

**SPEECH BY
YAB DATO' SERI ABDULLAH BIN HAJI AHMAD BADAWI
AT THE INCEIF GLOBAL FORUM 2007
AT J.W. MARRIOTT, KUALA LUMPUR
30 AUGUST 2007**

BISMILLAHIR RAHMANIR RAHIM

ASSALAMUALAIKUM WARAHMATULLAHI WABARAKATUH AND GOOD MORNING

TAN SRI ZETI AKHTAR AZIZ
GOVERNOR, BANK NEGARA MALAYSIA

MR. AGIL NATT
PRESIDENT AND C.E.O.
INTERNATIONAL CENTRE FOR EDUCATION IN ISLAMIC FINANCE (INCEIF)

EXCELLENCIES AND DISTINGUISHED PANELISTS

LADIES AND GENTLEMEN

1. ALHAMDULILLAH, I AM HONOURED TO BE HERE TODAY IN THE PRESENCE OF SO MANY BUSINESS LEADERS AND SCHOLARS REPRESENTING THE FIELD OF ISLAMIC FINANCE. THIS SECTOR HAS INDEED GAINED GLOBAL RECOGNITION AND ACCEPTANCE – NOT ONLY AMONG THE UMMAH, BUT ALSO AMONG NON-MUSLIM COMMUNITIES.

2. BE THAT AS IT MAY, THE SUBJECT OF ISLAMIC FINANCE IS OFTEN DIFFICULT TO BROACH GIVEN THE DIVERSIFIED OPINION BASE THAT RELATES TO ITS IMPLEMENTATION. HENCE, I AM PLEASED THAT THIS FORUM HAS BROUGHT TOGETHER KEY EXPERTS AND PRACTITIONERS IN THIS IMPORTANT MEETING OF MINDS. I AM SURE THAT EACH OF YOU BRINGS A UNIQUE PERSPECTIVE, AS WELL AS DEEP KNOWLEDGE AND INSIGHT, THAT WILL CONTRIBUTE TOWARDS THE FURTHER DEVELOPMENT OF ISLAMIC FINANCE.

3. AS SUCH, LET ME CONGRATULATE BANK NEGARA AND THE INTERNATIONAL CENTRE FOR EDUCATION IN ISLAMIC FINANCE (INCEIF) FOR ORGANISING THIS FORUM. IT IS MY HOPE THAT THE PRESENTATIONS AND DISCUSSIONS HELD TODAY WILL NOT ONLY ENHANCE UNDERSTANDING AND STRENGTHEN CONSENSUS-BUILDING, BUT WILL ALSO ULTIMATELY BENEFIT THE UMMAH.

LADIES AND GENTLEMEN

4. THROUGHOUT MY PREMIERSHIP, I HAVE CONTINUOUSLY SOUGHT ALLAH S.W.T.'S GUIDANCE FOR MALAYSIA TO EPITOMISE THE VERY BEST THAT ISLAM ENJOINS. I HAVE ESPOUSED THE APPROACH OF "ISLAM HADHARI" TO GUIDE THE COUNTRY – PARTICULARLY MUSLIMS – TOWARDS PROGRESS AND DEVELOPMENT, WHILE ENSURING THAT WE REMAIN STEADFAST AND TRUE TO THE TENETS OF ISLAM.

5. MALAYSIA HAS FOR SOME TIME NOW EMBARKED UPON DEVELOPING ISLAMIC LAWS AND INSTITUTIONS THAT CAN SUPPORT COMMUNITY-BUILDING AS WELL AS ENHANCE THE NATION'S DRIVE TOWARDS PROGRESS AND DEVELOPMENT. IN FACT, THESE EFFORTS EXTEND TO INCLUDE THE DEVELOPMENT OF ISLAMIC FINANCIAL INSTITUTIONS.

