

**Islamic Financial Services Board and
Institute of International Finance Conference:
'Enhancing the Resilience and Stability of the Islamic Financial System'
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Keynote Address by

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It is my honour and great pleasure to speak before this distinguished audience, at this conference, jointly organised by the Islamic Financial Services Board and the Institute of International Finance. At a time when the international financial system is currently in turmoil, this forum provides an important opportunity to enhance our understanding of the developments, the issues that have come to the forefront and the implications it has for achieving stability in the global financial system.

Our specific interest today is to consider these issues in the context of the Islamic financial system, in particular, whether Islamic finance as a form of financial intermediation could be vulnerable to such risks of instability. In addition, what are the possible steps that might be taken to strengthen the resilience and stability of the Islamic financial system. The collaboration between the IFSB and the IIF in creating this platform is most timely. The global challenges posed by current international financial crisis necessitates global engagement. Given its far reaching repercussions, the strategic solutions need to be global in nature involving both reforms and measures to restore soundness and stability of the international financial system.

My remarks today will focus on the implications for the strategic direction of the Islamic financial industry taking into consideration the lessons learned from such financial turbulence including the current crisis. As Islamic finance becomes an integral part of the international financial system, it will be increasingly tested by such developments. History has shown that the world will continue to be plagued by such crises. The key for the Islamic financial industry is therefore to ensure that it would not be a source of such financial instability and is able to achieve a level of resilience that would ensure its sustainability.

Lessons Learned from Systemic Banking Crisis

The world has experienced more than 124 distinct banking crises in the recent 27 years.¹ While the triggering factors that precipitated financial crisis have been different, for most, it resulted in a general loss of confidence and a downward spiral in asset prices.

Such a crisis was experienced in the Asian region just over ten years ago. Following the lessons that were learnt from this experience, Asia has emerged in a better position to manage the spill over effects of the current financial turmoil. The key elements in the efforts have been the strengthening of the foundations that accord the resilience to withstand shocks to the system and that will ensure sustainability through episodes of such turmoil.

There are several similarities in the current financial crisis and the Asian financial crisis. In both cases, the crises followed a period of strong growth, rapid credit expansion and sharply rising asset prices. Prior to the Asian crisis, there was indiscriminate lending to the corporate sector. Investment activity was excessive, with the ratio of investment to GDP exceeding 35% for many economies in the region. The sub-prime crisis similarly originated from imprudent lending practices. The low interest rate environment also accentuated the build up of the excesses and rising asset values. In Asia, domestic credit increased to unsustainable levels, reaching 180% of GDP during this period. In the United States, it had increased close to 240% in 2007. The excessive leveraging and increased risk taking reinforced the formation of asset bubbles.

¹ L. Laevan and F. Valencia, "Systemic Banking Crises: A New Database", (Sept 2008) International Working Paper of the International Monetary Fund, WP/08/224

In both cases, there was also abundant liquidity. Both Asia and the United States experienced surges of capital inflows. This was reinforced by favourable sovereign ratings in Asia and the strong ratings for the securitized instruments in the US. The eruption of the crisis set off the reversal of these trends. There was also a failure to recognise that in a highly integrated international financial system, it meant that a crisis that originate in one part of the financial system not only would have an impact on other parts of the system but it could have far reaching implications on other jurisdictions.

A further similarity relates to the lack of capacity to manage the increased risks associated with the transformation of the financial sector. For Asia, the increased liberalisation was not accompanied by the development of the necessary domestic financial infrastructure and the capacity to manage the increased risks and vulnerabilities associated with the liberalisation. In the current crisis, financial innovation occurred at a pace that outstripped the ability to manage the associated risks with such innovations. There was excessive risk taking and a lack of transparency and disclosure in the financial transactions. The complex structured instruments and securitisation process resulted in multi-layered structuring of financial products which were not supported by enhancements to governance processes and the risk management infrastructures and practices. This resulted in an underestimation of the risks involved and the capital buffers that were necessary.

The ensuing turmoil in the financial markets that followed was increasing illiquidity in the financial markets and the subsequent breakdown in the functioning of the markets. As this continued, it has translated into stress and insolvencies in the financial sector. In both crises, this precipitated a sudden pull back in bank lending. The ensuing credit crunch magnified further the damaging impact on the economy.

In Asia, the economic contraction was severe in the range of minus 7% to 13%. In the current financial crisis, however, the spillover impact of the effects on the economy has yet to be fully felt. In the Asian financial crisis, it ran its full course with the rapid price adjustments

in most asset markets taking place within a period of just over a year. In Asia, there was limited potential to reduce interest rates in an environment that was vulnerable to capital outflows. The focus of policy in Asia was therefore on the resolution of the banking sector and to restore the functioning of the intermediation process. In most of the crisis affected economies in Asia, this strategy produced positive results and growth resumed within twelve to eighteen months.

