

MALAYSIA

Monday, December 29, 2008

ISLAMIC FINANCE

Stable and Resilient

Malaysia began offering its domestic Islamic products some 30 years ago and it was originally a vehicle of inclusion, allowing Muslims to save and participate in the formal economy. Today global Islamic banking assets are worth \$800 billion and are managed by over 300 institutions in 75 countries, Muslim and non-Muslim alike. Islamic finance has thus far recorded a 15-20% annual growth rate making it the fastest growing financial sector in the world.

The growth momentum of Islamic finance has remained positive, despite the current challenging global financial environment. The strengths in Islamic finance are derived from the Shariah principles, the key pillar of Islamic finance that has contributed towards its overall stability and resilience. The Shariah injunctions also require that the financial transactions be accompanied by an underlying productive activity thus giving rise to a close link between financial and productive flows. The transparent nature of the Islamic financial contracts and the need for underlying economic transaction reinforces the stability of the Islamic financial system. This intrinsic principle of governance contributes towards insulating the Islamic financial system from the potential risks of financial stress triggered by excessive leverage and speculative financial activities.

"In Islamic finance, there is always an underlying economic transaction," says Dr. Zeti Akhtar Aziz, Governor of Bank Negara Malaysia, the country's Central Bank. "It makes it less vulnerable to unstable market conditions." As a result, Islamic financial products are ide-



Malaysia is well positioned as a leading international Islamic financial center

al for an international financial system in search of greater diversification of risks and new asset class.

Dr. Zeti, a leading figure in Islamic finance, suggests that with the growing acceptance of Islamic finance by the international financial communities, the "New Silk Road" has emerged. Like the ancient trade routes that created economic and cultural links between East Asia, West Asia and the Middle East, the global development of Islamic finance will create greater financial intermediation linkages and mobilization of funds from regions with surplus savings, like Asia and the Middle East, to regions with deficits.

"Global investors and the international financial community have already drawn benefits from the increased diversification of investment activity to the two regions (Asia and the Middle East). The expansion of the interlinkages of intermediation to and among these regions would in turn contribute towards a more efficient allocation of

capital in the global financial system," Dr. Zeti explained in a speech at the State Street Islamic Finance Congress 2008 in Boston.

Positioned at a cultural and geographic crossroads, Malaysia has capitalized on its experience in Islamic finance to offer opportunities in the areas of *sukuk* origination, international Islamic banking, international *takaful*, Islamic fund and wealth management and human capital development.

Today the Malaysian *sukuk* market is the largest in the world, achieving more than 60% of the \$62 billion of global outstanding *sukuk*. Malaysia has facilitated many multi-national companies raising funds via *sukuk* and all these issuances were oversubscribed by at least two times with strong demand from foreign investors. From 2001 to 2007, the Malaysian *sukuk* market experienced an average growth of 22%.

Malaysia is also the first country to have a full-fledged Islamic financial system operating in parallel

to the conventional banking system. With assets valued at \$65.6 billion, Malaysia's Islamic banking system comprises 16% of the market while *takaful*—Islamic insurance—has garnered a 7% market share. In Malaysia's Islamic Capital Market (ICM), Islamic private securities amounted to \$79 billion or 54.3% of the total outstanding private securities. Shariah-based unit trust funds have increased to 136 with a net asset value of over \$5.2 billion and 85% of the listed stocks on the Malaysian stock exchange are Shariah-compliant.

With more than 30 years of experience in Islamic finance, Malaysia boasts diversified and advanced financial markets, thought leadership, a wide range of innovative Islamic financial products, conducive tax regime, liberal foreign exchange rules, dynamic legal and regulatory best practices as well as a strong Shariah governance.

In pursuing Islamic finance as an alternative system, the global financial community will become more selective on the geographical platforms chosen when conducting their Islamic financial transactions. In doing so, they will be attracted to centers with good financial infrastructure, proven experience and a strong track record as well as supported by sound research and innovation capacity. This is where Malaysia has the competitive advantage vis-à-vis other Islamic financial centers.

Project directed and coordinated by:

Valentine Charles, Leland Rice and Clementine Condemine

A rapidly expanding niche is in Malaysian *sukuk* bonds, which is now the largest Islamic bond market in the world

MALAYSIA

Hub of International Islamic Finance

MIFC is preparing the country as the hub of the fastest-growing financial sub-sector

In 2006, the Malaysian Government launched the Malaysia International Islamic Financial Centre (MIFC) initiative to globally integrate Malaysia within the international Islamic financial community and to position Malaysia as the Islamic financial hub. MIFC is a collaborative effort between Malaysia's central bank, securities commission, stock exchange, the Labuan Offshore Financial Services Authority (LOFSA) and relevant government ministries. Additionally, industry participants from Islamic banking, *takaful* (Islamic insurance) and capital market sectors are also part of MIFC. Chaired by Dr. Zeti Akhtar Aziz, Governor of Malaysia's central bank, the MIFC Executive Committee acts as the governing body that provides

strategy and insight to policy development and implementation.

Aimed largely at creating an enabling environment for foreign institutions, the MIFC initiative allows Islamic financial institutions established in Malaysia to offer a wide range of innovative Islamic financial products in foreign currencies to non-residents and residents with cost savings and less time to market. The MIFC's five focus areas are *sukuk* (Islamic bond) origination, Islamic fund and wealth management, international Islamic banking, international *takaful* and human capital development.

