

Promoting a Progressive and Inclusive Islamic Financial System

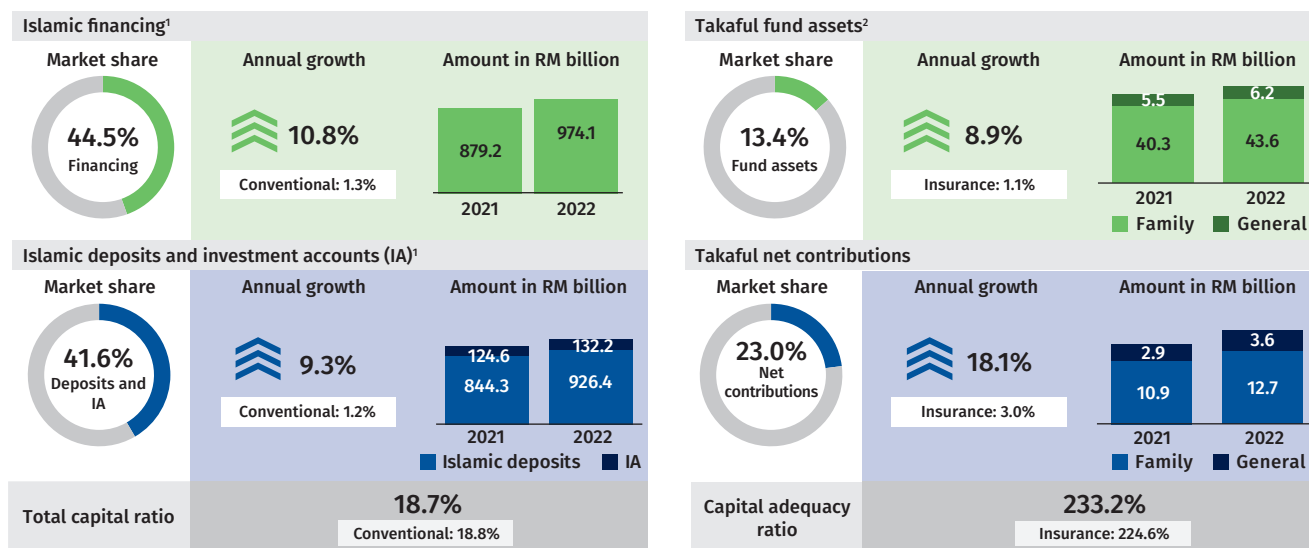
The Bank's focus is to strengthen the contribution of the Islamic financial system in supporting socio-economic developments and advance Malaysia as an international gateway for Islamic finance.

In 2022, the Bank focused on strengthening the role of Islamic finance in supporting a sustainable economic recovery. We worked closely with the industry to advance value-based finance to bring greater impact to the economy, community and

environment. We also rallied efforts to sustain Malaysia as a global leader in Islamic finance. These efforts are aligned with the development priorities for Islamic finance as outlined in the Financial Sector Blueprint 2022-2026.

The Islamic banking and takaful industry sustained its growth in 2022, gaining further share of the overall financial system. The industry also remained resilient with strong capital buffers to support intermediation activities (Diagram 1). This has enabled the industry to strongly support the funding needs of businesses including micro, small and medium-sized enterprises (SMEs), as well as households. Wider financial protection was also provided to various communities (Diagram 2).

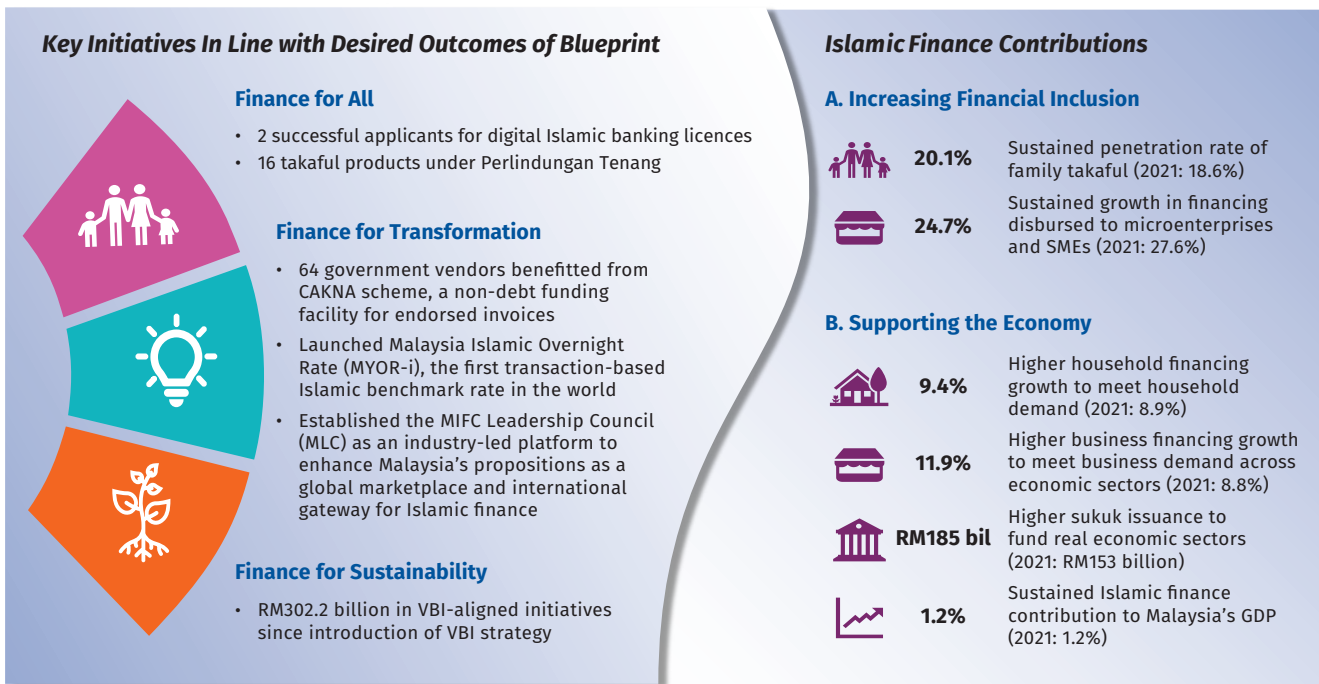
Diagram 1: Growth of Islamic Banking and Takaful Industry in 2022



Notes: ¹ Includes development financial institutions.
² Not inclusive of the shareholders' fund assets.

Source: Bank Negara Malaysia

Diagram 2: Islamic Finance Key Initiatives and Contributions in 2022



Source: Bank Negara Malaysia, Department of Statistics Malaysia, AIBIM (2021) *Value-based Intermediation Full Report*, AIBIM (2020) *Inaugural Islamic Banking Industry Value-based Intermediation Preview Report 2017-2020*

Supporting Sustainable Economic Recovery and Transformation

Expanding access to CAKNA to ease SMEs' cash flow management

Our initiatives during the year were directed to help businesses rebound and grow amid a recovering economy. Following the successful SME liquidity pilot scheme for Government vendors (CAKNA)¹ in 2021, the scheme was expanded to include another six Ministries and two additional participating banks. The second phase of this pilot scheme caters for a wider group of SME vendors in supporting their business resilience (Diagram 3). The non-debt nature of this facility ultimately helps SME vendors to access needed cash flows for their business operations without increasing their debt level.

