

By : DATO' SRI MOHD NAJIB TUN ABD RAZAK
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RETAKAFUL: "TAKAFUL IN MALAYSIA - SHARING 20 YEARS
EXPERIENCE AND THE WAY FORWARD"**

Distinguished guests,

Ladies and gentlemen,

1. It gives me great pleasure to be here this morning, to address this major event in the Islamic finance calendar; an event that brings together distinguished key market players, regulators, scholars, consultants, and those sharing a deep interest in the development of takaful and Islamic finance, from Malaysia and other parts of the world. I wish to congratulate the organizers - the Islamic Banking and Finance Institute of Malaysia and the Malaysian Takaful Association – and Bank Negara Malaysia as well as others who provided valuable support, for their unwavering dedication towards the furtherance of knowledge in Islamic finance.

2. The organization of this convention is a clear indication of Malaysia's commitment to sharing and spreading knowledge on takaful and Islamic finance to a broader spectrum of domestic and international audiences.

Ladies and gentlemen,

3. The organization of this convention in the month of Shawal is symbolic. As Muslims around the world celebrate the achievements from the toils of perseverance during Ramadhan, our gathering today similarly commemorates the success of takaful in Malaysia after a score of relentless efforts to establish a viable, efficient and effective Islamic financial system, evolving in parallel with conventional financing.

4. I believe that the thrust of this Convention, based on Malaysia's 20 years experience of Islamic finance, is an ideal platform for us to perform muhasabah, or a review of our performance thus far. We should take this opportunity to reflect on the lessons learned, exchange ideas that can accelerate the development of Islamic finance domestically and foster greater integration with the global financial system.

Ladies and gentlemen,

5. I am pleased to note that Islamic finance in Malaysia has grown by leaps and bounds, from its humble beginnings of only having one Islamic bank and takaful operator, two decades ago. For the period 1986 – 2004, takaful and Islamic banking assets on average grew by 58% and 26% respectively – remarkable growth rates indeed. The industry has become a major contributor to overall economic growth, with assets contributing to nearly a quarter of the country's gross national product. This is a significant achievement considering the stiff competition from the conventional banking and insurance sectors.

6. We also observe that public access to Islamic financial services have improved tremendously, with Islamic banking services currently offered at all 1,881 banking institution branches nationwide, while market penetration of the takaful industry now stands at 5.2%.

7. A review of the Islamic money market and capital market shows similarly encouraging trends, with 44% of outstanding private debt securities (PDS) currently being raised on Islamic contracts, while for the Islamic money market the monthly traded volume now ranges from RM20 billion to RM45 billion. The product range has also undergone significant transformation. We have moved from offering basic instruments to having a broad range of financial solutions encompassing investment-linked takaful and sukuk, as the industry innovates to meet the sophisticated needs of consumers while at the same time, facilitate the effective management of liquidity and funding of the Islamic financial institutions.

8. The industry has remained agile in innovating and improving access to its services, by diversifying its distribution channels from the traditional agency channel to leveraging the internet and banca-takaful. The industry has been farsighted to harness the opportunities provided by the advancements in information communication technology (ICT), in a move to strengthen their competitive position.

9. It is also evident that our successes in Islamic finance have not been confined to domestic shores alone. Malaysian Islamic financial institutions have begun to share technical expertise in Islamic finance by participating in equity partnerships abroad, building business linkages with Indonesia, Saudi Arabia, Sri Lanka and most recently Pakistan.

10. Malaysia's success in transforming the takaful, Islamic banking and Islamic money and capital markets into a viable Shariah compliant system, has been due to strong support from the Government, a responsive legal system and effective partnership with the private sector. Multiple stakeholders continue to create this conducive environment for Islamic finance to thrive:

- The Government has been proactive in laying out the regulatory framework to ensure soundness of the Islamic financial system, and in garnering financial resources to kick-start the establishment of the first Islamic bank and takaful operator. We have introduced various laws relating to Islamic finance to support the governance of these industries and brought about a tax neutral regime in an effort to remove impediments for the development of Islamic finance.
- The judiciary has given special focus to the resolution of disputes in cases relating to Islamic finance with the establishment of a dedicated High Court to adjudicate all muamalat cases in the Commercial Division of the Kuala Lumpur High Court, complementing the mediation and arbitration dispute resolution mechanism already in existence for the Islamic financial system.
- Malaysian institutions of higher learning and the Islamic banking and finance community have also embarked on several initiatives, courses and training programmes on Islamic finance in response to the rising demand for competent practitioners to spearhead innovation in Islamic financial instruments.
- Undoubtedly, Malaysia's achievements in Islamic finance would not have been

possible without the receptiveness of the private sector in mobilising its resources in support of the initiatives put forth by the Government. In takaful, overwhelming response was received from the private sector following the announcement to further increase the number of licensees in the takaful industry. Similarly for the capital market, the private sector has embraced the versatility of Islamic financial instruments to service their financial needs.

11. All these initiatives have culminated in a vibrant and dynamic marketplace for Islamic banking and finance, within a short span of two decades. More importantly, it is a manifestation of the Government's commitment to instil Islamic values in a more substantive form, rather than relying on mere rhetoric.

Ladies and gentlemen,

12. At the international level, Islamic finance has transformed from a "nice to have" into a "must have" system, evident by the growing number of jurisdictions allowing their financial institutions to offer Islamic financial services and a number of global financial players now offering Islamic financial services as part of their spectrum of services. Islamic finance is no longer just the prerogative of the Muslim world, it is now recognised as a potential avenue for many countries to mobilise economic resources to achieve their development goals. Those who have taken the early initiative have a head start and are now in a better position to reap the potential benefits in this area.

13. Apart from its direct potential economic benefits, Islamic finance has also emerged in this era as a showcase to the world of Islamic values which propounds universal values of mutual trust, equity, fairness, justice and equitable sharing of risk and returns.

14. It is heartening to note that Islamic finance has been able to spark the interest of the international community to study and examine the noble values emanating from Islamic-based transactions. Non-Muslims are putting in efforts to understand Islamic finance, the prevailing Shariah tenets governing it and the values being promoted.

15. As an example, in the United States Treasury Department, the post of "Scholar in Residence on Islamic Finance" has been created, to research and disseminate knowledge on this subject to various US government agencies. The US Senate Committee on Banking, Housing and Urban Affairs had in July this year listened to and deliberated upon the testimony of the Scholar in Residence on the practice of Islamic finance.

16. This wave of interest was similarly seen in Britain, leading to the establishment of a working group by the Bank of England, with the mandate to review and remove obstacles to the wider use of Islamic mortgages in the United Kingdom. With the increasing acceptance of Islamic finance, leading financial institutions have entered the market, fuelling further interest in this area.

Ladies and gentlemen,

17. Islamic finance can also be a catalyst to accelerate learning, innovation and creativity, all necessary in our quest to achieve balanced and progressive economic growth for Islamic countries. Islamic finance is not a static system. Instead, it is rich

with the process of ijihad, where the Shariah, the Quran and the Sunnah, are used as the basis for deriving rulings to practical situations of this age.

18. Islamic finance calls for higher levels of innovation and creativity in designing financial products and instruments. Therefore, to succeed, we must continue to produce appropriately trained professionals for the Islamic finance sector. In this regard, having a national higher education system capable of producing the right kinds of graduates and of high quality, is a pre-requisite for Islamic finance to thrive. Investment in education remains the key to many development challenges faced by low income and developing economies around the world, many of whom belong to the OIC.

Ladies and gentlemen,

19. Let me now provide some perspectives on the future development of Islamic finance with special reference to Malaysia and within the realm of the international financial system.

20. Firstly, it is important for OIC member countries to each establish a clear strategic direction in the development of Islamic finance in their own economies. This is critical given the different phases of Islamic finance development in the various OIC countries. Some are at the early developmental stages whilst others like Malaysia, already have a strong foundation of Islamic finance coupled with the requisite institutional and financial infrastructure. Having an agreed upon roadmap at the highest levels will influence greater involvement by leaders to steer the development of Islamic finance. Sharing this strategic direction will result in a "win-win" proposition among member countries in achieving the targeted objectives of Islamic finance and maximize efficient channeling of limited domestic and international resources.

