Assistant Governor's Welcoming Remarks at the IFN Asia Forum 2021

Speaker: Encik Adnan Zaylani Mohamad Zahid / Venue: - / Language: English / Speech/Interview Date: 06 Dec 2021 /

Sustainability, technology, and innovation. These, among others will be the key themes, together with the evolving and new consumption trends that could drive an estimated USD10 trillion worth of investment opportunities in Asia[1]. Asia should be the next key epicentre of global consumption and trade. Within this are the growing Muslim population and thriving Islamic finance markets, boasting a gargantuan asset size of USD842 billion in 2020[2]. This exciting landscape offers enormous prospects for value creation for the Islamic finance sector.

In the last two years, Islamic financial institutions and their conventional counterparts have played a key role in extending various forms of assistance to help their customers weather the effects of the Covid-19 pandemic. In Malaysia at least, the support includes automatic moratorium with non-compounding interest and profits, targeted repayment assistance, as well as restructuring and rescheduling of facilities. Takaful operators offered policyholders deferment of their contribution without affecting their protection coverage. Alternative finance solutions have also emerged and grown to alleviate the government's fiscal burden in rejuvenating the economy. Digitalisation has enabled the proliferation of alternative finance, particularly platform-based fundraising models such as equity crowdfunding (ECF) and peer-to-peer financing (P2P). These two segments collectively raised RM631 mil last year, exhibiting a growth of 43%[3] from 2019[4]. Combined with traditional forms of financing where financial institutions and capital markets continue to serve the economy, we stand poised for a sustained economic recovery, notwithstanding new variants and the continued challenges in dealing with the pandemic.

Indeed, as Asia paves its way towards economic recovery, many doors are open for the Islamic finance sector to unlock the region's potential. Please allow me to share my thoughts on how we can or even should ride on the Asian wave and facilitate capital flows into and intra-market.

The first must be to look at **supporting climate change actions and the sustainability agenda**. Asia is responsible for more than half of global greenhouse gas (GHG) emissions[5], and not just that, it is also one of the most vulnerable regions to natural disasters. The impact of climate change on Asia's economic growth will be substantial if this goes unchecked. It is estimated that climate disasters may cost the region around USD2.8–USD4.7 trillion of GDP by 2050 and USD1.2 trillion of projected damage in capital stock[6].

While Asian countries have intensified efforts for climate change actions and sustainability, the diverse state of economies makes for a daunting journey. The quest to achieve the Sustainability Development Goals (SDG) will come with a hefty price of USD1.7 trillion annually, equivalent to 4% of the regional GDP[7]. On top of this, the Covid-19 pandemic has put a squeeze on fiscal space, particularly in developing Asian countries, making it challenging for the public sector to fund these initiatives alone.

However, the growing interest from private capital offers a silver lining to the region's predicament. Rising demand for sustainable investments spearheaded by increasing national commitments, shifting investment mandates and eco-consumerism have started to move the needle in private sustainability finance. The maturity of the Islamic finance sector allows the industry to offer a wide array of solutions, of which some are the first of their kind. It is heartening to see key Islamic finance markets actively supporting this cause.

The Islamic finance industry has established several encouraging track records in the sustainability finance space. This can be evident in the sovereign and corporate sustainability sukuk issuances to finance green and social-related projects. Social finance instruments such as *zakat* and *waqf* are widely used and blended with investment funds and financing to support community development agendas. In Malaysia, the Islamic banks, in collaboration with strategic partners, have rolled out iTEKAD, a social finance pilot programme that blends Islamic social finance, microfinancing, and capacity training to empower B40 entrepreneurs. Early positive responses to the pilot program has now garnered accelerating interest. This programme will soon be scaled up, offering greater opportunities for multi-stakeholder collaboration and testing out different instrument mix and channels.

Adding on to its innovative offerings are sustainability-linked Islamic financing facilities. With preferential rates offered upon meeting pre-determined sustainability targets, the Islamic finance industry is able to facilitate its customers to transition towards sustainable practices. For SMEs, while the focus is on sustaining their business during these trying times, it is also opportune for SMEs to transition and to build back greener. For this, we will soon make available a RM1 billion Low Carbon Transition Facility[8] to assist SMEs to adopt sustainable and low-carbon practices. This includes increasing use of sustainable raw materials and improving energy efficiency of buildings and machinery. The fund, provided on a matching basis by financial institutions is also expected to spur innovation on transition financing solutions for SMEs.

In Malaysia, the sustainability agenda is pioneered by a group of Islamic financial institutions that form the Community of Practitioners (COP). Since 2017, the COP has achieved notable progress in advancing Value-based Intermediation (VBI) initiatives. Through VBI, the aim is to serve the people and planet, without compromising profit. To date, COP members have mobilised more than USD2.2 billion for renewable energy and issued a series of VBI sectoral guides serving as impact-based risk management toolkit for financial institutions[9]. The takaful industry has also embraced VBI, with the issuance of the VBI for Takaful (VBIT) Framework reflecting their commitment to support positive socio-economic impact. At this time, I would say we have only begun. I am confident that the Islamic finance sector can and will do more in advancing the sustainability agenda and we move towards building back greener.

The second focus should be in **facilitating trade and investment**. Beyond the charms of Asia as an idyllic tourist destination, the region is also an attractive Foreign Direct Investment (FDI) destination. As the world's economic activity gravitates towards the east amidst changing global geopolitical landscape, we have witnessed growth and expansion of the consumption market, formation of extensive trade networks, and creation of a business-friendly environment within the region. Positive FDI inflows despite suppressed global investor sentiment during the pandemic is a testament to the region's economic strength and Asia's proposition as a trade and investment hub. This trend is expected to continue when the Regional Comprehensive Economic Partnership Agreement comes into effect in January 2022[10].

