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Keynote Address by Deputy Governor Adnan Zaylani
at IFN Asia Forum 2024
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Good morning, distinguished guests.

It always is a pleasure to be back at the IFN Asia Forum 2024. A year ago, we discussed the potential of Asia and the potential contributions of Islamic finance in strengthening regional financial intermediation. Well Asia is certainly delivering amidst global headwinds. Asia's economic growth continues to gain momentum, driven by stronger domestic demand, rebound in tourism, and robust export activity. Undoubtedly there are pockets of weaknesses but the areas of strength offsets these. In 2023, the region recorded 5% growth, exceeding the global growth of 3.3%.[1] Asia also offers many opportunities for the green economy. The market for green businesses in Asia is projected to grow between USD4-5 trillion by 2030, generating over 14.2 million green-related jobs.[2] The region also requires an annual investment of at least USD1.1 trillion to meet climate and mitigation adaptation needs.

As for Malaysia, our long-term GDP growth from 2011-23 averaged 4.3%.[3] This surpassed the median long-term growth rates of regional and A-rated peer countries of 3.6% and 2.9% respectively. We have a positive outlook for the economy. We're expecting this year to be around 5% above our long-term average. Unemployment rate is low, households are still spending, and we have a healthy pipeline of new and on-going projects to support investment in Malaysia. National initiatives under the National Energy Transition Roadmap, New Industrialisation Master Plan 2030 and Green Investment Strategy provide strategic direction as to where we hope capital will flow. So notably, Malaysia recorded a 326% y-o-y growth in green investments to USD1.03 billion in 2023, signalling favourable opportunity in this space.[4]

Malaysia's economic prospects are indeed quite favourable. The ringgit, along with regional currencies, have been appreciating against the US dollar notably since early July following greater clarity on the interest rate path of developed countries, especially the US Federal Reserve. The narrowing of interest rate differentials with the US would be conducive to favour portfolio inflows, especially given Malaysia's positive economic prospects. The domestic landscape is also quite positive. Ongoing government structural reforms, subsidy rationalisation and social protection enhancements offer a window of opportunity to pursue meaningful change. Furthermore, the coordinated actions between the Government and BNM, which has already facilitated a better balance for flows, will continue and this will provide sustainable support for the ringgit. Importantly, ongoing structural reforms by the Government coupled with improving economic prospects will continue to sustain global interest for investment in Malaysia.

One of the key areas that we, as a country are focused on is in the area of sustainability. For Malaysia, we have already embarked on this journey. We have already outlined our goals and plans. Now it's about action. Allow me to share some thoughts on how we can further catalyse Islamic finance in meeting these needs.

Firstly, to **optimise diverse sukuk structure to catalyse funding for just and orderly transition.**

The financing requirements to build the sustainable economy is envisaged to be significant, particularly for emerging and developing economies. In Asia, it is estimated that USD1.7 trillion is needed annually to fund new infrastructure for economic growth.[5] Compounding this challenge is a significant shortfall in climate financing, with the region facing USD800 billion gap,[6] particularly in renewable energy. In the next five years alone, approximately more than USD138 billion is needed – more than double current investments amount – to meet net zero pledges by 2050.[7]

Government revenues alone cannot meet these needs. Sukuk has the potential to catalyse wider funding sources in this space both for government and private sector. Asia is one of the main contributors of sukuk globally, comprising 62.7% of the amount outstanding.[8] In Malaysia, sukuk is an important funding tool in supporting funding needs of our real economy. A total of USD56 billion of sukuk was issued in 2023 to fund real economic sectors with high concentration in renewable energy and green real estate.[9]

Encouragingly, Asia's private sector has made significant strides in sustainable bond issuance, thus providing a strong foundation to address this funding gap. In 2023, the region contributed to a quarter of the world's sustainable debt issuance of USD872 billion.[10] I believe there is great opportunity to further leverage Asia's strength in sustainability bond issuance by synergising with Malaysia's expertise in Islamic finance. The region also held 23% share of global ESG sukuk market,[11] underlying its potential to advance Islamic sustainable finance. Malaysia, in particular, has been at the forefront of this movement, continuing to lead with innovative strides in the market. Since pioneering the world's first green sukuk in 2017,41 corporate sukuk have been issued under the Sustainable and Responsible Investment Sukuk Framework, raising over USD6.67 billion.[12] Some recent sukuk examples include the issuance of ASEAN Social SRI Sukuk by Cagamas in July this year and SRI Sukuk Kelestarian by Air Selangor in August 2024 are latest additions to this pool. The former issuance reflects Cagamas maiden "social" labelled short-term sukuk, while the latter is Air Selangor's largest tranche, receiving a significant oversubscription of 4.95 times at book close.