Advancing halal trade and business

The halal sector has been recognised as one of the high-impact sectors that can drive growth of Malaysia's economy.² The sector is expected to contribute 8.1% to Malaysia's Gross Domestic

Product (GDP), with an export revenue of RM56 billion by 2025. Islamic finance has made notable progress in supporting halal businesses over the years. The use of Islamic finance solutions by halal-certified companies has almost doubled since 2018 (2021: 41.3%; 2018: 21.9%).³ This success was due to a range of efforts by the industry and the Bank. These include offering tailored business solutions, promoting close partnerships between halal-related government agencies (such as Jabatan Kemajuan Islam Malaysia (JAKIM), Halal Development Corporation and Department of Standards Malaysia), as well as continuous engagements and awareness programs conducted all year round.

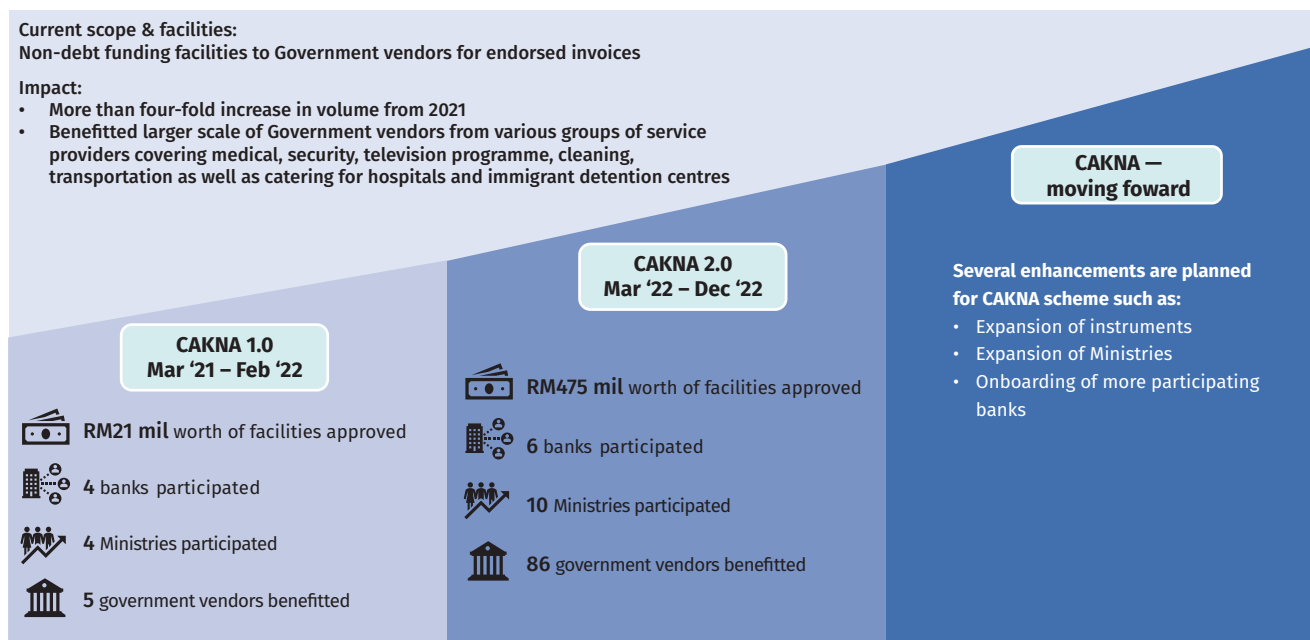
This year, the Bank worked closely with the World Bank in issuing a research report on "Islamic Finance and the Development of Malaysia's Halal Economy". The report provided six policy recommendations to advance halal economy (Table 1). The Bank is committed to work with the industry to implement these recommendations. This includes ensuring that Islamic finance is more integrated with the halal economy, particularly in financing halal trade and investment.

¹ CAKNA is a pilot liquidity scheme for vendors with government procurement contracts. The scheme aims to ease cash flow constraints by allowing vendors to exchange approved invoices for advance payment, at a discount before the invoice maturity date. Further information on CAKNA is available at <https://www.bnm.gov.my/documents/6319173/d2d36f2a-3230-77ec-9886-b888e3519321/>

² Source: Economic Planning Unit (2021) *Twelfth Malaysia Plan 2021-2025*

³ Source: World Bank Group (2022) *Islamic Finance and the Development of Malaysia's Halal Economy*

Diagram 3: Pilot Phases of CAKNA Scheme – Impact and Performance



Source: Bank Negara Malaysia

Table 1: Policy Recommendations to Enhance Malaysia’s Halal Economy

Recommendations	Stakeholders
Enhance policy and strategy coordination across different policymakers and Islamic finance providers to increase the impact of programmes. ¹	Government agencies, financial regulators, Islamic finance providers and SMEs.
Establish closer linkages between programmes that support innovation and productivity improvements with Islamic finance. ²	Government agencies, Islamic finance providers, SMEs and research centres.
Encourage Islamic finance providers, particularly Islamic banks, to participate in public-private sector collaborations to pilot innovative Islamic finance solutions and scale-up.	Government agencies, financial regulators, Islamic finance providers and SMEs.
Strengthen collaboration with policymakers in other countries to advance the utilisation of Islamic finance for halal economy.	Government agencies and financial regulators.
Enhance the role of relevant institutional investors and expanding capital market funding for halal economy.	Government agencies, financial regulators, Islamic finance providers and institutional investors.
Enhance data sharing on Islamic finance and halal economy.	Government agencies and financial regulators.

Notes:

¹ This includes streamlining strategies under various public-private sector partnerships to avoid duplication of resources and optimise impact to beneficiaries. For example, strengthening linkages between halal-related government agencies, financial providers and ecosystem enablers (technology companies and e-commerce) to offer comprehensive solutions to halal companies.

² Greater involvement of private sector to encourage successful implementation of technology adoption among SMEs. Islamic financial institutions, for example, could offer advisory services in addition to transition finance to halal SMEs to transform their business to become more sustainable and less carbon-intensive.

Source: World Bank Group (2022) *Islamic Finance and the Development of Malaysia’s Halal Economy*

Pioneering Islamic transaction-based benchmark rate

In March 2022, the Bank launched the Malaysia Islamic Overnight Rate (MYOR-i), replacing Kuala Lumpur Islamic Reference Rate (KLIRR). This is the first Islamic transaction-based benchmark rate in the world that complies with the Principles for Financial Benchmarks.⁴ The launch of MYOR-i

will spur the development of innovative Shariah-compliant financial products which will further deepen Malaysia’s Islamic financial market. It will also reinforce a holistic Shariah-compliant ecosystem and enhance best market practices. The Islamic transaction-based benchmark rate would improve pricing transparency and efficiency

⁴ The Principles was developed by the International Organization of Securities Commissions (IOSCO) to provide an overarching framework of principles for benchmarks used in financial markets.

among market players. This will help to further boost public confidence in the Islamic financial market and enhance its role in financing economic activities in Malaysia.

