Global Islamic Finance Forum 2014 - "Into the Next Chapter: Transformative Changes to Strengthen Industry Linkage with the Real Economy" Kuala Lumpur, 2 September 2014

Keynote Address by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

It gives me great pleasure to welcome you to this fourth Global Islamic Finance Forum. In this new era of great transformative change in the world, the growth and evolution of Islamic finance has continued to be very much part of the changing configuration of the global financial system. An important part of this ongoing change, is the growing internationalisation of Islamic finance, that has resulted in greater cross-border financial flows which has in turn facilitated greater and more diversified economic inter linkages between countries. With this increased pace of the internationalisation of Islamic finance, the total global financial assets of the Islamic financial industry is now estimated to be more than US$2 trillion. The growth has continued to gain scale with its geographical outreach now extending beyond Muslim countries to the more established international financial centres and to other emerging economies. Across continents, Islamic finance is therefore having an increasing role in intermediating funds across borders and creating greater financial and economic inter-linkages.

The increasing international dimension of the global sukuk market, in particular, affirms its offering as a distinct platform upon which international inter-linkages are fostered. The upcoming debut sovereign issuances from established financial centres and emerging markets and the increasing diversity of the composition of sukuk investors across continents, in addition to the growing trend for multi-currency sukuk issuances, cumulatively contribute towards strengthening the dynamism of the sukuk as a global product for fund raising and investment activities in the international financial markets. Malaysia, has witnessed an increasing trend of issuances of foreign currency denominated sukuk in our domestic sukuk market, reinforced by an increasingly wider investor base as reflected by the increased and more diversified foreign investor participation in such issuances.

In parallel with this rapid growth of cross-border financial flows has been the increased attention to the development of the international financial architecture relating to financial stability in the Islamic financial system. With the important two international institutions already well established, that is, the accounting standards setting organisation, AAOIFI, and the prudential standard setting body, the IFSB, concerted global efforts have been directed towards the progressive implementation of the recommendations in the eight building blocks identified in the Islamic Finance and Global Financial Stability Report 2010. In particular, the efforts have been focused on the adoption and operationalisation of the prudential standards and the development of the potential for effective liquidity management as part of the efforts to safeguard financial stability. It is encouraging that there has been a higher adoption of the prudential standards issued by the IFSB, with implementation by 13 regulatory and supervisory authorities worldwide with indications that there are more in the pipeline. Taking into account the distinct characteristics and specificities of Islamic finance, the effective implementation of these standards will contribute towards maintaining the soundness and stability of Islamic financial institutions.

Liquidity management in the international Islamic financial system has also been strengthened with the establishment of the International Islamic Liquidity Management Corporation (IILM) in 2010 that will contribute towards facilitating efficient liquidity management and cross-border flows by Islamic financial institutions. On the domestic front, in Malaysia, the upcoming issuance of a ringgit denominated Mudharabah Certificate for liquidity management purposes by the central bank is the introduction of a new profit sharing instrument that is expected to contribute towards increasing the range of instruments in the global Islamic short term securities market. With returns that are linked to the performance of the underlying asset and tradability in the secondary market, it is expected to draw significant interest of international investors.

Moving Forward: Transformative Changes to Grow Beyond Numbers

The efforts taken to strengthen the global financial infrastructure of Islamic finance thus far have provided a solid foundation for the growth and internationalisation of the industry that is underpinned with soundness and stability. While the rapid growth of Islamic finance, attests to its resilience and competitiveness, the challenge before us is also to enhance its capacity to contribute towards inclusion and more balanced economic growth. Statistical numbers and projections are important performance indicators and benchmarks for the industry. However, the growth of the industry has to extend beyond the numbers to sustain its growth momentum. This is of particular importance in today's environment of growing global uncertainties and when considerations that prioritise the linkage of finance to the economy, justice and fairness, and sustainability and inclusion and which have been regarded as essential elements of a modern financial ecosystem. Islamic finance, with these inherent features and ethical dimensions, therefore has an immense potential role as a transformative agent in the economy, particularly in serving the requirements of the real economy and the broader society. Of importance is thus the role of the global Islamic financial marketplace in facilitating greater linkages with the real economy and inclusion and thus balanced growth.

In evolving into the next growth phase, it remains an imperative for the Islamic banking industry in the global marketplace to reinforce meeting the very objective of its existence as an effective form of financial intermediation that serves the real economy and that complies with the requirements of the Shariah. As an extension to this, Islamic banks have the potential to extend its role to also include the role as an investment intermediary. This would require the diversification of banking business to expand beyond credit intermediation to investment intermediation, in which the alternative modes of risk sharing contracts can be applied. In performing investment intermediation, Islamic banking institutions not only strengthen further the linkage of finance and real economic activity, but also contribute towards more inclusive and more balanced growth.

