The Official Launching of the Islamic Banking and Takaful Expo: "Sustaining Islamic Banking and Finance Growth Through Effective Dissemination of Information"

8 October 2004, PWTC, Kuala Lumpur

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

The domestic Islamic financial system has reached an unprecedented expansion, successfully operating in parallel with the conventional financial system. The further development of Islamic finance requires for it to be endowed with the right pre-requisites to perform as an effective, efficient, resilient form of financial intermediation that supports wealth creation and sustainable economic growth. At the heart of this effort is the necessity to meet the financial requirements of consumers and businesses. While significant progress has been achieved in the development of the overall Islamic financial infrastructure, financial institutions and products that has been reinforced by the strengthening of the regulatory, Shariah and legal dimensions, there has also to be the effective dissemination of information to promote greater nationwide awareness on Islamic finance, to create a more well-informed society on the virtues and benefits of the financial services being provided. Providing information and knowledge is thus integral in our endeavor to steer the development of the Islamic financial system in Malaysia.

It is my pleasure to be here at the official launching of the Islamic Banking and Takaful Expo 2004, organized by the Association of Islamic Banking Institutions Malaysia (AIBIM).

The Islamic financial industry in Malaysia has emerged as a viable and competitive component of a financial system, which operates in parallel with the conventional financial system in contributing towards the nation's economic development and growth. We now have a comprehensive Islamic financial landscape and our success in integrating both systems has contributed towards a more progressive domestic financial intermediation process. Currently, Islamic banking has successfully generated RM90 billion in assets, garnering 10% market share, whereas the takaful industry has recorded assets totalling nearly RM5 billion.

To further strengthen the Islamic financial system and sustain its growth, it is vital to enhance the effectiveness and efficiency of the Islamic financial institutions in meeting the changing requirements of our economy. The Islamic financial infrastructure needs to be continually enhanced to meet the new, more complex and differentiated

demands of the various economic activities of the respective sectors of our economy. Of importance is the need to provide a mechanism to ensure accessibility to information by the public on Islamic financial services and products. An extensive and structured education programme is thus key to enhance consumer and business awareness and knowledge on the products and services. It also represents part of the efforts to promote market integrity over the activities in the market. Of equal importance is also the need to strengthen the consumer protection infrastructure in Islamic finance.

Effective dissemination of information will provide consumers and businesses with the necessary information to undertake the financial transactions with awareness of their rights and accountabilities. In making financial decisions, consumers require various information and details about the processes and documentation involved, the relevant fees and charges to be incurred and the risks and benefits of each type of financial product or service. This will allow consumers to be aware of the opportunities available, actively manage their financial position while at the same time, safeguard their financial future. The avenues to seek redress must also be easily accessible and available. Of importance is the need for all parties involved in the Islamic financial transactions to understand and appreciate the unique characteristics and features of Islamic banking and finance. Clear understanding on the conduct of the Islamic financial transactions would lead to the appropriate execution of Islamic financial contracts that truly reflect the Shariah tenet.

Active consumerism will also prompt the desired efficiency in the Islamic financial industry. For the Islamic financial institutions, understanding the dynamics of customer segmentation, building customer relationships and addressing the requirements and preferences of specific segments are vital not only for strengthening the existing customer relationships but also to secure new businesses. This would contribute towards the expansion and sustainability of the market share of the Islamic financial activities. Fundamental to achieving greater customer-centricity is to ensure that the processes, and workforce orientations, are aligned towards meeting customers' expectations and delivering superior services. This needs to be effectively communicated, shared and understood by all levels of the workforce, in particular, those at the front office. It is therefore important for the Islamic financial institutions personnel to enhance their own knowledge on the products and services offered, as well as customer service orientation.

While the level of public awareness on Islamic banking and finance has significantly improved, more efforts can be done to reach out to the wider population, in particular the sub-urban and rural areas. Existing infrastructure must be utilized in an efficient manner to effectively disseminate information on Islamic financial products and services including by leveraging on the information and communication technology. Information can be in various forms, with the objective of enhancing financial literacy in Islamic finance in our community.

The advancement in ICT has also had significant impact on the operations of Islamic financial institutions with respect to information management systems, product development, risk management and distribution capabilities. Significant application of IT would enhance efficiency by bringing down costs for consumers and businesses.

