



Sustaining Malaysia's leadership in Islamic Finance ~ Riding on the crest of a new wave

*Towards a more Sustainable and Humane Financial System
Through Islamic Finance.*



Affin Islamic Bank
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Special Address

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¹ The views are the speaker's own and do not necessarily represent those of his affiliations, the usual caveats apply.

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Salutations

1. Introduction

Assalamualaikum wrb, peace and blessings be upon you.

First of all, let me start by saying Syukur Alhamdulillah, by His Grace and Blessings we are gathered here today for this auspicious forum, in these beautiful last few days of Ramadan. May the best blessings be with us insyaAllah.

Thank you to Affin and Affin Islamic for the invitation to share some thoughts this morning. I should start by acknowledging that over the years I have had the pleasure of knowing many from the Affin and LTAT group personally and professionally. Affin Bank was one of our G-20 GLCs (actually 23 GLCs and GLICs) that was part of that amazing journey of the GLC Transformation Program from 2005 to 2015, where Khazanah was honoured to have been the secretariat, and alhamdulillah we were able to create lasting value together.

I note that LTAT as the holding company GLIC, and Affin Group as its key financial services engine plays a critical role in not just as an economic development agent in our nation's development path, it is more than that a key socio-economic agent, mandated to steward the financial and overall welfare of our nation's retired armed forces servicemen and women. This duality of functions i.e. to uphold the best financial and commercial discipline and to steward the highest duty of care and skill for the social well-being of its members is at the heart of what Islamic Finance and its rich, ethical and humane precepts and tradition is about. And this, i.e. the integration and application of Islamic Finance principles and practices into our lives at the individual, company, shareholder, financial institution and indeed national levels.

Before we go further, I wanted to put on record my understanding of some of the achievements of the Affin Group and Affin Islamic in particular over recent years. I understand that last year for example, Affin Islamic's PBT was a record high and at 55% of Group PBT you are now one of the fastest growing Islamic FIs. While Affin in terms of size as measured by total assets for example is of course not in the pantheon of among the largest, Affin Islamic's asset base of about RM40bn is a significant percentage of the Group's asset base of about RM105bn and this share is fast rising. While size does matter in financial services, it is indeed not everything. Quality is a big part of it. Commitment is. And a Passion for Innovation is. I believe you are demonstrating these qualities insyaAllah with among others, the focus on sustainability with green SRI sukuks for solar power, EVs and water treatment and product innovation in areas such as Sukuk Wakalah programs and the shariah-structured BHIC debt settlement that was co-led with Affin Hwang IB. Congratulations, and alhamdulillah, these are wonderful foundations to build on.

2. Reclaiming finance to serve the real economy in order to serve a more just and progressive society – the case for Islamic Finance

Indeed as we reflect on what the role of financial institutions are and in particular what Islamic Finance can do, a historical perspective is perhaps useful. Last year, 2023, was a milestone year; representing the 40th anniversary of official start of Islamic Banking through the formation of Bank Islam in 1983 and indeed the 60th anniversary of the formation of Lembaga Tabung Haji in 1963 – a landmark date for the development of Islamic Finance especially in the asset management sector for this most noble social objective. It was indeed in the 1960s and 1970s that we may recall that catchy motto of a leading bank in

Malaysia of being “*Big, Strong, Friendly*”. Indeed, banks and financial institutions then, in the 1960s and 1970s were the epitome of safe and friendly community institutions who helped to support the real economy – of both businesses and families – which, in turn then, supported an aspirational and progressive society. Fast forward from the 1980s onwards, one of the megatrends of our times has been the trend of financialization, that is banking and finance has evolved such that it can be reasonably argued that the true role of finance which is to support the real economy which in turn is to support a just and progressive society has been somewhat broken, reversed or at least fractured.

Our times has been variously labelled including the poly-crisis age of the interrelated crises of 1) the inequality crisis (of income, wealth and opportunity), 2) the unsustainability crisis of planetary health and the environment and 3) a crisis of humanity itself as manifested in among others wars, displacement and migration, modern slavery and oppression, the mental health pandemic and most sadly, the genocide that is happening before our very eyes, in this century of such plenty and clever technological advances.

While not exclusively so, the evidence has been mounting that especially in the last three decades with the increase in the amplitude and frequency of financial crises, many of the root causes of these ills have been inextricably linked to economic and financial factors. From debt driven overconsumption, to the pro-rich and anti-poor effects of financial crises, to inflation and a cost of living crisis, to jobless growth, to unnatural monetary policy favouring the capital rather than the people’s economy and so on, are indeed some of the symptoms of deeper causes. Of an economic and financial system that seems to be only big and getting bigger rather than what we need it to be strong and friendly too.