The development of the benchmark rate was pursued in collaboration with the Financial Markets Committee⁵ and the Islamic Market Technical and Development Committee. The Bank will review MYOR-i periodically to ensure it remains relevant and reflective of the Islamic interbank market pricing.⁶

Strengthening Value-based Finance for Sustained Impact

Building on steady progress in recent years, the Bank continued to strengthen its partnership with the industry to further develop value-based finance in Malaysia. Since the introduction of Strategy Paper on Value-based Intermediation (VBI) in 2017, the Islamic finance industry has facilitated a total of RM302.2 billion in VBI-aligned initiatives.⁷ Value-based finance activities are driven by consideration of its contribution and impact on wider stakeholders. This

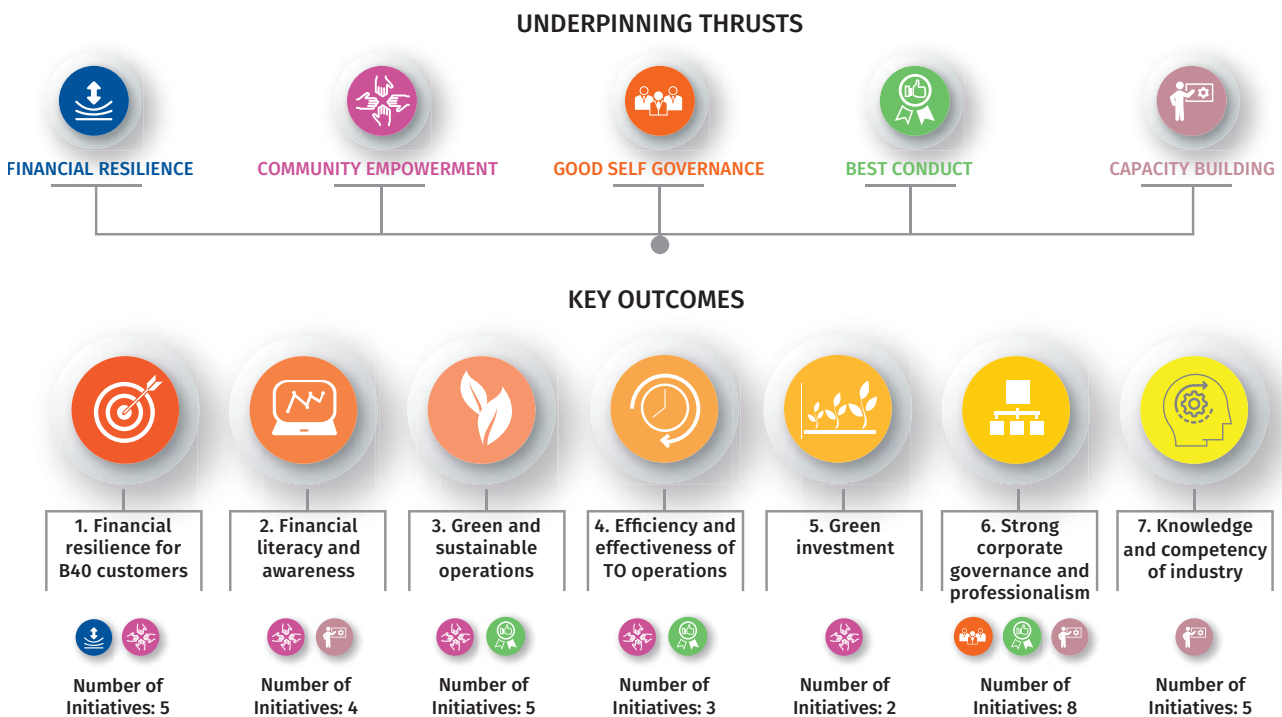
includes supporting the climate and sustainability agenda. Value-based finance activities are also underpinned by good self-governance and best conduct of the Islamic financial institutions (IFIs).

Promoting the climate and sustainability agenda

Following issuance of the Value-based Intermediation for Takaful (VBIT) Framework in 2021, the Malaysian Takaful Association (MTA) and VBIT Steering Committee developed the VBIT Roadmap. The roadmap was launched during the seventh Global Islamic Finance Forum (GIFF).⁸ It highlights seven key focus areas that aim to strengthen the role of the takaful industry in building the financial resilience of Malaysians (Diagram 4). It also provides a guide for takaful operators (TOs) to achieve the desired outcomes of VBIT and proposes initiatives to achieve VBIT goals by the TOs. The roadmap is meant to give clarity and serves as a tool for the TOs to track progress and ascertain the impact of strategies and initiatives based on VBIT’s underpinning thrusts.

The Bank is also working closely with IFIs to align our climate efforts with industry-driven value-based finance initiatives. In February 2022, the Community

Diagram 4: Key Outcomes of VBIT Roadmap



Source: MTA (2022) *Value-based Intermediation for Takaful Roadmap*

⁵ The committee is established by the Bank in May 2016, with representation from financial institutions, corporations, financial service providers and other institutions who have prominent roles or participation in the financial markets.

⁶ The MYOR-i is calculated based on volume-weighted average of Shariah-compliant unsecured overnight MYR interbank placements.

⁷ Source: AIBIM (2021) *Value-based Intermediation Full Report*, AIBIM (2020) *Inaugural Islamic Banking Industry Value-based Intermediation Preview Report 2017-2020*

⁸ Further information on GIFF will be covered in later part of this chapter under “Supporting global initiatives”.

of Practitioners⁹ issued the second cohort of Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) sectoral guides. This cohort covers oil and gas, construction and infrastructure, and manufacturing sectors. They are aimed to help financial institutions to assess the impact of their financing and investment decisions in these sectors. The third cohort of sectoral guides – covering agriculture, mining and quarrying, transportation, and store and waste management – is expected to be finalised by 4Q 2023. These guides will include practical use cases to highlight synergies between the VBIAF sectoral guides and the Climate Change and Principle-based Taxonomy (CCPT). This in turn will help financial institutions address climate-related risks in respective economic sectors.

The Bank is also working with the industry and the World Bank to refine VBI impact measures. This aims to ensure fair and meaningful impact reporting and avoid impact-washing.¹⁰

Fostering Trust and Empowering Financial Consumers

Efforts to empower and foster trust among Islamic financial consumers were focused on three priority areas:

- Developing Shariah rulings that resolve contemporary issues;
- Strengthening financial safety nets; and
- Advancing digitalisation of Islamic financial services.

Developing Shariah rulings that resolve contemporary issues

The Shariah Advisory Council of Bank Negara Malaysia (SAC) continues to provide Shariah rulings that guide Islamic financial business, operations and conduct within the operating environment in Malaysia. This role of SAC is essential to sustain a credible Islamic financial system as it continues to evolve and mature. In 2022, several issues were deliberated and concluded by the SAC. These

deliberations clarify the permissibility of Islamic financial transactions and facilitate the adoption of diverse Shariah contracts (Diagram 5).

