

18/09/2001

Bank Negara's vision

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NEARLY two decades after the Islamic financial system was introduced, Malaysia is today acknowledged as one of the Islamic financial centres in the world.

The next step is to develop Kuala Lumpur into a major regional Islamic financial and resource centre. And if Bank Negara Malaysia could have its way, then Malaysia would be the place for global players in Islamic finance to oversee their investments and maintain contact with their clients in this region.

It is expected that the Islamic banking and takaful landscape by 2010 would constitute 20 per cent of the total banking market in terms of assets, deposits and financing.

"Alhamdulillah, we have managed to develop our Islamic financial system into one which is as comprehensive as, and comparable to, the conventional system.

"There are few (nations) that have duplicated this in such a comprehensive manner," Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz said in an interview.

The interview was given in relation with a week-long nationwide awareness campaign, the Islamic Banking and Takaful Week, which is scheduled to be launched on Oct 26 by Prime Minister Datuk Seri Dr Mahathir Mohamad.

According to Zeti, the developments in Islamic banking and finance in Malaysia - covering banking, corporate advisory, takaful, money markets and the capital and bond markets - have attracted significant attention from the international financial community, including investors.

The central bank receives many enquiries from foreigners, including those from Muslim countries that practise Islamic finance, wanting to know how Malaysia did it.

To provide the strategic focus in the development of Islamic banking and finance, Bank Negara set up the Islamic banking and takaful department last October.

The department oversees institution development for the financial infrastructure and the regulatory and supervisory framework are critical.

As for the next step for the industry, the governor said, "I want to see in the near future, Kuala Lumpur becoming a major regional Islamic financial and resource centre.

"Kuala Lumpur can be more actively complemented by the role played by Labuan IOFC (International Offshore Financial Centre) to develop a niche in Islamic finance in Malaysia.

"I envisage that the pairing of Kuala Lumpur and Labuan can place Malaysia on the world financial map.

"With ever increasing world demand and cross-border transactions, global financial institutions involved in Islamic finance can set up and operate their regional head offices out of Malaysia to tap its resources and engage in business dealing."

To achieve this, Kuala Lumpur and Labuan need to develop a conducive environment to attract the players.

Labuan, for example, can offer corporations and investors the platform for the issuance of foreign currency-denominated Islamic bonds.

For its part, Kuala Lumpur can be the resource centre offering relevant expertise and research services for product and market development.

"Kuala Lumpur and Labuan will therefore be jointly promoted and not in isolation," Zeti said.

Various initiatives have been implemented and planned for Labuan IOFC as the leading regional financial centre in Islamic finance.

The IOFC has two Islamic offshore banks and one offshore re-takaful company.

The Labuan Financial Exchange can list Islamic financial instruments for trading and recognition purposes.

This exchange is part of the global Islamic architecture.

The Labuan Offshore Financial Services Authority (Lofsa) is also establishing a Syariah Advisory Council for Labuan IOFC to spur the creation of universal products as well as to act as a bridge between Lofsa and the various Syariah authorities globally.

There is still more work to be done.

To achieve the 20 per cent target for Islamic banking and takaful, Bank Negara is working towards increasing the number of strong and highly capitalised IBSS (Islamic Banking Institutions) and takaful operators that have strong management capacity as well as a complete range of Islamic financial products and services.

As part of the strategy to drive the process, a benchmark programme is being introduced for IBIs so that the standards achieved will be at par with the best, especially in terms of performance and provision of service matched against international best practices.

"We also aim to have in place a comprehensive and conducive Syariah and regulatory framework, supported by a dedicated institution such as a Syariah commercial court in the judiciary system and a pool of able and competent experts and professionals," Zeti said.