As part of our initiative for the extensive dissemination of information effectively and efficiently, Bank Negara Malaysia has developed a website on the Islamic money market. More specifically, the website aims to serve as a source of information on domestic Islamic financial instruments. It would provide greater transparency of the Central Bank's Islamic money market operations, thus facilitating investment decisions and enhancing public confidence in their investments. The website also provides an analysis facility to chart historical data, in addition to reference to the rules and regulations in the conduct of the Islamic money market transactions. It thus aims to effectively meet the information requirements of bankers, financiers, statisticians, economists, researchers and prospective investors as well as increasing awareness of both domestic and foreign users. Moving forward, the website will be linked with other markets to serve as a platform for exchanging information and knowledge beyond our own borders.

The Islamic Banking and Takaful Expo is another avenue that connects the Islamic financial institutions directly to the consumers. Therefore, I urge all Islamic financial institutions to take this opportunity to market and offer products and services that meet to the customers' needs. I also understand that there are also a number of participants from foreign countries. Their participation would contribute positively to our efforts to transform Malaysia into the regional Islamic financial centre.

Our endeavour is to develop an Islamic financial system as an intermediation process that will contribute effectively to the overall wealth creation, growth and development and a greater shared prosperity. With new emerging trends, Islamic financial institutions need to prepare for the new challenges and opportunities to meet the changing requirements of the new economy. The future prospects and success of the Islamic financial services industry will be the result of the collaborative efforts of all parties involved, that is the regulators, the industry, the market participants and the community. I would like to congratulate AIBIM for its relentless effort in continuously promoting and educating the public through the organization of an annual Islamic Banking and Takaful Expo.

With Bismillahirrahmanirrahim, I hereby declare the "Islamic Banking and Takaful Expo 2004" officially open.

The Official Launch of ICLIF Alumni Association And ICLIF Leadership Competency Model

30 November 2004, Mandarin Oriental Hotel, Kuala Lumpur

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

It is my great pleasure and honour to welcome you to the official launch of the Alumni Association of the International Centre For Leadership In Finance (or ICLIF) and the ICLIF Leadership Competency Model (ILCM).

ICLIF Alumni Association

It was just over a year ago that we witnessed the Official Launch of ICLIF on 28 October 2003. Within this period, ICLIF has already made considerable progress in meeting its objective to provide a more focused and coordinated approach towards the development of world-class leaders in the financial services sector in Malaysia and in the region.

To date, ICLIF has successfully concluded two sessions of its flagship Global Leadership Development Programme or GLDP, in addition to a Directors' Forum and a seminar on Scenario Planning. Besides providing participants with an opportunity to learn from the "top thinkers" from world-renowned institutions and industry practitioners and experts, one of the key strengths of ICLIF's programmes lies with the unique opportunity for the participants to establish strong social and professional networking and build lasting fraternity bonds. The launch of the ICLIF Alumni Association has been designed to play this role. For this purpose, all participants, faculty members and facilitators of ICLIF programmes will automatically be accredited as members of the Alumni Association. With the rapid changes taking place in the financial and corporate landscape in the country and the greater integration in the region and the world, networking among leaders and captains of industries is most valuable in contributing towards greater understanding and in increasing the potential for collaborative efforts that are of mutual interest.

The establishment of the Alumni Association represents an important part of ICLIF's commitment to provide a platform for members to maintain active networking and productive collaborative alliances. It is also in line with our philosophy that leadership development is a continuous journey. The Alumni Association would thus provide a forum for continuous sharing among its members. Alumni members will also receive automatic notification and invitations to all ICLIF programmes and activities that will be organized in the future.

As the members of the Alumni are spread across the region, ICLIF will leverage on Information and Communication Technology to help members stay connected. To facilitate networking opportunities, a special section has been created on ICLIF's website to cater for the activities of the Alumni Association. This would include the facility to disseminate information among its membership, including the publication of an alumni directory, highlights of important events and latest developments that may be of interest to its members. The Centre will serve as the secretariat to support all activities undertaken by the Alumni Association.

As we advance forward, the reputation, image and stature of the Centre will depend on the performance of its participants and their contributions to the environment and the organisations they represent. ICLIF regards its alumni members as important and looks forward to your continuous support to building ICLIF into a regional centre of excellence for leadership development in financial services.

While ICLIF has put in great efforts in working with leading international consultants and the best schools in the design and delivery of its leadership development programmes, we see this as an evolving process. In this context, we see alumni members as an important sounding board in providing feedback to enhance the relevance and effectiveness of ICLIF's programmes. As beneficiaries of ICLIF's programmes, the alumni members are the best intermediaries in making ICLIF better known to the industry.

ICLIF Leadership Competency Model

One of the first initiatives by ICLIF upon its inception is to develop a unique leadership competency model that will analyse and enhance the understanding of what makes for great corporate leaders in the regional context. The Competency Model was developed through a participatory process involving strategic insights by industry leaders in the country and the region. This was achieved through behavioural-event interviews as well as benchmarking exercises based on literature research and the database of leadership competency models of world class companies.