Strengthening financial safety nets

During the year, the number of takaful operators participating in the Perlindungan Tenang (PT)¹¹ initiative expanded to ten (2021: seven). Five new PT takaful products were introduced and several enhancements were made to existing products (total PT takaful products: 16). Collectively, these products offer consumers diverse and affordable protection in the event of death, hospitalisation, critical illness, fire or personal accidents. In response to the pandemic, takaful coverage for death due to COVID-19 or side effects from COVID-19 vaccination were made available. The year also saw the introduction of the first fire takaful product under PT. In addition to protection against risk of loss due to fire, this product also provides flood protection for consumers residing in disaster-prone areas. To reach a wider target segment, these PT products are distributed through various channels including online platforms, bancatakaful, e-Wallet providers and other corporate agents. Further details on these developments can be found in the chapter “Promoting a Progressive and Inclusive Financial System”.

Advancing digitalisation of Islamic financial services

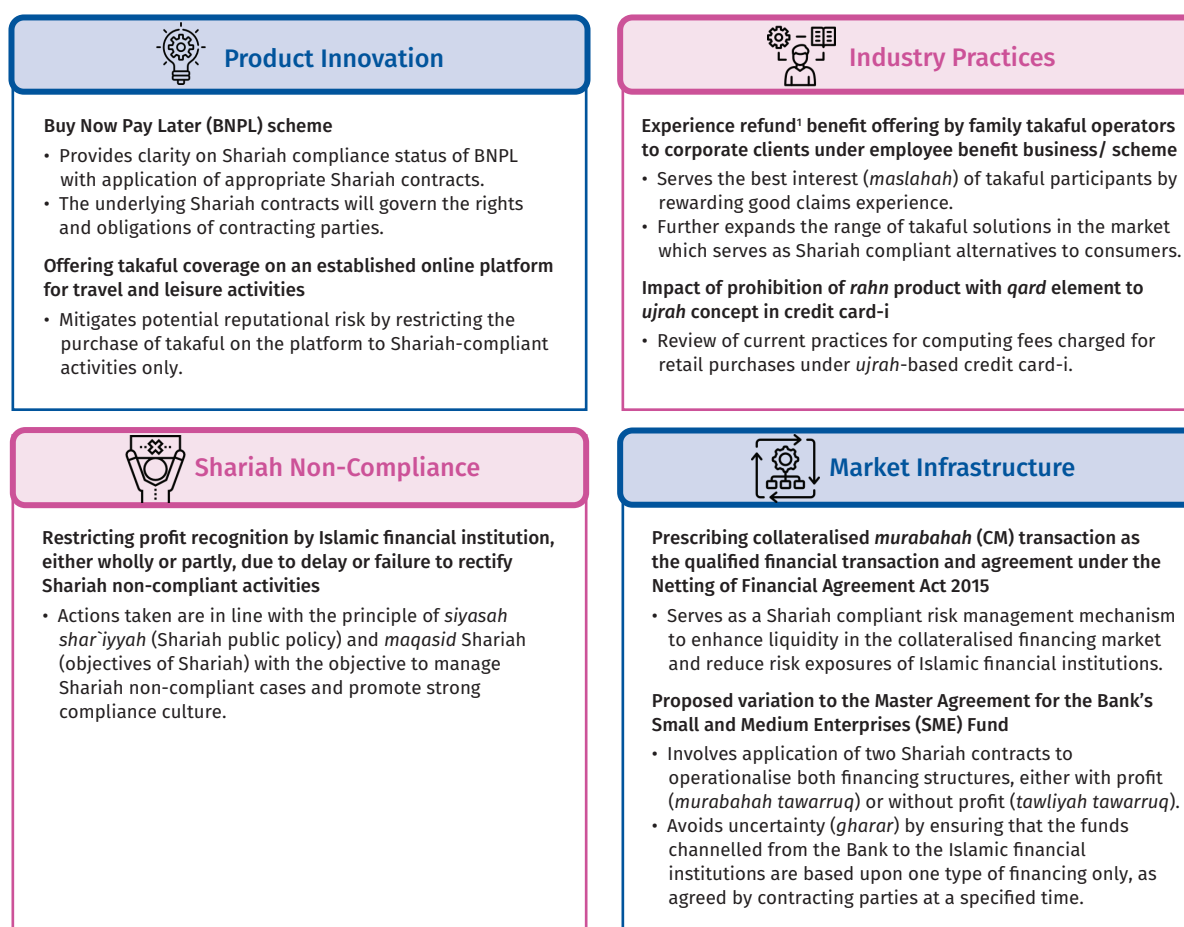
Out of the five successful digital bank applicants announced in April 2022, two applicants are to be licensed under the Islamic Financial Services Act 2013 (IFSA). The Bank is currently engaging with the successful applicants to ensure they are operationally ready to start their licensed business. This is part of our efforts to expand meaningful access to, and promote responsible usage of, suitable financial solutions to unserved and/or underserved segments. Similarly, we are working towards further expanding the scope of digital financial players with the issuance of the Exposure Draft on Licensing and Regulatory Framework for Digital Insurers and Takaful Operators. Further details on these developments can be found in the chapter “Promoting a Progressive and Inclusive Financial System”.

⁹ Community of Practitioners (CoP) is a collaborative platform for industry players to strategically advance industry-wide implementation of VBI agenda. To date, 15 Islamic banks are members of CoP.

¹⁰ Refers to practices where negative impact from an activity is disguised or masked as having positive impact.

¹¹ Perlindungan Tenang is an initiative that aims to expand the availability and quality of insurance and takaful solutions to meet the needs of the unserved and underserved segments in promoting their financial and social resilience. Products that qualify under the Perlindungan Tenang initiative must meet five key principles – affordable; easily accessible to the target segments; provide good protection value; easy to understand; and easy to purchase, make nomination and to make claims.

Diagram 5: Highlights of Shariah Deliberations by SAC in 2022



Note:

¹ Refers to payment of benefits to participants with good claims experience.

Source: Bank Negara Malaysia

Deepening Cross Border Linkages and Advancing Malaysia's Global Leadership

Over the years, Malaysia has been recognised as one of the leading markets in Islamic finance.¹² Our efforts have been focused on building effective market infrastructure and creating a conducive environment for the sector's growth. For the year, we are focused on the following to advance Malaysia's continued leadership in Islamic finance:

- Strengthening cross border collaboration for mutual respect on Shariah views;
- Fostering greater industry stewardship; and
- Supporting ongoing global initiatives.

¹² Based on ICD-Refinitiv Islamic Financial Development Indicator (IFDI) 2022, Malaysia has been consistently ranked first for 10 consecutive years. The indicator is a composite weighted index that measures the overall development of the Islamic finance market.

Strengthening cross border collaboration for mutual respect on Shariah views

The Bank pioneered a global network of Shariah scholars known as the Centralised Shariah Advisory Authorities (CSAA). It aims to strengthen global connectivity and foster mutual respect on Shariah views across jurisdictions. Support for the network continues to grow, with the number of participating countries more than double since its first meeting in 2018 (2022: 18 countries; 2018: 7 countries).