So, these positive developments have been supported by the conducive and vibrant market that has enabled innovative solutions to be offered and scaled up. Rulings by the Shariah Advisory Council SAC (SAC) (of both Bank Negara Malaysia and Securities Commission) go a long way to provide Shariah certainty in the Islamic financial ecosystem in Malaysia, which is an important pre-requisite for robust market developments and strong investors' confidence. Rulings by the SACs are guided by a structured decision-making framework that not only considers classical Shariah underpinnings but takes into consideration comprehensive sources of Islamic law, pragmatic context and application of financial instruments, operating realities as well as impact to financial stability. Quite recently, the issuance of guidelines for Islamic Collateralised Funding in June 2024 and the SAC's ruling on the permissibility of anticipatory hedging last year will add to instilling greater market confidence, encouraging broader innovation and utilisation of Islamic capital market instruments.

In extending the financing frontier, we are also offering flexibilities for multilateral development banks and qualified development financial institutions to issue ringgit-denominated sukuk for use in Malaysia and provide ringgit financing to resident entities. Such flexibility, reduces foreign exchange risks for both borrowers and lenders, besides facilitating critical transfer of knowledge and skills. For example, earlier this year, the International Finance Corporation (IFC) utilised the flexibility provided by BNM to provide ringgit financing to finance the construction of a greenfield data centre in Malaysia.[13]

Second, is to **expand takaful to address protection gaps.** Whether it is climate-related disasters or the aging population, Asia faces significant vulnerabilities while experiencing economic growth. Despite being a disaster-prone region, 91% of economic losses remain uninsured.[14] And as our elderly population grows – projected to nearly double by 2050 – demand for healthcare and protection is rising fast. This has already spurred demand growth for micro-protection solutions, driven by post-pandemic recovery and rapid digitalisation. Asia is at the forefront of this shift, with 90.7 million people now covered by 175 microinsurance offerings[15] – a testament to the region's leadership in fostering financial inclusion.

Takaful, with its foundations in cooperation, risk-sharing, and community solidarity, offers a compelling solution. The global takaful industry has expanded threefold over the last decade, reaching USD89.5 billion by end of 2022.[16] Growing climate risk and financial vulnerability in Muslim-majority countries has driven demand for takaful, leading to the introduction of innovative climate protection solutions, including in Malaysia.[17] Encouragingly, non-majority Muslim countries such as likes of the Philippines has looked into offering takaful signalling exciting opportunities in diverse markets.

Here in Malaysia, the takaful sector has demonstrated robust performance. Over the past decade, market share has doubled to 23.4%, and family takaful contributions have grown to 19.8% in 2023.[18] These numbers underscore the industry's expanding role within the broader insurance landscape. But our focus goes beyond mere numbers. Since the introduction of the Value-based Intermediation for Takaful (VBIT) framework in 2022, the takaful industry has shifted towards value-driven growth, prioritising empathy and inclusivity in financial protection. So for instance, takaful operators are now extending coverage to previously excluded communities, such as those with learning disabilities and special care needs. This progress is further reinforced by the Malaysian Takaful Association's Maqasid Shariah Scorecard (MSS), which aligns key performance indicators with the ethical values of Islamic finance. We anticipate that this scorecard will be fully implemented by the second half of 2025.

Innovation and outreach are critical in unlocking takaful's full potential. Recognising this, in June of this year, BNM issued an *Exposure Draft on the Broader Application of Ta'awun in Takaful*, encouraging operators to adopt responsible, community-oriented business practices. Additionally, the *Licensing and Regulatory Framework for Digital Insurers and Takaful Operators* (DITO) was introduced in July this year as well. The framework aims to welcome new players into the market with strong value propositions around inclusion, competition, and efficiency. This is complemented by an enhanced Fintech Regulatory Sandbox Framework, designed to spur innovation and drive the development of new solutions. Together, these initiatives will foster a dynamic, inclusive takaful market that reaches the underserved and unserved segments.

Takaful's development also presents significant opportunities for retakaful growth, which is key to strengthening the takaful value chain. Retakaful boosts takaful's risk underwriting capacity by enhancing scale and diversifying risks, allowing operators to better address evolving risks. With strong domestic and global players, Malaysia stands ready to facilitate cross-border businesses and serve as a retakaful hub across the region and beyond.

Third, strengthening **international partnerships to unlock green investment opportunities.** Significant greenfield investments in climate-related projects and high-value industries are steadily attracting capital inflows into the region. At the same time, Asia's role within the global value chain is growing stronger, particularly as we witness a shift towards more integrated regional value chains.[19] Malaysia, like many other Asian countries, shares a common vision of tapping into these promising opportunities, further facilitating the cross-border capital flows needed to drive growth.