The preliminary model was further refined in a Validation Seminar attended by visionary and prominent leaders with proven track record of business performance excellence from both the private and public sectors. The Model forms the foundation to guide the philosophy and drive the design and delivery of ICLIF's leadership development programmes. I wish to take this opportunity to express our appreciation to the industry luminaries who have given so much of their time in participating in the validation seminar for the ICLIF Leadership Competency Model.

Let me share with you some of the interesting findings of the consultants in assessing our leaders based on the competencies identified in the Model.

Among the positive findings of the exercise was the observation by the consultants that many of the leaders

interviewed exhibited strong competencies in the area of focus, drive, execution, negotiations (and deal making) and entrepreneurial drive. These are all competencies resulting from high achievement needs and high achievement values. There is also a high sense of national pride and desire to enable Malaysia to meet the challenges of 2020. Participants also displayed a strong sense of performance drive for excellence.

There are areas of competencies that, however, require further development. The review detected some degree of performance complacency by some respondents, as reflected by a lack of drive to achieve and the lack of desire to benchmark against the global best. Participants seemed quite satisfied with what they had personally achieved.

In the studies of how joint ventures between multinationals and local firms sometimes fail, one of the main reasons cited was the misalignment of the ambitions of global multinationals and local partners. The results showed that while global multinationals had unlimited appetite for growth and ambition, fuelled mainly by shareholders' demands and driven by professional managers, local joint venture partners may have achieved their personal goals as professional managers and thus reached a plateau in their ambitions.

Another area of shortfall was in cognitive energy as reflected in the low desire to putting energy into the thinking process and to pushing the mental discipline when the issues gets a little more complex.

Another important issue was in the area of Talent Management. Although the leaders interviewed spoke about the importance of leadership and talent management, there was little or no supporting evidence of action on this important area. Also, there was a need for systems to be in place for constructive, honest and candid assessments about the capabilities and potentials of subordinates who may someday assume a leadership position in their organizations. Such feedback is vital for the development of the intellectual capital and management capabilities of senior management to drive strategic direction and operational excellence in the industry to pave the way for the development of their future leaders in the industry.

Those observations and insights have brought to the fore the importance of leadership competencies in articulating the combination of essential skills, attributes and behaviours required by leaders for the successful and effective performance on the job. It is our hope that the ICLIF Leadership Competency Model will be a constant source of reference, inspiration and impetus to our leaders in building a dynamic organizational culture and in meeting future challenges.

In order to better position ourselves in this more challenging environment, one that is more globalised, more integrated, more competitive and more complex, we need to play a more pro-active role in strengthening our own organizations, we need to prepare ourselves for difficult periods, we need to also contribute

towards the development of the environment in which we operate, the markets and the financial infrastructure, and finally and importantly we also need to invest in people, in their skills, to enhance our organisational capacity to bring about institutional development so as to enhance our respective organizational effectiveness. Leadership is an integral part of this process. Our investment in ICLIF hopes in some part to contribute to achieving these goals.

Alumni members, distinguished guests, ladies and gentlemen, it is now my privilege and pleasure to officially launch ICLIF Alumni Association and ICLIF Leadership Competency Model.

Launch of Financial Mediation Bureau

Auditorium, Bank Negara Malaysia
20 January 2005, Kuala Lumpur

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

Our financial landscape is continuously being redefined. The objective is the development of a financial system that best serves our nation. To achieve this, a comprehensive approach has been adopted, addressing all the key elements and building blocks in the respective components of the financial system so as to form a solid foundation on which an effective, efficient and resilient financial system could be progressively built. An important component in the system that has not been neglected has been the consumer protection framework. The requirements and expectations of consumers are changing rapidly in tandem with increased education levels, growing wealth and greater affluence. Consumers are becoming more discerning and demand better product choices, more efficient delivery channels and more customer centric practices from financial institutions. These trends have become important in reinforcing the more competitive environment in the financial services sector.

Promoting greater awareness and understanding of financial products and services amongst consumers as well as the implementation of the supporting infrastructure to protect consumers and strengthen the regulatory framework for enhanced transparency and disclosures has been a key component of our Financial Sector Masterplan. The Masterplan has laid out a number of key initiatives which seek to empower consumers and promote a better understanding of their financial rights and responsibilities so that they can make better decisions for their financial well being. Efforts to enhance the financial literacy of consumers have always been a priority to Bank Negara. Since 1996, a number of initiatives have been introduced to promote financial literacy and to inculcate sound financial management skills amongst various target groups.