In October 2022, the CSAA held its fourth meeting in Abu Dhabi. The meeting was attended by more than 40 Shariah scholars and Islamic finance experts from 12 countries. The meeting discussed on the challenges, practices and considerations underpinning the Shariah principles for exigent circumstances (*hajah*). The meeting also discussed the important role of Shariah boards in supporting

Promoting a Progressive and Inclusive Islamic Financial System

innovation for social and sustainable development, amid evolving operating landscape. The article on “Fostering International Connectivity among Central Shariah Boards in Islamic Finance” showcases the progress and future expectations of CSAA.

Fostering greater industry stewardship

While early developments of Islamic finance in Malaysia have been largely regulator led, industry players have played greater role in driving the industry’s growth over the years. To further advance Malaysia as an International Islamic Financial Centre (MIFC) and provide greater industry stewardship, we partnered with the Securities Commission Malaysia (SC) to establish the MLC in October 2022. The formation of MLC marks an important milestone in elevating the industry to lead the MIFC agenda. The article on “MIFC Leadership Council: Galvanising Greater Industry Stewardship” showcases the mandate and expected outcomes of the MLC.

Supporting global initiatives

Throughout the year, the Bank actively took part in international platforms and events as well as lent our support for global capacity building in Islamic finance (Diagram 6).

The Bank jointly organised two Islamic finance flagship events in 2022. We collaborated with SC to confer The Royal Award for Islamic Finance and partnered with AIBIM for the seventh GIFF – a prestige event that aims to bring together top minds and scholars in deliberating future strategies for the global Islamic finance industry. These events that took place in the fourth quarter of 2022 centred on value-based innovations and digital solutions.

With the theme “Take the Reins”, GIFF highlighted the role of Islamic finance in advancing digitalisation, sustainability and social finance. The event, which was organised in a hybrid format, attracted nearly

Diagram 6: Key International Partnerships and Initiatives in Islamic Finance



Continuous commitment towards global Islamic finance regulatory development

- Member of IFSB Council, Deputy Chairperson of Executive Committee and Member of Technical Committee
 - Member of the IILM Governing Board, Member of Board Executive Committee, Chairperson of Board Audit Committee and Member of Board Risk Management Committee
- More details on the Bank’s contribution in the committees can be found in the chapter “International Engagements”*



Support capacity building and knowledge sharing in Islamic finance

- Extended capacity building support to regulatory authorities in other jurisdictions e.g. Indonesia, Philippines, Uganda and Mauritania in strengthening Islamic finance ecosystem in their countries
- Shared Malaysia’s experience in developing Islamic finance at international events and workshops e.g. UNDP Islamic Finance International Thought Leadership Forum, 4th IFSB Innovation Forum, Islamic Finance News Islamic Sustainable Finance & Investment Forum 2022, 17th Kuala Lumpur Islamic Finance Forum and COMCEC’s workshop on ‘Best Practices on Promoting Financial Literacy and Islamic Finance in the OIC Member Countries’



Participate and facilitate intellectual discourses on Islamic finance

- Participated in international discussions with a focus on advancing Islamic finance contributions, innovation and digitalisation e.g. 4th Meeting of the OIC-COMCEC Central Banks Forum and 18th Meeting of the Standing Committee for Economic and Commercial Cooperation (COMCEC) Financial Cooperation Working Group
- Involved in the Global Islamic Finance Forum 2022 by collaborating with AIBIM as the host to design programme structure focusing on areas of future growth and impact creation
- Presented the Bank’s Discussion Paper on *Hajah* (exigent circumstances) at the 4th Roundtable Meeting of Centralised Shariah Advisory Authority (CSAA) hosted by the Central Bank of the UAE in Abu Dhabi on 11 October 2022



Organisation of the Royal Award for Islamic Finance 2022 to recognise Islamic finance contributions at the global level

- Conferment of the RAIF, Emerging Leader Prize and Impact Challenge Prize (see details in Diagrams 7 and 8)

Source: Bank Negara Malaysia

3,000 participants from over 35 countries. Other than the launch of the VBIT Roadmap, GIFF also featured the launch of the Value-based Intermediation Full Report 2021 by AIBIM.

The Royal Award for Islamic Finance 2022 was conferred by His Majesty the Yang di-Pertuan Agong to Tan Sri Dr. Mohd Daud Bakar, for his significant contributions to the growth of Islamic finance globally (Diagram 7). This year's award received 49 submissions for 37 nominees from 14 countries, including Islamic finance practitioners, Shariah scholars and academicians.

Two new award categories, the Emerging Leader Prize (ELP) and the Impact Challenge Prize (ICP) were introduced this year. These awards recognise and celebrate young leaders in Islamic finance and innovative solutions that deliver positive impact on a global scale. The ELP received 18 submissions from eight countries, while the ICP received 50 applications from 14 countries. The ICP was jointly organised with the World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia and the Malaysia Digital Economy Corporation (Diagram 8).

Diagram 7: Recipient of The Royal Award for Islamic Finance 2022




Recipient of The Royal Award 2022
recognising outstanding contributions in Islamic finance




Tan Sri Dr. Mohd Daud Bakar

Tan Sri Dr. Mohd Daud Bakar is a prominent Shariah scholar and Islamic finance entrepreneur. Globally known for his contributions in Shariah advisory, Tan Sri Dr. Mohd Daud Bakar's illustrious career encompasses numerous Shariah board positions at major international financial institutions, organisations and financial sector regulators.

Diagram 8: New Award Categories, Winners and Respective Contributions

<div style="text-align: center; background-color: #f8d7da; padding: 5px; border-radius: 10px; margin-bottom: 10px;"> <p>Emerging Leader Prize (ELP) <i>recognising young talent with outstanding innovations in Islamic finance</i></p> </div> <div style="text-align: center;">  <p>Umar Abdullah Mahmud Munshi <i>Co-founder and Group Managing Director of Ethis Group</i></p> <p>Facilitated impact investments</p> <ul style="list-style-type: none"> ✓ Funding from over 50 countries ✓ Channelled to fund SMEs and social housing projects ✓ Medium through Islamic fintech and crowdfunding platforms </div>	<div style="text-align: center; background-color: #f8d7da; padding: 5px; border-radius: 10px; margin-bottom: 10px;"> <p>Impact Challenge Prize (ICP) <i>recognising innovative solutions based on Islamic finance principles, which can improve the economic and social resilience of financially impacted communities globally</i></p> </div> <div style="display: flex; justify-content: space-around; text-align: center;"> <div style="width: 45%;">  <p>DuitHape, Indonesia</p> <p>Facilitated disbursement of Shariah compliant microfinancing for SMEs via bio-metric cashless payment system</p> </div> <div style="width: 45%;">  <p>Pod, Malaysia</p> <p>Established digital platform that provides gig workers with;</p> <ul style="list-style-type: none"> ✓ Access to Shariah microfinancing ✓ Facilitates alternative credit scoring </div> </div>
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Source: Bank Negara Malaysia

Going Forward

Our priorities in 2023 will build upon the ecosystem strength of Islamic finance in Malaysia, and to elevate its contribution to all stakeholders. In addition to continuing current initiatives, we will focus on:

- Modernising Shariah contract applications to spur impactful innovations;
- Piloting more value-based solutions; and

- Strengthening ecosystem enablers to advance Islamic finance developments.