It is in this context that I wanted to connect this backdrop with developments in making our financial system here in Malaysia and beyond to be more humane and more sustainable, especially through the levers of a sound, ethical values-based system that is Islamic Finance and how Affin and Affin Islamic in particular can contribute to and benefit from these trends and opportunities, and in the process supporting Malaysia’s financial system to continue leading the way globally in Islamic Financial Services, insyaAllah.

3. **Development of Islamic Finance in Malaysia and globally: half full or half empty means much opportunity, much to be done.**

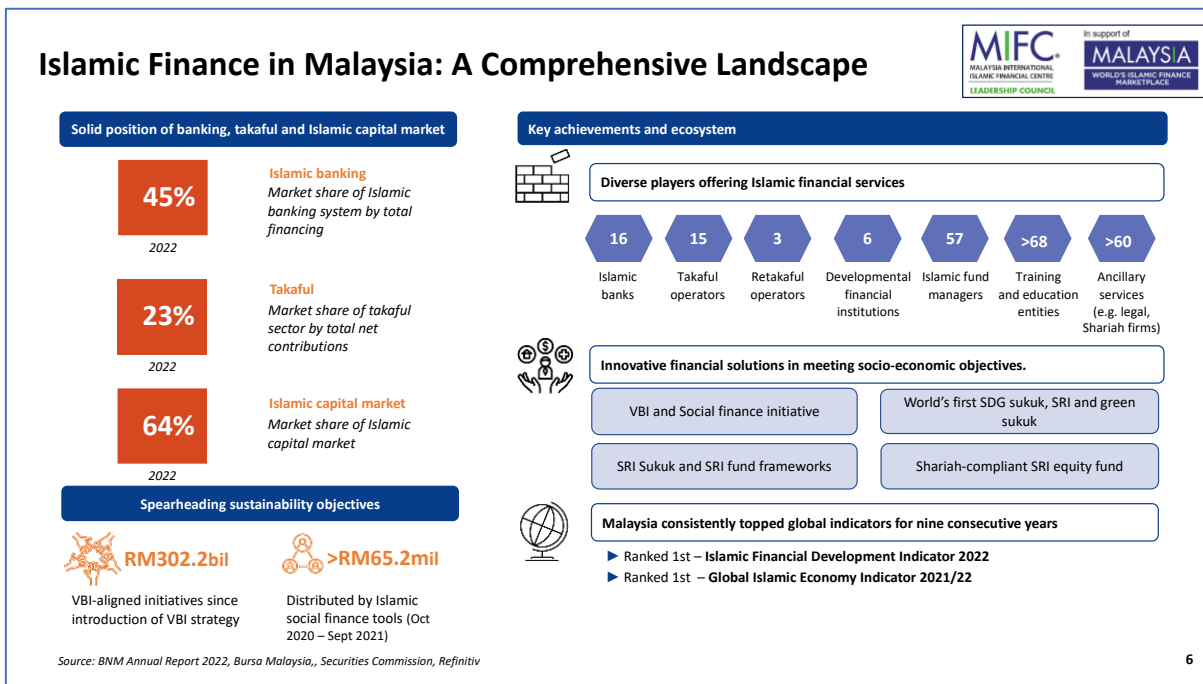
Ladies and gentlemen,

To be sure and notwithstanding these complex and daunting challenges, we must try to remain balanced and not understate the case that there has also been progress on many fronts, and there are also strong tailwinds that we can further harness. Indeed, the significant march of progress in international development in the post war years, especially from the 1950s onwards, has seen to the significant upliftment of billions out of poverty, of higher life expectancy, in literacy and educational achievements are just some of the cases in point.

In Malaysia for example, alhamdulillah, by many economic development measures such as the eradication of hard-core poverty, life expectancy and infant mortality, there has been great strides achieved over the last 67 years as an independent nation. A strong and stable financial system, administered by key financial institutions including the Ministry of Finance, the central bank, Bank Negara Malaysia, the Securities Commission and others have been the bedrock of such a system. The Islamic banking and finance system has been a big part of this journey over the last 60 or so years and today⁴, in Malaysia, some 45% of banking assets or about RM 1 trillion and some 64% of the capital markets or approximately RM2.3 trillion are Syariah-compliant. More than that, Malaysia across other metrics and capabilities too including

⁴ As at end of 2022. Source: BNM and Securities Commission

Takaful, Ar-Rahnu, education, knowledge and research, talent development, standards setting, among others has been over that period built a wholesome, syumul and integrated Islamic financial ecosystem that is second to none. Alhamdulillah.

