

Keynote Address at The 15th Kuala Lumpur Islamic Finance Forum (KLIFF 2019)

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1. It is indeed an honour to be here among the distinguished at this 15th Kuala Lumpur Islamic Finance Forum or KLIFF. Thank you for inviting and giving me the opportunity to speak at this event. It has over the years establish itself as a prestigious forum in the calendar of the global Islamic finance conferences.

2. For that, I wish to congratulate the organisers for this achievement and it is my fervent hope that KLIFF will strive and continue to be a much-anticipated forum that all Islamic Finance stakeholders look forward to attend in future.

3. The success and popularity of KLIFF is in itself a testimony of how rapid and successful Islamic banking and finance had grown over the years. While the overall development of Islamic banking and finance for more than four decades has been evolutionary, the pace has intensified in recent years. Islamic financial concepts have been incorporated into many financial products to meet the changing needs of consumers, businesses and investors. New Islamic financial institutions are being established

ranging from the traditional banking institutions to more specialised financial institutions.

4. This Islamic financial landscape has been supported by a well-developed regulatory, prudential, legal, accounting, framework and reinforced by the necessary research and development. Initiatives to promote greater awareness and education among Muslims and non-Muslims have also been intensified.

5. Malaysia has maintained its position as the global leader in Islamic finance and the sector has matured to become vibrant with a diverse set of industry players.

6. We have continued to be the main driver for the sukuk market and represented 51 per cent of the US\$396 billion of total global outstanding sukuk last year, while continuing to lead in Islamic wealth management industry with 36.5 per cent of the global share as at end-2017.

7. The financial institutions and professional ancillary service providers in Malaysia have vast experience and are instrumental in facilitating the growth of the industry beyond our national border.

8. It is also worth noting that Malaysia spearheaded a number of innovative developments in Islamic finance, with the aim to spur the vibrancy of this thriving industry, such as the issuance of the first

Sustainable and Responsible Investment Sukuk (SRI) and Green Sukuk, the launch of the Investment Account Platform (IAP).

9. Last year, Bank Negara Malaysia issued a strategic paper on Value-based Intermediation (VBI) which narrated strategies to strengthen the roles and impact of Islamic banks towards a sustainable financial ecosystem.

10. The industry's move towards embracing VBI would further strengthen Malaysia's leadership position and advance the growth of Islamic finance towards generating positive, sustainable impact to the economy, community and environment.

11. In 2015, world leaders adopted the 2030 Agenda for Sustainable Development. This agenda defines 17 Sustainable Development Goals (SDGs) for the people, planet, prosperity, peace, and partnership. Estimates indicate that the world would need up to US\$90 trillion worth of infrastructure investments by 2030. To achieve these goals, an estimated US\$5 to 7 trillion in financial support is required annually over the next 11 years.

12. However, financing the SDGs is not a simple task. It requires a comprehensive approach that includes innovative ways. What we need is impact investment that intentionally seeks to create both financial returns and positive social or environmental impact.

13. Interestingly, Islamic finance has a lot in common with impact investment as it aims to promote wealth for all.

14. Islamic finance can also help in achieving the SDGs by creating financial inclusion, which is considered as an enabler of other developmental goals. The SDGs also offer business opportunities to the Islamic finance industry, on top of moral returns. According to a research done by the Business and Sustainable Development Commission, the SDGs-related sectors can generate up to US\$12 trillion in business value.

15. In order for Islamic finance to fulfil its potential and provide effective support to the SDGs, there is a need to establish an enabling environment.

16. At the country level, regulatory and supervisory frameworks should be strengthened, legal underpinnings of Islamic financing instruments need to be more robust, and instruments for liquidity management need to be developed.

17. At the global level, the standardisation of contracts and Shariah rulings is critical, in addition to promoting the adoption of international standards issued by bodies such as the Islamic Financial Services Board (IFSB).

18. Innovations in the use of Islamic financial instruments can go a long way in supporting the SDGs.

19. Green sukuk is one such instrument, paving the way towards more climate-friendly investments. Other notable instruments include the use of Islamic endowment funds for long-term investments, leveraging Islamic Financial Technology (FinTech) and waqf (Islamic endowment funds) to provide alternative financing for micro, small and medium enterprises, as well as the possible use of output sharing sukuk for financing solar energy.

20. Malaysia has demonstrated that establishing the enabling environment for Islamic socially responsible investing (SRI) and green finance can be done. Over the years, the country has introduced several initiatives on sustainable finance to support the green agenda.

21. The Malaysian, the Securities Commission has introduced the SRI Sukuk Framework in 2014, as part of its strategy to develop the SRI ecosystem in Malaysia.

22. The introduction of the SRI sukuk framework is part of the SC's developmental agenda to facilitate the creation of an eco-system conducive for SRI investors and issuers and is also in line with the rising trend of green bonds and social impact bonds that have been introduced globally to facilitate and promote sustainable and responsible investing. Combined with Malaysia's leading position in the global sukuk market, this framework will further enhance the country's value proposition as a centre for Islamic finance and sustainable investments.

23. In July 2017, the world's first green sukuk was launched in Malaysia under the SRI Sukuk Framework by Tadau Energy – a RM250 million

sukuk for the purpose of undertaking a solar project to provide environmentally friendly, clean and sustainable power supply.

24. This was followed by four other issuances, bringing the total green sukuk issued to date to approximately RM2.41 billion (US\$611 million). Building on Malaysia's strength as one of the largest sustainable investment markets in Asia ex Japan, with a 30% market share including Islamic funds, the SC introduced guidelines on SRI funds in 2017 to provide greater transparency for investors and enable fund managers to distinguish their SRI funds according to the fund's strategies.

25. In addition, Bursa Malaysia has also championed the push towards SRI when it launched the first environmental, social and governance (ESG) index in Asia in December 2014. The internationally benchmarked FTSE4Good Bursa Malaysia Index currently has 43 constituents, up from 24 initially.

26. All these have showcased Malaysia's value proposition as a centre for sustainable finance and investment, and more importantly our commitment to be a key driver for the green agenda.

27. This sets the stage for further opportunities to maximise both Islamic and green finance, and expand it across to other asset classes, including positive screening to incorporate ESG into Shariah-compliant equities, sukuk for waqf development, venture philanthropy and impact investing, social sukuk and more.

28. As a matter of fact, Islamic finance can be a catalyst for the growth of green developments globally. It will require continued collaboration with global and local stakeholders to converge in standards and reporting, as well as to spur innovation, to reduce barriers and cost for issuers and increase transparency and awareness for investors.

29. Moving forward, Islamic banking and finance players must also be intensely invested in technologies in order to transform the way they conduct their banking services and disseminate their products more effectively and efficiently.

30. We have reached a level where customers are able to execute financial and nonfinancial transactions online, from any location, with the help of internet and mobile banking. In accordance to social media banking, digital consumers prefer doing their own research before making a decision on the best suited product or service offered by their banks.

31. They can interact online or set up a meeting with their relationship managers via unified communications technology. In view of this all, a growing number of Islamic banks are offering customer service through digital channels as well.

32. Then there's Fintech, the contraction of the words finance and technology that broadly refers to the application of smart technology within the financial industry. It covers a wide range of activities including financing, payments and infrastructure, operation and risk management, data security and monetisation, and customer interface.

33. Fintech applies to the segment of the technology start-up that is disrupting sectors such as mobile payments, money transfers, loans, fundraising and asset management.

34. Fintech has also penetrated the Islamic finance space despite it being considered in still a very early stage. However, the potential disruptions to traditional Islamic finance should not be underestimated. The disruptions can swing both ways.

35. From the Islamic finance consumer perspective, fintech disruptions are largely positive. Fintech innovation provides choices which are more aligned to individual needs. With more options, consumers enjoy more competitive financial services cost.

36. Latest technology embraced by fintech leveraging on Internet, mobile devices, social media integration, big data analytics and artificial intelligence make financial transactions more automated, user-friendly and more convenient, thus a superior customer experience.

37. Crowdfunding and P2P financing options from fintech are also a blessing for individuals or SMEs (small and medium enterprises) that require financing but do not qualify for financing from traditional Islamic financial institutions (IFIs). Investors are also entitled to higher potential returns by investing directly into the business ventures that they finance via the online financing marketplace.

38. Furthermore, one of the best things that has happened with fintech is that it is able to provide access to financial solutions for the roughly two billion adults who are currently unbanked, as reported by World Bank.

39. Overall, fintech in the Islamic finance space positively contributes to the evolution of the Islamic finance products and services offering. Elimination of credit intermediaries results in lower prices and/or higher potential returns.

40. Crowdfunding and P2P financing provides the platform for Musharakah and Mudharabah-based equity financing, which have not been very successful in the traditional Islamic financial institutions environment.

41. Touching on the theme of humanity, I would like to believe that the infusion of both sustainability and smart technology in the financial sector can transform the world community to another level. Doing banking with hearts and intelligent technology will be the new face of any successful financial offerings in the future.

42. I would really like to see a more intimate relationship between humanity and finance. This is an evergreen agenda which will benefit the whole eco-system.

43. I am also glad to be informed that this KLIFF series will be discussing on these two main issues – SDG and Smart Technology – which are significant to the current state-of-affairs of Islamic finance industry.

44. Speakers and participants should be able to contribute much to what should be the future of Islamic finance while at the same time reinforcing its current form and features.

45. Without doubt, the KLIFF 2019 will be able to re-affirm its position as a premier Islamic finance conference and participants will benefit from it tremendously.

46. On that note, in the name of Allah Subhanahu Wa Ta'ala, The merciful and the most beneficent, I declare the Kuala Lumpur Islamic Finance Forum 2019 officially open.

Thank you.

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