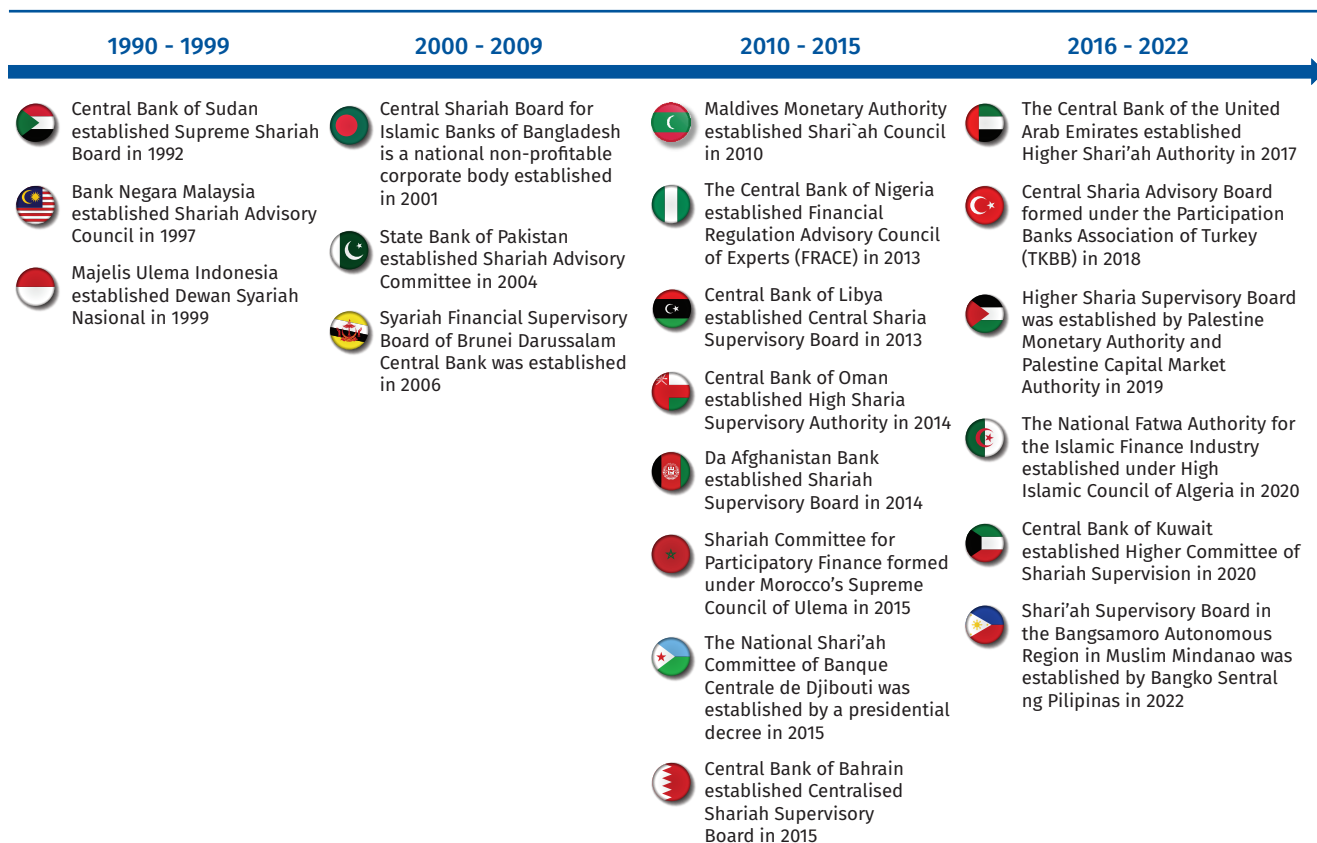
To realise the full potential of Islamic finance, the whole ecosystem needs to align with its values, with strong leadership from the industry. Altogether, this would further advance “value-based growth” – one that is balanced, progressive, sustainable and inclusive.

Fostering International Connectivity among Central Shariah Boards in Islamic Finance

Malaysia is one of the first countries in the world to establish a central Shariah board in Islamic finance in the central bank.¹ Since its formation in 1997, the Shariah Advisory Council of Bank Negara Malaysia (the SAC) has been instrumental in providing Shariah certainty for the Malaysian Islamic financial industry. Over the years, the Shariah rulings issued by the SAC have continued to play a key role in supporting the orderly development of the Islamic financial system in Malaysia – by encouraging innovation while promoting confidence in the integrity of financial solutions based upon Shariah tenets.

The important role of central Shariah boards in preserving the sanctity of Shariah and sustaining public confidence has gained more traction globally. From three pioneering countries in the 1990s, there are now 20 countries with central Shariah boards in Islamic finance (refer to Diagram 1). The institutional structures, roles and mandates of central Shariah boards vary across countries, reflecting the size and complexity of the Islamic finance industry as well as the local operating landscape in these countries.

Diagram 1: Countries with central Shariah board in Islamic finance



Sources: Bank Negara Malaysia and official website of respective financial regulatory authorities and central Shariah boards

¹ The central Shariah board in Islamic finance refers to the national-level Shariah board that is established to deliberate on Shariah matters in Islamic finance.

The evolving and more integrated global financial system calls for stronger connectivity among central Shariah boards

Looking ahead, Islamic finance holds significant untapped potential to support economic growth, empower trade and the digital economy, as well as build social and climate resilience. In tandem with this, Shariah issues have, and will continue to become more complex with implications beyond domestic borders. Against this backdrop, stronger connectivity among the central Shariah boards of various jurisdictions is needed to enable exchange and mutual recognition of best practices and formulation of well-founded Shariah solutions that can meet current and future economic and social needs.

In pursuit of greater connectivity and mutual recognition in Shariah, the inaugural Centralised Shariah Advisory Authorities in Islamic Finance (CSAA) meeting was held in 2018. The meeting marked the creation of an international networking platform among the central Shariah boards of various jurisdictions to deliberate current and emerging Shariah issues, with the aim of tapping into diverse perspectives and experience to support the sound and orderly development of Islamic finance globally.



The first CSAA meeting organised by the Bank in 2018. From left: Deputy Governor Abdul Rasheed Ghaffour, Tan Sri Dr. Mohd Daud Bakar, the former Chairperson of the SAC of the Bank and the late Sheikh Dr. Abdul Sattar Abu Ghuddah, the former Chairperson of the Centralised Shariah Supervisory Board of the Central Bank of Bahrain.



The fourth CSAA meeting hosted by the Central Bank of the United Arab Emirates (UAE) on 11 October 2022. The Bank's delegates led by Prof. Dr. Ashraf Md Hashim, the Chairperson of the SAC were among key presenters, sharing the Bank's recently published Discussion Paper on Hajah (exigent circumstances) that outlines proposed parameters for application of hajah by Islamic financial institutions. - Photo courtesy of the Central Bank of the UAE

In recent years, CSAA has helped strengthen the capacity of central Shariah boards in addressing emerging challenges via series of exchange of knowledge, experience and best practices. The discussions conducted by the CSAA seek to address:

- (a) common Shariah issues (for instance, the Shariah considerations in the implementation of assistance measures to reduce the financial hardships of the customers who were adversely affected by the pandemic - such as the application of the principle of fairness (*ʿadl*) and beneficence (*ihsan*)); and
- (b) critical Shariah policies with long-term developmental impact on Islamic finance growth, innovation and stability (refer to Diagram 2).