In the Malaysian Islamic finance marketplace, the changes associated with the modernisation of laws facilitate the maturing of the Islamic finance industry, with the enactment of the new Act in 2013. It includes new provisions that strengthen the potential role of Islamic financial institutions as investment intermediaries for risk-sharing to effectively take place. Legal recognition of investment accounts provides differentiation from deposits, which thereby opens up the avenue for Islamic financial institutions to further explore the various modes of operationalising such investment accounts.

In advancing this quest, technological advances need to be leveraged upon to develop new innovative platforms that can facilitate the implementation of investment accounts. Aimed to assist Islamic financial institutions in performing this investment intermediary function more efficiently, a multi-bank platform is currently being developed in Malaysia to effectively and efficiently match funds from potential investors with industries and ventures in the real sector. The platform would facilitate efficient mobilisation of private sector funds, both from individuals and corporates to finance targeted industries and ventures that are in need of funding. The platform would also be positioned to spur international connectivity as its outreach will also extend to international participation from foreign Islamic financial institutions and investors, through the offering of multi-currency financing options for foreign projects.

The potential for Islamic banks to progressively chart into this new territory would need to be supported by a state of readiness in terms of the capabilities of the industry to venture into a diversification into such business offerings. In preparing for a business landscape with different complexities, talent development in Islamic finance will need to be accorded with an even greater priority. Existing talent needs to be equipped with the necessary skills to support the expansion into areas of specialisation that include investment intermediation. Stronger knowledge in the value propositions of the investment instruments require a greater understanding on the risks associated with business ventures in the respective growth areas, including in the non-traditional markets. This would require determining the viability of such business and investment proposals. Additionally, at the management level, and the directors and Shariah scholars of Islamic financial institutions need to be adequately equipped with the necessary knowledge so as to have an understanding important for steering the business to the new directions of the industry.

To realise the vision of a highly competent and high performing workforce in the Islamic financial sector, of equal importance is the standards of quality of the education programmes in Islamic finance and to raise the level of professionalism of Islamic finance practitioners. The Finance Accreditation Agency, an international and independent quality assurance and accreditation body for the financial services industry that was established in Malaysia in 2012, has raised the bar for Islamic finance talent and professionals. The introduction of its Finance Qualifications Structure that will be launched today has strategic significance, as it aims to link the various qualifications relevant to financial practitioners under a cohesive framework which will allow for greater mutual recognition on qualifications and provide clear and systematic learning path for financial professionals. Complementary to this initiative is the launch of the Learning Standard to ensure more global consistency for learning contents across the financial services industry in line with international industry benchmarks.

Technology can also be explored to remove barriers or impediments in promoting greater interconnectedness in Islamic finance as we aim to create stronger linkage with the real sector. As a catalyst to improve market access and enhance outreach, technology has the potential to disseminate information more efficiently, to promote greater market transparency and price discovery. Today, the launch of the digital application for Islamic finance is a further pioneering platform to facilitate sharing of information and for greater engagement, including between industry players that transcend borders. Such innovation is an impetus for raising greater awareness on benefits of Islamic finance as a form of financial intermediation.

Realising Cross-Border Business Opportunities for Greater Linkages

The next frontier of Islamic finance beckons the global Islamic finance marketplace to evolve its business models to that which would strengthen the nexus of Islamic finance with the real economy. This is an important consideration in our strategies, in parallel with the efforts to further increase the internationalisation of Islamic finance that can cumulatively contribute towards strengthening economic linkages and thus enhance international economic connectivity.

Themed "Marketplace for Global Linkages", with the presence of more than 1000 participants from various industries across the globe, this year's Global Islamic Finance Forum brings unique opportunities for industry players to realise cross-border business opportunities for growth. It is our hope that this international platform would also provide the opportunity for intellectual engagement that would generate new thinking and knowledge as the industry ventures to new frontiers. On that note, I declare GIFF 2014 open and I wish you a productive and successful Forum.

Alliance for Financial Inclusion (AFI) 2014 Global Policy Forum - "Advancing Financial Inclusion to its Next Level" Trinidad and Tobago, 10 September 2014

Keynote Address by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

It is my very great honour to be invited to speak at this year's AFI Global Policy Forum in beautiful Trinidad and Tobago. First of all, on behalf of Malaysia, let me express how greatly honoured we are to be given this opportunity to host the headquarters of AFI. Malaysia is strongly committed to the financial inclusion cause and will strive to the fullest and best of our ability to provide the necessary support to AFI towards achieving its objectives. This is an exciting time for advancing the global financial inclusion agenda, as the world economic recovery gains further progress and as there is increasing world attention and priority being accorded to achieving financial inclusion and to an economic progress that is more inclusive.

