

بحث مقدم إلى المؤتمر الدولي حول:

منتجات وتطبيقات الابتكار و الهندسة المالية

بين الصناعة المالية التقليدية و الصناعة المالية الإسلامية
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عنوان:

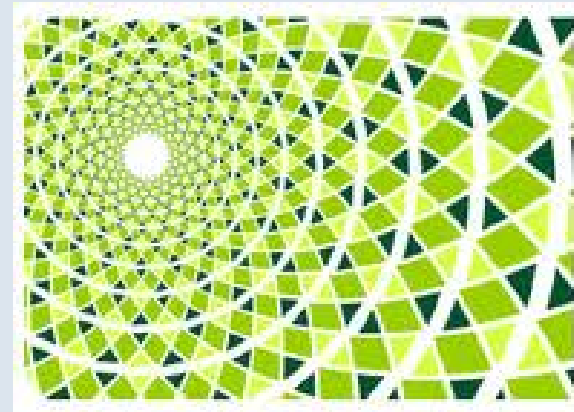
THE ROLE OF CENTRAL BANK OF MALAYSIA IN DEVELOPING MALAYSIA'S ISLAMIC FINANCIAL INDUSTRY

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INTRODUCTION

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- Islamic Finance is a progressing industry.
- Many developments has taken place and Islamic Finance has a lot of potentials.
- Advantages:
 - ▣ Based on the Principle of Shari'ah
 - ▣ Variety of contracts and allow dynamism and flexibility in products development and innovations.
 - ▣ Promise growth in accordance with stability
- Malaysia is one of the country that declare intention to be the Centre of Global Islamic finance.
- Malaysia has taken breakthrough initiatives to achieve that goal.



The Current Development of Malaysian Islamic Finance Industry



Malaysia Islamic Financial Market

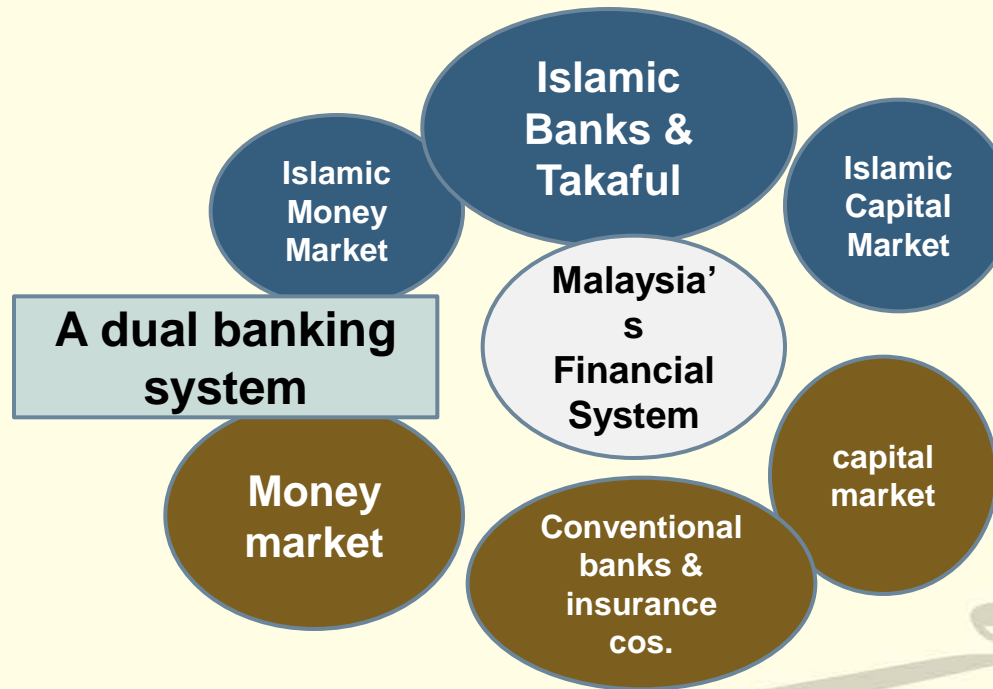
Types of players:

Islamic banks:

17 Islamic banks
 10 Islamic windows
 6 financial development (growth?) institutions that provide Islamic banking services
 3 international Islamic banks