Diagram 2: The Nature of Discussions in the CSAA Meetings has Evolved to Meet the Current Needs of Participating Countries

2018	2020	2021	2022
			
First Meeting 2 October 2018 Central Bank of Malaysia (Kuala Lumpur)	Second Meeting 11 May 2020 Central Bank of UAE (virtual)	Third Meeting 21 December 2021 Central Bank of Malaysia (virtual)	Fourth Meeting 11 October 2022 Central Bank of UAE (hybrid)
Exchange of knowledge and experience in the set-up of central Shariah board for Islamic finance <ul style="list-style-type: none"> • Shariah governance framework • Reference (e.g. queries) from court and arbitrator 	Exchange of views and Shariah rulings on regulatory measures taken by respective countries in addressing the impact of COVID-19 pandemic <ul style="list-style-type: none"> • The regulatory measures include moratorium and the utilisation of dedicated funds to assist affected individuals 	Discussion on the important role of central Shariah boards in mainstreaming Islamic finance , and a sound framework to ensure quality Shariah boards	Discussion on the importance of Shariah guide on <i>hajah</i> (exigent circumstances) to provide tools for Islamic financial institutions to manage risks and innovate continuously within evolving operating landscape, harmonisation and diversification of Shariah contracts and the role of the central Shariah board towards sustainability goals

Source: Bank Negara Malaysia and the Central Bank of the UAE

Role of CSAA Moving Forward

The different Shariah practices across jurisdictions are attributable to several factors including the differences in scholarly opinions to account for the practicality and implementation of Shariah rulings in addressing the needs and interest (*maslahah*) of society.² Such differences are an accepted facet in Islamic jurisprudence. Through the CSAA, the central Shariah boards are envisioned to forge greater understanding, respect and acceptance of various Shariah practices to unlock the full potential of Islamic finance for the mutual benefit of the Islamic financial ecosystem globally. This is supported by continuing efforts to strengthen the mechanism and governance of CSAA to assume a more prominent role in the future. Shariah opinions generated through CSAA discussions would be another source of reference by financial regulatory authorities, global *fatwa*-issuing bodies and international standards-setting organisations.

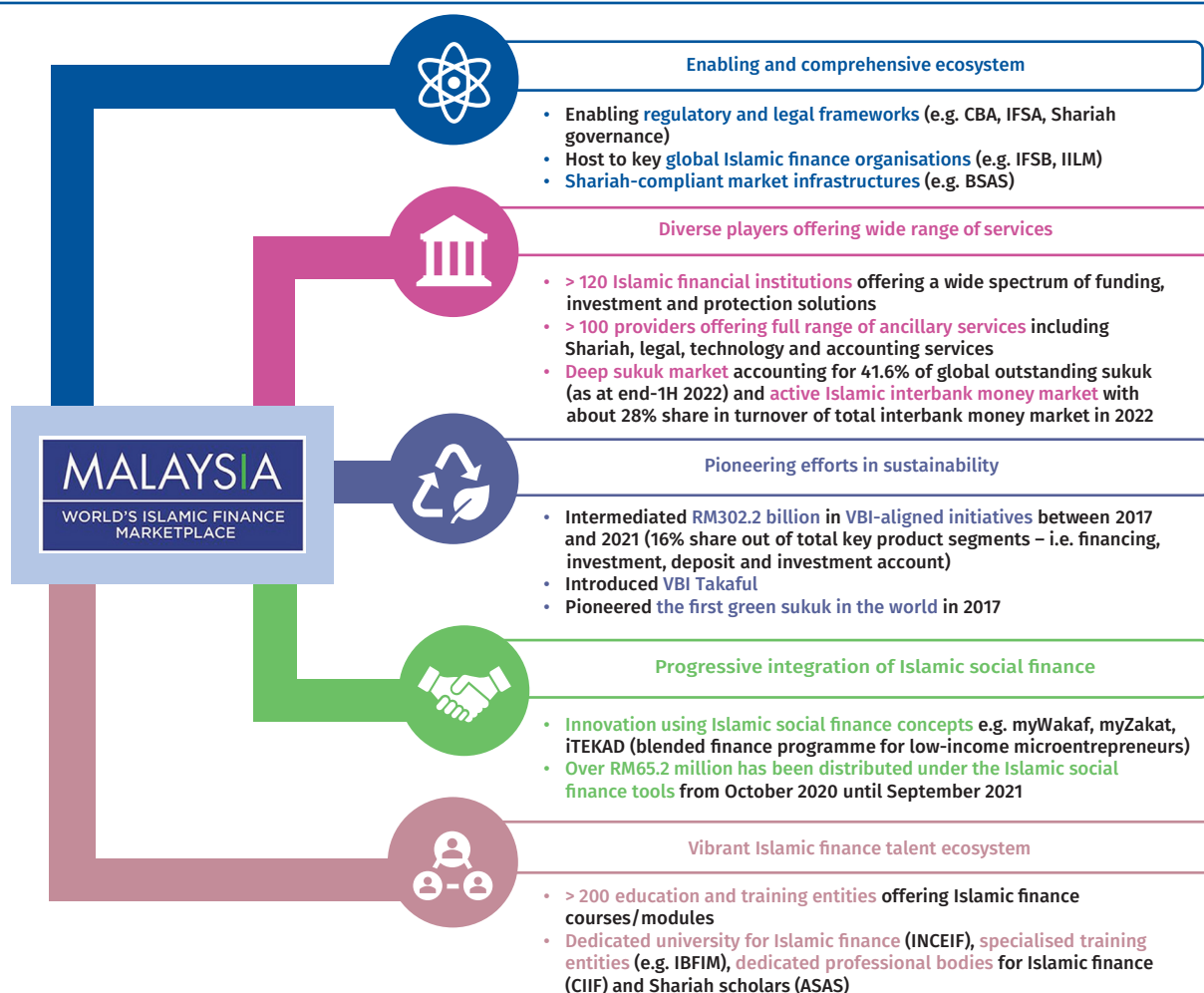
It is envisaged that CSAA will continue to develop as a strong global networking platform supporting the sustainable growth of Islamic finance, anchored by a shared purpose and mind-set to harness the collective wisdom of the participating central Shariah boards. These are important pre-requisites to ensure both CSAA and the participating countries can effectively respond to emerging Shariah risks and optimise opportunities in Islamic finance. With stronger connectivity and collective stewardship, CSAA will be able to contribute towards strengthening the global Islamic finance ecosystem.

² For instance, in Malaysia, the mandatory inclusion of a rebate clause (*ibra'*) in Islamic financing agreements is allowed to preserve fairness and contractual certainty as well as to mitigate moral hazard. Such ruling safeguards consumers' interest especially in judicial proceedings.