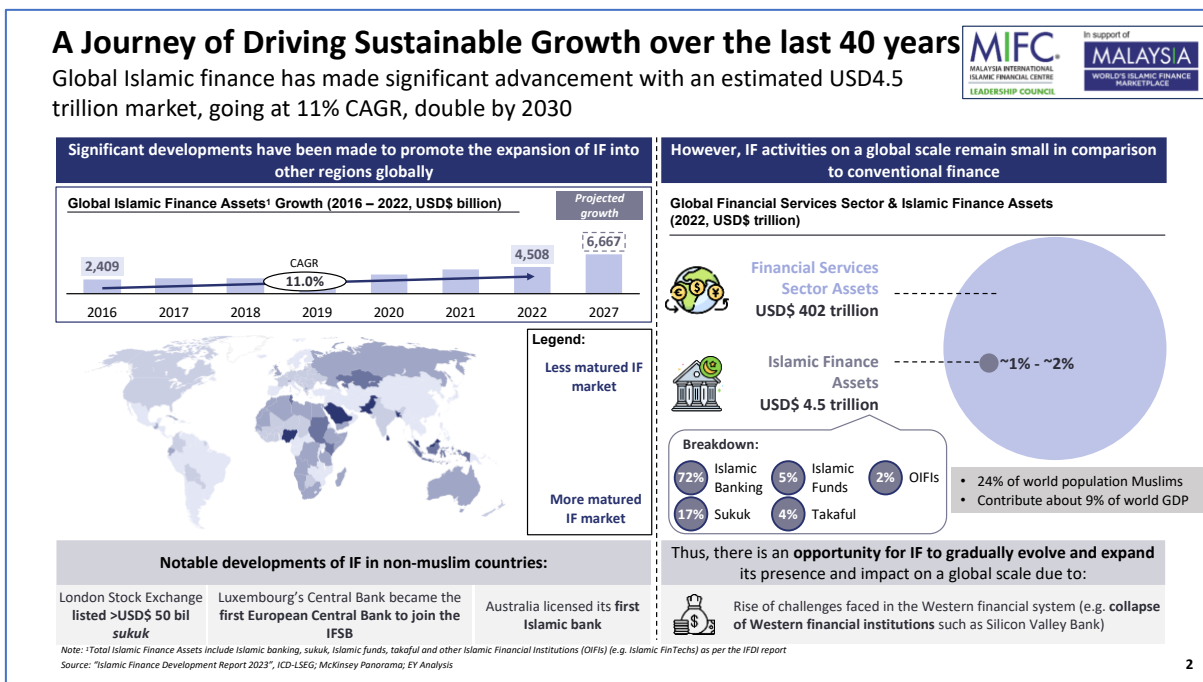


While these are good developments, the Islamic Finance glass is not even half full as yet. And there is therefore much more opportunities for us to jointly undertake here, at home, and beyond. In Malaysia, the green and sustainability agenda, the financing of MSMEs and persons and communities needing to access finance for essentials including affordable housing, healthcare and education and the unlocking of the power of Islamic Social Finance through the institutions of zakat and waqaf are some of the hitherto not fully developed areas that are ripe for further development and innovation in Islamic Finance.

Beyond that, internationally and throughout the Muslim Ummah, let us reflect on some numbers. As we know, Muslims represent some 24% of the world’s population and 9% of the world economy as measured by GDP. A distribution of the 57 OIC member countries in the pantheon of 195 nations of the world also shows a very large divergence between wealth, economic activity and resources – from the richest to the poorest and then some in between. Perhaps, this large divergence in itself should get us to reflect on the famous verses in *Surah Al Hujarat ((49:13)* “O Mankind, indeed We have created you from male and female and made you into nations and tribes that you may know each other”.

I reflect that perhaps this is the riddle that Allah SWT, the Most Wise, the Most Bountiful wants us to consider that He could have made each nation and tribe sufficient in itself - in terms of economic factors such as natural resources, human capital, technological capability and so on - but in spreading these endowments throughout the Ummah and indeed all the world’s nations is actually a sacred call, a grand and divine design for us to work together, to help and complement each other, between the rich and the needy, the surplus to the deficit: to exchange, to invest, to finance, to produce and to trade – and in our good complementarity that we may attract the blessings of good exchange.