While stability and growth has been restored in many parts of the world, all of us recognise that economic growth, no matter how stellar, will begin to fade when inequality sets in, and as income disparities widen. Additionally, experience has shown that financial crisis and economic recession entrenches the cycle of poverty. It has been estimated that during a financial crisis, poor households lose 10 times more of their income compared with the average household.

The role of financial inclusion has thus become more magnified as a means to improve the livelihoods and as a means to strengthen the financial resilience of the disadvantaged. It provides the opportunity to save for the future, to invest and generate income and to insure against adverse events. The relative stability and improving global conditions, therefore, provides us with the opportunity to accelerate the financial inclusion agenda as a global imperative.

The theme of this year's Forum, "Global Partnerships, National Goals, Empowering People" highlights that financial inclusion is a shared responsibility. The significant progress that has been achieved in advancing financial inclusion, has also provided us with the opportunity for further advancement that would support and facilitate greater scale and sustainability of inclusive finance. Allow me to touch on five potential areas which I believe would cumulatively contribute towards advancing financial inclusion to its next level, both at the national and international level.

Priority 1: Focus on relevant and quality financial services

Significant strides have already been made in the area of improving access to financial services. Within a short span of three years, AFI has been instrumental in galvanising commitments from member countries to enhance financial inclusion policies, resulting in 20 million of the unbanked to gain access to financial services. Yet we wish to achieve more than just access. The nature and quality of the financial services and the nature of the participation in the financial system is equally important. The poor are confronted with challenging circumstances, such as low and irregular income that makes monthly debt-servicing difficult, or living in remote rural areas which have no financial services access points, or long working hours that prevent visiting bank branches within the conventional operational hours. As a result, many of the marginalised may have financial services made available to them, but it may not be at the needed conditions or quality that can provide the real promise of upward economic mobility.

Access, therefore needs to be complemented by the quality of the financial services. Of importance is the innovation and design of consumer products which have characteristics that are linked to the goal of welfare improvements for the underserved. There is a greater need for features that are responsive to the constraints faced by those that have been marginalised. Flexible microfinance for the agricultural sector for example, addresses the cash flow mismatches between fixed repayments to banks and the irregular income flow of the farmers due to the seasonality of crops. A further innovation has also involved the creation of platforms for matching savers with those that need financing. In Malaysia, the introduction of investment accounts as opposed to deposit accounts in the Islamic financial system is an example, where savings are matched with the funding required by small and medium scale enterprises for financing of specific projects - has resulted in an investment intermediation function by the banking institutions.

In addition to innovation, technology is also an agent to deliver quality financial services. Technology can lower cost, increase outreach and expand the range of financial services. The Kenyan mobile payment services, M-PESA, leverages on mobile technology to provide the poor with high frequency, small value transactions and affordable financial services.

Priority 2: Building on the Sasana Accord for measurable goals

The second area relates to the identification and adoption of the measureable and time-bound targets as included under the Sasana Accord. Clear and measurable outcomes provide a shared understanding that will align the different stakeholders towards the common goal of delivering results to the financially excluded segments of society. A key aspect of realising the Sasana Accord is to collect and compile the relevant data in a reliable and timely manner. This will also form a basis for better policy formulation and effective monitoring and assessment of the effectiveness of policies. Data coverage needs to involve both the mobilisation of savings and financing activities, including information on the profile of the new entrants into the formal financial system. This is not only to promote effective participation in the financial system but to avoid conditions of over leverage and indebtedness. Access to credit registries to financial service providers would also support the sustainability of the supply of such services. Such financial statistics also needs to evolve with the changing environment including on the range of products and services, the distribution channels and the relative performance of the borrower and the financier. This will allow for early detection of risks and vulnerabilities and thus allow for prompt policy responses to ensure sustainable financial intermediation for the underserved sector.

Priority 3: Strengthening the role of regulation and supervision

The third area relates to the role of regulation and supervision in financial inclusion. Today, there is a growing consensus that the policy goals of financial stability, financial integrity, consumer protection and financial inclusion are complementary and mutually reinforcing. There is now a re-thinking of prudential and conduct regulation to reflect a more proportionate approach. The validation by global standard setting bodies that includes the Basel Committee on Banking Supervision, the Insurance Association of Insurance Supervisors, and the Financial Action Task Force that regulation should be commensurate with the risks, benefits and costs is a significant step towards improving the regulatory and supervisory conditions that will be consistent with the conditions for financial inclusion.