Takaful:

11 takaful companies
 4 re-takaful companies
 1 foreign takaful company



A dual banking system

Supported by human capital infrastructure

Governance:
 Legal & administrative
 Central Bank Act 2009
 Islamic Banking Act 1983
 Takaful Act 1984
 Government Finance Act 1983
 Capital Market Services Act 2007
 Malaysian Insurance Companies Act 2005

Capital Market:
 57% of private debt in sukuk
 88% of the transactions in the Kuala Lumpur Stock Exchange are Shari'ah compliant.
 144 Islamic funds

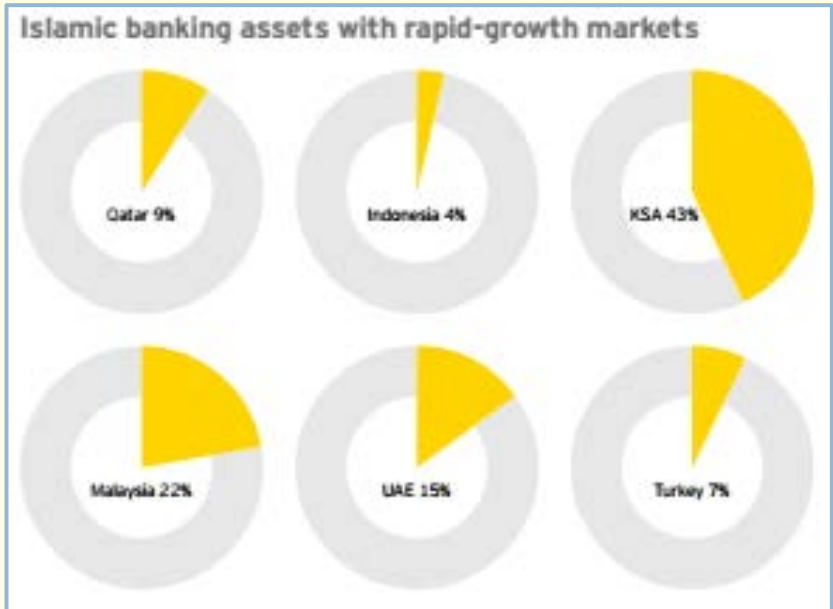
Money Market:
 Interbank Islamic Money Market – average daily transactions = RM 1 billion
 The Commodity Exchange (*Suq al-Sila*)

Malaysia Ranking in in global Islamic Finance 2009



Malaysia's Islamic Banking Assets

- Malaysia's Islamic banking assets reaches US\$ 125b with 22% market share in 2013.
- Malaysia is in 3rd ranking of Global Banking Assets after SAUDI Arabia and Iran. Malaysia contributes 8 % of Global Islamic Banking Assets that has reached US\$ 1.54 t in 2013.



Source: World Islamic Bank Competitiveness Report 2013-2014

Malaysia's Takaful Contributions

- Malaysia has 12 takaful operators and 4 retakaful operators.
- Global gross takaful contributions are estimated to reach US\$11b in 2012 and Malaysia is the second largest takaful market in the world after Saudi Arabia.
- Malaysia takaful industry grew by 21% in 2012 with net contributions US\$ 1,931 million.

