

## **Abdul Rasheed Ghaffour: Revitalising the economy via Islamic finance**

Speech by Mr Abdul Rasheed Ghaffour, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the 19th Kuala Lumpur Islamic Finance Forum 2024, Kuala Lumpur, 5 November 2024.

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It is an honour for me to be here at the 19th Kuala Lumpur Islamic Finance Forum. For over nearly two decades, KLIFF has been a mainstay in the annual calendar of events - surfacing global Islamic finance perspectives, which resonate with contemporary developments. This year's forum, with the theme 'Revitalising the Economy via Islamic Finance', again - fosters dialogue and collaboration among stakeholders - to cultivate ideas and address the challenges of our time.

### **Islamic finance to elevate its role and impact in revitalising the economy**

Allow me to begin by drawing some reflections and lessons from our rich Islamic history. Right from the start, the principles of ethical trade and equitable wealth distribution - have always been foundational in Islamic society. Back then, when slavery was prevalent, Islam called for the move away from involuntary and slave labour - to be in favour of productive labour. As reported by Abdullah ibn Umar, Prophet Muhammad exhorted his people to - "pay the worker's wages, before his sweat gets dried"<sup>1</sup>.

Such a progressive move was not only virtuous, but also a significant labour market reform. In fact, we see in the history of Islam, many important developments - which led not only to the boosting of productivity, but also the emergence of innovative business techniques - laying the foundations for the modern economic system we have today. These include limited partnerships or *mudharabah*, the earliest forms of credit (*qard*), as well as the practice of mutual aid and cooperation - through *zakaat* and *waqf* - that enable resources to be redistributed and utilised, for the common good. These advancements strengthened social welfare - and in turn - encouraged cooperative enterprises and community-driven initiatives

Fast forward to today, I believe that the Islamic financial sector, must carry on this tradition of courage and ingenuity - by continuing to challenge the status quo and to unlock next-level frontiers in financial practices and offerings - while remaining anchored on our fundamental values. To follow in the footsteps of our forefathers - in pushing the envelope in bringing about change, as we work to build and develop a more inclusive and sustainable economy.

### **Embodying values of Shariah, advancing innovation and promoting global integration**

Ladies and gentlemen,

Islamic finance now stands on a solid foundation having gained great traction domestically and globally in recent decades. Within just ten years, global Islamic finance assets grew by more than two-fold surpassing USD4.5 trillion in 2022, up from USD1.7 trillion in 2012. In Malaysia, the Islamic banking sector accounts for nearly half the total financing, while takaful accounts for about 25% of total net premiums or contributions<sup>2</sup>. The Islamic interbank money market volume - covers around a third of the entire market, and Shariah-compliant stocks account for 81% of listed stocks. Malaysia is also home to the world's largest sukuk market, accounting for 42% of the global outstanding sukuk.

While much has been accomplished, we must and can do more to chart our future pathway, especially in elevating the role of Islamic finance in achieving sustainable economic growth and social justice. This includes mobilising capital and funnelling investments to high-impact sectors that is aligned with national priorities. Indeed, I believe that Islamic finance is poised and has significant potential - to revitalise the economy via three key propositions that I earlier shared at the Global Forum on Islamic Economics and Finance in May this year. The three key propositions are:

- First, embodying *Maqasid* Shariah in economic and sustainable reforms;
- Second, advancing innovation for value-based solutions; and
- Third, strengthening global integration for mutual development and shared prosperity.

Firstly, I cannot underscore enough the importance of Islamic financial institutions' embodiment of the *Maqasid* Shariah. Doing so, requires wholehearted commitment to realise and advance the overarching objective of "prevention of harm and attainment of benefit" in all aspects of the business. All of us must contribute towards a more sustainable and ethical financial ecosystem by fostering Islamic financial practices and solutions that adhere to the fundamental principles of fairness; transparency; and inclusivity.

Wealth generation, circulation and investment should also be increasingly channelled towards economic activities which prioritise societal and environmental well-being over purely capitalistic goal of profit maximisation. In the long run, our sincere intention and unwavering efforts to embody the fundamental values of Shariah will certainly allow us to bear the fruits of the reforms. As reminded in the *Quran*<sup>3</sup>, "*O believers! Be steadfast, strive to excel in steadfastness, remain firm on your belief and be mindful of Allah, so you may be successful.*"

On this count, I commend the Malaysian Islamic finance industry for taking the leap forward more than half a decade ago - to embrace Value-based Intermediation (VBI). This strategic alignment with the *Maqasid* Shariah has enabled the industry to have a leg up while the rest of the sector is still at the exploratory stage in the ethical and sustainable journey. With the recent launch of the 3rd cohort of the VBI Financing and Investment Impact Assessment Framework (VBI AF)<sup>4</sup> Sectoral Guides and the *Maqasid* Shariah Scorecard (MSS) in October, the industry should collectively work to intensify the implementation of VBI and measure its impact more effectively.

