

**SPEECH BY
YAB DATO' SERI ABDULLAH BIN HAJI AHMAD BADAWI
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AND TAKAFUL WEEK
AT ISLAMIC ARTS MUSEUM
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Bismillahir rahmanir rahim

Assalamualaikum warahmatullahi wabarakatuh dan salam sejahtera

Terlebih dahulu, saya ingin mengucapkan terima kasih kepada Bank Negara Malaysia kerana menjemput saya untuk merasmikan minggu perbankan Islam dan takaful pada pagi yang mulia ini. Saya mengucapkan syabas kepada pihak penganjur kerana telah berusaha bersungguhsungguh untuk mengadakan program ulung ini yang bertujuan untuk meningkatkan tahap kesedaran, serta memperkayakan pengetahuan masyarakat umum terhadap perbankan Islam dan takaful.

Ladies and gentlemen,

2. When the world entered its second millennium, Islamic Civilisation was at its apex. Throughout several continents, the Muslim empire was known for its unrivalled intellectual achievements in the fields of science, technology, and literature. It was the period that, in later times, came to be known as the golden age of Islam. The Muslims in Spain built a civilisation far superior to anything Spain had ever known. Reigning with wisdom and justice, they treated Christians and Jews with tolerance, with the result that many embraced Islam. They also improved trade and agriculture, patronised the arts, made valuable contributions to science, and established Cordoba as the most sophisticated and largest city in Western Europe.

3. By the tenth century, Cordoba was estimated to have a population of some 500,000, compared to say about 38,000 in Paris. According to the chronicles of the day, the city had 600 mosques, 50 hospitals, and 70 libraries - with one library reportedly to have housed 500,000 manuscripts employing many researchers, illuminators, and book binders. Cordoba also had hundreds of public baths and introduced Europe's first street lights. It was indeed a cosmopolitan powerhouse and a cultural city that dominated its day amid the moderate Islamic rule.

4. Cordoba became the greatest centre of learning in Europe at a time when the rest of the continent was still in the dark ages. As it flourished, Cordoba became one of the wonders of the world. In the field of science and medicine, physician Abu Bakar Al-razi introduced the use of antiseptics for the cleaning of wounds, and also discovered the relationship between bacteria and infection. Ibn Al-hairham published a definitive study on optics, the science of light and vision.

5. They were among numerous famous Muslims of those days in Andalus Spain and Arabia, with the likes of Ibn Sina, known in the west by the name of Avicenna, and Al- jabr-wal, known for his work on algebra. Ibn Sina was the most prolific physician, philosopher, encyclopedist, mathematician and astronomer of his time. No deliberation on the science of medicine can be complete without a reference made to him.

6. Muslims also advanced in trade activities. Trade began to flow freely across the Asian continent and beyond, and Muslim traders ventured as far away as China in the 9th century. To support their trade activities, these traders started the early development of Islamic finance when they engaged in activities such as interest-free deposit-taking, money changing business, remittance services and the use of cheques. There was, however, no organised Islamic financial institution, as in those days funding was conducted by way of pooling of capital resources by individual traders to facilitate those in need of capital.

Ladies and gentlemen,

7. At the end of that second millennium, however, Islamic Civilisation was perhaps at its lowest ebb. Most of the Asian and African nations were colonised in the nineteenth century, and were not able to develop and prosper as they would have wanted. Although these countries gradually achieved political liberty in the 20th century, they are still striving to acquire independence on the economic and strategic fronts. Despite the current troubles, the Muslim world is looking towards the new millennium with hope. The hope that one day soon there will be greater independence in the real sense - of the mind, will and action - to be in accordance with the AlQuran and Sunnah.

8. To achieve this, there is, for example, the issue of indebtedness of several Muslim states in Asia and Africa. Muslim Countries will forever be in debt as long as this problem remains where it is and as it is. Islamic teachings detest indebtedness, a situation which should not be resorted to except in cases of extreme necessity. But the current indebtedness was not created by lack of resources. With the blessings of Allah, Muslim Nations are situated on resourcerich and strategic locations around the globe. They produce about 50 per cent of the oil of the world. Economic experts have estimated that the wealth of the Muslim nations and their people are in the region of USD 800 to USD 1,000 billion. Ironically, according to a recent report by the Islamic Development Bank, external debts of IDB member nations stood at USD 700 billion at the end of 1999. But the money that Muslims possess actually exceeds that of its indebtedness.

