Assalamualaikum Warahmatullahi Wabarakatuh

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Distinguished Guest, Ladies and Gentlemen,

[Introduction]

1. The Fourth Industrial Revolution (IR 4.0) has become a pushing factor for Islamic finance industry to adapt to highly disruptive technologies such as Artificial Intelligence, block chain, big data and robotics. To ensure the relevancy of Islamic Finance in this competitive and evolving industry, a number of initiatives using new technologies have been introduced to make it accessible to all Malaysians.

2. In this digital age, Islamic financial services and products are now accessible to all including the unserved and underserved populations, especially in rural communities that have abstained from conventional banking services for religious or ethical reasons. Based on Findex Report (2017)
issued by the World Bank, globally, 1.7 billion adult remains unbanked, which previously was 2 billion in 2014. Approximately 59% of the adult population was “unbanked” in East Asia and Southeast Asia.

3. Studies focusing on Asia’s Muslim population have shown that a segment of this population abstains from conventional savings accounts because of the interest-borrowing features of these accounts, which is prohibited in Islam.

4. Against this background, policies and regulatory environments have been structured to facilitate and support this digital development in Islamic finance to enhance financial inclusion.

5. Malaysia has great potential to broaden its market share and strengthen its leadership in Islamic finance. According to a new report from S&P Global Ratings, the global Islamic finance industry will continue to expand slowly in 2019-2020 owing to tepid economic conditions in certain core markets. However, inclusive standardisation, fintech and a focus on the industry’s social role could help spur growth in the next few years.

6. Malaysia continues to be the main driver for the sukuk market and represented 49.7% of the total global outstanding sukuk which stood at USD466.8 billion, as at end of 1H2019. (MIFC estimates)
7. The nation’s sukuk market is largely driven by corporates and government-related entities at 66.8%, and has been a viable funding tool for various mega infrastructure projects.¹

8. Global Islamic funds asset under management (AuM) stood at USD83.9 billion as at end 1H2019. In terms of AuM by domicile, Malaysia represents the largest Islamic fund markets with 35.8% of total industry AuM as at 1H2019.

9. By number of funds, Malaysia ranked first (28.3%) with 430 number of funds of total global number of funds, followed by Saudi Arabia (203), Luxembourg (202), Pakistan (180) and Indonesia (174). (MIFC estimates, 1H2019)

10. In the Islamic banking sector, Malaysia ranked third globally after Iran and Saudi Arabia with total Islamic banking assets of US$201 billion as at end-2017².

11. The Securities Commission also recently announced the launch of the sustainable and responsible investment (SRI) framework for investment funds as part of efforts to strengthen Malaysia’s position as the world’s Islamic finance marketplace. This framework will widen the range of SRI products in the funds segment, therefore reinforcing other SRI initiatives in the Malaysian Islamic capital market. This is aligned with the global growth of SRI.

[Impact of innovation on Islamic finance]

12. Fintech would enable Islamic finance to attract more customers, increase efficiency, reduce costs and help the

¹ https://themalaysianreserve.com/2018/04/05/malaysia-remains-lead-in-islamic-finance/
² Islamic finance development Report 2018, IFDI 2018
sector become more competitive, without compromising on profitability.

13. The technological disruption that brings about the advent of fintech opens doors of opportunities for the industry to take Islamic finance to the next level. Technology represents a powerful channel for Islamic finance to further deepen its value propositions and effectively deliver them in a more interconnected information society.  

14. To realise this objective, there is need for transformation to a more proactive mind-set that aggressively capitalises on technology to innovate and challenge the existing norms. Islamic finance industry should emerge as a leader in technology-based finance that encompasses diverse aspects in financial businesses such as in product development, operational conditions, and even in strategic alliances.

15. Fintech can make transactions quicker and easier, improve traceability and security, expand Islamic finance penetration and enhance governance.

• Examples:
  a. High mobile phone penetration across the Muslim world could attract new customers through digital channels which typically enable money transfers, micro credit and bill and goods payments, in which customers may easily complete the process of any application within a few minutes.

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b. Islamic banks can also now assess a person’s credit worthiness by analysing the spending patterns in his or her digital wallets.

c. Successful deployment of blockchain-based Fintech solutions by Islamic banks would greatly expand the number of SMEs that could be financed.

d. Psychometric assessments enable banks to assess clients with no prior credit histories.