Given the asymmetry in access to information between consumers and financial service providers, consumers often do not have enough information to make informed choices. In 2003, Bank Negara in collaboration with the financial service providers, launched a 10-year consumer education programme (CEP) for the banking and insurance sectors to increase consumers' access to information and broaden awareness on their rights and responsibilities, as well as to enhance consumer knowledge on the underlying concepts and operations of Islamic banking and takaful products and services offered by

financial institutions. In this connection, the BankingInfo and the InsuranceInfo websites have played an important role in enhancing consumer awareness. To date, the websites have continued to receive encouraging response with about 17.6 million hits. In addition, more than 4.2 million information booklets have been distributed to consumers. The rise in consumer awareness has been reflected in the increased feedback that has been received from consumers.

In addition to the focus on financial literacy and awareness among consumers, considerable efforts have also been made to strengthen the consumer protection infrastructure. These include specific initiatives to strengthen the regulatory framework governing market practices by financial service providers as well as enhanced minimum disclosure requirements and standards for credit card issuers, and on fees and charges for financial products. At the same time, ongoing efforts to raise the level of professionalism have also been intensified.

In 2004, the Bank introduced measures relating to sales practices in the insurance industry. Life insurance agents are also required to adopt best advice practices in the sale of life insurance products. To facilitate comparisons by consumers through enhanced disclosures, the Bank introduced mandatory disclosures of commissions, fees and charges for insurance products with savings and investment features that are sold through banking institutions. To ensure equitable treatment of policyholders, the Bank further strengthened the regulations on claims settlement practices and enhanced the controls over bonus reductions by life insurers to ensure reasonable returns to participating policyholders.

More recently, the industry, together with the Ministry of Transport, implemented the e-cover notes system, which will effectively eliminate forged motor insurance cover notes. This represents an important development towards protecting the interests of both vehicle owners as well as road accident victims. The Bank also expects to license financial advisers in 2005. Following the enactment of the relevant legislation, financial advisers will be licensed and regulated by Bank Negara Malaysia to provide professional advisory services on insurance to consumers in relation to their financial planning needs. This development marks an important milestone in the ongoing evolution of the overall consumer protection framework for the industry.

A number of initiatives have also been taken by the banking industry to maintain the integrity of the payments systems and instruments, focused at promoting user confidence and ensuring that consumers' interests are safeguarded. In combating card fraud, significant investments have been made by the industry players to migrate all magnetic stripe ATM and credit card infrastructure to a chip-enabled environment. New payment channels and infrastructures that leveraged on the Internet have also been developed, aimed at increasing safety and efficiency in the financial system.

Measures have also been introduced to enhance customer service levels at financial institutions. For this purpose, Bank Negara

Malaysia has undertaken a nationwide survey to assess how well consumers are being serviced by the financial service providers. The findings of the survey were shared with the industry and individual institutions to serve as a basis for financial institutions to assess their own performance and to use the results to benchmark themselves against global best practices. The objective is to achieve world-class quality in financial services.

The provision of adequate avenues for redress is also important to enable consumers to resolve conflicts through an equitable process. Efforts have been made to strengthen redress mechanisms both at the institutional level as well as on an industry level. As you may be aware, avenues for redress by consumers against banking institutions and insurers are already available via the Banking Mediation Bureau (BMB), and the Insurance Mediation Bureau (IMB) respectively. These bureaus, established more than a decade ago, have achieved considerable success in resolving disputes against banks and insurance companies. In 2004, a total of 1,515 cases have been handled by these two bureaus. Nevertheless, with the blurring of the traditional boundaries between financial products and services provided by banks, insurance companies, and other financial intermediaries, the creation of an integrated bureau is necessary for the resolution of a broad range of consumer issues raised in relation to the diverse range of financial institutions under the supervision of Bank Negara. There are also clear synergies to be achieved from leveraging on the resources available to enhance the efficiency and effectiveness of the dispute resolution process as consumers will be provided with a convenient and efficient one-stop centre to seek formal redress as an alternative to litigation, which may involve considerable time and financial resources.

It therefore gives me great pleasure today to launch the Financial Mediation Bureau, an integrated dispute resolution centre for financial institutions under the supervision of Bank Negara Malaysia. The creation of an integrated agency is in line with the international trends towards such resolution centres, and the framework and model for the Financial Mediation Bureau has been benchmarked against best practices worldwide, notably in countries such as the United Kingdom, Canada and Australia.