Pre-eminently, the Islamic finance industry stands to benefit from this, particularly in facilitating investments into Asia's booming Industry 4.0 and digital economy[11]. National digital infrastructure projects, such as 5G network, data centres and cloud facilities are primed to be funded by the Islamic capital market. Financial providers can support foreign and local manufacturing plants undergoing digital transformation by adopting smart automation and IoT technology. Tech start-ups and unicorn[12] that are seeking funding can also avail themselves to Shariah-compliant equity providers.

Another prospect for Islamic finance players is in supporting Asia's halal market. The fast-growing Muslim population, which is expected to make up 27.3%[13] of Asia's population, will continue to drive high demand for halal goods and services. We observe growing interest from sovereign wealth funds seeking investments for food security, arising from climate-induced low crop yield. This emerging demand offers an ideal opportunity for Islamic players to structure Shariah-compliant theme-based investment funds, drawing from their Islamic finance's vast experience and expertise in supporting sustainability financing.

The third is **responding to Asia's evolving consumer landscape. This will be driven by demographic changes and technological advancement.** New market-specific consumption trends offer enormous opportunities for Islamic finance to innovate solutions, leveraging the diversity of Shariah contracts. For example, rising economic pressures and digitalisation prompted many Asian consumers to consider alternatives to traditional ownership such as subscription, sharing and rental models[14]. Islamic finance players can utilise alternative Shariah contracts such as *ijarah* or *wakalah* to serve this emerging need.

Asia offers an attractive testbed for innovative solutions, given its high proliferation of technology and large financially underserved population. Islamic fintech has gained significant traction in this space offering alternative finance solutions to close the financial inclusion gap. The high growth of Islamic fintech transactions is expected to reach USD128 billion by 2025 or 21% annually, which benefits the majority of the unbanked population[15] [16].

Notwithstanding this, there remains ample opportunities in the micro and small medium enterprises (mSMEs) segment for Islamic finance to support. Asia accounts for 45% of the global mSMEs financing gap[17] and is widening due to the pandemic. Islamic financial institutions (IFIs) can help mSMEs strengthen their resilience against future shocks through value-added service offerings such as capacity building, business advisory and market access. For SMEs, IFIs can mobilise blended finance instruments in lieu of traditional financing to reduce financing costs and leverage. We are pleased to note that some banks in our markets have already partnered with equity finance providers to pilot blended finance schemes. I hope that with the introduction of BNM's RM1 billion Business Recapitalisation Facility in Budget 2022[18] which offers debt-equity financing, more efforts would be channelled into this space.

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In many of these initiatives, working collaboratively, across sectors and borders is becoming increasingly necessary to maximise synergetic outcomes. I firmly believe that with these collaborations and partnerships, Islamic finance can elevate Asia to greater heights.

For Malaysia, our comprehensive and vibrant ecosystem, augmented by the Malaysia International Islamic Financial Centre (MIFC) agenda, provides a conducive field for the Islamic financial industry to tap into emerging opportunities in Asia and beyond. Our robust regulatory infrastructure, sound Shariah governance framework, wide international connectivity, diversified players and products, as well as ready talent pool are key building blocks that will support pathways to foster greater innovation and expansion, without compromising financial stability considerations. We are committed to Islamic finance.

It is here then, that I would also like to share that under the ambit of MIFC, Bank Negara Malaysia and the Securities Commission introduced the Royal Award for Islamic Finance in 2010, to recognise an outstanding and inspiring individual who has made significant contributions to the advancement of the Islamic financial services industry. We are pleased to share that that the Royal Award for Islamic Finance for 2022 is now open for nomination until 25 March 2022[19].

This cycle marks another milestone for the Royal Award with the introduction of two new categories, namely the Emerging Leader Prize and the Impact Challenge Prize. Our aspiration in this is to inspire and acknowledge global young talents in advancing innovative growth in IF and to spur innovative IF solutions, which can improve economic and social resilience of financially impacted communities globally. I would like to invite and encourage interested parties to nominate and apply.

With that, I would like to thank the IFN and the organizers for inviting me today and also to wish everyone a productive forum.

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[1] Source: Mckinsey article, Oct 2021, **"Driving Asia's $10 trillion consumption growth opportunity"**

[2] Source: Islamic Finance Development Report 2021. The amount is derived from sum of Southeast Asia, South Asia and Other Asia asset size, representing 25% of global Islamic finance assets.

[3] Year-on-year growth

[4] Source: Securities Commission Annual Report 2020

[5] Source: CNBC news article, Nov 2021, **"Asia-Pacific is home to some of the world's largest carbon-emitters — 2 charts show its reliance on coal."**

[6] Source: Mckinsey Insights report, Nov 2021, **"Climate risk and response in Asia."**

[7] Source: Asian Development Bank report, April 2021, "**Asian Development Outlook: Financing a Green and Inclusive Recovery"**

[8] Source : **BNM - Additional Assistance Budget 2022**

[9] Source: **Value-Based Intermediation (VBI) Report 2020**

[10] Source: UNCTAD World Investment Report 2021

[11] Source: ASEAN Investment Report 2021

[12] Unicorn refers to privately held start-up company valued at over USD1 billion

[13] Source: Pew Research Centre

[14] Source: McKinsey Global Institute article, Sept 2021, **"Beyond income: Redrawing Asia's consumer map"**

[15] Source: Jumpstart online article, "Asia Has a Financial Inclusion Problem, and it's Especially Bad for Women", 73% adults and 67% firm with no access to credit

[16] Source: Dinar Standard Global Islamic Fintech Report 2021

[17] Source: World Bank Small and Medium Enterprises Finance page

[18] Source : **BNM - Additional Assistance Budget 2022**

[19] More information available at the RAIF website: **https://theroyalaward.com**

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