Financial Crisis and Islamic Finance

In the midst of the unfolding of the global financial crisis, it is useful to review the foundation and structures of the Islamic financial system to assess its resilience in withstanding the impact of the current and future crises. In taking into account the dynamics of the crisis and the potential implications for Islamic finance, two important dimensions are key in undertaking the assessment.

The **first key dimension** highlights the inherent ability of Islamic financial system to deal with the test of such crisis. Islamic finance is well-supported by two essential features which serve as pillars to Islamic financial transactions. Firstly, Islamic finance encourages business and trade activities that generate legitimate profits, subject to an explicit requirement of materiality and validity of the transaction. This requirement ensures that the funds are channelled into real financial business activities, reinforcing a close link between financial and productive flows. This reduces the Islamic financial system from over exposure to risks associated with excessive leveraging and imprudent risk taking. In Islamic financial transactions, money is not a commodity, but a medium of exchange, a store of value and a unit of measurement. Money represents purchasing power and cannot be utilised to increase the purchasing power without any productive activity.

Secondly, Islamic finance encourages business transactions on a mutual risk sharing basis. The practice of risk sharing provides the impetus for the Islamic financial institutions to conduct the appropriate due diligence and maintain the explicit requirements

for disclosure and transparency. These requirements thus serve to promote the adoption of sound risk management practices by the Islamic financial institutions.

By embracing these essential features and the objectives of Shariah in its entirety and by exemplifying the true practice of Islamic finance as required by the principles of Shariah, the resilience of the Islamic financial system is strengthened. It is therefore paramount that Islamic financial professionals, practitioners, scholars and regulators fully understand the inherent requirements of Islamic finance, which are in fact consistent with the international best practices and standards in the conventional financial services industry. It is these very elements of Islamic finance that provides an additional in-built mechanism that enhances its prospects for soundness and stability.

The **second key dimension** relates to potential risks for Islamic finance in a crisis environment. This could arise when the economic environment and the conditions in the financial markets turn adverse. The increased globalisation of Islamic finance and its greater integration with the international financial system increases the exposure of the system to contagion effect from such developments. In the dynamics of a financial crisis in the conventional financial system, this would be referred to as the second round effects. The first round effects is when developments within the financial system triggers the financial crisis which in turn impacts the real economy. The second round effects is when the resulting slower growth causes further strain to the financial sector.

The experience has shown that when such crisis is not contained, the consequent deterioration in economic conditions results in a worsening of the financial crisis. For this reason, resolution has to take place quickly. For Malaysia, in the 1997-98 crisis, every effort was taken to give attention to financial sector resolution so as to prevent the spiral that could have set in as economic activity became affected by the financial crisis.

In this indirect manner, Islamic finance would be affected by such financial turmoil. Slower economic growth and the reduction in the

global liquidity would affect those institutions that are heavily reliant on a business model that focuses on real estate and asset finance. Islamic financial institutions would also be exposed to increased inventory risk due to the increased volatility and the reduction in asset prices. Islamic financial institutions with a high proportion of their businesses in profit sharing business (Mudharabah and Musyarakah) may be exposed to losses due to equity investment risk, possibly by the inability of the enterprises in generating the expected returns. The absence of an Islamic money market infrastructure would also expose the Islamic financial system to higher liquidity risks.

Strategies to Strengthen the Resilience of Islamic Financial System

As innovation of Islamic financial products and services intensifies and as Islamic finance becomes more integrated with the international financial system, it becomes imperative that the foundations upon which Islamic finance has been built remains intact. This will be the key to sustaining the resilience of the Islamic financial system in this more challenging international financial environment.

Key to this is to embrace Shariah-based innovation in the development of Islamic financial products. In a highly globalised financial market, innovation has been a key differentiating factor to remain competitive. The current turmoil has however, highlighted that highly complex, unbridled innovation can become highly destabilising resulting in major disruptions in a financial system. It is therefore important for financial innovation to have clear Shariah objectives and adhere to the requisite principles of Shariah. In this manner, Shariah-based innovation would contribute towards Islamic financial products that have distinct value propositions with in-built strengths arising from the essential features of Shariah.

To achieve this objective, it is important to have strong initiatives that promote Shariah-based innovation in Islamic finance. In Malaysia, several steps have been taken. The establishment of the International Shariah Research Academy for Islamic Finance (ISRA) aims to engage in applied research on dynamic

Shariah-centric innovation. ISRA can provide a global platform for greater global engagement and research with the focus on innovation.

