

Keynote

The 6th Annual World Islamic Banking Conference: Asia Summit

Under the Theme, "Transforming Strategies to Revitalize Growth:
Forging the Next Phase of Progress for Islamic Finance"
organized by Mega Events, supported by
Monetary Authority of Singapore

Singapore, 3-4June2015

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Ladies and gentlemen

1. I am very delighted to be with you today to participate in this Sixth Annual World Islamic Banking Conference – Asia Summit. I would also like to thank The Monetary Authority of Singapore and Mega Event for the kind invitation.

2. It is now widely agreed that the Islamic financial services industry (IFSI) has experienced phenomenal growth and that it is one of the fastest growing sectors in the last decade. According to the latest IFSB's Financial Stability Report 2015, the assets' double-digit compound annual growth rate (CAGR) of 17% between 2009 and 2013. The industry's assets are estimated to be worth USD1.9 trillion as at 1H2014, having grown from USD1.8 trillion as at end-2013.

3. Overall, Islamic finance assets are heavily concentrated in the Middle East and Asia, although the number of new markets is expanding. The GCC region accounts for the largest proportion of Islamic financial assets as the sector sets to gain mainstream relevance in most of its jurisdictions; the region represents 38% of the total global Islamic financial assets. The Middle East and North Africa (MENA) region (excluding GCC) ranks a close second, with a 34% share and Asia ranks third, representing a 22% share.

4. The significant growth of the IFSI has slowly altered the financial landscape.

Institutions offering Islamic financial services (IIFS) have begun to venture beyond their traditional boundaries of Muslim world to take on board cross-border operations in order to exploit new growth opportunities in other regions as well as to forge greater cross-border linkages in financing business and development projects. New horizons are also emerging within the West Asian universe to unlock the potential of Islamic finance in promoting financial inclusion and allow a greater segment of the population to participate in the economic growth process.

In addition, Islamic finance has also appeared as a franchise on the radar screen of a growing number of jurisdictions aspiring to position themselves as leading financial centers. For these reasons, the governments of some developed economies have found it worthwhile to accommodate Islamic finance through enabling regulations especially by entering the capital market themselves.

5. The establishment of AAOIFI, IFSB, IILM, IIFM and active involvement of multilateral organizations such as the IMF, the World Bank, the IDB and the ADB all contributed to strengthening the industry.

Ladies and gentlemen

6. The Islamic financial services industry (IFSI) today is becoming more structured, sound and stable. The IFSI today does not resemble anything like that of the last four decades. For a time, Islamic finance was merely seen as a niche industry with a small number of players providing a basic range of ‘plain vanilla’ Sharī’ah (or Islamic Law) – compliant products. We are now witnessing a trend in establishing new institutions offering Islamic financial services (IIFS) which are much bigger in size than those established ten years ago, as well as the reaction from older IIFS to increase their equity to match the new generation of IIFS. This is necessary in order to meet the needs of the customers who require more sophisticated products and services.

7. Although significant progress has been made in the development of the IFSI, in order for it to progress to next level, it needs to acknowledge specificities of Islamic finance and at the same time be fully integrated into the global financial system. Currently, practices in many countries accommodate the IFSI within the financial architecture of the conventional finance system with little or no regard to the special features in the products and services offered by the IIFS. The gap between the needs of the IFSI and the financial architecture in place for it may have very damaging effects, and this is where we have to shape the financial architecture to accommodate such specificities.

8. The IFSB and Islamic Development Bank (IDB) have undertaken a joint initiative in 2007 to chart a Ten-Year Framework for the Islamic Financial Services Industry so as to facilitate the development of the industry into a vibrant, comprehensive and progressive one. The document represents a major step toward identifying priorities and potential initiatives in the three key areas of institutional, capital market, and infrastructure development.

9. Since 2007, the global financial services industry has changed substantially due to the financial crisis.

Last year, the IFSB has undertaken a mid-term review on the progress made. The IFSB-IRTI Mid-term Review highlighted several member countries have seen rapid improvement in legal and regulatory frameworks as well as associated market infrastructure. In other member countries, these improvements have not yet been made. Many countries have adopted international standards specific to Islamic financial services; many have not yet fully done so. At this mid-term juncture, in summary, the work remains largely unfinished.

