zahid: Welcoming remarks - Islamic Finance Rendezvous Series

Welcoming remarks by Mr Encik Adnan Zaylani Mohamad Zahid, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Islamic Finance Rendezvous Series, Bayan Lepas, 14 January 2019.

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It is a pleasure to be here this morning. On behalf of Bank Negara Malaysia, I would like to express our appreciation to the state government of Penang for hosting this inaugural Islamic Finance Rendezvous Series; and to the Chief Minister of Penang, YAB Tuan Chow Kon Yeow and YB Dato’ Haji Abdul Halim bin Haji Hussain for gracing this event. I would also like to welcome the businessmen and entrepreneurs joining us this morning.

A recent survey we did revealed that almost 60% of SMEs were not aware of the availability of Islamic business financing facilities. Indeed, most SMEs adopted conventional financing. Some may still have the misconception that Islamic finance is only for Muslims. Today, we hope to dispel this and create more awareness about what Islamic finance is and has to offer. We have assembled a number of industry experts and leaders for this, and I would like to extend our thanks to the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM), the Malaysian Takaful Association (MTA) and other partners for your support and commitment to organise this programme.

Islamic finance has evolved from a niche market into the mainstream

Allow me to give an overview of where we are in Islamic finance. Islamic finance is an established industry in Malaysia. Islamic banking assets stood at RM874 billion or 30.4% of total banking assets as at end September last year, with an annual growth of 10% over the past three decades. The end of Q3 last year also saw takaful contributions amounting to RM1.7 billion with market penetration at 15%. Growth of Islamic finance in Malaysia has been resilient and supportive of social and economic developments. What underlies this growth is the robust foundation and building blocks that the government and Bank Negara Malaysia, together with the industry, have worked towards, namely in infrastructure development, institution building, robust regulatory framework and product development. We are now at a stage where we view that the foundations are solid and the industry is ready to deliver solutions to meet your needs.

Islamic finance as an enabler of growth

There is now a wide ranging spectrum of Islamic financial products to meet the needs of businesses. These include:

- supply chain finance, which enables businesses particularly SMEs, to leverage on the creditworthiness of their anchor suppliers or buyers who are mainly MNCs, to obtain financing at a more affordable rate which may not be possible through direct approach with banks;
- coverage in takaful products at competitive prices, which for example include coverage for loss or damage to goods shipped on all types of conveyances from manufacturing to trading;
- the Investment Account Platform or IAP, established by six Islamic banks in 2016 as the world’s first Islamic bank-intermediated fintech platform that offers more competitive financing terms and variations in financing structures for ventures. To date, the IAP has supported eight ventures worth RM161.3 million; and
- sukuk as an alternative form of financing for businesses, such as green sukuk for green
businesses. To date, five green sukuk have been issued by Malaysian solar companies to finance solar power projects, amounting to RM866.8 million since July 2017.

These are but a flavour of what Islamic finance can offer and I am sure you will hear about many more today.

National policy for nurturing SMEs

At the national level, the government is indeed supportive of the role of Islamic finance as an important tool to assist businesses and SMEs to flourish. Developing Islamic finance and the growth of SMEs are key national strategies, as reflected in the recent 2019 Budget. The SME Shariah-Compliant Financing Scheme of RM1 billion was established to strengthen SMEs. SMEs can enjoy lower financing costs offered by this scheme with a 2% reduction in financing rate. Sukuk issuers also benefit from the three year extension of the double tax deduction for additional expenditure incurred for sukuk issued under Ijarah and Wakalah principles. Other cost savings for sukuk issuers include reduction in professional fees relating to due diligence, drafting and preparation of prospectus; and various fees charged by Securities Commission Malaysia and Bursa Malaysia.

Islamic finance is anchored on sustainable values beyond profit

The unique propositions of Islamic finance are drawn from its underlying Shariah principles that have universal applications, which fundamentally advocate the prevention of harm or attainment of benefits. All Islamic finance transactions must reflect Islamic values which are ethical and fair. Any financial conduct or transaction relating to goods or services that are contrary to Islamic principles are prohibited, thus promoting fairness, equality and justice. As such, Islamic finance practitioners are duty-bound to observe the norms of high ethical conduct to uphold the values and the sanctity of Shariah. Businesses can therefore take assurance that their financial needs are well served, managed and protected. For the halal industry, players could benefit greatly from appropriately raised funding and protection, which ultimately nurture an end-to-end halal ecosystem.

Beyond this, the Islamic financial system also promotes Value-based Intermediation (VBI). Through VBI, Islamic financial institutions are encouraged to adopt more structured frameworks to assess how they create value and impact, particularly in response to changing economic, social and environmental conditions. In going beyond profit, VBI is set to be one of the drivers for Islamic financial institutions to assist entrepreneurs to grow their businesses. This would require an understanding of the entrepreneurs’ specific needs and circumstances prior to recommending a particular product or service, rather than focusing on a predetermined range of services. Islamic financial institutions are also expected to assist and guide businesses to adopt sustainable business practices. The financing model for businesses and SMEs will be more holistic; including provision of environmental-friendly business solutions, entrepreneurship training and consulting services. This model can better assist aspiring businesses to improve efficiency and reduce costs, which will lead to greater sustainability.

Before I end my remarks, I would like to emphasise that the practice of Islamic finance is not and should not be exclusive to Muslims. Many of its underlying ideas, the pursuit of economic justice and risk sharing align with traditional and conventional economic thinking. Mutual insurance companies which derive from risk sharing, limited-purpose banking which moves away from interest-based or fractional banking and equity financing, are all ideas consistent with Islamic finance principles, and are practised across the world without any reference to the religion. Indeed, Islamic finance is for all.

I hope that today’s programme will lead us to a step closer in bridging Islamic finance and businesses. There is an exciting line-up of events, which includes a panel session that will feature CEOs of Islamic banks and takaful operators, as well as corporate customers who will
share their experiences. This will be followed by a knowledge sharing session; industry dialogues including a dialogue with Bank Negara Malaysia; and a business matching session. I invite everyone present today to actively participate in the programme and to explore what Islamic finance has to offer. Thank you.