

## **Paper "Workshop on "Islamic Banking and Finance Processes, Malaysian Experience", Turkey 26 Nov 2019**

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### Islamic Finance in Malaysia

- Malaysia's market share of Islamic Finance Commands a strong 15.5% of the global market.
- Other are like Saudi Arabia (33%); UAE (15.4%), Qatar (8.1%), Turkey (5.1%) and Indonesia (2.5%)
- International reputable business journal, the Economist, in its report titled Banking on the Ummah: Malaysia leads change in Islamic Finance, recognized Malaysia as the world's most important Islamic Finance Centre in its own ways and has awarded Malaysia top marks for its progressive leadership in Islamic Finance, in particular its dominance in Islamic bonds (also known as sukuk).

In 2002 Malaysia issued the world first sovereign Islamic bond or sukuk and by 2012 almost  $\frac{3}{4}$  of total global issuance.

Malaysia also houses the IFSB an international standard setting board that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles.

The country, the support structure and the people have propelled Malaysia to be the top in the world on Islamic Finances

- Malaysia's pioneering role in the development of Islamic banking and finance has gained world wide recognition.
- The first commercial Islamic bank was set up in 1983, licensed as Bank Islam Malaysia Bhd (BIMB) under the Islamic Banking Act (IBA) 1983.
- BIMB was given 10 year exclusivity to operate as the sole Islamic bank in the country by Bank Negara Malaysia.
- To support the liquidity management in BIMB's operation under the Government Funding Act 1983 the Government Investment Certificates were issued.
- In 1984, the Takaful Act 1984 allowed the establishment of the 1<sup>st</sup> Islamic Insurance company under the name of Syarikat Takaful Malaysia Bhd.

- In 1990, Malaysia became the 1<sup>st</sup> country to issue sukuk (Islamic bonds) with a modest issue size of RM125 million by Shell MDS Sdn. Bhd.
- Upon the expiration of the exclusivity granted to BIMB in 1983, BNM offered the 1<sup>st</sup> 3 licenses in an interest-free scheme, namely Skim Perbankan Tanpa Faedah (SPTF) to Maybank, UMBC and Bank Bumiputra Malaysia Bhd.
- This scheme allowed the opening of Islamic Banking windows.
- With the growth of banks participating in SPTF increases and to address the liquidity issue, in 1994 the Malaysian government launched the Islamic Interbank Money Market, the 1<sup>st</sup> of its kind in the world.
- Starting from 2005, Bank Negara requested all local banks to set up Islamic subsidiaries under IBA 1983.

In 2005, BNM (The Central Bank) issued licenses to International Islamic banking institutions to compete with local Islamic financial institutions. (IFIs). Given to Kuwait Finance House followed by Al-Rajhi Bank.

Continues research and human capital development to create a holistic ecosystem for Islamic bank's and finance in the country institutions of higher learning and research centers were set-up. IIUM, INCEIF, ISRA (International Shariah Research Academy), Islamic Banking and Finance Institute Malaysia IFSB (International Financial Services Board) set up in 2002.

In 2011, another initiative was the introduction of Shariah Governance Framework aimed at strengthening syariah supervision in the system.

It areas which are Shariah Advisory, Shairah Review, Syariah Audit and Shariah Research emphasized.

In 2013, the Islamic Financial Services Act (IFSA) was designed to create a better governance structure and parallel playing field for both Islamic and conventional banking in the country.

In 2017, the introduction of the strategic intermediation concept, namely the value-based Intermediation (VBI) marked another important milestone in the development of Malaysia's Islamic Finance landscape.

This is to ensure growth and sustainability of IF in the country even though it has showed unparalleled growth in its Islamic bank's market share and its annual growth rate.

VBI requires IFIs to develop innovative Islamic financial products and services that contribute to social well being, the environment and the economy. BVI focuses on the 3 ps, namely people, planet and profit.

Under VBI the performance of IFIs will be assessed from their financial performances and non-financial performances engagement and impact on the 3 areas mentioned.

Some statistics, in 2008 Islamic banking accounted for 7.1% of Malaysia's financial sector by 2016 it is 28% and the forecast by 2020 it will be over 40%.

5 reasons why this phenomenon development :

1. Products are inclusive (Muslim and Non-Muslims)
2. Standardization brings consistency BNM plan to standardize Shariah contracts on all retail, business banking and corporate products.
3. Regulatory support.
4. Industry engagement
5. Sustainable banking such as VBI

The Sadaqa House product by BIMB in 2018 is a good example.

The concept actually reflects the higher goal (maqasid) of Islamic economic system, which is social justice.

Malaysia has evidently succeeded in positioning itself as a world leader in IBF, with active support from the government and BNM.