10. There is also greater recognition in Western jurisdictions that Islamic financial services can contribute to the stability of their broader financial systems. Most of all, perhaps, is the recognition by the global community that the IFSI industry has durable commitments from an expanding range of stakeholders including small medium industries.

There is a positive trend towards deeper collaboration among intergovernmental institutions especially the World Bank, International Monetary Fund, Islamic Development Bank and, in Asia, Asian Development Bank. These institutions have been especially valuable for broader financial inclusion in many countries. There has been a trend of bringing expertise from these institutions to facilitate the development in several areas. This helps to foster communication, the transfer of best practices, and enhanced collaboration.

11. Over the past years, emerging markets have been increasingly identified as key engines of growth for the global economy. While mature economies remain vitally important to the global economy, sources of global growth are now more diversified. These contrasting growth prospects have accelerated the eastward shift and economies of Asia and the Middle East are seen as increasingly central.

12. The development of an international Sukūk market is an important step in strengthening linkages between Asia and the Middle East. It is noted that many subscribers to Sukūk from one region have been marketed to other regions – opening up a pool of capital that would otherwise have been difficult to bring to the industry. The largest and most sophisticated Islamic banks generally enjoy strong ties with regional and international markets. These ties are often mediated by the Islamic business units of conventional international banks, which can draw on their existing relationships and infrastructure to act as “market makers”.

13. With the increased pace of globalization, the economic and financial linkages of the domestic sector and international markets are expected to increase. It creates numerous opportunities for Islamic financial services industry, including (1) managing the savings and wealth being created, (2) supporting ongoing economic growth by providing financing, and (3) exercising increased influence in global forums and decision-making bodies.

14. Regulatory authorities need to address three important emerging issues in order to facilitate the globalization of

Islamic finance. First is effective governance framework. Islamic banking and financial institutions are responsible for ensuring that Islamic products or services are Shari'ah-compliant both before and after launch. The institutions need to maintain the integrity of the products and to avoid possible subsequent disputes. Effective governance framework, including Shari'ah governance, should be done through appropriate processes and by developing more knowledge and expertise among staff. **Second is to strengthen consumer rights and protection.**

Most consumer protection issues and instruments of conventional finance are also relevant for Islamic finance, but the Islamic identity of Islamic financial institutions and

investment products that have participatory features call for adjustments of conventional conduct regulations. **Third, building capacity especially investing in human resources especially for the next young generation of Sharī'ah scholars.** In some jurisdictions, there is still a shortage of qualified Sharī'ah scholars in the Islamic financial industry. Universities and higher education institutions in collaboration with market players are encouraged to offer courses or training program, which will provide the necessary knowledge, expertise and experience for the industry.

15. Let me briefly highlight the development of the banking sector in the UAE. The sector has grown over time in size and is currently the largest in the MENA region. The total assets in the sector have

reached AED 2.3 trillion (USD 628 billion) at the end of 2014, of which the 8 Islamic banks represent 18% or AED404 billion (USD 110 billion). The banking sector is currently stable with indicators of growth on the assets and liabilities side providing comfort for the ability of the sector to continue to intermediate efficiently. Deposit mobilized by full-fledged Islamic banks rose at a compound annual growth rate (CAGR) of 9.2 % between 2009 and 2014 to reach AED 285 billion (USD 78 billion), accounting for 20 % of the overall banking system deposits.

16. Among other financial institutions, there are 14 Islamic finance and investment companies. The total assets of AED 35 billion (USD10 billion), constitute

59% of the total assets of finance and investment companies respectively.

17. Let me end, by updating you with the latest development in the Islamic Financial Sector in the UAE. In March this year, the Board of Directors of Central Bank of the UAE has reviewed the initiative to establish a UAE Federal Sharī'ah Authority.

18. This initiative was in collaboration with Dubai Islamic Economy Development Centre. The Board of Directors resolved to form a Joint Committee with the UAE Banks Federation, to develop a charter, including

terms of reference and operational process for the Authority.

The establishment of the Authority would strengthen the Sharī'ah-compliant mechanism within Islamic banking and other financial institutions, which would bring consistency among the Islamic Financial Institutions, and would facilitate trade, economic and financial cross-border transactions.

Thank you very much.