9. What is happening is that large amounts of the wealth and hard-earned money belonging to Muslims are not placed in their own region. Often, these very funds are in turn on-lent to third world countries, including the Muslim nations, at prohibitive interest rates and on onerous terms. This dependency on foreign loans is self-inflicted, for which we cannot blame anyone but ourselves. It is not surprising that the wealth of Muslims is not held by the Islamic banks to develop the Muslim world.

10. To some, it would seem that the Islamic banks and the present Islamic banking system are not good enough to manage and invest the Muslims' wealth on behalf of the Muslims. Perhaps, the business and investment atmosphere created was not conducive. Among others, stability in the political and social environments was hard to come by, let alone maintain.

11. However, I am pleased to note that there have been some signs of progress in the Islamic financial world. The Islamic banking concepts used in the early days of Islam that never blossomed into a complete banking system are now being applied in the structuring of modern and sophisticated financial products and mechanisms. I am encouraged that there are now over 150 Islamic financial institutions around the world, in over 50 countries, answering the call for halal banking products.

Ladies and gentlemen,

12. Although Islamic banking is still in its infancy, it is now progressing well compared to conventional banking, which has been in existence for centuries. However, in order to make the quantum leap to success, Islamic banking needs to find ways to penetrate many an environment where conventional banking practices are well entrenched.

13. Time is not on our side. While Islamic banking must co-exist with conventional banking, it must find its own strengths and its market niche, one which must not only be shariah-compliant and beneficial to the overall financial community, but also superior to that of conventional banking. As it is now, the public and financial community do not see much distinction nor superiority of Islamic banking under its present form and structure. Murabahah or mark-up financing and Ijarah or leasing, which constitute almost 100% of Islamic financing, are not sufficient to cater to the needs of sophisticated clients, be they Muslim or non-Muslim customers. Even though the prevalent mark-up financing concept is Shariah-compliant, many still perceive that it is just a mirror image of the conventional mode of financing.

14. If we want to leapfrog and advance in Islamic banking, we don't have to look far as we only need to learn and emulate the Sunnah of Rasullallah s.a.w.. He adopted the concept of Mudharabah profit-sharing which prevailed, and which was widely accepted in Arabia before his time. Not only did he ratify it, but he also conducted business on that basis when Siti Khadijah selected him from among many able Qurayshi merchants in 6th century Arabia, as an entrepreneur and provided him with capital. Caliph Umar was also reported to have declared a certain financing received by his son from the Baitul Mal as a profit-sharing transaction, and he requested that his son give away half of the profits.

15. In a straight-forward Musyarakah-type profit-sharing venture, the bank and the entrepreneur would both inject capital into the entrepreneur's enterprise according to a preagreed amount. As a shareholder, the bank may have its representative in the enterprise to safeguard its investment, and to have a say in the decision-making process as well as the investment and cashflow management of the enterprise. The bank and the entrepreneur would share the business risk faced by the enterprise, whether it makes a profit or a loss in any given financial year. If the enterprise makes a hefty profit, the bank would expect to receive a high return in the form of dividends. Having received a proportionately large share of the profit from the enterprise, the bank would then compensate the depositors who had invested in the bank with a high profit rate, which would possibly be much higher than the return it had indicated to the depositors earlier. The returns to the bank and the depositors would approximate closely to the performance of the enterprise. In effect, the profit-sharing arrangement may bring prosperity in a balanced manner by enhancing equality in the distribution of income, thus addressing to some extent the inequalities that exist in the world today.

16. This is where the superiority of Islamic banking lies in relation to conventional banking. Irrespective of whether the enterprise makes a high profit, the conventional bank would compensate the depositors with the same pre-determined return which does not correspond with the performance of the enterprise. And if the enterprise makes a low profit, the conventional bank would still be compelled to compensate the depositors with the pre-determined return.