While the principles of proportionality are widely embraced, there is much less clarity on how they can be applied in practice to reflect risks associated with low-income households and small businesses. The practical issues can be challenging particularly in the context of full service banks. Lending and provisioning standards, reporting requirements, minimum capital adequacy and customer due diligence requirements are among the key areas in which there is still little formal distinction made to address the impact of such regulations on the access to financial services to low income households and small borrowers.

Global standard setting bodies therefore have an important role in accelerating the conversion of proportionality principles into practice. This will also be important in the assessment of national financial systems and how it measures up against global standards. For example, under the Financial Sector Assessment Programme (FSAP). Therefore, there are significant benefits to be gained from the provision of guidance to authorities on how regulation can be assessed for its impact on access. Such considerations could also be reflected in the methodologies adopted by international bodies for financial sector assessments and peer reviews.

The capacity and capabilities of authorities to provide supervisory oversight financial activities that target the underserved is equally important. Our experience has been that the supervisory skillsets required to evaluate the effectiveness of controls over microfinancing and microinsurance operations differ substantially from those traditionally applied to the retail portfolios of banks and insurance companies. A greater understanding of the product design implications, the relationships that a financial service provider has with its customers and the different motivations that drive consumer behaviour will be important. This is to avoid counterproductive supervisory actions on financial access.

Priority 4: Empowerment through consumer protection and education

The fourth area relates to the greater empowerment of consumers through consumer protection and education. Both the financial service industry and the financial consumers have an important respective role for financial inclusion to transition to a higher level. Financial inclusion is best achieved when consumers are assured of fair treatment. In developing financial products by the service providers, of great importance is their professional and ethical conduct. Here, the role of the Board and senior management of such financial service providers need to set the right culture, policies and incentive systems that support fair and responsible business practices. Policies that promote responsible market conduct that is reinforced by transparent disclosure requirements will be important in advancing responsible financial inclusion.

A key aspect of a successful financial inclusion agenda is also building financial capability of consumers so that they can meaningfully participate in the financial system. Financial education, as with other forms of education, is a powerful agent of empowerment. It empowers consumers with the knowledge, skills and tools to build, manage and protect their personal wealth. In Malaysia, efforts to systematically build financial capability among the population began almost twenty years ago, in 1996, when a National Savings Promotion Campaign was launched to enhance awareness on the importance of savings, including among school children. Since then, a more holistic and comprehensive consumer financial education programme for both children and adults has been implemented for more effective participation in the financial in the financial system.

Priority 5: Improving cooperation and partnerships

The fifth area relates to that which has been highlighted in the theme for this Forum, the need for greater cooperation and innovative partnerships. The goal of achieving financial inclusion that delivers real and positive impact to the poor is a shared responsibility. The barriers to financial inclusion can only be resolved when different stakeholders, each with different spans of authority and oversight, work together in a coordinated and cohesive manner. It will need to involve the cumulative efforts of the government, regulators, market agents, the financial industry and the consumers.
At the national level, improving inter-agency cooperation is vital to ensure that the respective strategies are aligned to achieving the common goals of financial inclusion. This may call for institutional arrangements to bring authorities together to secure a joint commitment towards

clearly defined and measurable financial inclusion goals, with well-defined lines of accountability. Brazil, Mexico, Tanzania, Indonesia and Fiji have also established national co-ordination frameworks, which offer AFI members diverse examples of such national collaboration.

While we focus on financial inclusion initiatives at the national level, equally important is that adequate attention be accorded at the global level. In this regard, AFI assumes a unique role because it is the only global network that comprises of practising financial inclusion policy makers. Therefore, AFI has an important role in leading the way in gathering examples of best practices based on specific country experience, in the area of financial inclusion and its relation to financial stability and consumer protection objectives. AFI is therefore also a key platform that brings together policymakers, financial service providers, telecommunication and technology industries to have greater awareness on the trends that can support the advancement of financial inclusion. Additionally, AFI's engagement with international organisations is also key given the implications of their initiatives on financial inclusion.

Conclusion

Let me conclude. There is now greater appreciation that the level and quality of financial inclusion will have a significant impact on the prospect for balanced and sustainable growth. AFI has demonstrated its important role in leading the way for greater financial inclusion in the world economy. AFI is unique because its membership covers practitioners from developing and emerging economies, who can share approaches that can be customised to a respective country's unique circumstances. We begin this two day global policy forum, with our vision firmly focussed on our long-term goal of universal access to quality financial services which will provide our communities with the chance to change. This Global Forum and AFI provides an unparalleled opportunity that brings together strategy, knowledge, expertise and best practices from across the AFI membership. This provides us with the real potential to make a difference in financial and economic inclusion and thus with the potential to transform lives.

