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Speech by

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It is my great pleasure to be here in Dubai at this World Islamic Economic Forum 2014 to speak at this dialogue session on the potential of the sukuk market and its role in the economic development process and in contributing towards financial stability. This recent decade has witnessed the accelerated development of the global sukuk market. The global sukuk market which has now reached USD$270 billion outstanding is evolving to become a distinct platform for fostering greater international economic and financial linkages. The success of the sukuk market reflects its ability to meet the changing and differentiated demands of the mordern economy, to develop innovative and cutting edge structures and products, and to achieve such issuances at competitive pricing.

The sukuk market has drawn increasing interest from sovereigns, multilateral institutions, multinational and national corporations both from developed and emerging economies to finance investments in a wide range of economic activities and development projects. The geographical reach of the sukuk market has also become more extensive, with the global sukuk outstanding now being domiciled in more than 20 countries, while the investor base that spans from Asia, the Middle East and Europe. In addition to issuances in international reserve currencies that includes the US Dollar, the British Pound and Euro, more recently in Malaysia has been the issuance of sukuk in Renminbi.

For the investors, the sukuk offers the diversification into multiple asset classes and different techniques used to structure medium to long term instruments. Given that the sukuk is based on underlying assets, it discourages over-exposure of the financing beyond the value of the underlying assets. Issuers are thus discouraged from leveraging in excess of the asset value. The prospect of over-indebtedness and its consequences on financial stability are thus reduced. There is also potential for direct participation of investors in the project, thereby granting investors beneficial ownership in the underlying assets, with the rights to receive a share of profits or rental income from the underlying asset of the sukuk while taking the associated risk of such ownership.

The sovereign sukuk is generally the first inroad into Shariah compliant funding in the capital market, enabling the creation of reference prices over time, to which private sector entities can benchmark their fund raising activities. Governments have for the most part, remained the most active issuers in the history of the global sukuk market with sovereign issuances accounting for more than 80 percent of the global sukuk issuances. This recent few years has also seen a number of jurisdictions in developed economies strengthening their legal, regulatory and governance framework to facilitate such sukuk issuances.

Going forward, the financing requirements for economic development are envisaged to be massive, particularly for emerging and developing economies in the Asian and Middle Eastern regions that are seeking huge amounts of capital to fund new infrastructure and to support economic development. Given the sheer size of these projects, equity and government budgets cannot be the only source of financing for this next phase of economic growth and industrialisation in our regions. The sukuk market has become a potentially important new source of funding for such long term projects. In the recent decade, a total of US$95 billion of infrastructure sukuk has been issued by more than 10 different countries. In Asia, it is estimated that a funding of US$8.3 trillion is required until 2020 for infrastructure projects, while the funding requirements in the Middle East are estimated to be US$2 trillion over the same period. Developing economies in Africa have also already begun its entry into the sukuk market for such infrastructure financing with some having put in place the legal groundwork for such sukuk issuances.

However, low sovereign ratings have limited the ability of certain high-growth developing countries to source such funding, despite being rich in natural resources. Countries that are rich in natural resources may however, pledge these resources for such issuance. Funding may thus be secured arising from the securitisation of such assets. Given the recourse to the asset by investors, it provides the incentive for disciplined and appropriate governance of the management of the project. Additionally, multilateral development banks may also facilitate this process by providing credit guarantees to these countries to reduce the financing cost and improve the quality of the sukuk issuances. On this front, multilateral development banks such as The Islamic Development Bank (IDB) Group and The Asian Development Bank (ADB) commenced initiatives to support member countries to leverage on Islamic finance for sourcing of funds, through the provision of advisory services, capacity development and technical assistance.

Allow me to now share Malaysia's experience in the development of the sukuk market in our Islamic finance marketplace. The Islamic capital market in Malaysia has been systematically developed to ensure accessibility whilst ensuring the protection of investors and efficiency in the intermediation process. The initiatives to develop the market are also strongly backed by the legal and Shariah framework which is further supported by a robust financial infrastructure, including the settlement and bond information system that enables Malaysia to provide a complete sukuk issuance and trading platform.

Since the first sukuk issuance in 1990 by a multinational corporation in Malaysia, the sukuk outstanding in the Malaysian marketplace is now US$158 billion. In 2002, the Malaysian government issued its inaugural global sovereign sukuk, raising US$600 million, which became an international benchmark for the issuance of global sovereign sukuk. The marketplace has now been liberalised to allow for multilateral financial institutions, mutinational and national corporations from other jurisdictions to issue both ringgit and non-ringgit denominated sukuk in our sukuk market with increasing foreign investor participation in such issuances.