16. According to a recent edition of "IFN Islamic Fintech Landscape," there were around 100 Islamic fintech companies at the end of February 2018. About 70% of these companies were active in financial services provision (such as money transfer, crowdfunding, and digital banking) and another 30% operate in technical infrastructure (IT, artificial intelligence, and robotics among other things). Around 46% of these companies are based in Asia.

17. It is notable that, global investment in fintech is growing significantly which is an indication that this segment is a force to be reckoned with. As such, it is important for the industry to ensure that there is a right balance of supply and demand of talent in the area of Islamic Fintech. I believe, this is where IF Islamic Finance 2019 comes into the picture. This event provides us a good platform for both the research community and industry practitioners to collaborate in producing not only innovative ideas in Islamic finance, but also top notch talent which will contribute to further developments in the Islamic finance industry.
[Green Finance Initiatives by Islamic Financial Institutions]

18. Green Islamic finance is an emerging area that worth exploring. With current incentive and infrastructure, Islamic Financial Institutions could take a significant role in the green technology sector such as:

   a. Contributing towards building a strong and diverse financing ecosystem for green and environmental sustainability ventures;

   b. Making green financing a central component of Islamic products to help gain greater acceptance from a larger segment of the investment community; and

   c. Developing innovative financial instruments to facilitate growth of green technology industries.

19. Furthermore, the adoption of value-based intermediation (VBI) by Islamic banks marks a new phase for the banks to expand their role beyond financial intermediation to also include delivering value and the intended outcome of Shariah.

20. Through VBI, Islamic banks are moving towards a sustainable business model which generates a positive impact towards the community, environment and economy without compromising financial returns to their shareholders. This is a ground-breaking initiative by Bank Negara Malaysia (BNM) in 2017, where several strategies were developed for Islamic banking industry.
21. VBI complements the UN Sustainable Development Goals (SDG), which cover a wide spectrum of development challenges that includes among others sustainable ecosystem, climate change, better health and education.

22. To achieve sustainability, it is vital for financial institutions to play their role in designing financial structures such as green financing that allow funds to be mobilised towards funding various sustainability projects.

[About the report: “Harnessing Value-based Intermediation (VBI): The Role of Development Financial Institutions (DFIs)”]

23. As Malaysia moves forward in its journey towards global sustainable development, it is imperative that the financial system plays its role in delivering long-lasting socio-economic prosperity.

24. Being a developing nation, the developmental and complementary roles of Development Financial Institutions (DFIs) are key to facilitate targeted sectors such as agriculture, infrastructure, trading and manufacturing, renewable energy and energy efficiency, as well as targeted segments such as micro, small and medium enterprises.

25. Concurrently, a further exploration of such roles is needed for DFIs to evolve and thus, support greater financing facilities for new growth areas in the future.

26. It is timely that the report by INCEIF “Harnessing Value-based Intermediation (VBI): The Role of Development Financial Institutions (DFIs) delves into the current interest
in Value-based Intermediation (VBI) practices among DFIs in Malaysia with reference to global benchmarks.

27. The financial sector, regulators, policy makers and consumers would benefit from the findings of this report and use it as a reference for a comprehensive overview on sustainable financing. It is also envisioned that this report could guide us towards a more sustainable and inclusive financial sector.

28. Once again, I hope that Islamic Finance INNOFEST would grow from strength to strength as a platform that brings together industry players, regulatory bodies and academia to develop and implement breakthrough ideas and innovative solutions. Innovations that are not only going to create cutting edge products for the benefit of sovereigns and institutions but also for the man in the street.

29. An important reminder for us is that the growth and milestones in Islamic finance should be assessed beyond headline numbers to include its social and environmental impacts. As an example, it is equally important for Islamic finance to assist in increasing a person’s quality of life such as through financing given to women entrepreneurs and microentrepreneurs.

30. Therefore, while we welcome the excitement around innovation and technology, we must not lose sight of the fundamentals of Islamic finance, which include upholding ethical standards, and moral and social values which I would like to stress what Allah SWT said in Surah Al-Baqarah, verse 188:
And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful].

31. With that, I wish all of you a successful gathering, With Bismillahir Rahmanir Rahim, I hereby officiate IF INNOFEST 2019!

ENDS.