Ladies and gentlemen,

17. This type of profit-sharing arrangement works similar to the concept of smart partnership. Under this arrangement, the bank plays the role of a partner. As a partner, the bank should firstly take steps to identify honest and reliable corporations or individuals to be their business partners, and secondly adopt rigorous analysis and management to ensure the profitability and viability of the project. The bank would have to extend its role not only as a mere lender, but also to be more of an entrepreneur. It has to do the due diligence and assessment of the project also from the standpoint of an entrepreneur. As smart partners, both parties have to work hand-in-hand in managing the enterprise.

18. This will not only bring about greater sharing of knowledge between the entrepreneur and his banker, but also a greater sharing of business risk. The banker will worry less about credit risk as it is now a partner, and thus has greater insights and knowledge into the conduct and running of the enterprise. And as a partner, the banker has to do a bit more of the worrying on the business side of things. Thus, hopefully, one day we get to see a new breed of bankers who are not only experts in finance, but also knowledgeable in the business aspects of the enterprise.

19. As partners, the banks should also share the losses proportionately to the capital or financing contributed to the project investment. They cannot be guaranteed to receive income when the enterprise makes losses. This arrangement enhances corporate governance as both sides would be accountable to the performance of the enterprise. Banks, acting as business partners, could also exert extra effort to keep good companies afloat, and will not let them wither and collapse. The risk of corporate failures from lack of risk management would be minimised. The banks would be more diligent and prudent in identifying and assessing projects as the banks have a greater responsibility to deliver good returns to their depositors.

20. The profit and loss sharing concept requires the cultivation of a new mindset on the part of Muslim bankers in particular. It also requires a paradigm shift on the part of the regulators in supervising the banking institutions which apply the profit-sharing concept. I urge Islamic banks and the banking institutions offering Islamic financial services to study the Sunnah and Islamic philosophy more carefully, and look into their virtues and strengths with the aim of deepening the Islamic banking system in our country.

21. If the Islamic banking institutions continue to apply mark-up financing as the norm, the true strength of Islamic banking would not be exploited, and thus Islamic banking would continue to progress at a slower pace. The concept of profitsharing is very relevant to Malaysia as we continue to develop S.M.E.S as the driving force to stimulate the economy. Having said that, the conventional banking community can also benefit from emulating the strengths of Islamic banking, particularly in sharing business risk and knowledge, in providing the consultative financial services to entrepreneurs, and in nurturing them.

Ladies and gentlemen,

22. We hope that as we enter this new millennium, Islamic civilisation will be able to emulate some of its past successes. We are already witnessing a gradual increase in the share of Islamic financial activities as a proportion of the total global financial system. This increase in wealth and assets placed and managed by Muslim bankers can be utilised through refinancing to reduce the debt burden of Islamic countries and enhance the prosperity of the ummah.

23. Muslims around the world must develop a cooperative framework to promote Islamic banking, particularly in mobilising financial resources to meet the needs of the ummah in different parts of the world. This ties in well with the international efforts to establish an international Islamic financial system which will link the Islamic financial markets around the world. And with the proposed setting-up of the Islamic financial services organisation, or IFSO, we hope to see a more comprehensive supervisory and prudential framework to oversee the profit-sharing arrangements undertaken by the Islamic financial institutions.

24. Malaysia is committed to the development of both global initiatives. Our concerted efforts to complete the global Islamic financial architecture, as well as to implement the noble principle of profit-sharing in Islamic banking, will be important and significant gifts to the Islamic world.

Para hadirin yang saya hormati,

25. Semoga kita mendapat taufik dan hidayah daripada Allah subhanahu wa ta`ala pada minggu perbankan Islam dan takaful ini, dengan menambahkan perbincangan dan pertukaran fikiran mengenai tajuk ini dan pelbagai tajuk lain. Kita perlu mengambil iktibar daripada sejarah Islam yang agung dan pengajaran yang lepas, yang telah membawa banyak manfaat untuk kepentingan kita bersama.

26. Maka dengan harapan itu, saya dengan lafaz bismillahir rahmanir rahim merasmikan Pelancaran Minggu Perbankan Islam dan Takaful. sekian, wabillahi taufik walhidayah, wassalamualaikum warahmatullahi wabarakatuh.