21. For Malaysia, we remain committed to promoting Islamic finance globally and are in a position to play our role in the next stage of the industry's development. Given our comprehensive Islamic financial infrastructure covering all aspects of Islamic finance, Malaysia is well positioned to play a more significant role, particularly in the areas of takaful and retakaful, Islamic fund management and fund raising, as well as talent development. I understand that a number of important initiatives will be rolled out in the near future in support of this objective. In essence, Malaysia hopes to become a more attractive international hub for the conducting of Islamic financial transactions.

22. Secondly, it is important to accelerate the learning curve of countries which are at the early stages of Islamic finance development, by maximizing the efficient usage of limited resources. As a way forward, we should further leverage the Islamic Development Bank, with its extensive reach across the Muslim world. The IDB together with the IFSB should be commended for having initiated moves to chart a 10-year master-plan for the Islamic financial services industry, one that could assist member countries in their quest to develop a well-structured Islamic financial system. The master-plan is expected to cover four broad aspects of the Islamic financial system, namely banking, takaful, capital markets as well as Islamic financial architecture and infrastructure.

23. Malaysia and the IDB have also signed an MOU that has created a working committee to encourage the establishment of takaful companies in member countries

and promote retakaful business amongst IDB members. I understand that the inaugural meeting of this committee was successfully held yesterday in Kuala Lumpur. By working collectively, we can do much to accelerate the spread and advancement of Islamic finance globally.

24. Our third imperative is to take advantage of market liberalization to build greater international linkages and strategic alliances among the Islamic financial institutions. This has been the essence of Malaysia's strategy to become an integrated international Islamic financial hub, where we began with the liberalization of the Islamic banking financial sector.

25. Through the issuance of three new Islamic bank licenses to foreign Islamic financial institutions, we have encouraged a greater focus on building distinct capabilities and strengths in the domestic market, while providing the opportunity to tap into new markets within the region. We have opened up equity participation in Islamic subsidiaries of conventional banking institutions and takaful companies to foreign interests (of up to 49%), to spur greater innovation.

26. Our foreign exchange rules were further liberalized to allow Multilateral Development Banks and multinational corporations to raise Ringgit-denominated bonds to enhance the depth of the Islamic capital market and ensure Malaysia remains on the radar screen of global investors.

27. Our fourth challenge is the human one - to ensure that we are able to continue developing, attracting and retaining the right kind of talent required to spur innovation, professionalism and skills development in Islamic finance. Our Central Bank – Bank Negara Malaysia – has laid the groundwork to establish an international centre for education in Islamic finance. This move is in line with our call and commitment within the IDB board, on the necessity of human capital development for fostering economic development and strengthening the Ummah.

28. Finally, our future success will depend on efforts to develop our own mould of financial instruments and building a system that is viable, efficient and an accurate reflection of the values and principles of Shariah. As Islamic financial institutions begin to enter the mainstream banking sector, the challenge will be to satisfy the needs of ever more sophisticated and discerning customers, in terms of innovative products and quality services.

29. Our ability to do so will depend on our commitment to intensify the efforts to use principles, features and values of Islam and Islamic contracts to address the problems and shortcomings of the current financial system. Such innovation and contributions will put Islam in its correct perspective, with principles that transcend the boundary of time and place, able to fit into and provide a solution for the issues and concerns of the Ummah in these modern times.

Ladies and gentlemen,

30. Let me conclude my remarks this morning by saying that I am truly encouraged by the achievements of Islamic finance in Malaysia, and of similar developments elsewhere in the Islamic world. We need to ensure that all Islamic countries continue to collaborate in building a worldwide infrastructure that will promote and enhance the spread of Islamic finance. I believe, with the strong commitment shown by the private sector, the full support of enlightened leaders and governments around the

Muslim world and beyond, and with the blessing of the Almighty, we will achieve this noble aspiration, InsyaAllah. On this note, I hereby declare the convention open, and I wish you every success in your deliberations.

Thank you.