

## Suhaimi Ali: Leading change through Value-based Impact

Opening remarks by Mr Suhaimi Ali, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Sustainability Leadership Programme for Financial Institutions, Kuala Lumpur, 24 May 2022.

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While domestic economy is expected to improve further this year, risks to Malaysia's growth momentum remain. Beyond economic factors, adverse developments surrounding COVID-19 as well as environmental and social risks continue to heighten volatility. The December 2021 flood event for example, hailed as the worst since 1971, demonstrated specific vulnerabilities and intricacies in how risks are to be managed:

1. Structural reforms are needed to improve Malaysia's flood risk mitigation infrastructures;
2. Large-scale relief efforts need strong coordination to be effective; and
3. Finance solutions must be expedient and impactful to help those affected. This recent flood episode goes to show that sustainability-related risks are inherently volatile, uncertain and complex, and would require a change in how finance is structured and consumed.

Allow me to offer some perspectives on leadership imperatives for financial institutions to catalyse and support a more orderly transition to a sustainable economy. Firstly, the financial sector must actively respond to critical needs through innovation-led growth. Demographic shifts, rapid technological change and climate change will continue to place new and evolving demands on the financial industry. In navigating the challenges ahead, agility in finance response is key. Recognising shifts in the operating landscape, the Financial Sector Blueprint 2022-2026 focuses on fostering market dynamism to enable financial sector to be highly adaptive to wide ranging scenarios. Regulatory efforts will be directed toward targeted interventions to remove undue barriers to innovation as well as address market failures.

The Bank is also reviewing how we regulate innovation to facilitate a more conducive environment for solutioning. This includes reviewing existing policies and enhancing the Regulatory Sandbox to better support innovation in value-based finance, including the novel application of Shariah contracts. We also strongly encourage innovation in impact-driven instruments such as Islamic social finance, blended finance, and green solutions. Potential recalibration of existing regulatory requirements will be explored to support the broader and more diversified application of Shariah contracts in advocating inclusivity and sustainability.

Secondly, financial institutions must demonstrate immediacy, and act together to solve 'real world' issues. The need for a collective and coordinated response to deliver meaningful impact to stakeholders is urgent and paramount. The flood last year provided a harrowing glimpse of the consequences of fragmented actions. Delayed evacuation responses and inefficient donation allocation to relief centres resulted in lost lives and wastages. Applying lessons learnt to achieve desired outcomes for the financial sector – which is finance for all, finance for transformation and finance for sustainability – requires leaders to have foresight in identifying collaborative

opportunities across industries and work together to develop impactful and scalable solutions.

Two areas I wish to highlight in which the Bank sees room for the industry to demonstrate immediacy and act together. First, mainstreaming Value-based Intermediation (VBI). The Islamic finance industry has demonstrated commendable progress through the VBI Community of Practitioners (COP) in developing frameworks and guidance that support the implementation of VBI. This momentum should continue into other implementation areas such as 'collaborative pilot' solutions, and impact monitoring and reporting with even greater rigour. As envisioned in the Blueprint, collaboration should also be extended beyond Islamic finance as VBI principles are universally applicable to the whole financial sector. For stakeholders of financial institutions, these initiatives should only be measured as "accomplished" once the benefits of value-based finance are genuinely experienced and felt, especially by financial consumers. To achieve this, business strategies, operations and manpower must be aligned to impact-driven corporate value intent. Finance solutions goes beyond providing economic benefits, it extends into delivering tangible social and environmental benefits.

Another area is Open Data. A multi-stakeholder collaboration involving the financial industry, government agencies and even the third sector such as NGOs is crucial in advancing open data arrangements. This year, open data initiatives will focus on identification of high priority use cases by the industry, which can then be immediately worked on together. Through initiatives such as VBI and open data, financial institutions can augment its contribution to wider stakeholders in promoting economic and social developments.

The third imperative, (and this is a viewpoint close to heart), is that value-based leadership requires empathy. Empathy is deeply rooted in the fundamental values of Shariah, such as Ihsan, fairness and mutuality. At its core, Islamic finance seeks to prevent harm and promote the attainment of benefits to improve lives and livelihood. This includes alleviating hardships experienced by customers through funding, investment and protection solutions as well as making improvements in how customers experience finance. In this highly digitalised era, stakeholders are becoming better at discerning the contribution of financial sector to the economy and society. 'Empathy' will ensure that financial institutions are closely attuned to the non-homogenous needs of different segments of society and the economy, and understand how to service them effectively. Particularly when working with the vulnerable segments, financial institutions must consider how consumers can be empowered to make better decisions that improves their financial well-being and protect themselves against risks. As an example, the blended finance programme introduced by the Bank, iTEKAD, integrates mentoring and upskilling within the programme to help participants build knowledge and experience in managing finance. This helps improve sustainability of the participants' business as well as the programme itself.

## **Conclusion**

In conclusion, I would like to share this quote from Erica Dhawan, "I thought I had to do it all, but in fact, I only had to do what truly mattered and made a difference". I trust that the deliberations from this programme will reinforce what is already crystal clear – that

is for financial sector to embrace sustainability and value-based finance. What remains is for financial institutions to internalise the impact of the transition for businesses, customers, and stakeholders, and drive transformation in pragmatic and meaningful ways. With that, I wish all of you an insightful and productive programme.

Thank you.