The scope of the Financial Mediation Bureau has been expanded to cover, for the first time, Islamic banks, takaful operators, development financial institutions, as well as selected payment system operators and non-bank issuers of credit and charge cards. I am also pleased to announce that with the launch of the Financial Mediation Bureau, the limit on cases falling within the jurisdiction of the Bureau has been increased from the limits applicable to the former Mediation Bureaus. This will provide increased access to the Bureau as an avenue for redress for a wider spectrum of the public. Apart from the expanded coverage, the Financial Mediation Bureau plans to improve its nationwide accessibility by progressively establishing five regional offices.

The Financial Mediation Bureau will be governed by a Board of Directors comprising

nine members, of whom five are independent directors, with the balance from the banking and insurance industries. Tan Sri Dato' Seri Haidar bin Mohamed Noor, the first Chairman of the Board of the Financial Mediation Bureau, has a long and distinguished career in the judicial service. I believe that the Financial Mediation Bureau will benefit from his vast experience and expertise in judicial matters. The Financial Mediation Bureau will be staffed by independent and experienced mediators who are experienced in judicial matters. With the depth and diversity of experience represented on both the Board and staff of Financial Mediation Bureau, I am confident that the new Bureau will be well placed to discharge its responsibility in ensuring a fair and equitable resolution process for consumers.

The creation of this Bureau represents an important milestone in the enhancement of the consumer protection infrastructure. Consumers are encouraged to make full use of the avenue available to seek resolution of the issues faced by them.

I would like to take this opportunity to express our appreciation to the previous Board of Directors of the Banking Mediation Bureau and Insurance Mediation Bureau for their contributions and dedication in giving selflessly of their time and experience in the operation of the bureaus. I would also like to acknowledge the contributions and support by the Association of Banks in Malaysia, Association of Finance Companies in Malaysia, Association of Merchant Banks in Malaysia, Life Insurance Association of Malaysia, Persatuan Insurans Am Malaysia, Association of Islamic Banking Institutions Malaysia, Malaysian Takaful Association, Association of Development Finance institutions of Malaysia, MBF Card Services (M) Sdn. Bhd., American Express and Diners Club (M) Sdn. Bhd. in making this bureau a reality. They have agreed to fund the operational costs of this bureau through levies on individual member companies in order that the services of the bureau can be provided free of charge to members of the public. The strong and continuing support and commitment shown by the industry will augur well for the success of the Financial Mediation Bureau.

In recent years, much progress has been achieved in developing and strengthening the financial sector through policy initiatives in the areas of regulatory and supervisory frameworks, risk management and corporate governance. These have been complemented with consumer protection and education initiatives that promote more active consumerism to create a dynamic and responsive financial system. Moving forward, Bank Negara Malaysia will continue to focus on the development of the necessary infrastructure to ensure that consumers are given greater access to information on financial products and services that will enable them to make well-informed choices and safeguard consumer interests.

Among the measures that are being finalized for implementation is the issuance of guidelines to ensure that the public has access to banking services at reasonable costs. Guidelines have been issued to banking institutions to govern the imposition of fees

and charges. With effect from 1 February 2005, banking institutions will also be required to provide 'basic banking services' to Malaysians at minimal costs. The guideline specifies the minimum threshold of services and monthly transactions that are to be offered without charges. Over and above these financial services, as products and services become more complex, financial institutions need to provide appropriate pricing that not only reflect costs but also adequately reflect the cost saving that arises from investments undertaken. In an increasingly competitive environment, efforts also need to continuously aim at enhancing efficiency and cost effectiveness. This will not only bring benefits to the consumers and businesses but to the overall economy.

One crucial element of the safety net for consumers is deposit insurance. Work in this area is at an advanced stage and will be operational soon. The deposit insurance system will further strengthen incentives for financial institutions to adopt sound financial and business practices and enhance public confidence in the financial system by providing explicit protection on deposits. This represents an additional enhancement to the consumer protection framework to promote confidence in, and the soundness of the financial system.

The development of well-informed consumers who can successfully manage their personal finances requires the collective and collaborative efforts of the financial institutions, consumer agencies, consumers and regulators. Bank Negara will continue to actively engage the industry to develop initiatives in this area. However, the process needs to be driven by the financial institutions. Consumer associations also have an important role in educating and informing consumers of their rights and responsibilities as well as the avenues for redress. While the initiatives undertaken will enhance consumer protection and financial literacy, it is crucial for consumers to take a more proactive role in understanding their rights and obligations and to exercise due care in their selection of financial products and services. The development of more-informed consumers would serve to challenge the financial institutions to accelerate the pace of innovation and diversity of products, services and delivery channels available. This will in turn foster the development of a sound and progressive financial sector that will contribute to the sustained growth of our economy.

On this note, it is my pleasure to officially launch the opening of the Financial Mediation Bureau in Malaysia.