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Islamic financial oasis

How once-fledgling industry has now put M'sia on global financial forefront

KUALA LUMPUR: At a time when other global financial giants had succumbed to the pressure of August 2007 crisis, Islamic finance appeared to remain resilient. Above it all, Malaysia had emerged victorious.

Already a world leader in terms of ranking in sukuk (Islamic bonds) issuance, the nation had in its command 57 per cent, or RM172 billion, of total bond issuance of RM301.7 billion.

Adding to this, Bank Negara planned to award two more banking licences to mega Islamic foreign banks with a minimum capitalisation of US\$1 billion (RM3.09 billion) each – adding to its present three – as well as two takaful (insurance) licences.

Such achievements would be unheard of three decades ago, when the only likely reference to Islamic finance was the Pilgrimage Fund Board (Lembaga Tabung Haji, or TH). Still, such assumption was not far off the mark.

Initially devised in 1963 as a national economic scheme, TH incorporated one key aspect of any financial services institution: the provision of a deposit programme for pilgrims wishing to perform the 'haj' (ritual pilgrimage to Mecca) – the last of Islam's five pillars. To date, the board's total funds under management has reached RM23 billion, making it the world's largest non-banking Islamic savings institution. "The average growth rate for TH has been in the double-digit since 2002," said its chairman, Tan Sri Abi Musa Asa'ari Mohamed Nor in an online note.

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"We have recorded net profit after 'zakat' (tithe) of over RM1 billion over the past four financial years in a row, beginning with RM1.1 billion in 2006," he added.

Being a predecessor itself, TH had also 'given birth' to another financial pioneer: the nation's maiden Islamic bank, Bank Islam Malaysia Bhd (Bank Islam) in July 1983.

From only RM80 million initially, the bank's paid-up capital had swelled to almost RM1.73 billion as at June 30, 2010. Entailing this, the pioneering 'lineage' continued with the establishment of Bank Islam's 'takaful' arm, Syarikat Takaful Malaysia Bhd (Takaful Malaysia) in November 1984 - the first Islamic underwriter in the country.

"Takaful Malaysia has triggered the evolution of the takaful industry and the Islamic finance sector as a whole," related its group managing director Datuk Mohamed Hassan Kamil to The Borneo Post in a recent telephone interview.

Starting with only 22 staff force, Takaful Malaysia has

been touted as one of the world's largest takaful operators with a powerhouse of 1,000 staff across 31 branch offices. Its group asset strength stood at RM4.67.

"These proud achievements have been mainly contributed by the strategy to right-size its overall operations, as well as the restructuring its overall branch network," outlined Mohamed Hassan.

"With more access to takaful offerings due to the inclusion of such products into conventional banks' sales channels, customers everywhere can now enjoy the basic fundamentals of syariah-compliant products."

Incidentally, Takaful Malaysia's reference to conventional banking linked the inclusion of the nation's two prominent homegrown brands into the Islamic banking sector; Maybank Islamic Bhd (Maybank Islamic) in 1993, and CIMB Islamic Bank Bhd (CIMB Islamic) in 2002.

As of date, Maybank Islamic and CIMB Islamic have recorded total assets amounting to RM45.08 billion and RM37.4 billion, respectively.

Collectively, both Islamic banks control some 30 per cent of the nation's total Islamic assets.

CIMB Islamic's chief executive officer Badlisyah Abdul Ghani revealed that CIMB began its foray into Islamic finance simply because its customers demanded it.

"It is a component of the market that no bank can ignore. Competition is

normal. It is good for the market especially the consumers. We have no issues with more players coming into the Islamic finance arena because a healthy competition pushes us to improve ourselves," he wrote, in response to an e-mail by The Borneo Post.

An 'alumnus' from Bank Islam himself, Badlisyah clarified that contrary to popular belief, double structures between conventional and syariah systems were not detrimental to Islamic finance. "Harmonisation of laws exists because there are clear rules and regulations that exist between the two.

Even during its nascent days of operations, Islamic finance did well due to clear legislation that exists within the nation.

The nation's Islamic Banking Act, the Banking and Financial Institutions' Act, as well as other statutes facilitated the growth and development of the industry with great ease," he disclosed.

"To this, we have the founding fathers of the Islamic Banking Act to thank for."

While ranked at number two in Malaysia and Southeast Asia in terms of total assets, financing assets and deposits; CIMB Islamic held the superlative of having the most number of product offerings amongst its peers.

"We have a policy that says for every conventional financial product we have, an equivalent Islamic financial product must also be made available for our

clients; where possible undersyariah. This ensures that our clients have the option to choose between the two. At the same time, the bank strives to create new, innovative products that the market has never seen before," added Badlisyah.

To which Maybank Islamic's chief executive officer, Ibrahim Hassan concurred.

"As a global Islamic financial hub, we have to offer more products to a wider range of customers," he opined.

"Contrary to its name, Islamic financial is not slated exclusively for Muslims. The growing economies of Indonesia, China and India as well as Europe - all are potential markets." Ibrahim also agreed that the rising number of players in the industry would further enhance the nation's position as the international hub for Islamic finance, under the Malaysia International Islamic Financial Centre (MIFC).

"Currently, there are 24 players including local and foreign financial institutions offering Islamic finance. Under the Economic Transformation Programme (ETP) launched in September 2010, Islamic banking has been identified as one of the key sectors which is expected to contribute to a higher and more sustainable economic growth.

"This will encourage greater financial and trade flows between Malaysia and foreign countries, particularly Asia and the Middle East," he stressed.

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KEEPING THE LEGACY: Malaysia has emerged victorious on the global Islamic financial forefront, thanks to the founding fathers of the Islamic Banking Act whose legacy is continued by these financial figures: (inset, from left) Badlisyah, Ibrahim, Mohamed Hassan and Abi Musa.