6. FOR EXAMPLE, IN THE 1960'S WE ESTABLISHED AN INSTITUTION THAT IS NOW BEING STUDIED BY MANY COUNTRIES; AN INSTITUTION THAT HAS SUCCESSFULLY COMBINED ECONOMIC ENDEAVOURS WITH THE PERFORMANCE OF THE OBLIGATORY HAJJ. THROUGH THIS INSTITUTION, WE HAVE ENCOURAGED MALAYSIAN MUSLIMS TO SAVE PRODUCTIVELY AND THEREBY FACILITATE THEIR PERFORMANCE OF THE HAJJ IN A MORE ORDERLY AND ORGANISED MANNER. I REFER OF COURSE TO THE 'TABUNG HAJI', OR PILGRIM'S FUND, A BRANCHCHILD OF ONE OF MALAYSIA'S ILLUSTRIOUS SONS, ROYAL PROFESSOR UNGKU AZIZ; WHOSE DAUGHTER, I MIGHT ADD, IS TODAY THE GOVERNOR OF OUR CENTRAL BANK.

7. ANOTHER DIMENSION OF DEVELOPMENT THAT I HAVE ACTIVELY ENGAGED IN IS TO HELP MUSLIMS REALISE ALLAH'S CALL TO INVOLVE THEMSELVES IN TRADE AND COMMERCE; BUT NOT THE KIND THAT ALLOWS THE USE OF RIBA, OR USURY.

8. IN THIS CASE, WE ESTABLISHED BANK ISLAM MALAYSIA MANY YEARS AGO; ONE OF THE FIRST FULLY SYARIAH-COMPLIANT BANKING INSTITUTIONS IN THE WORLD. THIS WAS FOLLOWED BY TAKAFUL MALAYSIA, ISLAMIC BANKING WINDOWS AT CONVENTIONAL BANKS, AND NEW LICENSES FOR ADDITIONAL ISLAMIC BANKS. THESE LICENSES HAVE ALSO BEEN EXTENDED TO WHOLLY FOREIGN-OWNED INSTITUTIONS. IN ADDITION, WE ISSUED THE FIRST ISLAMIC DEBT PAPERS IN THE WORLD FOR SHELL; AT A TIME WHEN THE TERM SUKUK HAD NOT GAINED INTERNATIONAL PROMINENCE.

9. TODAY, AFTER MORE THAN TWENTY YEARS, WE HAVE SUCCESSFULLY – THROUGH THE WILL OF ALLAH S.W.T. – NURTURED AN ISLAMIC FINANCIAL INDUSTRY WORTH APPROXIMATELY 113.5 BILLION RINGGIT IN BANKING ASSETS; 6.2 BILLION RINGGIT IN TAKAFUL ASSETS; AND, 125 BILLION RINGGIT IN ISLAMIC PRIVATE DEBT SECURITIES. MOREOVER, MALAYSIA'S ISLAMIC MONEY MARKET CHANNELS SOME 30 TO 40 BILLION RINGGIT EVERY MONTH. IN TERMS OF REGULATIONS, THERE IS A CENTRALISED SYSTEM FOR SYARIAH PRONOUNCEMENTS, AS WELL AS THE INTERNATIONAL FINANCIAL ACCOUNTING STANDARDS BOARD (I.F.S.B.).

LADIES AND GENTLEMEN

10. DESPITE SOME ACHIEVEMENTS THAT WE HAVE GARNERED IN THE FIELD OF ISLAMIC FINANCE, I BELIEVE THAT THERE ARE STILL SOME AREAS WHICH NEED TO BE ADDRESSED. FOR INSTANCE, WE NEED TO ENSURE THE AVAILABILITY OF SUFFICIENTLY TRAINED PEOPLE FOR THE INDUSTRY. WE NEED TO ENCOURAGE MORE INSTITUTIONS TO PRACTICE ISLAMIC FINANCE. WE NEED TO INTRODUCE NEW ISLAMIC FINANCIAL PRODUCTS AND INSTRUMENTS. MOREOVER, AS ISLAMIC FINANCIAL INSTITUTIONS REMAIN SMALL COMPARED TO CONVENTIONAL INSTITUTIONS, WE NEED TO LOOK TOWARDS HOW TO ENLARGE AND STRENGTHEN ISLAMIC FINANCIAL INSTITUTIONS.

11. THUS, I WOULD LIKE TO CALL UPON THOSE INVOLVED IN THE FINANCIAL SERVICES SECTOR TO JOIN ME IN PROMOTING A SECOND WAVE OF GROWTH IN ISLAMIC FINANCE. IT IS MY WISH THAT WE PROCEED TO IMPLEMENT SUBSTANTIVE MEASURES TO ENHANCE ISLAMIC FINANCIAL SERVICES, BY LEVERAGING ON OUR EXPERIENCES OF THE LAST TWO DECADES. FOR EXAMPLE, WE HAVE INVESTED HEAVILY IN THE AGGREGATION OF KNOWLEDGE CONCERNING THE ISLAMIC FINANCE INDUSTRY; TO THE POINT WHERE OTHERS SEEK MALAYSIA'S ASSISTANCE IN ESTABLISHING ISLAMIC FINANCIAL INSTITUTIONS IN THEIR OWN COUNTRIES.