Chart 3: GCC gross takaful contributions by country, 2007-12f

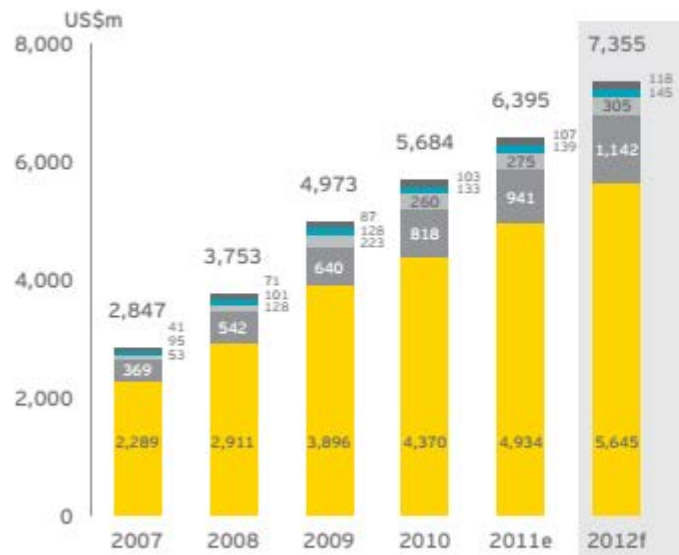


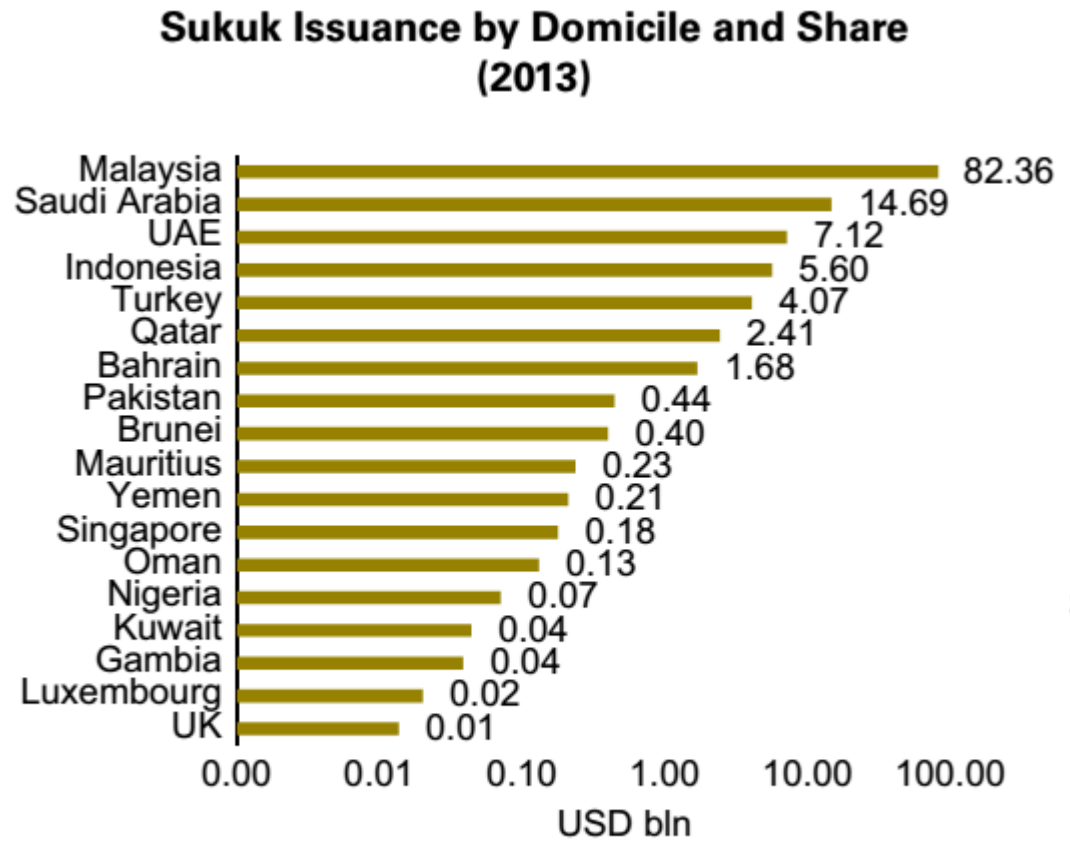
Chart 4: Share of GCC gross takaful contributions by country, 2012f



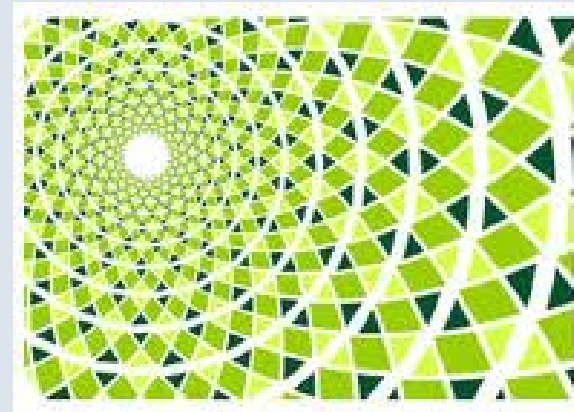
Legend: Saudi Arabia (Yellow), UAE (Grey), Qatar (Light Grey), Kuwait (Teal), Bahrain (Dark Grey)

Malaysia's Sukuk Issuance

- Malaysia remained the largest primary market for issuances in 2013, although with a reduced market share of 68.8% from 74.0% in 2012.
- In 2013, Malaysia has issued about US\$ 82.36 Billion sukuk.



