

## ISLAMIC FINANCE IN ASIA: ENHANCING CROSS-BORDER CONNECTIVITY TO DRIVE GLOBAL GROWTH

Session 1: Opening Keynote Session - Enhancing the Role of Islamic Finance in Creating Stronger Business & Investment Ties between Asia and Other Key Islamic Financial Centres

### Key Discussion Points:

- Insights into initiatives to develop cross border connectivity and accelerate global growth in the Islamic Finance industry
- Exploring recent developments in Asia and the Middle East for Islamic finance
- Expanding the role of Islamic finance as a conduit for trade and capital flows between Asia and the Middle East.

BISMILLAHIRRAHMAANIRRAHIM  
ALHAMDULILLAHI RABBIL ALAMIN  
WASSALATU WASSALAMU 'ALA  
ASYRAFIL AMBIYA E'WALMURSALEEN,  
SAYYIDINA MUHAMMADIN WA'ALA ALIHI  
WASAHIHI AJMAIN  
WA BA'ADU

His Excellency, Mr Lim Hng Kiang  
Minister for Trade & Industry  
Republic of Singapore  
and Deputy Chairman of Monetary Authority of Singapore

Distinguished fellow Speakers,  
His Excellency, Bapak Halim Alamsyah  
Deputy Governor Bank Indonesia  
Her Excellency, Tan Sri Zarinah Anwar  
Chairman of the Securities Commission Malaysia

Distinguished delegates  
Ladies and Gentlemen

ASSALAMUALAIKUM WARAH MATULLAHI WABARAKATUH  
AND A VERY GOOD MORNING

1. First and foremost, allow me to express my sincere thanks and gratitude to the Monetary Authority of Singapore and the Organising Committee of the 2<sup>nd</sup> Annual World Islamic Banking Conference, for giving me the honour and privilege to be here with eminent speakers, delegates and participants. I am also delighted to be given the opportunity to deliver a keynote speech on the current developments and opportunities of Islamic Banking and Finance.

2. I believe this conference with its timely theme of "Islamic Finance in Asia: Enhancing Cross-Border Connectivity to Drive Global Growth", serves as an important platform for the exchange of views on the future directions and architecture of the Islamic Financial Services Industry.
3. I am particularly honoured to represent the Autoriti Monetari Brunei Darussalam, which was established on 1<sup>st</sup> January this year. Although Brunei Darussalam is relatively a small jurisdiction, I firmly believe that she can contribute significantly towards efforts in expanding connectivity among financial centres, for the continuous growth of the Islamic finance.

Ladies and Gentlemen,

### **Syariah Features**

4. In this increasingly challenging global economic and financial environment, Islamic Finance has remained dynamic with a steady pace of innovation. This momentum has demonstrated not only its viability and resilience but also its ability to remain competitive.
5. Syariah mandates that all financial transactions be based on real economic activities, thus giving rise to a close link between financial and productive flows. By virtue of its syariah principles, excessive leverage and speculative financial activities are also prohibited, thus shielding the parties involved from excessive risks exposures.
6. Such intrinsic principles provide an in-built check and balance to the Islamic financial transactions. Explicit in this arrangement is the element of risk management and governance practices. Hence, it is a modality in which there is strong explicit emphasis on the economic viability of the underlying assets and on good governance, ethics and transparency.

Ladies and Gentlemen,

### **Globalisation of Islamic Finance**

7. The universal characteristics of Islamic Finance have not only drawn participation from the Muslim community, but have also attracted the participation of Non-Muslims alike. Undoubtedly its foundations on the principle of equity which promotes profit and risk sharing between provider and recipient of funds, and one that promotes socially responsible financing, are features that have wide appeal.
8. Islamic Finance has become increasingly internationalised as it extends its outreach to serve the global community. It is widely recognized that Islamic banking today has a global footprint and is no longer confined to the Islamic states in Asia and in the Middle East.
9. Indeed the extensive global demand in Islamic finance is driving its international dimension, and has further strengthened the financial and economic linkages between the Western world, Emerging Asia and the Middle East. This in turn, avails opportunities for more efficient allocations of funds across borders, as financial centres with surplus funds are looking for more greener pasture, and moving to regions with investment opportunities.

### **Cross Border products**

10. We have seen how globalisation process has also allowed for more inclusive participations regardless of size and stage of development of economies. A wider range of Islamic financial products and services are now available to meet the requirements of market participants - multinational corporations, micro enterprises and households. At the same time, they also facilitate financing of international trade and cross border investment activities.

11. The sukuk market is one example. It has become the most significant and vibrant segment in the international Islamic financial system. It has rapidly generated significant cross-border flows, as funds are raised from beyond domestic financial markets and as investors diversify their portfolios into assets from other jurisdictions. However, continuous steps must be taken to widen the pool of available and acceptable sukuk. Towards this end, regulators would have to appropriately fulfil their roles to further facilitate the market-driven development, without impeding the momentum of its progress.

**Ladies and Gentlemen,**

12. Given the current trend and outlook, Asia Pacific is becoming a more attractive destination for investments compared to other regions. Recent reports also confirm that developing Asia has shown greater resilience throughout the global recession. In fact, the region's rapid expansion, robust domestic demands and buoyant exports will continue to lift regional and global growth. In this regard, regulators and stakeholders within the region must strengthen collaboration to ensure the regional stability is safeguarded.
13. Now moving closer to our region, South East Asia, it is reported that investible funds of about USD1 trillion are potentially looking for viable Islamic investment avenues. Islamic Financial industry players need to strive harder to capture a bigger share in these funds. I believe, product positioning and pricing strategies will be the key success factors to attract these funds. One area that can be explored further is enhancing cross-border activity by expanding into newer markets, for instance building up synergies between sovereign institutions and private shareholders.

