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## IFSB great step to nurture Islamic financial services

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MALAYSIA and the Islamic world have taken a great step in nurturing global Islamic financial services with the formation of the International Financial Services Board (IFSB).

Malayan Banking Bhd (Maybank) Islamic Banking head and senior vice-president Md Ali Md Sarif said for the first time, there will be a central body to streamline Islamic financial services.

He said the IFSB is a great step taken by Malaysia and the Islamic world to go regional, or even international, to promote Islamic banking. "The Islamic world can now streamline global and national Islamic financial guidelines and emerge as a single group," he told Business Times in an interview recently.

Malaysia has been given the honour to become the international hub for Islamic financial services when the IFSB was officially launched on November 2.

Formerly known as the Islamic Financial Services Organisation, the IFSB was officially inaugurated by Prime Minister Datuk Seri Dr Mahathir Mohamad, with its secretariat headquartered in Kuala Lumpur.

The IFSB is an association of central banks, monetary authorities and other institutions responsible for the regulation and supervision of the Islamic financial services industry.

Its members are Kuwait, Malaysia, Saudi Arabia, Indonesia, Iran, Sudan, Pakistan, Bahrain and the Saudi Arabia-based Islamic Development Bank.

"Strangely enough, even though Malaysia and the Arab world embrace the same faith, there are aspects of Islamic banking in which they differ. It is pretty much like the way Muslims conduct prayers.

"It is hoped that Islamic banking practices throughout the world can be streamlined through the IFSB," he said.

Md Ali said as an example, personal financing is very much accepted here but is not completely accepted by some West Asian countries who argue that it is not close enough to the true teachings of Islam.

"Over time, through dialogues, such differences can be overcome as we exchange ideas on various Islamic principles," said Md Ali, who pioneered Maybank's Islamic division ten years ago.

He added that Malaysia as the host nation will be able to develop its niche as a regional financial centre for Islamic banking as well as tap comparative advantages from other West Asian nations.

"We do not face any more hurdles right now as the public already knows (what is) Islamic banking. We just have to find a smoother way of getting the message of Islamic financial products across."

Today, assets and debts of the Islamic banking sector in Malaysia account for 8.8 per cent of the whole banking system's assets of about RM65 billion, up from 6 per cent a year ago.

Bank Negara Malaysia has also set a 20 per cent target for Islamic finance in the Malaysian financial landscape. In local private debt securities (PDS) market, 51 per cent of the total value of papers issued are Islamic-based.

Worldwide, including the US, Europe and West Asia, there are more than 200 Islamic financial institutions with combined assets of about US\$170 billion (US\$1 = RM3.80).

Maybank is confident that if the global Islamic financial services industry continues to grow at a rate of 15 per cent per year, the sector

will be responsible for managing more than half of the global Muslim savings within the next 10 years.

The industry has proven to be one of the most successful and robust growing sectors, with the market touching the US\$180 billion mark over the last 20 years.

Labuan Offshore Financial Services Authority (Lofsa) director general Datuk Noorazman A. Aziz had said recently that Islamic banking and finance is becoming more prominent in the global financial system, with Muslim countries recording a growth rate of about 15 per cent per annum.

In Malaysia, 38.5 per cent of the RM8.7 billion federal funds are deposited in Islamic banks.

For local government funds, 43.1 per cent of the RM4.7 billion is deposited in Islamic banks, state funds (27.1 per cent of the RM7.5 billion) and statutory bodies (29.4 per cent of RM20.6 billion).

For Maybank, income contribution from Islamic banking services saw a significant growth of 35.3 per cent to RM230.7 million.

At the group level, it rose by 27.7 per cent to RM391.1 million. In both cases the increase was the result of finance expansion.

Maybank's merchant banking arm, Aseambankers Malaysia Bhd, secured a 30 per cent share of the total Islamic PDS issued in the market and a 26 per cent share in terms of the number of deals.