12. AS A MATTER OF FACT, THE SEARCH FOR A NEW FRAMEWORK HAS ALREADY BEGUN FOLLOWING THE LAUNCH OF THE MALAYSIA INTERNATIONAL ISLAMIC FINANCIAL CENTRE (M.I.F.C.) INITIATIVE IN AUGUST LAST YEAR. FOLLOWING THIS INITIATIVE, THERE ARE SEVERAL AREAS THAT REQUIRE IMMEDIATE ATTENTION, AND I BELIEVE THAT FURTHER EXAMINATION BY THOSE INVOLVED IN THE ISLAMIC FINANCE INDUSTRY WILL HELP TO EXPEDITE ITS IMPLEMENTATION. IN PARTICULAR, I CALL ON THE FOLLOWING TO BE GIVEN IMMEDIATE ATTENTION:

13. FIRSTLY, DIFFERENCES IN SYARIAH INTERPRETATIONS IN THE APPLICATION OF ISLAMIC FINANCE MUST BE RESOLVED. IN MY VIEW, THESE DIFFERENCES CAN HAVE DIRE CONSEQUENCES, AS THEY CAN LEAD TO RIFTS BETWEEN THE VARIOUS PLAYERS IN THE ISLAMIC FINANCE INDUSTRY. THIS ALSO NEEDS TO BE ADDRESSED TO AVOID THE QUEST FOR SUPERIOR RATES OF RETURNS OVERRIDING CONSIDERATIONS OF HALAL AND HARAM, AND CREATING FURTHER DOUBTS OVER THE DIFFERENT FINANCIAL INSTRUMENTS AVAILABLE IN THE MARKET. THIS SITUATION MAY BE REMEDIED BY STRENGTHENING THE EXISTING CENTRALISED SYARIAH PANEL WITH SOUND RESEARCH INFRASTRUCTURE; ALLOWING IT TO ANALYSE NEW ISLAMIC FINANCIAL INSTRUMENTS AS WELL AS PRODUCTS BEFORE THEY ARE MADE MAINSTREAM. THE LONG-TERM CHALLENGE IS TO ESTABLISH A SINGLE SYARIAH PANEL AT THE GLOBAL LEVEL, WHICH WILL SERVE TO CONSOLIDATE AND RESOLVE DIFFERENCES ACROSS JURISDICTIONS.

14. SECONDLY, ISLAMIC FINANCIAL INSTITUTIONS MUST ENSURE THAT THEY ARE ABLE TO WITHSTAND ANY THREAT RELATING TO SYSTEMIC OR EXTERNAL SHOCKS. TODAY, MORE THAN EVER BEFORE, THERE ARE GROWING REPORTS OF FRAUD IN VARIOUS FORMS INVOLVING COMMERCIAL ENTITIES; FOR WHICH DISCOVERY HAS BEEN DIFFICULT AND LONG. IT WOULD ALSO APPEAR THAT ISLAMIC FINANCIAL INSTITUTIONS ARE SUSCEPTIBLE TO DEFAULT AS MUCH AS CONVENTIONAL INSTITUTIONS. AS SUCH, IT IS IMPERATIVE FOR ISLAMIC FINANCIAL INSTITUTIONS TO DEVELOP RISK MANAGEMENT SYSTEMS THAT ARE ADEPT AND RESPONSIVE TO THE SOPHISTICATIONS OF THE MODERN FINANCIAL MARKET. THIS SYSTEM MUST BE CAPABLE OF DETECTING POTENTIAL PROBLEMS BEFORE THEY BECOME FINANCIAL DISASTERS.