Ladies and Gentlemen,

**Challenges & Developments**

14. Amidst the global financial crisis, Islamic Financial institutions are still challenged by the shortage of Shariah acceptable products and instruments. As a result, they are compelled to hold a large portion of their assets in cash or readily liquefiable instruments. The lack of a global Islamic interbank market and a liquidity management scheme has affected the systemic development of the Islamic finance industry.
15. The need for a strong liquidity management infrastructure for Islamic financial institutions has long been strongly advocated. Its existence will greatly help to reduce the cost of intermediation for the Islamic financial institutions, thus rendering them more competitive.
16. A number of commendable initiatives have been undertaken including the recent establishment of the International Islamic Liquidity Management Corporation, which are geared to address this challenge in an integrated manner. This would facilitate greater investment flows for the Islamic financial services industry.
17. Another important and challenging task that needs to be addressed by regulators, is the development of a more coordinated and synchronised framework for governing, supervising, and regulating Islamic financial institutions. However, we recognise that there are already on-going efforts towards harmonising regulation and supervision standards. The Islamic Development Bank, AAOIFI, the Islamic Financial Services Board and International Islamic Financial Market, for instance, have made significant progress in harmonising standards and regulations. But more needs to be done in view of current developments. What is important is

identifying and executing initiatives that can effectively address the genuine requirements of the Islamic Finance industry.

18. On the conventional front, international standard setting bodies like the Basel Committee have introduced more stringent rules-based standards such as Basel III. In this regard, the issues for regulators are whether similar regulations can be applied to Islamic banks, taking into account their salient features and risks. This is also something that standard-setting bodies for the Islamic financial industry needs to address.

Ladies and Gentlemen,

**Islamic Finance Development in Brunei**

19. Let me now share with you the Brunei Darussalam's perspective. "Good things" they say, "come in small packages". We believe Brunei Darussalam has a significant role to play in enhancing cross border linkages of Islamic Finance.
20. Since the first Islamic financial institution was established in the country two decades ago, the progress and penetration has been tremendous. Currently the total assets of Islamic banks represent about 37% of the overall banking industry, reflecting an average growth rate of 21% for the past decade. Meanwhile, the Takaful Industry grew by 74% in 2010 which represents 30% of the Insurance Industry in Brunei.
21. This progress clearly reflects the underlying customers' demand for Islamic products. However, this significant achievement is also due to many factors. First and foremost, the strong leadership of His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah, Sultan and Yang Di-Pertuan Negara Brunei Darussalam. His Majesty is instrumental in advancing the development of Islamic finance in the country.
22. Furthermore, its impeccable Islamic credentials, its unrivalled political and economic stability, and its strategic geographical location in the most dynamic part of Asia, are key attributes that position Brunei Darussalam to ideally pursue its aspirations to become a hub for Islamic Finance. Combined with the presence of huge liquidity and comprehensive legal and regulatory framework, the country also offers excellent physical and administrative infrastructures for conducive Islamic financial activities, whilst protecting the rights of all stake holders.
23. The launching of the nation's first ever short-term Islamic Bond, Sukuk Al-Ijara, in 2006 marked the country's bold step in establishing its Islamic Capital Market without having to introduce conventional capital market instruments. To date, 58 series of Sukuk Al-Ijara with a total value of B\$2.7 billion have successfully been issued to primary dealers.
24. Islamic Financial Institutions can contribute to and be partners in the development programmes of the country. There are opportunities for alternative financing in particular to develop SMEs and promote FDIs to accelerate efforts of His Majesty's Government in diversifying the country's economy and exports. Brunei Darussalam's Islamic finance strategy is linked to its broader economic agenda of participating in enhanced intra-OIC trade flows. The Halal product sector, including food and pharmaceutical, is, for instance, one major area that is actively pursued by Brunei Darussalam. In addition to providing capital in such areas, fostering operating companies in the real economy is another step in enhancing the growth of this sector.

25. The growth of Islamic Financial Industry in Brunei Darussalam will continue to be given priority in line with the nation's aspiration. Efforts will be devoted to develop a comprehensive Islamic Financial system that is well diversified in terms of its institutions, players and the markets, both at the domestic and international level.
26. In this regard, I would like to invite you to explore and consider the opportunities that Brunei Darussalam can offer.

**Ladies and Gentlemen,**

**Conclusion**

27. I am confident that this two-days event will be able to come up with concrete ideas and initiatives that can be developed further to enhance cross border inter-linkages between financial centres in the region and globally. This connectivity must be supported by a number of vital factors including effective implementation of prudential standards, appropriate liquidity management infrastructure and safety nets that can withstand the test of time, and create a more balanced and stable global financial system.
28. We in Brunei Darussalam, Insya Allah will also be doing our part.
29. Before I end the speech, once again, I would like to express my sincere appreciation to the Monetary Authority of Singapore and the organising committee for extending this invitation, and for the warm hospitality and excellent arrangement for the conference. I wish this conference the success that it deserves.

THANK YOU,  
WABILLAHITTAUFIQ WALHIDAYAH  
WASSALAMUALAIKUM WARAHMATULLAHI WABARAKATUH.