And while we hear that Islamic Finance today has been growing rapidly, globally, at some 11% CAGR with Islamic financial assets estimated at some USD 4.5 trillion. Alhamdulillah, while these past 40 to 60⁵ years have indeed seen tremendous progress across-the-board, we should also note that this USD 4 trillion+ represent only about 1% of the stock of global financial assets of some USD450 trillion. While we note that definition of Islamic financial assets is arguably too narrow (89% of that number is Islamic banking assets and sukuk i.e. more debt or credit-based assets, and less so equity let alone charity based assets) while the global stock of financial assets is certainly inflated by a cocktail of conditions on steroids, including heightened financialization, unnatural monetary policy and all manner of erstwhile exotic and increasingly normalised financial instruments – unbridled debt, CMOs and CDOs, hedge funds, derivatives to the nth degree, and now the cryptos and metaverse to boot, we also recognise this for a sense of perspective. As said, if it's not even half full, I don't look at that negatively, but on the contrary that means that there is much more that we can aim for.



4. From Good to Great, Halal to Tayyib : a case for five transitions

Ever since the Global Financial Crisis of 2008, more than 15 years ago, there has been by and large positive developments in conventional finance and business to move more towards the sustainability agenda of the planet and to address the crisis of widening inequality. The rise of the ESG and sustainability movement, green bonds and sukuk and practices such impact investing anchored on the SDG principles are a manifestation of that.

But, as we know, the promise of that SDG and ESG spring has soured off late in the wake of culture wars and political divides (at least 13 “red states” have legislated or curtailed ESG), too much greenwashing (SDG, ESG and MSG!) and difficulties in measurement and value systems in an age of much moral relativity (what is DEI for example, when gender is a contested area?). Nonetheless, in spite of these pushbacks and reversals on the ESG movement, the overall momentum of finance and business trends are by and large still anchored on a sustainability and an overall stakeholder and not just a shareholder

⁵ In Malaysia, for example, the first Islamic bank, Bank Islam, was incorporated in 1983, while Lembaga Tabung Haji (the Pilgrims Fund) started in 1963.

economy framework. It is in this context that this historic moment is especially opportune for Islamic Finance and Economics (IFE), with our ideal of social justice and an ethical core as its anchoring principles. Indeed, this is more so with the system building blocks put together over the last four decades, the rapid development henceforth, the concurrent multiple crises in the global system including the global economic and financial system and the moral relativity – some would say bankruptcy – of the so-called conventional financial system, this ought to be the moment for IFE to shine and share its light not just to the Ummah but indeed the world at large.

The challenge is of course to translate the pristine theory into pragmatic practice in a world that is indeed still swimming in a froth of a riba-based system and a world still mired in elements of a post-colonial some may say neo-colonial order.

But we must continue to persevere, and it is in this context that we should continue with at least five essential transitions. Transitions that are at various degrees of progress and why they need to move in more imaginative, bold and quantum fashion:

1. In economics, to migrate from an axiom of a shareholder economy to a stakeholder economy,
2. In finance, to migrate, indeed to return to a notion that finance is there to serve the real economy, which is then, in turn, to ultimately serve a better society. There is much evidence that the reverse is the case today.
3. In business and investing, to ensure that businesses extract not only profits but to move to an axiom of profits with purpose, or even to profits *through* purpose. And to migrate to more responsible investing and along the continuum to more sustainable investing and ultimately, impact investing.
4. In climate action and the environment, it is of course to make the urgent transition to net zero carbon, but to also drive greater awareness and action on the other aspect of the environment, that is better outcomes on biodiversity and nature.
5. In Islamic Finance, while much has been achieved, alhamdulillah, the time has come where, after more than four decades, to move, where appropriate, beyond the mitigating circumstances of *darurah* (emergency) underpinnings, and undertake a bolder conception of the principles of *maslahah* (public interest), and to accelerate the process of moving from being of the important base of halal form to the ideal of a more tayyib and impactful substance. As we undertake this exciting next wave of Islamic Finance, it is appropriate to caveat that there is much wisdom to undertake such change with careful balance, building on the shoulders of the decades of development and indeed not to throw the baby out with the bath water.

In fact, alhamdulillah, I believe, it is with much foresight that the stewards of the financial system here has put in place key building blocks such as the VBI (Value-Based Intermediation) Framework of the Bank Negara, the SRI Sukuk and Maqasid Shariah Guidance principles of the Securities Commission and the ongoing work of the MIFC Leadership Council⁶ with the industry to build a deeper and more impactful Islamic Financial system, of not just the important syariah compliant i.e. halal system but also a syariah impactful and enhancing or halal and tayyib ecosystem.