Source: Bloomberg, IFIS, Zawya, KFHR



Selected Initiatives of Malaysian Central Bank in Developing Islamic Finance Industry



1. Solid Legal and Regulatory Framework

- Solid legal and regulatory framework is important:
 - To minimise the opportunity for legal and regulatory arbitrage arising from cross-sectoral and cross-border differences.
 - To ensure that the regulatory requirements that are distinct for Islamic finance are effectively addressed.
- Malaysia has issued Islamic Banking in 1983, Takaful Act in 1983, BAFIA 1989, Central Bank of Malaysia Act in 2009 and recently a new legal framework for Islamic banking and takaful is issued: IFSA 2013.



2. Clear Standard and Regulation of Islamic Financial Services Industry – Establishing IFSB (2003)

- Malaysia also plays a role in setting up the **Islamic Financial Services Board (IFSB)** in 2003 and host its office in BNM.



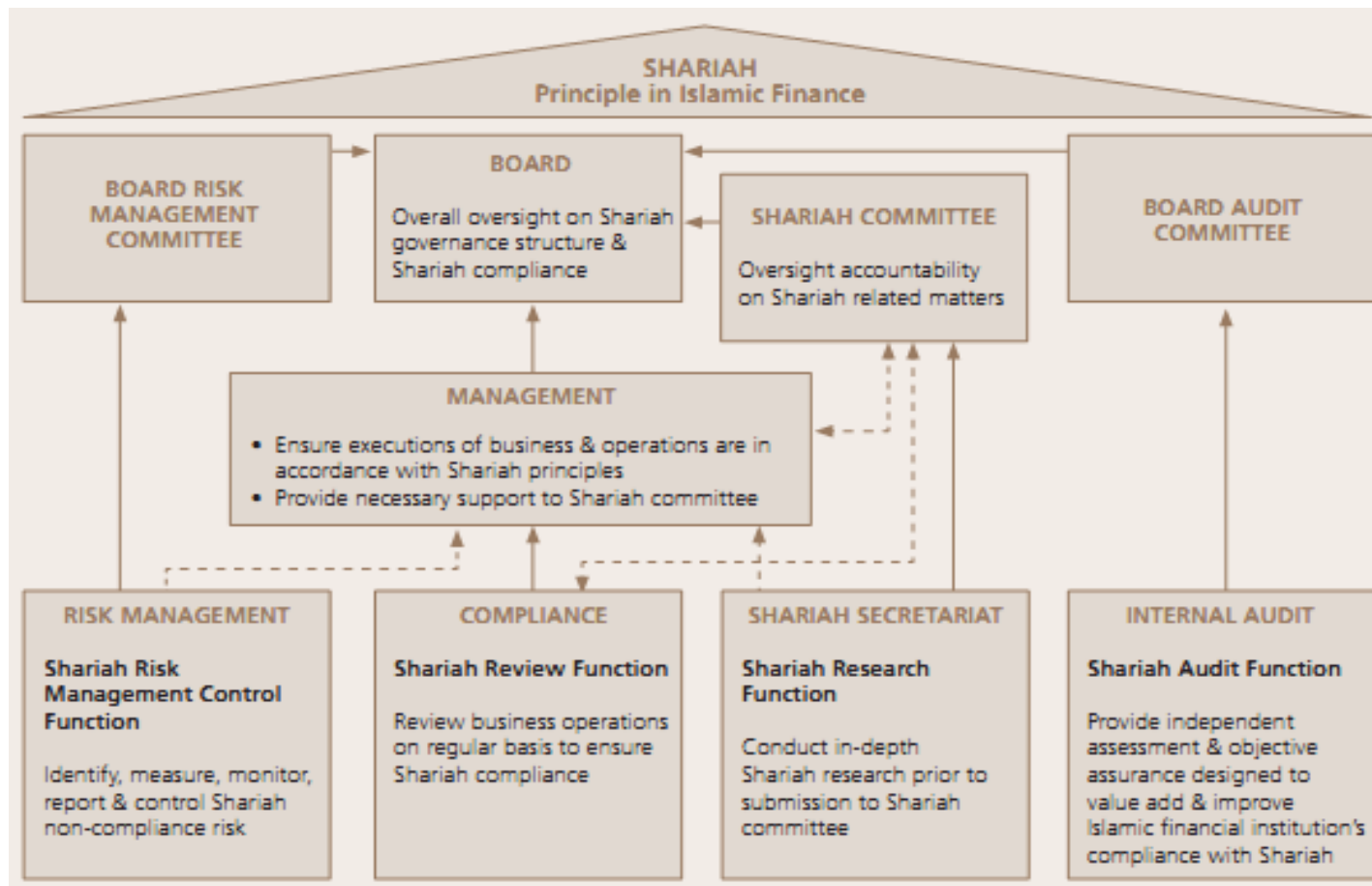
- The IFSB plays a role in setting international standards and best practices for the industry that would provide greater uniformity of regulatory environment for Islamic financial players globally.

3. Harmonisation of Shari'ah Rulings and National Law (2010)

- Malaysia has set up the Law Harmonisation Committee in July 2010 that would play a role in harmonizing National Law and Shari'ah in:
 - Creating a conducive legal system that facilitates and supports the development of Islamic finance industry;
 - Achieving certainty and enforceability in the Malaysian laws in regard to Islamic finance contracts;
 - Positioning Malaysia as the reference law for international Islamic finance transactions; and
 - For Malaysian laws to be the law of choice and the forum for settlement of disputes for cross border Islamic financial transactions.

ISLAMIC FINANCE
LAW HARMONISATION
REPORT 2013

4. Establishing Comprehensive Shariah Governance Framework for Islamic Financial Institutions (2011) to Ensure Shari'ah Compliance



Source:
BNM



5. Solid Shari'ah Research in Islamic Finance – ISRA (2008)



OBJECTIVES

- Malaysia has also set up **ISRA (International Shariah Research Academy)** with the sole task of Shari'ah research in Islamic Finance and fostering dialogue between Shariah Scholars from various jurisdictions that would narrow the differences in views on Shariah issues in finance.

- Spearhead and conduct applied Shari'ah research in Islamic finance
- Enrich resources of knowledge in Islamic finance
- Provide avenues for the development of Shari'ah practice in Islamic finance
- Propagate harmonisation and mutual respect in Islamic finance practices

6. Human Capital Development – INCEIF, IBFIM, SIDC, ICLIF

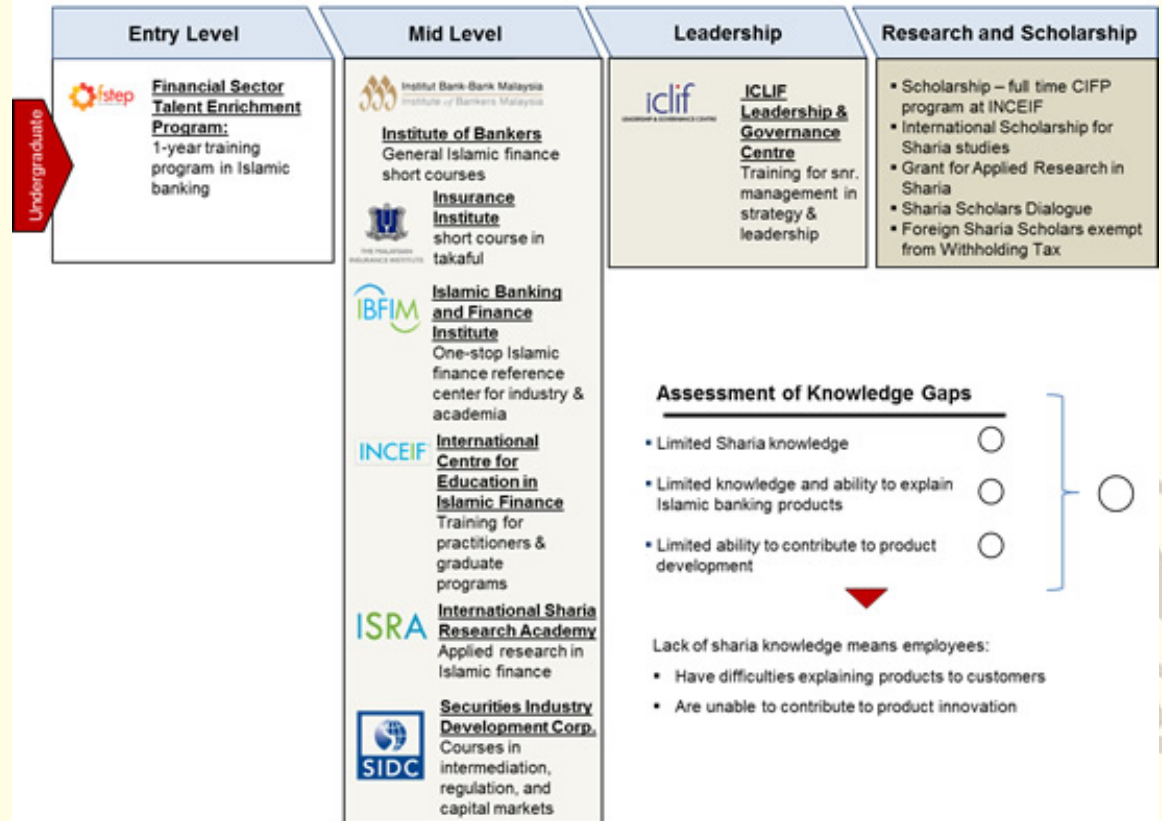
- The impressive development of Islamic financial industry demands for:
 - ▣ A well-defined and advanced **Human Capital Development infrastructure** and initiatives that would
 - ▣ **Diverse pool of Islamic finance talents**, comprising product innovators, regulators, intermediaries and risk managers who have financial and Shariah knowledge and expertise.



6. Human Capital Development – INCEIF, IBFIM, SIDC, ICLIF

- It is estimated that Malaysia will provide job opportunities for about 12,000 practitioners of Islamic finance.
- Malaysia also look forward to share its infrastructure and insights with the world to meet the burgeoning global demand for skilled Islamic finance professionals.

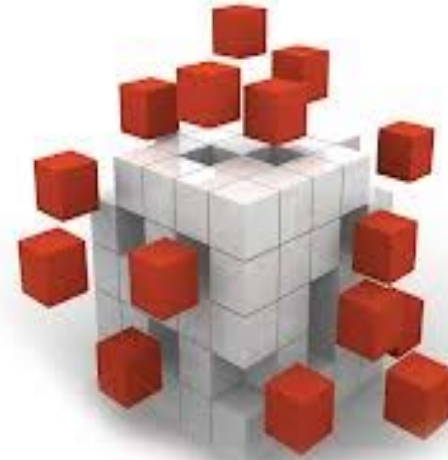
Malaysia's human capital development programs span all levels of the industry ...



7. Liquidity Risk Management – IILM (2010)



- Malaysia plays a role in setting up The IILM (International Islamic Liquidity Management Corporation) in 25 Oct 2010 that is responsible:
 - in coming up with Shari'ah-compliant financial instruments to facilitate effective cross-border Islamic liquidity management.
 - enhance cross-border investment flows, international linkages and financial stability.



“ Shari'ah compliant instruments to mitigate liquidity risk is relatively lacking in the market ”

8. Establishing Malaysia International Islamic Financial Centre (MIFC) 2006



- Malaysia International Islamic Financial Centre (MIFC) in 2006 with the objectives:
 - Accelerating the process of bridging and strengthening the relationship between the international Islamic financial markets and thereby expand the investment and trade relations between the Middle Eastern, West Asia and North Africa regions with East Asia.
 - Promoting capital and cross-border trade flows between the financial communities of these regions that would strengthen the international integration of our domestic Islamic financial system.

CONCLUSION

- Malaysia put serious effort in developing Islamic finance and in making Malaysia as the centre for Islamic financial hub.
- Many significant initiatives in achieving that goals have been outlined and put in practices.
- Malaysia is willing to share its experience with other countries in developing Islamic finance to make it a respectable global financial system.





Thank You