15. THIRDLY, EFFORTS TO DEVELOP HUMAN CAPITAL FOR THE ISLAMIC FINANCIAL INDUSTRY MUST BE INTENSIFIED. IN MY VIEW, THE ESTABLISHMENT OF PROFESSIONAL RESEARCH AND TRAINING CENTERS CAN ACT AS A CATALYST FOR ISLAMIC FINANCE DEVELOPMENT. THESE CENTERS WILL IN TURN BE ABLE TO ATTRACT INTELLECTUALS SPECIALISING IN ISLAMIC FINANCE, AND HELP PROVIDE NECESSARY LEADERSHIP. IN THIS REGARD, INCEIF SHOULD LOOK TO EXPAND ITS REACH IN MARKETS WHERE DEMAND FOR ISLAMIC FINANCE IS GROWING. WHILE THERE ARE RESEARCH AND TRAINING PROGRAMS UNDERTAKEN BY OTHER PARTIES, PERHAPS THERE IS AN OPPORTUNITY TO CONSOLIDATE AND ESTABLISH A COMMON FRAMEWORK FOR CERTIFICATION OF SUCH EFFORTS. ATTENTION

SHOULD THUS BE GIVEN TO ESTABLISH A CERTIFICATION BODY TO REGULATE AND ENSURE THAT THE VARIOUS PROGRAMS MEET CERTAIN PROFESSIONAL STANDARDS. AS SUCH, THE INDUSTRY SHOULD CONSIDER ESTABLISHING THESE STANDARDS, WHERE INCEIF COULD PLAY A PIVOTAL ROLE.

LADIES AND GENTLEMEN

16. EARLIER IN MY SPEECH, I MENTIONED THAT ISLAMIC FINANCIAL INSTITUTIONS REMAIN RELATIVELY SMALL WHEN COMPARED TO MORE ESTABLISHED CONVENTIONAL FINANCIAL INSTITUTIONS. DESPITE STRONG INDUSTRY GROWTH RATES, ISLAMIC FINANCIAL INSTITUTIONS CONTINUE TO BE OVERSHADOWED BY THEIR WESTERN COUNTERPARTS, DUE TO THE LATTER'S LONGER TRADITION, GREATER DISTRIBUTION AND LARGER RESOURCES.

17. THUS, GOING FORWARD, THE CHALLENGE FOR ISLAMIC FINANCIAL INSTITUTIONS IS TO BECOME GLOBAL IN SCALE – TO BE ON EQUAL FOOTING IN TERMS OF OPERATIONS WITH THE MORE ESTABLISHED FINANCIAL INSTITUTIONS OF THE WEST. GREATER SCALE WILL ALLOW ISLAMIC FINANCIAL INSTITUTIONS TO PROVIDE A BROADER RANGE OF SERVICES AT RATES THAT ARE MORE COMPETITIVE. MOREOVER, GREATER SCALE WILL ENABLE ISLAMIC FINANCIAL INSTITUTIONS TO UNDERTAKE AND MANAGE RISK BETTER.

18. WHILE ISLAMIC FINANCIAL INSTITUTIONS MAY BE ABLE TO ACHIEVE GREATER ECONOMIES OF SCALE THROUGH ORGANIC GROWTH, THE OTHER ENABLER TO ACHIEVE THIS SCALE IS THROUGH CONSOLIDATION OR COLLABORATION. IN THIS REGARD, IT MAY BE BENEFICIAL FOR INDUSTRY PLAYERS TO EXAMINE THE VIABILITY OF CONSOLIDATING OR COLLABORATING RESOURCES AT BOTH NATIONAL AND INTERNATIONAL LEVELS. HOWEVER, LET ME REMIND YOU THAT THIS EXERCISE SHOULD NOT RESULT IN THE DILUTION OF OUR PAST ACHIEVEMENTS, BUT MUST BE MADE ON COMMERCIAL TERMS, WHERE INSYA-ALLAH, EVERY PARTY WINS.

LADIES AND GENTLEMEN

19. I WOULD LIKE TO CONCLUDE BY MAKING A PLEA FOR GREATER UNITY AND A STRONGER SHOW OF CONCERN AMONG THE UMMAH. AS A STARTING POINT, PERHAPS FELLOW MUSLIMS THAT HAVE BEEN BLESSED WITH GREATER RESOURCES SHOULD CONSIDER SHARING THOSE RESOURCES WITH THOSE LESS FORTUNATE. IN THIS RESPECT, WE SHOULD ALWAYS BE GUIDED BY ALLAH'S REMINDER TO US IN HIS REVELATION: