Governor's Keynote Address at the Global Islamic Finance Forum 5.0 "Future of Islamic Finance: Delivering Actions Today for a Sustainable Tomorrow" Kuala Lumpur, 11 May 2016

Keynote Address by

Datuk Muhammad bin Ibrahim
Governor, Bank Negara Malaysia

It is my pleasure to be here today to speak at the Global Islamic Finance Forum 2016. The forum which was conceived in 2007 has now become a hallmark event for the Islamic finance industry - where the best minds and leaders of the industry come together to address the issues, opportunities and imperatives that are shaping the current and future path of Islamic finance. The fact that this event has attracted more than a thousand participants from all over the world is a testament to the growing global significance of Islamic finance.

Today, Islamic finance is one of the fastest growing segments of the financial industry in many parts of the world. It registered double-digit growth rates in the past decade despite challenging circumstances globally. Its reach and influence has expanded beyond the traditional Islamic markets, with increasingly strong footholds in banking, takaful and the capital market. Global sukuk issuances, for instance, increased by 13% in the first quarter this year despite less favourable market conditions. This positive growth continues to be supported by the progressive development of market infrastructures, strengthened regulatory and supervisory frameworks and active industry participants. In at least 10 jurisdictions, Islamic banking now represents more than 20% of total banking assets - a feat that has been achieved in under a decade.

And in many more countries, Islamic financial services are now available alongside conventional financial services. These developments underscore a clear and sustained trend in which Shariah-compliant financial products and services have continued to gain traction among businesses and individuals from all walks of life.

In fact, the value propositions of Islamic finance has extended beyond faith and origins that appeal to the global community. It is the intrinsic qualities of Islamic finance that are multifaceted that have pulled interest from diverse backgrounds. At the core of Islamic finance lies virtues that encompass both moral and commercial aspect in deriving potential solutions for economic and financial stability. The values and principles that Islamic finance carry have opened new pathways towards achieving economic prosperity while safeguarding the interest of the public. What used to be a novel idea has become mainstream. Indeed, Islamic finance is for all.

In Malaysia, efforts led by the Central Bank to develop Islamic finance spans over three decades. The invaluable contributions by earlier Governors of the Central Bank laid the foundations for the development of an international Islamic financial centre in Malaysia, serving both global and domestic demand. Their visionary leadership in this journey not only ensured that our fundamentals were strong, they had significantly raised the global profile of Islamic finance with Malaysia setting an example that would encourage development in other countries. In the early 1980s, Governor Abdul Aziz Taha has laid down the foundations for the establishment of the first Islamic bank and the issuance of the first government sukuk. The dual financial system that we see in Malaysia today is the realisation of the vision framed by Governor Jaffar Hussein way back in 1990. From there on, we continued to advance on many fronts, including the establishment of the Shariah Advisory Council under the leadership of Governor Ahmad Don. Significant milestones were achieved with Governor Zeti at the helm of the Central Bank. During this

period, Islamic finance morphed from a niche segment into the financial mainstream, and from a largely domestic-centric focus to one of global relevance. In particular, her immense contributions have enabled us to achieve much more to expand the frontiers of Islamic finance as a global community.

I wanted to take the opportunity today to acknowledge their tremendous contributions. Moving forward, the Bank will continue to build upon these foundations in making advancement that will further strengthen Islamic finance's growth trajectory.

In the same way that past efforts have delivered solid growth in the industry and significantly enhanced Islamic finance potential for future growth, our present actions will largely determine the future prospects of Islamic finance. As was the case in the past, we will continue to require innovative solutions and collaborative strategies to take Islamic finance to the next level of development. Positive transformations taking place around us will continue to pave the way for new growth opportunities for the industry. Collectively, we need to understand these developments and leverage on them to advance economic and social goals, and manage the attendant risks.

Today, I would like to touch on three key issues, the rise of fintech and its impact on Islamic finance, the growing importance of responsible, inclusive and sustainable finance and the preconditions necessary to sustain a value-based financial system.

One of the most significant transformational developments of our era is the technological revolution. More specifically, the fintech revolution was made possible by maturing social, mobile and cloud technologies. The digital revolution and widespread penetration of technology-driven applications in nearly every segment of the financial sector is already upon us. Fintech innovations are fundamentally altering the way we experience and deliver financial products and services. According to a recent McKinsey report, the number of fintech start-ups globally has now exceeded 2,000, more than twice the number less than a year ago. Such growth is expected to continue as innovators tap into the preferences of millions of technology savvy millennials who are more receptive to new ways of consuming financial services.

Fintech is challenging the status quo of the financial industry. New business models will emerge. Delivery channels will challenge existing norms. Transaction costs will be reduced. Rather than looking at the fintech revolution as unwelcoming, financial institutions ought to embrace it as an opportunity.

In the area of payment services for example, e-payment has revolutionised payment mechanisms through convenient and accessible channels. In Islamic finance, a recent initiative in Malaysia has been the Investment Account Platform (IAP) that was launched in February this year. It is an important example of a collaborative strategy by the industry to bring game-changing innovations to the market. The IAP is the first Islamic banking-intermediated internet-based platform that combines the expertise of Islamic banks and efficiency of technology to channel funds from investors to viable economic ventures. It promotes risk-sharing financial transactions by providing the platform for Musharakah and Mudharabah-based equity financing. The platform has strong prospects to support cross-border investments and increase global connectivity through the participation of banks worldwide.

The potential impact of such technological disruptions is significant. An estimated 10% to 40% of overall banking revenues could be at risk by 2025 due to fintech innovations outside banking institutions that are able to achieve a significant pricing advantage. In Islamic finance, like the Investment Account Platform in Malaysia, fintech has immense potential to be the next game changer. It offers opportunities for industry players to radically transform operational models by adopting digitisation strategies that will be able to deliver much greater scale or alternatively, a high degree of specialisation. It also opens up new possibilities for improving efficiencies, reducing wastage and enhancing the customer experience. All of this adds up to stronger market positioning and financial performance.

To further explore and leverage or these opportunities, plans are currently underway to organise an inaugural Islamic Finance Symposium on Innovation that will provide a platform for the academia and industry to come together to develop and test breakthrough ideas and innovative solutions in Islamic finance.

On its part, Bank Negara Malaysia has been actively engaging with fintech firms to better understand their activities and provide guidance on the regulations that may apply to them. The adoption of fintech is clearly not without risks, particularly in the wake of rising cybersecurity threats that could compromise safeguards that protect financial assets and customer data. The Bank has commenced a review of the changes and additional guidance needed to ensure that the regulatory framework remains appropriate to manage the risks, while encouraging productive innovation that will drive costs down and improve the quality of service to consumers.

We are looking at this from several perspectives: first, the impact of fintech strategies on the management of risks by financial institutions; second, the potential for fintech start-ups to introduce new risks to the broader financial system as a result of regulatory arbitrage; and third, the impact to consumers. We will be providing more information to the market on our approach to the regulation of fintech developments as our review progresses. In the meantime, our engagements with individual firms will continue, supported by dedicated resources within the Bank to lead the review.

Another important development in this recent decade has been the growing emphasis on responsible, inclusive and sustainable finance. The global financial crisis provided a dramatic reminder of the basic purpose of financial intermediation - as a means to create sustainable value in the real economy. Without this anchor, finance will always be inherently unstable. The central role of finance in any economy also places a critical responsibility on financial actors to promote and embrace responsible behavior, consistent with the long term preservation and development of the economy, society and environment.

In a number of developed markets, Sustainable, Responsible and Impact Investing (SRI) and Environment, Social and Governance (ESG) considerations are gaining significant momentum.

Similar trends are also starting to gain traction in emerging markets. Islamic finance is uniquely positioned to champion this cause, guided by the overarching Shariah principle which emphasises the protection and preservation of the benefits and interests of society at large. More than 750 verses in the Quran relate to the importance of achieving balance and moderation in one's life, whilst being responsible and accountable in the use of natural resources. The Islamic finance agenda must therefore embrace this cause as its core mission - a mission that has become more urgent in light of growing economic and social inequalities and environmental concerns.

The first Socially Responsible Investment Sukuk that was issued last year is an example of impact investing that generates positive social outcomes. It pioneered an innovative sukuk structure where the returns are dependent on the performance of the selected schools which are supported by proceeds from the sukuk investments. The issuance of more SRI sukuk in the future would further reinforce the value proposition of Islamic finance that combines financial returns and social welfare enhancement. Another key innovation with far reaching potential is the creation of a new financial asset class that is backed by carbon credit-based solutions structured using Islamic finance principles. This idea has enormous potential to incentivise concrete actions by businesses to reduce carbon emissions. The industry should endeavour to capitalise on the commitment of the government, as announced by the Prime Minister of Malaysia on 12 April 2016, to consider providing incentives to buyers of Malaysian rainforest carbon credits to spur the development of this new asset class.

Over the longer term, the first precondition to sustain a value-based financial ecosystem is to direct serious efforts at aligning performance measures to take into account both economic and social outcomes.

In Malaysia, Islamic financial activities are governed by a comprehensive contract based regulatory framework designed to achieve end-to-end Shariah compliance. Consistent with this framework, Islamic financial institutions are expected to evaluate and manage the impact of their activities, beyond that which is solely concerned with financial gains.

To further entrench this shift, a proposal is being developed for Islamic financial institutions to disclose their Corporate Value-Intent (CVI) as a measure of their performance and commitment towards value creation. This proposal is an important step to encourage a strong corporate and market focus on how Islamic financial institutions are generating value, not just for shareholders, but for the communities which they are a part of. On-going collaboration and active engagement with the industry are currently being undertaken under this initiative to ensure proactive behaviours and sustained momentum towards the creation of a sustainable development.

Another precondition for long term sustainable value creations is the availability of top-notch talent to drive and execute innovative business strategies that will realise the full potential of Islamic finance. Based on market assessments, a greater pool of quality professionals are required to sustain the growth of global Islamic finance that is estimated to surpass $3 trillion total assets size by 2020. The challenge in meeting this demand however goes beyond the numbers. The next phase of growth and development of Islamic finance calls for a deep talent pool that not only has a strong foundation in the application of Islamic finance principles, but also the much broader set of competencies required to use those applications effectively to provide and implement solutions to real world problems. And such talent must be developed not only within Islamic financial institutions, but also the professional ancillary service providers that are part of the Islamic finance ecosystem.

In Malaysia, there are close to 40 professional ancillary services entities under the MIFC Community which play an important role in the development of Islamic finance. These entities provide a range of key services that include Shariah advisory, accounting, tax, rating, research, accreditation and legal services, many of them serving global demand and setting benchmarks for international best practices. To increase the impact and influence of Islamic finance, whether in a domestic or global context, all its key components must move forward together to provide complete and comprehensive solutions. This is also critically important to reduce risks inherent in any innovative venture where progress on one front without the other is more likely to invite problems.

Conclusion

There has never been a better time where a confluence of developments have called for us to propagate the value of Islamic finance in addressing the challenges confronting us today; issues relating to inequality, financial excesses and environmental damage and degradation. To elevate the Islamic finance industry to the next level, the formulation of game-changing strategies must bring in elements that leverage on technology, accelerate innovation and develop well-rounded talent to meet future needs of Islamic finance. These strategies offer an important opportunity to reinforce the foundations of a strong and resilient Islamic financial system, and advance its development and contribute towards a more inclusive and stable global financial system. It is incumbent upon us all to make the most of it to support sustainable economic growth and help to improve the lives of many. And it is on us to continuously reinvent and re-anchor our industry so that we can forge stronger links with our stakeholders. Our future will be secured if we remain relevant.

ASLI 20th Malaysian Banking Summit "Future Banking: Reimagining Banks - Driving Transformation and Innovation" Kuala Lumpur, 26 May 2016

Keynote Address by

Datuk Muhammad bin Ibrahim
Governor, Bank Negara Malaysia

It is my pleasure to be here at ASLI's 20th Malaysian Banking Summit. The theme "Future Banking: Reimagining Banks - Driving Transformation and Innovation" is especially relevant in light of the significant changes taking place in the banking industry and wider economy.

The new world ahead

The financial crisis may have struck almost a decade ago, but has left in its wake a profoundly transformed landscape. With global economic growth remaining slow and uneven, it is increasingly clear that this is no mere downturn in the business cycle, but a realignment of the world economic order. Structural reforms continue to take place in many advanced and emerging economies albeit at varying pace across countries. Such reforms are critical as this will contribute towards enhancing future growth prospects. In an environment of weak growth, authorities face considerable challenges in managing the immediate effects of some of the reforms. The limits of monetary policy under unorthodox and unprecedented policies continue to be tested in a number of economies, with outcomes that still remain debatable.

Broader forces of change are also underway. Of significance is the accelerated pace of technological change, driven by increased processing power and connectivity. Across various sectors, disruptive technologies are rapidly expanding the horizon of economic opportunities while challenging existing business models. In the case of banking for instance, we have already seen greater competition from new entrants amid the emergence of fintech. Rapid urbanisation, which is more pronounced in emerging markets, and demographic changes such as an ageing population are other key trends which have major implications on economic and socio-political conditions. At the same time, there is a growing appreciation for the far-reaching impact of climate change, giving rise to calls for more sustainable growth models and innovation.

All these developments that are taking place in the banking industry today have created an environment much different from the one prior to the crisis. And together with the implementation of the post-crisis global regulatory reforms, which remains a key priority, their implications require careful and deep thinking as banks plan for the future.

Domestic policy continuity and priorities

Our banking industry is facing the current rapidly changing and challenging economic environment from a position of strength, following the successful reform measures that were implemented. Given the high degree of openness of the Malaysian economy and the increased integration with the international financial system, external developments have continuously affected our domestic economy. But the economy has been able to weather these challenges and have remained on a steady growth path of 4 to 6% over the past five years.

In recent quarters, economic growth, however, has moderated. This was attributable to a number of external and domestic shocks affecting the economy since late 2014. The major policy reforms such as the implementation of the GST also saw households and businesses adjusting their

spending. As we move forward, these shocks will gradually dissipate and growth of the Malaysian economy will improve. Further support is also forthcoming in the form of Government measures to increase disposable income; thus, facilitating households and firms' on-going adjustments. The assessment is therefore for the economy to grow by 4 to 4.5% for 2016. Importantly, our financial system remains resilient and supportive of the economy. It is important to recognise the underlying reasons for the resilience of the Malaysia economy. This resiliency has been as a result of the continued strength of our fundamentals and the successful reforms and structural adjustments we have undertaken over the last decade.

Three changes to the economy have been particularly instrumental. Firstly, the structure of the economy has become more diversified and over-reliance on any particular industry has been mitigated. Secondly, growth has also become more balanced, driven by continued private sector activities with imbalances and excesses kept in check through keys measures implemented by the Government and Bank over several years. This has been complemented by crucial fiscal reforms that, while having short-term costs and being very unpopular, ultimately put the economy on a more sustainable growth path. Third, is the continued strength of our external position. This can be seen from our high level of international reserves, the manageable level of external indebtedness and the continued surplus in the current account balance.

Together with the greater flexibility of our exchange rate, this has strengthened the capacity of our economy to cope with external shocks and ensure that financing to the private sector is not interrupted.

Going forward, continuity in Bank Negara Malaysia's financial sector policies will be preserved. We will continue to strengthen our prudential regulatory framework in line with global standards, while introducing new developmental initiatives and maintaining a strong focus on the fair treatment of financial consumers. Following transformational measures taken in the past few decades to significantly strengthen the financial system, the banking industry in Malaysia is managing this transition from a position of strength. The capitalisation of the banking system is at its highest level of 16.5%. The combined excess capital of banks above the regulatory minimum level stands at over RM120 billion. The banking system Liquidity Coverage Ratio is also comfortably above 120% against the current regulatory minimum of 70%. This strong position has been an important element to facilitate orderly adjustments in transitioning towards global standards without disruptions to financial intermediation, thus ensuring the smooth flow of financing to the economy.

To enhance Malaysia's growth potential, several initiatives had been identified that will help boost productivity, improve the income-earning potential of Malaysians and expand opportunities in new markets. Building from Malaysia's leading position as an international Islamic finance centre, efforts to promote the sustainable growth of Islamic finance supported by a dynamic ecosystem will create opportunities for high income employment. At the same time, ASEAN integration remains high on Bank Negara Malaysia's agenda.

Meeting the e-payment targets that Bank Negara has set is also vital to enhance our economic efficiency, competitiveness and productivity. And we will continue to direct efforts at ensuring that all Malaysians can participate effectively in the financial system.

Bank Negara will also continue to work with the Government on a range of economic priorities to sustain the Malaysian economy on a steady growth path. This includes the continued support and development of SMEs, and improvement in access to affordable housing. An area that demands greater attention and coordination going forward is the 'sharing economy'. We have already seen how the likes of Uber and AirBnB have changed the business model of the transport and hotel sectors, and enhanced the earning potential for asset owners, lower costs for users, and drive innovation and service quality improvements among incumbent providers. They can also bring important benefits for the environment through the reduction of wastage

and control of over-consumption. Similar innovative trends are also emerging within the banking and finance sector. To reap the benefits of technological advancements, the Bank will work closely with relevant agencies and innovators in this space on new ways of delivering new products and services.

I would like to take the opportunity this morning to talk about some of the measures that Bank Negara Malaysia is taking to support growth in the financial services sector, encourage innovation and strengthen resilience. My remarks will touch on the areas of regional financial integration, fintech development, systemic focus on regulation, governance and the role of banks in ensuring an inclusive financial system.

Advancing regional financial integration

The ASEAN Banking Integration Framework (or ABIF) that was finalised last year was a significant milestone towards greater ASEAN integration. An agreement forged between 10 key economies at different stages of economic and financial systems development is in itself a remarkable achievement. This is in sharp contrast with recent global trends. In the decades leading up to the 2007 financial crisis, global financial integration took unprecedented strides forward as capital markets and banking systems expanded and diversified, increasing the mobility of capital. But of late, there has been a reversal of this trend. A recent study by McKinsey found that following the crisis, banks globally have shed $722 billion in assets and operations, of which almost half were foreign-based. Cross-border flows have also declined significantly, remaining at 60% of pre-crisis levels. To some extent, this is expected as markets undergo corrections and new regulations were introduced to address weaknesses in existing models for integration. The crisis has led to forces of change that are creating two diverging paths ahead: greater fragmentation of finance as operating structures adopt a narrower and more domestic focus, or a move towards alternative, more sustainable approaches to integration.

ASEAN integration however, has adopted sustainable approaches to integration and continued to gain momentum. Importantly, this has been pursued in tandem with the need for greater private sector integration, thereby supporting a natural path of evolution for the region's financial sectors and overall economy.

As a whole, this has resulted in a measured approach to integration, mindful of different needs of member countries and supported by regional frameworks and bilateral arrangements. In doing so, risks are also better managed by preserving a strong focus on strengthening prudential frameworks and capacity developments and giving economies more time to adjust to new circumstances. With more than 600 million people, with a combined GDP of USD2.5 trillion and a burgeoning middle class, ASEAN holds enormous potential for economic growth for member countries. We expect that intra-regional trade will flourish and consequently sources of growth and trade will become much more diversified.

Since the finalisation of the ABIF, Bank Negara Malaysia has signed three Heads of Agreement (HOAs) with Indonesia, Thailand and the Philippines, paving the way for banks in the four economies to expand their presence and contribute towards regional growth. Bank Negara has also actively pursued initiatives to develop a viable regional cross currency market to support trade and investment by expanding the availability of multiple choices of currencies that businesses can use for trade and settlement. Malaysia and Thailand recently established the first cross-currency settlement and clearing arrangement between two ASEAN countries, following similar arrangements with China and South Korea. Moving forward, Malaysia remains committed to regional efforts to advance financial integration. This will be guided by the ASEAN Economic Community Blueprint 2025, which focuses on the three key pillars of financial integration, financial inclusion and financial stability in the region.

Facilitating fintech developments

I am pleased today to announce that Bank Negara will introduce a framework for fintech firms to test innovations in the financial services operational environment. Earlier this month at the Global Islamic Finance Forum, I spoke briefly about the work that Bank Negara Malaysia has undertaken with respect to fintech. Indeed, Bank Negara has long recognised the power of technology in driving the financial sector forward. Over the years, banks have harnessed the power of technology to reap significant benefits. Bank Negara has supported this development on many fronts including in the areas of payments, internet banking, agent banking, Islamic finance and money exchange and remittances. Fintech will be a new addition to the list.

Fintech developments such as blockchain, artificial intelligence and biometric applications are now expanding the frontiers of banking. Because of the profound implication of new technology, we require a re-think of the regulatory framework in addressing consumer protection and market conduct issues as well as the technological impact on the orderly functioning of financial markets. We expect that the framework would enable fintech firms to provide regulated financial services directly to the public, or in partnership with financial institutions, and to operate under more flexible regulatory arrangements. We take cognisance that some innovations cannot be achieved within existing regulatory parameters. Nonetheless, to protect the interests of consumers, this will be subject to certain safeguards. The innovation must provide a clear benefit to the general public or financial industry. A firm that operates within the framework must also commit to observe reasonable standards of service, transparency to customers, appropriate funding and reporting requirements. These are not meant to stifle the creative process at play, but rather facilitating an orderly process while protecting consumers interests and maintaining market confidence.

The Bank also expects the framework to deliver a number of key benefits. It will provide regulatory clarity for fintech start-ups, and for banks and consumers that use their services. It will also lower barriers to entry and accelerate the time-to-market for productive innovations. Our aim is therefore to support fintech firms that go on to upscale their activities, and aid fintech firms to better anticipate and adjust to appropriate regulatory expectations.

Strengthening the systemic focus of regulation

Bank Negara Malaysia's regulatory and supervisory framework will continue to reflect the increasing focus on systemic risks. This addresses a key lesson from global financial crisis – that greater attention needs to be directed at identifying and managing systemic risks that arise from interactions between financial institutions and markets, and their collective impact on the broader financial system.

As interlinkages within and beyond the Malaysian financial system deepen, the sources of potential vulnerabilities and shocks can be amplified, with larger and more complex institutions posing greater risks to system-wide stability. Bank Negara Malaysia's prudential standards and the intensity of our supervision will be more differentiated going forward to reflect these risks. In recent months, we have issued two standards on operational risk and compliance.

These standards reflect the differentiation by setting higher expectations for larger and systemically important financial institutions. Bank Negara is also assessing options to ensure that systemically important institutions have adequate capital buffers; that their capital is proportionate to the risks posed to the broader financial system and the possible costs of failure. In addition, we are progressing work in coordination with PIDM to develop an effective resolution and recovery framework. Banks are expected to continuously assess and identify critical functions from a systemic perspective within their operations, and prepare contingency and recovery plans to preserve those functions under a stress scenario. Bank Negara will engage the banking industry to share more information on this initiative, including our implementation approach. A concept paper on this will also be issued for comments.

Raising the bar on governance

Finally, we will continue to raise the bar on governance. The role played by governance failures in the recent crisis is well documented, particularly in respect of incentive systems, accountability structures and controls. More broadly, there is also a strengthened emphasis on the softer aspects of governance such as behavioural norms, corporate culture and ethics. We should not forget these lessons or else history will repeat itself.

Malaysian financial institutions should be the gold standard for good governance practices. Because of their important role within the economic system, banks have the added responsibility of maintaining public trust and confidence.

In addition, we also expect the banking industry to take the lead in promoting good governance practices more broadly across corporate Malaysia, through financing and investment activities, or professional advice to clients. An important regulatory priority for Bank Negara in this regard is to align incentives with a sound risk culture and ethical conduct, underpinned by effective independent oversight by the board. On this, Bank Negara recently published several proposals to enhance the corporate governance framework for financial institutions in Malaysia to address these issues. While proposals on board composition appear to have generated more attention in the media, the most significant enhancements actually relate to expectations for the board and senior management to set the right "tone from the top", and the explicit responsibilities placed on them to play a more critical role in shaping the core values and culture of the institution. This includes expanded requirements on compensation practices and disclosures to strengthen market discipline. Banks must also put in place a transparent whistleblowing policy that enables the escalation of concerns without the risk of reprisal.

Good governance is ultimately driven by a workforce that is committed to the highest standards of knowledge, competence and conduct. Competition for talent in the financial industry has intensified greatly, in an environment where public opinion of banks globally is also at an all-time low following the last crisis. Recent trends among graduates of leading business schools worldwide indicate a shift towards other well-paying alternatives to careers in banking, notably to technology and consulting firms. According to the Financial Times, the popularity of banking as a career has dropped 41% since 2008. Globally, banks' reputations have also been dented to varying degrees by poor quality of service, staggering control failures and misconduct.

The professionalisation of the banking industry is therefore critical to strengthen the talent pipeline, while restoring and maintaining public trust in the banking industry. An important step in this direction is the transformation of Institute Bank-Bank Malaysia (IBBM) into the Asian Institute of Chartered Bankers (AICB) as the professional body for bankers and the Asian Banking School as the education service provider. The AICB plays a key role in spearheading the vision of professionalising bankers through the development of professional qualifications, a specialised certification track to support continuing professional development and a membership framework that subjects members to a strict code of conduct, professionalism and ethics. The prestigious Chartered Banker qualification, for example, aims to provide comprehensive education on banking to support sound judgment and decision-making. The industry should therefore take full advantage of these opportunities to build a solid team of professional bankers that are able to perform effectively in a rapidly evolving landscape.

Fundamental role of banks to support inclusive financial participation for all

It is important to bear in mind that growth in financial services must also serve to enhance economic opportunity for all. Since the establishment of the Financial Inclusion Framework in 2011, major inroads have been made in widening the accessibility to financial services in Malaysia.

Agent banking has been a key strategy to improve access, particularly in the rural areas. 92% of our population has some form of access to financing. Moving forward, expanding public access to financial services will remain important for the remaining 8% of the unbanked population in Malaysia. There will also be greater emphasis on the quality of services provided.

The social impact of greater financial inclusion is significant as it helps improve people's lives. In this respect, banks have a critical role to play to make it easier for people to save, make payments and obtain affordable loans to improve standards of living and build more resilient communities. It would be a remiss to talk about the future of banking without embracing this very fundamental role of banks.

As our economy becomes even more financialised, it is important that banks strike a balance between legitimate profit-seeking goals, and their responsibility to provide the public with full and fair access to financial services. Some banks today are still falling short of expectations to offer basic banking services to the people who only need such services. We have observed poor communications by the front-line staff of such banks on the basic banking products which must be offered by all banks. In some cases, prohibitive conditions are attached to the opening of basic banking accounts in clear violation of Bank Negara Malaysia's requirements. This must change. In offering basic banking services, banks should also leverage on technological advancement that can support inclusive finance initiatives. These include adopting more innovative delivery channels, leveraging on big data to reach a wider community and to offer suitable products that are priced affordably.

Concluding remarks

The world as we know it is set to change dramatically just as it had over the last few decades, except that future changes will happen at a much more rapid pace, and in sectors where we least expect it. The ability of banks to adapt will be critical to its relevance. More likely than not, banks that are agile and have absolute clarity on their value proposition for their customer, society and wider economy, will be the ones that will endure. Banking as we know today will no doubt change in form as the future takes shape. What is more important that the core purpose of banking remains intact – that is to provide reliable passage for resources to move to productive use, including under the most challenging conditions.

I thought I would close these remarks by quoting Machiavelli 'There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things'.

CALENDAR OF EVENTS
April – June 2016

14 April

The Bank issued commemorative coins in conjunction with the 70th Anniversary of Radio Televisyen Malaysia (RTM). RTM is the first broadcaster in Malaysia and launched its inaugural radio broadcast on 1 April 1946 and initial television broadcast on 28 December 1963.

27 April

The Yang di-Pertuan Agong, advised by the Prime Minister, appointed Datuk Muhammad Ibrahim as the Governor of Bank Negara Malaysia for a term of five years, starting on 1 May 2016. In a statement on his appointment, Governor Muhammad said, "It is important for the central bank to maintain monetary and financial stability, remain focused on its strategic agenda and work towards contributing to a better future for all Malaysians."

9 May

The Bank issued commemorative coins in conjunction with the 50th Anniversary of Yayasan Sabah. Yayasan Sabah (the Sabah Foundation) was founded by the late Tun Datu Haji Mustapha bin Datu Harun on 10 May 1966. Its main objective is to enhance the socioeconomic standing of all Malaysians in Sabah, especially those in rural areas, through various education and economic developmet programmes.

11 May

In his keynote address at the Global Islamic Finance Forum 5.0 – themed "Future of Islamic Finance: Delivering actions today for a sustainable tomorrow" – Governor Muhammad highlighted that Islamic finance is growing at a rapid pace globally. He paid special tribute to previous Governors of Bank Negara Malaysia for their visionary leadership in raising the global profile of Islamic finance.

In his speech, Governor Muhammad highlighted three key issues, the rise of fintech and its impact on Islamic finance, the growing importance of responsible, inclusive and sustainable finance and the preconditions necessary to sustain a value-based financial system. Governor Muhammad concluded that the strategies to elevate the Islamic finance industry should incorporate elements that leverage on technology, accelerate innovation and develop well-rounded talent to meet future needs of Islamic finance.

13 May

The Bank announced that the Malaysian economy expanded by 4.2% in the first quarter of 2016 (4Q 2015: 4.5%). The slight moderation in growth mainly reflected external shocks to the economy and cautious spending by the private sector. On the supply side, growth continued to be driven by the major economic sectors. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.0% (4Q 2015: 1.2%).

On the same day, the Bank announced the establishment of the Financial Markets Committee (The Committee). The Committee is established with the objective to broaden industry engagement with a focus on reviewing and formulating comprehensive strategies for the wholesale financial markets to meet the diverse and complex demands of a more developed and internationally integrated economy.

The Committee comprises participants / representatives from Bank Negara Malaysia, financial institutions, corporations, financial service providers and other institutions or stakeholders which have prominent roles or participation in the financial markets.

19 May

The Bank maintained its Overnight Policy Rate at 3.25% at the May Monetary Policy Committee (MPC) meeting. The MPC said that at this level of the OPR, the stance of monetary policy is accommodative and supportive of economic activity. MPC recognised there are downside risks in the global economic and financial environment and is closely monitoring and assessing their implications on domestic price stability and growth.

26 May

In his keynote address at the ASLI 20th Malaysian Banking Summit – themed "Future Banking: Reimagining Banks – Driving Transformation and Innovation", Governor Muhammad highlighted several measures taken by Bank Negara Malaysia to support growth in the financial services sector, encourage innovation and strengthen resilience. These measures include advancing regional financial integration, facilitating fintech developments, strengthening the regulatory and supervisory framework on systemic risks, enhancing the corporate governance framework, and enhancing the role of banks in ensuring an inclusive financial system. He concluded that the pace of change will be more rapid and the ability of banks to adapt will be critical to its relevance.

28 May

The Bank issued commemorative coins in conjunction with the 100th Anniversary of Persatuan Pandu Puteri Malaysia (PPPM). PPPM is committed to producing women of calibre, through encouraging the application of knowledge, skills and values of the Girl Guides in line with its vision of "taking the lead in developing the potential of girls and women for change."

1 June

The Bank co-organised with Dewan Bahasa dan Pustaka the Pertandingan Pidato antara Institusi Kewangan Piala Gabenor Bank Negara Malaysia (Pertandingan Pidato Piala Gabenor). The event has been held for the past eight years and the finals featured 12 finalists from approximately 80 who contested. The objective of the Pertandingan Pidato Piala Gabenor is to foster a sense of pride in and passion for the national language as well as to encourage its usage in the financial sector.