These transitions are by no means exhaustive, but they are fundamental and indeed they are interrelated and mutually enhancing.

5. **The proof of the pudding is in the practice: A call to action.**

⁶ Please refer to information slides at the end of this text for more information on the background and work of the MIFC Leadership Council.

While the philosophy, policies and the politics of these transitions, will necessarily be at the macro-level, ultimately the impact and value will be established at the micro, firm level – at companies, development projects or in touching the lives of people. In this regard, this is a sampling of some practical ideas and examples of projects or products that can be developed in integrating the implementation of a more humane and sustainable economy, through the levers of finance and Islamic Finance that is not just halal but also halal and tayyib.

1. In its current form with approximately USD4.5 trillion of assets, Islamic Finance is still heavily skewed towards murabaha financing, with its structure while technically halal is often criticized as being having more debt-like features rather than equity and participatory characteristics such as ijara and musyarakah structures. As such, any endeavours to move into such equity-based structures and vehicles like Islamic private equity, venture capital and crowdfunding would be a step toward being more tayyib. Included in this is to expand and scale the Investment Account Platform scheme under Bank Negara that works to convert debt capital into equity investments.
2. Use Islamic Social Finance levers such as waqaf, zakat and sadaqah and related forms of philanthropic capital to not just address needy asnaf⁷ but to also build capacity for the needy – for example in build schools and education centres for digital skills, hospitals and clinics and deploying blended finance and technology into the mix. There are many examples already including the KPJ Waqaf hospitals and clinics in Malaysia, the Myanmar Muslim waqaf hospital in Yangon. INCEIF, for example is currently working with Lembaga Zakat Negeri Kedah and paddy farmers in the rice bowl state of Kedah in northern Malaysia, so far, alhamdulillah turning some of the farmers from zakat recipients to zakat payers.
3. Scale further the use of Islamic Blended and Social Finance through platforms such as I-Tekad developed by Bank Negara that brings the power of finance to slice, dice, blend and empower from different capital sources including zakat, qard hassan, grants and indeed risk capital.
4. Sharpen the use of social impact sukuks to fund both commercial and more developmental outcomes such as the Khazanah Sukuk Ihsan (2017) that financed a not for profit public education Trust School project.
5. Increase financial inclusion to the unbanked and underbanked through more cost efficient platforms of digital banks. In particular, this platform could be used to better develop entrepreneurship especially among the micro enterprise and SME sector. Malaysia's central bank is currently evaluating bids for licences for this.
6. Implement social protection insurance schemes that extend to informal and gig sector workers
7. Develop more holistic sectoral development – for example a more halal and tayyib affordable housing sector and supply chain, encompassing sustainable building materials such as carbon neutral cement and steel, deploying equity based risk sharing financing and working in partnership with federal and state governments for land and related infrastructure

I hope these examples, which are by no means exhaustive, may paint a picture of what a financial system that is more humane and sustainable, more tayyib and not just halal and indeed here for good, and not just big but also strong, stable and friendly. Indeed, these are specific areas for institutions such as Affin to work on and represent great areas of opportunity for creation of true value for your clients and customers and indeed your shareholders too.

⁷ Asnaf is the permissible recipients of zakat (alms) money, for e.g. the poor and destitute.

6. Scaling the Sustainability Mountain: attempting the noble ascent, fulfilling the sacred trust.

Ladies and gentlemen,

In closing, I would like to remind myself and indeed to you the esteemed audience that I note that even in the Western canon, before Adam Smith wrote *The Wealth of Nations*, he had written an earlier seminal piece called *The Theory of Moral Sentiments* where he said “*To restrain our selfish, and to indulge our benevolent affections, constitutes the perfection of human nature*”. Indeed, the Enlightenment and the Scottish Enlightenment from whose wells Adam Smith both developed and drew from, gave much of the modern world its current forms, its considerable progress, but also its manifold challenges. As such, it is appropriate I believe, to think of another shift, that is not to not just go back to the notion of Adam Smith not as a prophet of unbridled and wanton capitalism, but Smith as a thoughtful moral philosopher, steep in the conception of a humane capitalism, but, if anything, to go further back to Adam himself, the first man, to the *fitrah* of our common forefather.