Named the "Best International Islamic Finance Centre 2008" at the Annual London Sukuk Summit

Awards of Excellence, the MIFC offers participants new licenses for conducting foreign currency businesses, attractive tax incentives, and facilitative immigration policies to attract global talent. Liberal investment policies allow 100% foreign ownership for MIFC participants. Fund managers can invest all their Shariah-(Islamic law) compliant assets abroad, and international corporations may get foreign currency-denominated *sukuk*



**TAN SRI DR ZETI
AKHTAR AZIZ,**
Governor of Bank Negara

out of Malaysia. Foreign investors enjoy free movement of funds relating to FDI and portfolio investments and are granted tax exemption on income originated in Malaysia. Foreign investors are allowed to hedge their positions with

onsore banks on committed funds.

The MIFC has placed a special emphasis on human capital development and thought leadership to ensure continued growth. In addition to several tertiary Malaysian institutions offering Islamic finance programs, the MIFC has founded the International Centre for Education in Islamic Finance (INCEIF), which currently enrolls over 1,000 students from 55 countries to earn a Chartered Islamic Finance Professional (CIFP) certification and post graduate qualifications in Islamic finance. The CIFP is the world's first professional certification program in Islamic finance. Malaysia has also established a \$57 million Fund for Shariah Scholars in Islamic Finance to promote research, scholarships and dialogue.

www.mifc.com

Islamic Finance Meets In Malaysia

التصويل الإسلامي يلتقي في ماليزيا



Here, at an open economy with more than 30 years of Islamic finance experience.

Here, with a wide range of innovative Islamic investment products.

Here, at the world's most vibrant and liquid Sukuk (Islamic Bond) market.

Here, with a fast growing community of Islamic banks and Takaful (Islamic Insurance) companies conducting international businesses.

Here, where thought leadership is nurtured.

Here, with the world's most comprehensive Islamic financial system.

Here, in Malaysia - Hub of International Islamic Finance.

For Islamic finance opportunities in Malaysia, call +603 2692 3481, email mifc@bnm.gov.my or log on to www.mifc.com

Sukuk
Origination

Islamic Fund and
Wealth Management

International
Islamic Banking

International
Takaful

Human Capital
Development

MIFC
MALAYSIA INTERNATIONAL
ISLAMIC FINANCIAL CENTRE

MALAYSIA

The best of global business: Labuan IBFC

A choice of tax breaks and the existence of more than 60 tax treaties with other countries makes the Labuan International Business and Financial Center, located in the area of high growth potential, a must for investors in Malaysia

As competition among businesses around the world becomes fiercer, companies are constantly on the lookout for competitive advantages to help them stay ahead. The Labuan International Business and Financial Centre (IBFC), strategically located in one of the world's highest-growth areas, is perfectly situated to provide an edge for companies seeking to do business in the Asia-Pacific region.



**AZIZAN
ABDUL RAHMAN,**
Director General
of LOFSA

The Labuan Offshore Financial Services Authority, or LOFSA, which offers investors 'Asia's most connected, convenient and cost-efficient international and financial business center,' has ambitious plans to stay ahead of other regional business centers and to add to the roster of more than 6,500 companies already benefiting from the island's comprehensive and independent regulatory framework.

"For Labuan IBFC to take to the next level of its playing field, to attract the participation of new players, and to capture greater economic and business throughput that comes through the offshore financial gateway, LOFSA needs to meet the demands and sophistication that industry expects," said Director General Azizan Abdul Rahman.

Labuan, located off the coast of the Malaysian part of the island of Borneo, has been the home of the offshore center for 18 years. LOFSA's mission has expanded since its founding, offering a one-stop, business-friendly regulator, an efficient tax regime with no foreign exchange controls, low operational costs and excellent facilities and infrastructure.



LOFSA offers foreign investors convenience and peace of mind when conducting business in Malaysia and throughout Asia

HSBC is a cornerstone of Islamic banking in Malaysia

HSBC has been operating in Malaysia for more than 120 years, giving it unmatched local experience in a complex and growing market.

The bank also benefits from the international experience of its parent company, which has more than 9,500 offices in 85 countries and territories in Asia, Europe, North America and the MENA region.

"The reason why we have been so successful is because we have grown with Malaysia," said Irene Dörner, Deputy Chairman and CEO of HSBC Malaysia. "This has allowed us to build long-lasting relationships. As a value in HS-



IRENE DÖRNER,
CEO and Deputy Chair-
man of HSBC Malaysia

BC, we do not believe in being a fair-weather bank." Clients recognize the strength of that commitment, and have rewarded the lender with more business. HSBC Malaysia's revenue rose 17.6% in the first quarter of 2008 from the same period last year, while pre-tax profit increased 13%, to 40 million ringgits. One business that's adding increasingly to profit is the Islamic finance subsidiary. Already the eighth-biggest Islamic bank in the world, it was the first foreign bank to get a license from Bank Negara Malaysia, the country's central bank, to open an Islamic unit.

Labuan IBFC
International Business
and Financial Centre, Malaysia

Your key to opening investment opportunities
in the Asia Pacific region.

Connected. Convenient. Cost-Efficient.

www.lofsa.gov.my