The sukuk market in Malaysia has seen wide ranging innovative structures and a greater diversity in the type and maturity of the sukuk. A landmark issuance is the US$750 million exchangeable sukuk *Musyarakah* in 2006 by Khazanah, the government's investment corporation for the purpose of selling a stake in Telekom Malaysia. It marked the first issuance of its kind, incorporating full convertibility features common to conventional equity-linked transactions. A further notable issuance was the pioneering retail exchange-traded sukuk to raise funds for a transportation project that allowed retail investors the opportunity to have direct access to the sukuk and thus a stake in a massive infrastructure development in the country, therefore broadening the range of low-risk investment products available to such investors. In terms of maturity, the ringgit sukuk market has seen issuances of maturities to 30 years which were well received by the financial market. Regular sukuk issuances with different maturities by the Malaysian government has also created a benchmark yield curve for market reference, of which is complimented by the establishment of a number of indices for non-ringgit and ringgit denominated sukuk that serve as benchmarks to track the performance of sukuk. These initiatives have progressively contributed towards creating a vibrant secondary sukuk market in Malaysia, with increased depth and liquidity.

In complementing the sukuk market as a source for fund raising, also being explored are other funding channels to assist small and medium enterprises, new growth industries and entrepreneurs that have limited access to the sukuk market. A multi-bank investment platform is now being developed for the effective matching of funds from potential investors with targeted industries and ventures in the real sector. Foreign Islamic financial institutions and investors also stand to benefit from this platform, with the offering of multi-currency financing options for foreign projects. The platform facilitates Islamic banks to perform investment intermediation functions. It enhances further the intermediation role of the Islamic banking institutions to also function as an investment intermediary.

In an increasingly internationalised global financial marketplace that has generated significant cross-border flows, one of the requirements as we advance forward is the need for more tradeable cross-border Islamic financial instruments that can cater to the different profiling of investors' risk appetites. The issuance of the short-term sukuk by the International Islamic Liquidity Management Corporation (IILM) is a breakthrough in innovation towards increasing cross-border liquidity flows that could potentially enhance financial stability and the efficient functioning of the Islamic financial markets.

Let me conclude my remarks. There is clear indication of the growing relevance and importance of the sukuk market, with the growing interest from both emerging and developed jurisdictions and the strategic approaches taken to diversify the funding sources through the sukuk market. The overall direction and potential of the global sukuk market are certainly well recognised, particularly in its role in contributing towards greater economic development. There is significant potential for the sukuk, in particular to fund infrastructure projects. This is particularly relevant for the GCC, African and Asian regions given the infrastructure needs going forward. This would contribute towards building deeper and more liquid, efficient and effective global sukuk market. The dynamism of the sukuk market also contributes towards strengthening financial stability and in facilitating the expansion of inter-regional investment flows. As we move towards increasing this internationalisation of Islamic finance, and thus towards greater global financial integration, it will contribute towards a global growth process and financial stability that will be mutually reinforcing.

Citi-FT Financial Education Summit 2014: "Financial Education for Meaningful Inclusion" Kuala Lumpur, 5 November 2014

Speech by

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It is my great pleasure to be here this morning at the Citi-FT Financial Education Summit 2014. First of all, allow me to welcome the Citi-FT Summit back to Kuala Lumpur. It is my honour to once again address this Summit that has now become an important forum for advancing the financial literacy agenda. It was in 2004, at the inaugural Citi-INSEAD Financial Education Summit in Hong Kong that I spoke on financial education in the context of the demographic forces in Asia and their consequent implications for financial consumers, in particular for women in Asia. Today, another demographic shift – the "rapid urbanisation" – provides a new context to our discussion on the challenges in pursuing meaningful financial education strategies to achieve effective and responsible financial management in our communities. My remarks today will focus on the changing demographics and the role of financial education in enhancing the ability to cope with the realities of this new environment.

Asia has probably experienced the most rapid demographic change in the world. In these recent two decades, several Asian economies have had to deal with a number of new challenges including slower population growth, rapid aging, the intensification of urbanisation and the consequences of increasing life expectancy. Asia's urban population has risen from 33% of total population in 1990 to 43% in 2010. The United Nations projects that Asia's urbanisation rate would rise to 56% in 2030, and further to 64% in 2050. Accompanying this urbanisation has been the growth of mega-cities with populations exceeding 10 million. Twelve of the world's 21 mega-cities are in Asia, including Tokyo, Delhi, Mumbai and Shanghai to name a few.

Urbanisation has become particularly more pronounced in Malaysia during this period. The proportion of the Malaysian population living in urban areas has increased from less than 50 percent in 1990 to more than 70 percent in 2010, and is expected to rise further to 75 percent in 2020. The improved education and higher income levels that has come with urbanisation has enhanced opportunities for greater access to financial products and services. Indeed, financial institutions and markets have responded to the changing profile of financial consumers by offering a broader range of financial instruments and providing convenient access to meet the changing consumer preferences.