Moving forward, stronger implementation of VBI requires concerted efforts and holistic alignment across all key stakeholders. In particular, shareholder stewardship is vital to

ensure the transformative impacts of value-based finance are seen and felt by many. With louder tone from the top - shareholders have the power to drive positive changes across the entire ecosystem - aligning business practices with the best conduct - which can further strengthen governance and promote positive consumer outcomes. The Islamic finance talent ecosystem must also evolve from treating Shariah requirements as a compliance exercise to encapsulating the Shariah values in its entirety – by demonstrating trustworthiness; fairness; transparency; social responsibility; and a commitment to justice and shared prosperity.

Ladies and gentlemen,

The second key proposition is to advance innovation for value-based solutions. In adapting to the changing market needs, Islamic finance must remain agile - by structuring sophisticated instruments, using the basic building blocks; unbundling; and repurposing different components of existing Islamic financial instruments. The industry should actively explore the full range of Shariah contracts and instruments to drive financial innovation to address real-world challenges.

I believe that the future of value-based innovation is certainly bright.

- First, blended finance has great potential to expand access to finance for the underserved and unserved segments. This is particularly due to its ability, to mobilise social finance capital, such as *zakat* and *waqf* - combined with traditional financing. An example of blended finance solution includes iTEKAD, an initiative which has benefited over 8,000 microentrepreneurs. The Government continues to support the initiative by allocating grants to match contributions from insurers and takaful operators (ITOs) to scale up financial sector participation in iTEKAD and enhance its comprehensiveness, with financial protection elements. Another example is the Greening Halal Businesses (GHB) programme - to help halal entrepreneurs transition to sustainable and green practices - of which the Government has announced its support for the programme - that is expected to roll-out in the first quarter of next year.
- Second, the prospect of technology and digitalisation continues to widen, reflecting significant opportunity for growth. On our part, the Bank will continue to support financial innovation by adopting an activity-based approach and proportionality in regulation. With the roll-out of the enhanced Financial Technology Regulatory Sandbox that accords greater regulatory flexibility - more players should explore piloting new business models - potentially in partnership with digital banks and digital ITOs - in accelerating the development of innovative solutions.
- Third, the industry should capitalise the opportunity to maximise diverse application of Shariah contracts by leveraging on the issuance of Broader Application of Ta'awun Exposure Draft and the upcoming Shariah Contracts Framework Consultation Paper. Optimal use of these tools is imperative to advance the value-based innovation.

The recent budget allocation of RM100 million matching fund for risk-sharing structures, also signals strong commitment by the Government to foster financial innovation. I implore the industry to seize the opportunity to innovate through risk-sharing product offerings, particularly to fund climate transition and food security initiatives. Malaysia's

ASEAN Chairmanship next year will also focus on deepening regional collaboration to support the sustainability agenda of ASEAN countries - thus there will be new growth opportunities - to integrate Islamic finance with climate change and transition finance initiatives.

Ladies and gentlemen,

The third or final key proposition that I wish to touch today - relates to strengthening global integration for mutual development and shared prosperity. The global Islamic finance market is expanding rapidly, attracting a growing number of international investors, and driving economic growth across multiple regions, including in emerging markets - such as the Philippines, Central Asia and North Asia. Islamic finance players can expand their footprint and global outreach, encouraging greater cross-border investments and collaboration by capitalising on these opportunities.

To support this proposition, key strategic avenues include:

- First, to foster meaningful collaborations, leveraging on the activation of business linkages through the MIFC Leadership Council's strategic partnerships with counterparts in other countries;
- Second, to elevate the role of Centralised Shariah Authorities Forum in building stronger connections between Shariah authorities to foster mutual respect and knowledge sharing in addressing common Shariah issues; and
- Third, future-proofing Islamic finance talent through collaborative initiatives that enhance talent mobility. This can be achieved through the exports of Malaysia's expertise via talent development institutions such as INCEIF University, ISRA, IBFIM, ASAS, and the multitude of other talent or capacity-building providers we have. These efforts will enhance Malaysia's connectivity with various markets and reinforce Malaysia's leadership in Islamic finance at the global stage.

Ladies and gentlemen,

In conclusion, building on KLIFF's decades of experience, I look forward to the actions that will be set in motion once the curtains close, on this year's KLIFF - bringing to life the theme of 'Revitalising the Economy via Islamic Finance'. The discourse and initiatives launched here are the building blocks to real, impactful changes in driving forward the Islamic finance industry. On that note, I hereby officiate KLIFF 2024 and wish everyone an engaging and insightful forum ahead.

Thank you.

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<sup>1</sup> Sunan Ibn Majah 2443

<sup>2</sup> As at 1H 2024

<sup>3</sup> Surah Ali-'Imran (3), Ayat 200

<sup>4</sup> VBI Financing and Investment Impact Assessment Framework