Official Launch of Financial Services Professional Board
Kuala Lumpur, 24 September 2014

Speech by

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor, Bank Negara Malaysia

It is my great pleasure to welcome you to this occasion of the official launch of the Financial Services Professional Board.

Among the key challenges emerging from the global financial crisis and the recent episodes of financial market manipulation is for the need to have a strong culture of professionalism, integrity and ethics permeating throughout the financial services industry to restore public trust in the financial system and to secure long-term sustainability of the industry.

The 2008 financial crisis highlighted how business decisions that were predominantly driven by short-term incentives critically undermined the health of some of the largest global companies. This in turn had enormous consequences on entire economies. Not only has public confidence in the financial services industry been shaken, but the prevailing business models of financial institutions have been questioned with calls being made for changes that are more aligned with long-term sustainability. These changes relate to both the general structure and activities of financial institutions, and to the governance and culture within the institutions.

While financial institutions have to create value for shareholders, of fundamental significance is also the need to serve the public interest given the importance of a well-functioning financial system in the economy. Additionally, in a highly interconnected global economy with greater international financial inter linkages, financial turmoil and stress in national financial systems will have ramifications that transcend borders. Given the high stakes involved, there has been increasing scrutiny of the values, professional norms, educational standards and incentives that drive and shape the behaviour of financial institutions. Much of this scrutiny has aimed at reinforcing the responsibility that financial institutions have to the broader society.

The establishment of the Financial Services Professional Board (FSPB), thus marks a significant development towards achieving the highest standards of professional conduct including fair business dealings and ethics in the financial services industry that will be consistent with the long-term growth, stability and integrity of the financial system.

It is envisaged that the Financial Services Professional Board will act as an industry-led independent board that will drive the development as well as the advocacy of professional standards, ethics and continuous professional development across the financial services industry. Central to this aim is the development of a culture within the financial services industry which places an unequivocal commitment to professionalism and ethics.

In advancing this endeavour, the FSPB will promote, advocate and facilitate the identification, development and the adoption of professional and ethical standards across all sectors of the financial services industry. The primary purpose of such standards will be to clearly define the expected level of performance and ethical conduct that financial services professionals are required to achieve in the service of the public. It is particularly important that the standards are unambiguous about the values for the industry and its workforce. It would facilitate financial services practitioners to understand and embrace their professional obligations, and be held accountable for their own continuing professional development.

Bank Negara Malaysia and the Securities Commission Malaysia believe that with its stature and global complexion, the FSPB is well positioned to lead efforts aimed at raising the bar of professional and ethical standards including continuous professional development for across the financial services industry, thereby strengthening confidence in the industry and affirming the industry's commitment to better serve public interest.

Its membership of eminent experts and financial practitioners from the United Kingdom, Europe, Australia and Asia provides a valuable global perspective that will enhance the relevance of the standards developed by the FSPB and their universal application. The establishment of FSPB also reflects the advancement and progress of the financial services industry in Malaysia and the vision of its members to embrace and promote globally acceptable and applicable standards of professionalism, human capital development and ethical behaviour that will provide the much needed clarity to the public and the industry on what is expected of financial services practitioners.

Indeed, in moving forward, the emphasis on the development of human capital which includes elevating professionalism and ethical behaviour of financial services professionals is paramount. Today, professionalism, ethics and the quality of human capital have become key drivers and enablers of change in the financial services industry.

I would like to take this opportunity to acknowledge the role of the Asian Institute of Finance (AIF). The idea of FSPB culminated from engagements initiated by AIF with the industry which was followed by a process of developing the conceptual framework to reflect the shared aspirations of the industry and the Board of AIF that has supported the establishment of FSPB.

I would also like to take this opportunity to highlight the participative role that the financial services industry would need to have in enabling FSPB to meet its objectives. The value of the establishment of FSPB lies in the role taken to develop professional and ethical standards that are relevant and practical, which could, subsequently, be accepted and adopted by the global financial services industry as a gold standard.

With this, let me congratulate the Board of FSPB with this launch. In taking this important initiative forward it is necessary for FSPB to reflect the business needs of the financial services industry whilst balancing the interests of the community that the industry serves. Bank Negara Malaysia and the Securities Commission Malaysia will continue to be committed in supporting this important agenda of the financial services industry.