It is recognised however that economic growth and development, no matter how stellar, will begin to fade when inequality sets in and when income disparities widen. Balanced growth is therefore an important imperative if socio-economic progress is to be achieved and if conditions that limit opportunities for employment and which deepen inequalities of income and wealth are to be avoided. For several emerging economies, such conditions are reflective of the growing phenomenon of the urban poor, with significant implications for social stability and balanced growth. To address this, inclusive growth strategies have gained prominence in recent years among the policymakers in the region. This needs to be further reinforced by strategies targeted at preparing individuals at an early stage to be well equipped to adjust to the new economic, financial and social realities that confront them. This is where financial education has a fundamental role.

A key concern in this environment is to strengthen the capability of financial consumers, in particular household and small businesses, so as to avoid being marginalised by market forces and by the disproportionate impact of the changing financial and social landscape. Related to this is the need to reinforce socially responsible finance, and to address the new and growing risks of financial exclusion. Sophisticated risk-profiling methods employed by financial institutions can make it more difficult for deserving individuals and businesses to qualify for financial services. Among those that qualify, aggressive marketing practices and more complex financial products can also lead to poor financial decisions at a time when economic and financial reforms are also shifting greater responsibility to individuals to plan and provide for retirement and unexpected developments. Marketing practices that target select groups of consumers often further deprive the broader segments of society from new products that can better meet their financial needs.

The way in which financial services are delivered to consumers is also moving towards more cost-efficient channels that reduce the need for face-to-face contact. Enquiries and complaints are largely handled by phone or e-mail, and usually in a highly fragmented manner by different parts of a financial institution. This can mean less effective advisory support for the vulnerable groups of financial consumers. More recently, the wider adoption of electronic channels to make and receive payments has had enormous potential for greater financial inclusion. Key to this progress is the access to the relevant technology and safeguarding its security and thus gain the willingness to trust it. This will also involve the awareness of its benefits.

These developments can be overwhelming to consumers and businesses who are ill-equipped to make informed financial decisions due to their inadequate knowledge on financial matters, thus diminishing their effective participation in the financial system. Symptomatic of this has been the rapid growth in household debt and leverage in a number of countries. This has been particularly prevalent in an environment of ample liquidity and low interest rates. This is also being reinforced by changing social norms, such as social pressures to spend, which has further eroded financial discipline among households. Such pressures are further compounded by the rising cost of living in the urban areas. Financial capability levels have however generally lagged the socio-economic changes that are taking place, resulting in poor financial management. While financial products and services have become more complex, new delivery channels are also having the effect of increasing the distance between product providers and consumers. For example, more pervasive non face-to-face channels can make it more difficult for consumers to seek information. Financial education messages are also often overshadowed by competing commercially driven messages that dominate the delivery channels. While considerable attention has been directed at reforming the incentive structure to better align the interests of financial agents and consumers, such changes need to go further to improve outcomes for consumers.

In this environment, the financial education agenda needs to be addressed by the collective efforts of policymakers, non-government organisations, consumer advocacy groups and the financial industry to deliver a sustained education programme that will equip all segments of the population with the necessary financial knowledge to save, invest and to insure against adverse events. The financial education strategies and learning interventions need to be tailored to the consumers' conditions, culture and education levels, and to be responsive to their requirements, thereby enhancing their prospects for improving their economic well-being.

A well designed financial education strategy can encourage greater effective participation in the mainstream financial system, and keep individuals already in the mainstream from being financially excluded as a result of changes in the financial landscape. A recent report by the OECD has highlighted that a lack of awareness of different types of financial products, low level of confidence and poor knowledge of how products work are barriers to financial inclusion. These factors will become more acute in an increasingly complex and technology-driven financial system. Financial education has an important role in breaking such barriers. This will require more innovative approaches, broader partnerships and a deeper understanding of the social attitudes. Our own experience in Malaysia through the work of Bank Negara Malaysia and the Credit Counselling and Debt Management Agency (a subsidiary of the Bank) has shown that the impact of financial education strategies depends on the ability to effectively combine broad-based and targeted strategies, and having a well-coordinated approach that relies on multiple channels to reach different groups.

Financial education is also a lifelong endeavour, from encouraging children to save their pocket money to helping adults attain financial security and independence for their old age. In supporting the inclusion agenda, financial education initiatives in Malaysia are designed as an important life skill, where consumers are exposed to knowledge on financial management during the different periods in their life. An increasing trend is for financial capability to be promoted from an early age through the integration of financial education into the formal school curriculum that covers basic money management, spending and savings, credit and debts, e-payments, financial risk management and consumer responsibilities. For the youth and adult segments of the population, Malaysia has also adopted a life event approach to the development and delivery of financial capability programmes. This is reinforced by a dedicated focus on the vulnerable segments of the society, such as how to plan for retirement, the importance of living within one's means and behaviours that can lead one into high indebtedness. These programmes are delivered to consumers in the workplace and colleges.

Our collaboration with employers has proven to be particularly effective in delivering financial education on responsible financial management. Under this approach, strategic alliances have been forged by the Credit Counselling and Debt Management Agency with more than 200 organisations in Malaysia to deliver financial capability programs at the workplace. Equal emphasis is given to developing the enabling infrastructure to support the effective delivery of financial capability initiatives. In Malaysia, the meaningful access to financial education contents and tools, a rigorous assessment framework and an effective partnership that involves the Government, educators, non-Governmental organisations and the financial industry form the vital components of the enabling ecosystem to support the overall financial education strategies.

In many instances, changes in consumer behaviour are needed for the intended benefits to be realised. In Malaysia this is the case in the efforts to promote e-payment as a means of improving economic efficiency, productivity and competitiveness. Central to this agenda has been the implementation of various financial education initiatives to encourage changes in consumer behaviour and to inspire confidence in the use of e-payments. Financial education has had a critical role in equipping consumers with knowledge to utilise e-payments responsibly, and to help consumers protect themselves from risks of financial scams that exploit specific vulnerabilities associated with online payment platforms. Financial education has also been a lynchpin in our efforts to encourage retirement planning. As life expectancy increases, consumers are expected to effectively plan and manage their finances for their retirement. Specific financial education are being introduced, particularly for individuals at the early stages of entering the workforce to provide the relevant information and skills to save and manage funds for their retirement.

A further objective of financial education is to reinforce the consumer protection agenda including to be adequately protected against market failures and misaligned incentives. This has become more relevant in the recent period with increasing global pressures being exerted to significantly strengthen prudential and market conduct regulation following the global financial crisis. Emerging economies in particular continue to face practical challenges in embracing global standards in a manner that is also aligned with enhancing opportunities for inclusive finance. Financial education is an important link in the efforts to build a financial system that is resilient against crises and abuse, while limiting the adverse socio-economic implications that can arise. While the government has a key role in driving the financial education agenda, the private sector also needs to be actively engaged in the education of financial consumers. A commitment to financial education should be a natural extension of the financial industry’s commitment to professional and ethical conduct in doing business. In Malaysia, a national network for financial education is being pursued involving the several key stakeholders to provide a platform to drive, prioritise and coordinate the financial education initiatives.

Financial education strategies also needs to be accompanied by a strong focus on developing a robust consumer protection regime with emphasis on fair treatment, transparency and effective recourse that promotes a culture of responsible conduct by financial service providers. The experience of the global financial crisis has clearly demonstrated that an effective consumer protection framework serves not only to protect individuals from excessive risk; it also has an important role in protecting the financial system from systemic risk. A particular focus on consumer protection policies, and one that is key to advancing the financial inclusion agenda, should be to protect vulnerable groups and ensure that financial innovation is pursued in a responsible manner. The board and senior management of financial service providers have a key role in setting the right policies and incentive systems that support fair and responsible business practices. Financial service providers that embrace fair dealings are likely to enhance their competitive advantage by building stronger and more lasting consumer relationships and enhancing their brand value. Fair dealings can also reduce exposures to reputational risk arising from poor business conduct, as evidenced by recent incidents of mis-selling and resulting sanctions by conduct authorities.

Going forward, the challenges imposed by the rising trend of urbanisation and other demographic changes are set to become more pronounced. The implications of this for financial education strategies are far-reaching. It will require a fundamental re-thinking of current approaches to delivering financial education that will have its optimal impact. The approach will need to be comprehensive and with all stakeholders in the financial ecosystem. We have a shared responsibility to develop effective channels for delivering financial education, build the necessary infrastructure and continuously evolve relevant financial capability programmes that will facilitate consumers to make sound financial decisions with confidence, and cope successfully with the new emerging economic and financial challenges. This Summit provides an excellent opportunity for stakeholders to come together to generate new knowledge and ideas in our journey towards achieving effective participation in the financial system through financial education. It is such concerted efforts that will strengthen the potential to create an enduring impact that will make the difference in achieving a more balanced and sustainable economic future.

ISI - Regional Statistics Conference: "Statistical Science for a Better Tomorrow" Kuala Lumpur, 18 November 2014

Keynote Address by

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Introduction

It gives me great pleasure to welcome you to this inaugural International Statistical Institute Regional Statistics Conference. This conference takes place at a time of major transformative change in our region and in the world. The contribution of statistics in this new and rapidly changing environment has become of even greater importance. In this increasingly complex world, the availability of high quality statistics is vital in facilitating decision making for both the private and public sectors. The world is also seeing greater demands for higher levels of transparency. This has become key for building trust and confidence regardless of the line and nature of business. The statistics community has responded to these changes. Immense progress has been achieved in developing the methodology for generating consistent economic and financial statistical systems. In a world that has also become more globalised, such progress has brought great benefits to businesses and policymakers in terms of the availability, comparability, and broad consistency of economic data across countries. For any economic and financial community, detailed and comprehensive data are highly important to understand the implications of the developments taking place. This has prompted greater international collaboration across the world to contribute towards a greater understanding of the implications of this trend. Underpinning this is also the high level of professionalism and integrity of statisticians at national and international agencies.

It is in this recent two decades, that the global economic and financial environment has become more interconnected, more complex and more competitive. It has resulted in greater economic and financial integration and more intricate interconnectivities. At the same time, the world has also become more unstable and less predictable with frequent shocks and crises. This new and more challenging environment has significant implications for business and for public policy. Economic agents need to have an appreciation of the multi-faceted shifts in their environment in order to form the appropriate assessments and make informed decisions. For policy makers, it highlights the importance of having reliable, relevant and high-quality statistics to support and pave the way for sound policy decision making. For statisticians, the challenge is to continuously improve the statistical science towards facilitating the foundation to build a better future.

My remarks today will be from the perspective of a central banker. Timely and high quality statistics is one of the important prerequisites for central banks to effectively achieve our goals of monetary and financial stability, and of fostering the development of a sound and progressive financial sector. Based on my experience as a central banker for more than 30 years, it requires a deep understanding of the economy and the financial system to make the right policy decisions. Such policy formulations needs to be based on rigorous assessments that provides the insights that will guide the decision making process. This is aided by relevant statistics, and complemented by sound judgement.

Central banks are therefore not only major consumers of statistics, but also producers and disseminators of monetary and financial data. More importantly, central banks, have placed much importance on providing sufficient analysis and assessment in conjunction with the release of statistics. This aims to provide context, avoid misinterpretation and reduce uncertainty for the economic agents.

Key Global Trends Shaping the Universe of Statistics

As the world evolves, two key trends have emerged and in turn, created new and diverse demands, challenges, and opportunities in the field of statistics. First, the steady liberalisation and deregulation of economies and financial markets have resulted in intricate interlinkages within domestic financial systems and spanning across borders. While financial markets have become more interconnected globally, capital and labour mobility across borders have also intensified while trade and investment barriers have been dismantled. This has resulted in closer proximity to growing markets and facilitated the creation of globalised supply chains by corporations.

These developments have had wide ranging benefits, including better risk diversification, improved efficiency and greater economies of scale. However, it has also increased the risks for cross-border contagion and accelerated the transmission of external shocks. The rapid transmission of the financial crisis in the major advanced economies in 2008 to other parts of the world demonstrates the significance of these contagion effects.

These increasingly complex global networks have given rise to demand for new sets of data to enhance our understanding of the interlinkages and to assess the implications. While many global initiatives on enhancing statistics were the result of financial crises that happened in the 1990s, we now find ourselves recognising that far more needs to be done following the much worse and devastating global financial crisis that has resulted in significant costs around the world. The recent crisis has tested policymakers to the limit and has placed greater demands on the community of statisticians.

While the lack of data was not the root cause of the global financial crisis, it did reveal serious data and information gaps in key areas that might have helped the authorities to measure, understand and respond better to risks in the international financial system. Even for the most advanced statistical systems, such as in the US and Europe, the crisis highlighted “black holes” in data that now need to be addressed. Closing these information gaps involve an important and heavy work agenda for the years to come. More efforts are now underway to strengthen cross-country data collection and close these information gaps. The BIS international banking statistics is for example being expanded and refined to capture the entire balance sheet of internationally active banks on a consolidated basis, and with greater granularity. On-going initiatives by the Financial Stability Board (FSB) and the International Monetary Fund (IMF) to close these information gaps, particularly at the individual bank level for systemically important global banks, are also significant steps in this direction.

Another key global trend that has elevated statistical science to a new level is the rapid innovation and advances in information and communication technology. It is staggering that 90 percent of the world’s data was created in this recent two years alone[1]. With the rapid expansion of data storage capacity[2], growing global connectivity which includes almost 3 billion internet users worldwide and double-digit growth rates in the mobile broad-band market, there is no doubt that the swift pace of technological developments has not only facilitated the rapid collection of new statistics but also led to more effective measurement of information.

Improvements in technology have brought tremendous benefits to most segments of society. Amid the wider availability of information on financial planning products, households now have the potential to make better savings and investment choices. For businesses, the improved availability of timely and granular information has been a crucial enabling element for companies to anticipate new trends, gauge market viability and customise products and services to changes in market conditions.

Innovations in Statistical Science have Enhanced Social Welfare and Policy Formulation

From the central bank's perspective, it is clear that advancements in the statistical field have spurred an even more rigorous and scientific approach to surveillance and policy formulation. Given that policymakers are often faced with wide-ranging, difficult and significant trade-offs, sound statistical analysis has a fundamental role in managing both short- and long-term policy challenges. In the current environment, forward-looking macroeconomic and financial surveillance is more important than ever to detect potential risks early, so that pre-emptive policy action can be taken. Of importance, is the need to be aware of rapidly changing information sets amid increasing financial innovation and greater global interlinkages. Policymakers have therefore developed tool kits that have not only taken into consideration baseline forecasts, but crucially, on other plausible scenarios. In this aspect, larger and more diverse data sets that are complemented by more sophisticated analytical tools have allowed policymakers to improve the effectiveness of macroeconomic management. Through more rigorous scenario analysis exercises, authorities are better able to identify challenges, and form a more complete view of future conditions. This is well exemplified by the recent emphasis on the need for regular stress testing to understand the effects of shocks on the solvency of individual banks, the stability of the entire financial system, the broader economy and, more importantly, the feedback effects. The roles of granular statistics and sound stress testing methodologies have become vital.

While the recent global financial crisis has necessitated a substantial policy focus to address short-term challenges, policymakers also need to keep sight of the economy's long-term vision. Continuous structural reforms are needed to strengthen fundamentals and improve economic resilience. This involves measures to remove structural bottlenecks, improve productivity and promote innovation and enhance competitiveness. Formulating such structural policies to improve growth prospects hinges on rigorous empirical research in these areas. For Malaysia, the economy is currently undergoing a transition towards becoming a higher value added economy. This has involved setting clear, time-bound and measurable targets, to allow for the policy approach to be focused. This has depended heavily on the availability of good data and statistics that capture developments across all sectors. It also enables us for the monitoring of the progress and the effectiveness of the policies. It is also now widely recognised that economic growth can only be sustainable if it is inclusive. Growth will only slow as income disparities widen. It is also recognised that financial inclusion is an important contributor towards achieving such a more inclusive economic development. Bank Negara Malaysia has therefore over the decades implemented initiatives to extend and improve the access of quality financial services to all segments of society.

Advances in data collection and computation methodologies has been a crucial enabling factor in the progress made on financial inclusion not just in Malaysia, but also in many other countries. Unconventional information is now often used to assess a person's credit worthiness when there is insufficient traditional information to build a credit score. This can range from electronic records of past utilities bill payments and even reputations on social media[3]. This has led to vast improvements in access to credit for the previously excluded segment of population. Meanwhile, the compilation and analyses of detailed data on the financially underserved is a significant area that underpins international cooperative efforts to advance the global financial inclusion agenda. The Alliance for Financial Inclusion (AFI) comprising of more than 90 member countries established the need for measurable national goals based on a set of quantifiable and time bound common indicators among its membership. These results serve as an objective basis for the AFI members to share experiences on the effectiveness of their policies.

Statistical Enhancements for a Better Tomorrow

Great strides in the field of statistics have resulted in significant economic benefits. However, as the world further transforms, new challenges emerge and much more needs to be done going forward. The increase in availability of data and information is not without risks. While the wealth of new data has indeed made markets more efficient and has supported better decision making by the private and public sectors, it has also brought about new risks of fraud, theft and invasion of privacy. Therefore, existing confidentiality policies, regulation and data governance need to be reviewed and updated to account for these new risks, so that innovative activities can thrive without threats to individual safety and interests.

Additionally, in managing the increase in global interconnectedness, greater international collaboration and coordination in the field of statistics is needed to enhance cross-country data coverage, promote greater standardisation of data and, more importantly, to create a shared understanding of cross-border risks and transmission of shocks. The dynamic nature of the global economy and financial system implies that the relevant set of data needed is a constantly moving target. Therefore, continuous and concerted efforts by both the users and compilers of statistics to close data and information gaps are indeed crucial.

Finally is the need for the continued emphasis on capacity building of human capital. From researchers and academicians, to statistical compilers and policymakers, there is an urgent need to ensure that further enhancements in the field of statistical science continue to advance. Policymakers and statisticians today need to be at the forefront of the advances in statistics to identify new linkages and risks in order to calibrate effective policy responses. In a similar vein, economic and market participants must invest in the statistical systems and expertise required to generate the wealth of information inherent in their operations to allow for greater appreciation and understanding of their implications on the overall financial system and economy.

Conclusion

As we move forward, the changing contours of the global landscape will increase sharply the demand for higher quality and more comprehensive statistics from both the private and public sectors. This also needs to be accompanied by sound analysis in order to draw the implications. From the compilers of statistics, to the developers of statistical applications and the users of statistics, there will be many challenges, but also immense opportunities ahead.

On this note, I wish you a productive and successful conference. By sharing your ideas, knowledge and insights in statistics, we will together contribute to drive the statistical science for a better future.

[1] Source: IBM Watson Foundations: http://www-01.ibm.com/software/data/bigdata/
[2] According to IDC, between 2013 to 2020, the "digital universe" which measures all the digital data created, replicated, and consumed in a single year, will grow by a factor of 10– from 4.4 trillion gigabytes to 44 trillion.
[3] For example, Lenddo in the Philippines, Mexico an Colombia.

Asean Business Club Corporate Networking Lunch- "Roadmap of Financial Integration for Malaysia & ASEAN: What Can Business Expect?" Kuala Lumpur, 1 December 2014

Speech by

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In this more challenging global economic and financial environment, ASEAN economies have demonstrated the ability to weather the turbulent storms experienced in this decade. The ASEAN economies have essentially benefitted from the payoffs from our earlier economic and financial restructuring and reforms. Our potential is now being further enhanced by steps to intensify our regional economic and financial integration. In particular, the region has taken the opportunity during our period of growth and stability within this decade to pursue regional financial integration.

It is my honour to be invited today to this distinguished gathering of corporate leaders organised by the ASEAN Business Club to speak on the subject of financial integration in ASEAN. My remarks today will touch on our motivation for pursuing regional financial integration, the benefits to be gained from advancing this agenda and the different approach that is being adopted by ASEAN in comparison to that which has been pursued by Europe. I will also discuss the progress and future direction of this integration process, its future direction and the opportunities that this integration process will provide to the business community.

For more than three decades, ASEAN has sustained high economic growth. ASEAN is currently one of the fastest-growing and most dynamic regions in the world. According to the International Monetary Fund (IMF), economic growth in the region is expected to be sustained at an average of 5.3% over the next five years to reach USD3.6 trillion by 2019, five times the size it was a decade ago. Additionally, is also the significant increase in the middle class population in ASEAN. With a population of more than 600 million people, this trend will create a significant final demand in the global economy. This is reinforced by rising income in the region. Per capita income in ASEAN has almost trebled in this recent decade. ASEAN is therefore becoming a thriving hub in consumer demand. By 2020, Asia is estimated to contribute to more than half of the total global middle class population, with ASEAN representing more than USD2 trillion of new consumption within the region.

Along with the development of more robust cross-border supply chains in the region, economic integration of ASEAN has occurred on several fronts. In particular, intra-regional trade and investment activity has increased significantly in this recent 15 years. Since 1990, ASEAN intra-regional trade has grown from 18% to 24% of total trade, and intra-regional investment has quadrupled since 2000, from 4% to 17% of total investment. While there has been a trend towards greater intra-regional trade and investment, financial integration in the region has lagged behind. This has raised questions on whether in fact regional financial integration is important, given that the lack of it has not been an inhibiting factor to economic integration. ASEAN economies, however, have now reached that stage of development in this decade whereby greater regional financial integration will raise further our growth potential. An important key to unlocking our full potential is to accelerate this integration and cooperation within the ASEAN region.

Main benefits of financial integration

An intensification of financial integration in ASEAN will not only serve to enhance growth at the national level, but also act as a catalyst to achieve a growth that is mutually reinforcing for the economies in the region. Regional financial integration will bring about the more effective intermediation of funds and thus the efficient allocation of resources in the region. Excess savings in one country can be channeled into productive investments in another country within the region, thereby promoting growth. The ASEAN region has one of the highest savings rate in the world, at approximately 30%, as well as international reserves amounting to USD800 billion. The bulk of ASEAN's surplus funds, however, are intermediated mainly through the international financial markets before being reinvested back into the region. In particular, more than 90% of cross-border portfolio investment flows are channeled to the advanced economies. Given the immense funding requirements that ASEAN has, particularly for large investment projects and infrastructure development, greater financial integration will facilitate channeling part of the region's surplus funds towards productive investment opportunities in the region.

Regional financial integration will also allow for more efficient risk diversification of assets to include foreign assets from within the region. This will not only reduce vulnerability to external developments but will contribute to achieving more stable conditions in the regional financial markets. Additionally, this trend has been reinforced by greater coordination and cooperation among the regional Central Banks and regulatory authorities to safeguard financial stability. The collective actions that have been taken have enhanced the ability to manage and respond to risks confronting the region. Greater financial integration has also created an enabling environment for businesses. It has facilitated improved access to financing investments in the region. In particular, the presence of larger and increasingly more viable financial institutions in the region along with more developed financial markets have generated greater cross-border funding possibilities in the region and has allowed for more funding options for businesses. Further work in this direction is underway and significant progress on this front is expected to occur in this next decade.