Indeed, in Islam, the chain of prophets are bookended by Adam a.s. and Muhammad SAW as the last and seal of prophet, and the message of the prophets were all ultimately the same; to guide and locate human beings correctly in our relationship with our Creator as a servant, in our relationship to be of service to our fellow men and to be a reliable steward for the environment and other species. The Quran narrates that this heavy trust (*amanah*) was offered to all of creation including the mighty mountains but they all said no save for our forefathers who – perhaps foolishly or at least recklessly - accepted the challenge⁸ as a *khalifah* (vicegerent). But we have faith, that in His Mercy, we have been granted free will and the tools to undertake this challenge. Our diversity is indeed a blessing that we need to harness, and there are parallel and complementary paths to do what the Quran describes as a noble ascent⁹.

Ladies and gentlemen,

The building blocks have been diligently been put in place by the pioneers of Islamic Finance over the last 60 years at least. The need has never been greater in these financial, indeed financialised times. We have been gifted the divine sources and in the continuum of time and development, we must now update our collective efforts in good *ijtihad* to develop and then execute a more sustainable and humane system of economics and finance that is more *halal* as well as *tayyib*. For Malaysia, these are strong tailwinds for us to address our national development goals of growth, sustainability and inclusivity through the next wave of Islamic Finance, and in doing so, we would chart and cement our ongoing leadership in this field, *insyaAllah*.

The time is now, a new wave is gathering and for progressive and innovative institutions such as Affin Islamic, there are bountiful opportunities for you to participate on the crest of this new wave; to serve and indeed to profit. *insyaAllah*. I wish you well and pray for your success in this endeavour

وَبِاللّٰهِ التَّوْفِیْقُ وَالْهَدَایَةُ وَ السَّلَامُ عَلَیْكُمْ وَرَحْمَةُ اللّٰهِ وَبَرَكَاتُهُ

Azman Hj Mokhtar.

Kajang, Malaysia

3rd April 2024

⁸ Al-Ahzab 33:72, the Holy Quran

⁹ Al-Balad 90: 11-17, the Holy Quran

Reference Supporting Slides: *Source – MIFC Leadership Council*

Formation of MLC to drive the next phase of Islamic finance



MIFC vision and key priorities

Global gateway for Islamic finance markets in Asia and OIC



- Connect businesses, investors and other stakeholders to Islamic finance opportunities in Asia and OIC
- Specialise in sustainable finance and halal economy
- Industry-led initiatives, supported by Malaysia's talent services ecosystem

MIFC key 5-year priorities for the Islamic financial market

- Improve IF industry's global distribution capabilities to better tap opportunities outside of Malaysia.
- Facilitate nascent Islamic financial innovations, including scaling up of new products and services.
- Strengthening Malaysia's competitiveness as an Islamic finance gateway.
- Strengthen global partnerships to advance Islamic financial innovations beyond Malaysia's borders
- Enhance the role of Islamic finance to support national halal agenda

Source: BNM Financial Sector Blueprint 2022-2026

Key strategic thrusts and priorities of Islamic capital market

Shaping a stakeholder economy with SRI and ICM



Source: Capital Market Masterplan 3 (2021-2025)

"The MIFC Leadership Council (MLC) will provide thought leadership, drive strategy formulation and implementation to enhance Malaysia's position as an international gateway for Islamic finance."

Tan Sri Nor Shamsiah Mohd Yunus, Governor BNM @ GIFF2022 (5 October 2022)



KUALA LUMPUR, July 27 (Bernama) – Bank Negara Malaysia (BNM) and the Securities Commission (SC) have been taking steps to ensure the sustainability and effectiveness of the Islamic finance system by raising the standards to not only halal, but also 'halalan thoyyiban' (lawful and good).

Prime Minister Datuk Seri Anwar Ibrahim said BNM and the SC have charted the course towards halalan thoyyiban via the **Malaysia International Islamic Financial Centre** through collaborations with the industry and the Islamic finance ecosystem, including zakat and waqf boards, the banking system, Islamic stock market and sukuk.

"Insha-Allah (God willing), these efforts will help to enhance the Islamic financial system in Malaysia and further strengthen our position as a leader in the global Islamic economy," he said at the launch of the Madani Economy: Empowering the People, here, today.

"A holistic and Madani national development effort cannot be achieved without a financial system that is fair, just and based on Maqasid Sharia (the objectives and purposes behind Islamic rulings)," he said.

<https://www.mof.gov.my/portal/en/news/press-citations/bnm-sc-beefing-up-islamic-banking-finance-through-mifc-pm-anwar>