MIFC Leadership Council: Galvanising Greater Industry Stewardship

Since the launch of MIFC¹ initiative in 2006, Islamic finance in Malaysia has evolved into one of the most developed ecosystems with diverse solutions and resilient players (Diagram 1).² Globally, Islamic finance is now present in over 130 countries with total assets valued at USD4 trillion marking a 17% annual growth in 2021.³ The industry is expected to grow further to USD5.6 trillion by 2026.⁴ With its comprehensive Islamic finance ecosystem, Malaysia is well positioned to capitalise on the promising growth opportunity of the industry globally. A key priority is to strengthen Malaysia's proposition as an international gateway and thought leadership for Islamic finance and its ecosystem. This includes enhancing connectivity of market participants, businesses and investors to Islamic finance opportunities in Asia and the OIC.⁵ Focus is also given on exporting expertise and solutions in areas such as sustainable finance, halal trade facilitation and Islamic fintech.

Diagram 1: Comprehensive Islamic Finance Ecosystem in Malaysia



Notes: VBI – Value-based Intermediation, ASAS – Association of Shariah Advisors in Islamic Finance, CIIF – Chartered Institute of Islamic Finance Professionals, BSAS – Bursa Suq Al-Sila' (a commodity trading platform to facilitate Islamic liquidity management and financing by Islamic financial institutions), IBFIM – Islamic Banking and Finance Institute Malaysia.

Source: BNM, AIBIM Value-based Intermediation (VBI) Preview Report 2017-2020 and Full Report 2021 (based on member banks' submission), ICD – Refinitiv Islamic Finance Development Indicator Report 2022, MIFC website and estimate.

¹ Malaysia International Islamic Financial Centre (MIFC), is an initiative launched on 14 August 2006 to position Malaysia as an international Islamic financial hub.

² ICD – Refinitiv Islamic Finance Development Indicator 2022 (IFDI); World Bank: Islamic Finance and the Development of Malaysia's Halal Economy Report 2022; The State of the Global Islamic Economy Report 2022 by DinarStandard with the support of Dubai Economy and Tourism (DET).

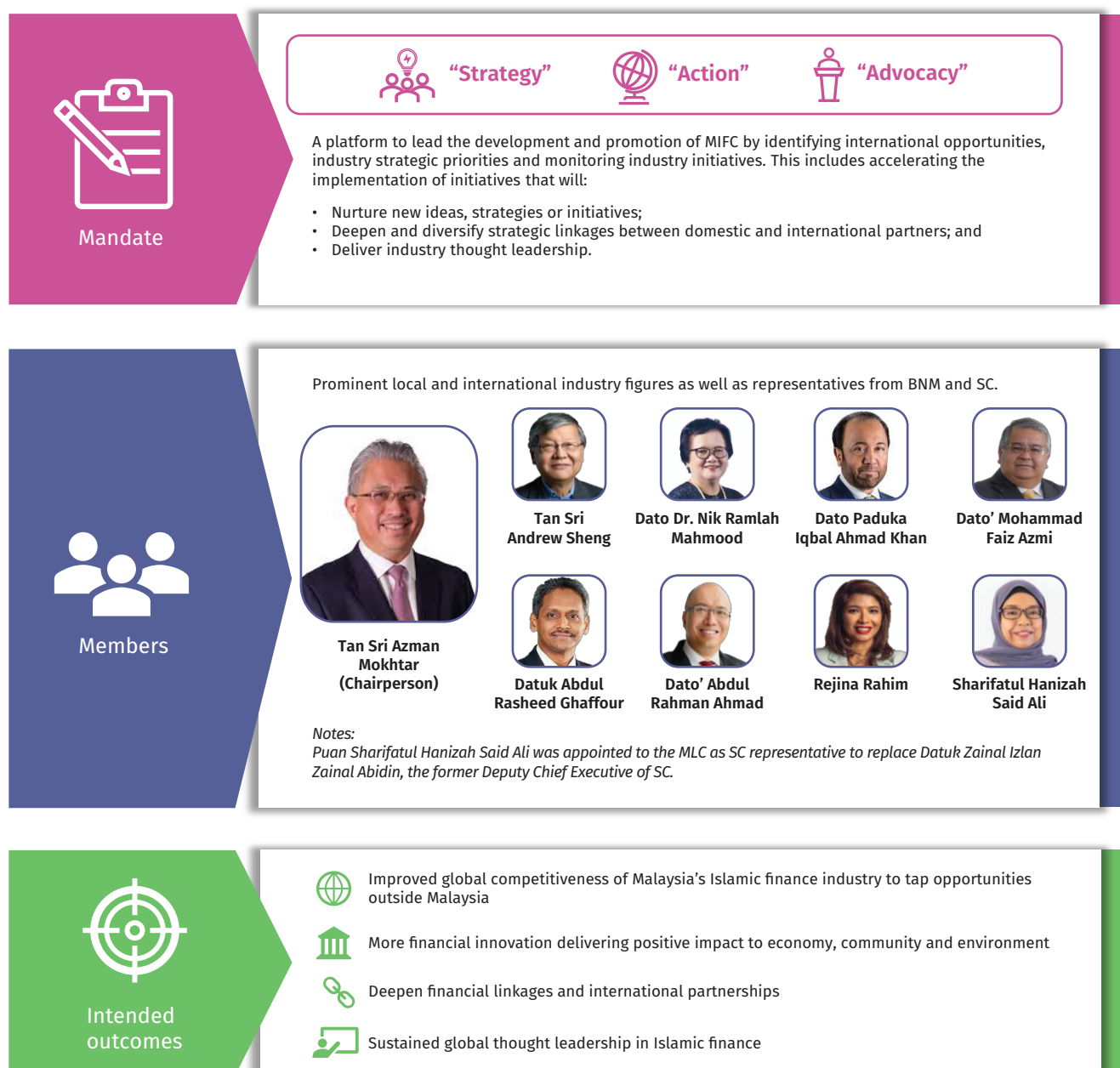
³ ICD – Refinitiv Islamic Finance Development Report (IFDI) 2022.

⁴ ICD – Refinitiv Islamic Finance Development Report (IFDI) 2022.

⁵ Organisation of Islamic Cooperation (OIC).

In support of this, the Bank and Securities Commission Malaysia (SC) initiated the establishment of the MIFC Leadership Council (MLC) in October 2022⁶ (Diagram 2). The MLC is an industry-led platform to advance MIFC propositions as a global marketplace and international gateway for Islamic finance. The MLC aims to provide stronger industry ownership in championing the MIFC agenda. This is in step with the more mature Islamic financial system in Malaysia. It also manifests a shift from stronger regulatory-led arrangements in the earlier stages of MIFC’s development. MLC is supported by a dedicated Secretariat. In 2023, MLC will focus on activating several work programmes. This includes positioning Malaysia as the preferred Islamic fund raising and investment destination, addressing inequality, promoting sustainability, elevating human capital and knowledge as well as digital empowerment.

Diagram 2: Mandate, Membership and Intended Outcomes of MIFC Leadership Council



⁶ The establishment of MLC was announced at the Global Islamic Finance Forum 2022 on 5 October 2022.