2 June

The Bank announced the establishment of a Financial Technology Enabler Group (FTEG), which will be responsible for formulating and enhancing regulatory policies to facilitate the adoption of technological innovations in the Malaysian financial services industry. The FTEG is part of the Bank's commitment to support innovations that will improve the quality, efficiency and accessibility of financial services in Malaysia.

15 June

The Bank and Financial Markets Association of Malaysia (FMA or PPKM) jointly announced the migration to Kuala Lumpur USD/MYR Reference Rate as part of the effort to adopt global best practices for the domestic financial market. The migration which will be effective 18 July 2016 refers mainly to (i) the adoption of new methodology in the USD / MYR Spot Fixing (PPKM-MYR) based on market transaction data; (ii) extension of the official closing hour for onshore ringgit market from 5.00 p.m. to 6.00 p.m.

Under the new methodology, the reference rate will be known as the Kuala Lumpur USD/MYR Reference Rate. It will be published daily at 3:30 p.m. and is computed based on the weighted average volume of the interbank USD / MYR FX spot rate transacted by the domestic financial institutions between 8:00 a.m. to 3:00 p.m. The market transaction data is sourced from online reporting by domestic financial institutions to Bank Negara Malaysia. The new methodology is more transparent and better reflects underlying trade during the day.

Acronyms and Abbreviations

ABIF	ASEAN Banking Integration Framework
ADB	Asian Development Bank
AFC	Asian Financial Crisis
AFI	Alliance for Financial Inclusion
AIF	Asian Institute of Finance
ALR	average lending rate
APN	Asian Payment Network
BI	Bank Indonesia
BIS	Bank for International Settlements
BLR	base lending rate
BNM	Bank Negara Malaysia
BNMN	Bank Negara Monetary Notes
BoC	Bank of Canada
BoE	Bank of England
BoJ	Bank of Japan
BR	Base Rate
CASTD	cash-to-short-term debt
CBC	Central Bank of the Republic of China
CET1	common equity tier 1
CMP	Commodity Murabahah Programme
CoFC	consumption of fixed capital
CPI	Consumer Price Index
DFIs	development financial institutions
DIA	direct investment abroad
DOSM	Department of Statistics, Malaysia
DSR	debt service ratio
E&E	electronics and electrical
E&O	Errors and Omissions
ECB	European Central Bank
EOR	enhanced oil recovery
ETP	Economic Transformation Programme
EU	European Union
FBM KLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FD	fixed deposit
FDI	foreign direct investment
Fed	Federal Reserve
FFR	federal funds rate
FOMC	Federal Open Market Committee
FSB	Financial Stability Board
FSTEP	Financial Sector Talent Enrichment Programme

FX	foreign exchange
GDP	Gross Domestic Product
GFCF	gross fixed capital formation
GFP	goods for processing
GIFF	Global Islamic Financial Forum
GII	Government Investment Issues
GNI	Gross National Income
GST	Goods and Services Tax
HoA	Heads of Agreement
HQLA	high-quality liquid asset
HSDPA	High-Speed Downlink Packet Access
ICR	interest coverage ratio
IDB	Islamic Development Bank
IFSA	Islamic Financial Services Act 2013
IILM	International Islamic Liquidity Management
IMF	International Monetary Fund
IRS	interest rate swaps
IT	information technology
JCC	Japanese Crude Cocktail
KLCI	Kuala Lumpur Composite Index
KLIBOR	Kuala Lumpur Interbank Offered Rate
LCR	Liquidity Coverage Ratio
LIA	loans-in-arrears
LNG	liquefied natural gas
LTF	loan-to-funds
MGII	Malaysian Government Investment Issue
MGS	Malaysian Government Securities
MHPI	Malaysia House Price Index
MIDA	Malaysian Investment Development Authority
MIER	Malaysian Institute of Economic Research
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MSIC	Malaysia Standard Industrial Classifications
NBFI	non-bank financial institutions
OPEC	Organisation of the Petroleum Exporting Countries
OPR	Overnight Policy Rate
PBOC	People's Bank of China
PDS	private debt securities
PE	price-to-earnings
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PTP	Port of Tanjung Pelepas

QAB	Qualified ASEAN Banks
QE	quantitative easing
RBI	Reserve Bank of India
RM	Ringgit Malaysia
SDA	Special Deposit Account
S$NEER	Singapore dollar nominal effective exchange rate
SME	small and medium enterprise
SNA	System of National Accounts
SNB	Swiss National Bank
SRR	Statutory Reserve Requirement
SST	Sales and Services Tax