Key distinguishing features of ASEAN's model of integration

While ASEAN may draw on the experience from the European model of monetary and financial integration, the region has charted its own path towards greater financial integration. In the European Union, the formation of a monetary union has represented a major element in realising their economic integration. The adoption of a single currency was a critical step in fostering the regional European integration. In contrast, a monetary union with a single currency is not the step forward for the ASEAN region. A study by the ASEAN Central Banks in the early 2000s concluded that a common currency should not be the direction to be pursued by the region, given that, the ASEAN economies did not have the preconditions to achieve such a union. Indeed, such preconditions would require significant and high costs to the region. This would make it a non-viable proposition. The ASEAN region represents one of the most diverse regions in the world in terms of size, economic systems and structures, stages of development, financial systems and prevailing economic and financial conditions. It was therefore concluded that rather than pursuing a strategy towards achieving a single currency and a monetary union, the region would instead be better served by greater regional financial integration to achieve the very same objectives of a greater shared economic prosperity for the region.

Another key difference between the European and ASEAN model of integration lies in the governance structure. In Europe, the monetary union is governed by a centralised institution, while the approach in ASEAN is to build on institutional arrangements and mechanisms that would facilitate financial integration while leveraging on a network of committees for the governance process. This is supported by agreements that have been and are being entered into based on commitments made by the respective members of ASEAN. Financial integration in ASEAN has also adopted a more flexible approach that accords the member countries to participate in the process based on their state of readiness. This is to ensure that no countries will be adversely affected by the process. Additionally, significant efforts have focused on capacity building in a range of areas of banking and finance to promote an inclusive advancement of the integration process in the region. Regional cooperation among policy makers is as focused in regional surveillance and information sharing. This is to facilitate greater understanding of regional issues as well as the detection of risks and vulnerabilities. It is also to provide awareness of the implications and the experience of alternative the policy options to address the wide challenging developments confronting the region. This has improved capability in managing the implications of external developments and potential economic and financial crisis.

What Businesses Can Expect

In period following the Asian Financial Crisis, the region has made significant strides in strengthening our resilience, agility and capacity of the banking sector. We also now have the emergence of ASEAN financial institutions in the region. While ASEAN commercial banks predominantly mobilise funds at the national level, greater regional financial integration is now being paved for financial institutions in our region to participate in a regional banking network. The ASEAN Banking Integration Framework (ABIF), is now in its final stages of development. The ultimate objective of this initiative is to enable greater presence of ASEAN financial institutions to operate in the region to facilitate greater intra regional trade and investment activities. Businesses will thus stand to gain by having improved access to a larger and a more secure source of financing for such cross border trade and investment activities.

Headway has also been made in developing the capital markets in the region and to move towards greater financial integration of the markets. Over the recent decade, the ASEAN bond market has more than tripled in size to USD1.1 trillion. ASEAN Exchanges, a collaboration of seven stock exchanges within the region, was launched in 2011 to drive cross-border collaboration, streamline access, create ASEAN-centric products, and implement targeted promotional initiatives. In addition, the listing of ASEAN indices with the Financial Times and London Stock Exchange (FTSE) in 2005 has also enhanced the market visibility of the ASEAN exchanges, which represent close to 95% of the investable market capitalisation in the region and which has a combined market capitalisation of approximately USD2.9 trillion. This facilitates businesses in cross-listings between the exchanges and in raising funds given this common platform for ASEAN businesses.

Finally, ASEAN Central Banks and Monetary Authorities have long been involved in various regional cooperation initiatives to develop efficient, secure and reliable payment and settlement systems. For example, the inception of the Asian Payment Network (APN) seeks to create a new retail settlement mechanism for the participating states. It allows ATM cardholders to withdraw money in any of the other participating countries, thereby simplifying transactions. This could in due course contribute towards the growth of the tourism and the retail sector in our economies. With extensions being sought to include debit and credit cards, money transfers and mobile banking services, businesses will be able to leverage on these services to reduce transaction costs and improve efficiency for such transaction.

Conclusion

Let me conclude my remarks. Despite the distinct cultures, histories and languages that make each ASEAN nation unique, there is a common thread that runs through the region that keeps us cohesive - a unanimous and unwavering commitment to empower our people together. This solidarity will however also require the ASEAN business community to complement the efforts made by the regional authorities. Malaysia looks forward to being the chair of ASEAN in 2015 to build on the progress that has been achieved to further advance the regional financial and economic integration. This will also include the agenda of promoting ASEAN as a destination for global investments. ASEAN integration is a joint responsibility that has always been embraced. Let us demonstrate that in the case of ASEAN, the whole is greater than the sum of its parts.