In Malaysia's case, our solid economic fundamentals and mature Islamic finance ecosystem positions the country as a natural hub for Shariah-compliant investments. To ensure our industry stays agile and ready to seize evolving green investment opportunities, I wish to spotlight three of our important partnership efforts:

- First, we are strengthening our ties with strategic international partners with an active industry stewardship. Earlier this year, in May, the MIFC Leadership Council, released a position paper outlining 18 impactful projects aimed at advancing Islamic finance. Part of this effort includes building strategic partnerships which recently saw the signing of Memoranda of Cooperation with four countries – namely Indonesia, Hong Kong, and Türkiye and the United Kingdom (UK). In addition, we recently held productive discussions with our UK counterparts to promote wider application of Islamic finance in green investments. We are also actively working on a few incoming global initiatives with multilateral development banks including Islamic Development Bank and the World Bank to build long-term impact and capacity of the industry.

- Second, we are fostering a Shariah-compliant green funding ecosystem. The Government has charted the nation's investment needs in the recently launched Green Investment Strategy, which identified about USD70 billion funding required by 2030.[20] This aligns with commitment and efforts undertaken by the industry players. The Islamic Financial Market Sub-Committee also recently hosted IFMC-MIFC Leadership Council Roundtable in August 2024 towards advancing ecosystem for Shariah-compliant green investment and fundraising activities. The industry reinforced commitment to scale up green sukuk utilisation in Malaysia in three key focus areas – broadening the investor base, strengthening collaboration with key stakeholders to enhance vibrancy of green funding and building critical mass to finance new frontiers, such as blended finance.

- Finally, looking ahead to Malaysia's ASEAN Chairmanship next year, we are committed to establishing deeper collaboration across the region. BNM, in partnership with fellow regulators such as the Securities Commission, is actively working to unlock the potential of new growth sectors by integrating Islamic finance with sustainable and green finance initiatives. At the regional level, we believe that innovative financial solutions, including Islamic financial instruments, are key to supporting the sustainability agenda of ASEAN countries.

So, I hope today's forum will nurture more ideas and discuss measures on how we can further unlock these potentials together. Let us also be guided by Surah Al-Imran, verse 103 which reminds us: "*And hold firmly to the rope of Allah all together and do not become divided…*"

On that, I wish you all a productive and insightful forum ahead.

Thank you.

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[1] Source: IMF Blog, April 2024, '**Asia's Growth and Inflation Outlook Improves, but Risks Remain**'

[2] Source: IMF article, June 2024 '**Asia-Pacific: How the region is prioritising a green economy**'

[3] Source: Department of Statistics Malaysia and World Economic Outlook. Figure reflects Malaysia's average GDP growth expressed in from 2011-2023

[4] Source: Bain and Company report, 'Southeast Asia's Green Economy 2024 Report: Moving the Needle'

[5] Source: ADB article, 2022, '**Bridging the trillion-dollar infrastructure gap in Asia Pacific**'

[6] Source: IMF Blog, January 2024. **'Explainer: How Asia can Unlock USD800 billion of Climate Financing**'

[7] Source: **Asia Pacific Net Zero Economy Index 2023**

[8] Source: IFSB Report 2024

[9] Source: Bank Negara Malaysia Annual Report 2023

[10] Source: **UNCTAD Sustainable Finance**

[11] Source: Fitch Article, February 2024. '**ESG Sukuk Market Hits USD36.1 billion in 2023, Fitch Predicts Continued Growth**'

[12] Source: **BIX Article, 'Malaysia's SRI Sukuk to gain momentum with energy transition, social inclusivity and sustainable agenda under the MADANI economy**'

[13] Source: IFC Press Release, May 2024, "**Malaysia's Data Center Ambitions Get a Boost with New Investment from IFC**"

[14] Source: **Aon 2024 Climate and Catastrophe Report (Asia Pacific)**

[15] Source: **'The Landscape of Microinsurance 2023**' by Microinsurance Network

[16] Source: IFDI report 2022 and 2023

[17] Farming communities in Pakistan, Sudan, and Kenya effectively used takaful to mitigate the impacts of climate change. In September 2024, Malaysia launched a paddy crop takaful scheme to bolster the nation's food security, which offers coverage for paddy farmers against natural disasters, crop diseases, and pest infestation.

[18] Source: Bank Negara Malaysia and staff estimates

[19] Source: Asia Development Bank, **Asia Economic Integration Report 2024**

[20] Source: The Edge, **"Malaysia aims to draw in RM300b of green investment by 2030"**