In addition, the Central Bank has also embarked on the initiative to develop the Shariah Parameters to promote more consistent application of Islamic financial contracts. This initiative aims to determine the essential features of Islamic financial products derived from underlying key Shariah contracts. These features will serve as a guide for the application of the Shariah contracts for the Islamic financial products.

The second strategy is to raise the bar in the status of the Islamic financial infrastructure that supports the risk management and governance of Islamic financial institutions. To ensure sustainability of the resilience of Islamic finance, it is important to have the comprehensive enabling infrastructure that allows for the management of the risks that are peculiar to Islamic finance. There is a need for Islamic financial system to have the capital requirements, effective risk management and strong governance that are fully equipped to manage the risks that are specific to Islamic financial transactions. It is also important for the institutions to spread the risks by having prudent asset allocation based on different Islamic contracts so as to ensure a sustainable revenue stream and to ensure the institutions are in a position to absorb the extreme circumstances that occur during a crisis.

In the case of Malaysia, an additional capital requirement is required to cushion inventory risks of underlying assets and to cover the potential equity position risks that are embedded within the partnership contracts. This is also reinforced by the requirement on the appointment of board representatives in the invested entities under the partnership contracts so as to serve as a safeguard for the interest of the Islamic financial institution thereby allowing for continuous monitoring and surveillance. Islamic financial institutions are also allowed to transfer the risk to investment account holders under Mudharabah, i.e. profit sharing and loss bearing contract, if the institution

can demonstrate the appropriate disclosure and governance practices that would ensure an effective risk transfer. Islamic banks are also permitted to set aside a portion of income derived from assets funded by Mudharabah contracts, in the form of profit equalization reserves (PER) to sustain stable and competitive returns. Several of these requirements are based on the international standards that have been issued by IFSB. The implementation of IFSB standards across jurisdictions will be key in the continued robust expansion of Islamic finance.

While the above measures facilitate the managing of risks peculiar to Islamic finance, the legal, regulatory and supervisory infrastructure also needs to keep abreast with the evolution and rapid transformation taking place in the industry. As part of this infrastructure, there needs to be an integrated crisis management framework to ensure that any emerging crisis in the Islamic financial system will be promptly managed. Such efforts, among others need to involve three basic aspects. This includes having the mechanism and vehicle to preserve short-term liquidity, to remove troubled assets from the balance sheets of financial institutions and to recapitalise Islamic financial institutions.

In the case of Malaysia, this infrastructure has been put in place. The Central Bank has a range of Islamic financial instruments to manage liquidity in the financial system. This is supported by a well developed Islamic money market. In addition, the financial safety net framework in Malaysia encompasses the lender of last resort facility and a comprehensive deposit insurance system that provides coverage for both conventional and Islamic deposits. The Deposit Insurance Corporation has also been given sufficient statutory powers to ensure a prompt, effective and least cost resolution to safeguard the stability of the Islamic financial system. This entails among others, the regulatory powers and mandate to ensure expedient resolution of financial institutions in distress. Our supervisory oversight also subjects the Islamic financial institutions to periodical stress testing to assess whether the institutions would be able to cope in extreme conditions.

Global ramifications of the crisis also calls for more concerted efforts at the international level to avert an escalation of the scale of a crisis. Central to this is to have coordinated initiatives, by having in place on-going assessments of any vulnerabilities in the Islamic financial system so as to avoid crisis. As part of this, the close cooperation of the central banks would enable a swift response if it is required.

Thirdly is to assimilate the Shariah values in the realisation of benefit (Masalih) to the relevant stakeholders. Islamic finance industry may, by according attention to the preservation of good relationship with the customers and relevant stakeholders, avoid extreme solutions when severe deterioration has taken place. Consistent with this is the principle in Islamic finance to promote justice, fairness and shared responsibility. The focus of Islamic finance thus transcends beyond just the pursuit of growth and monetary performance by emphasising ethical market conduct practices. Central to this is the adoption of a comprehensive consumer protection framework.

Conclusion

In shaping the robust growth of Islamic finance, the strategic direction of the industry moving forward needs to be accompanied by the efficient implementation of the legal, regulatory and supervisory regime, including having in place a crisis prevention and management framework. While recognising the strengths of Islamic finance and the opportunities it presents, key to this is ensuring the essential features of Islamic finance are preserved so as to retain its inherent resilience and stability.

The robust growth of Islamic finance has been from the significant interest from both the Muslim and non-Muslim communities. This would not occur if Islamic finance was not able to meet the growing and differentiated financial requirements, if it were not an efficient form of financial intermediation and if it were not competitive. As a growing part of the international financial system that has become increasingly challenging, our task will be to build on the inherent strengths of Islamic finance and to continue to strengthen the supporting structures so as to ensure that Islamic finance will contribute to the overall stability of the global financial system.

**State Street Islamic Finance Congress 2008:
'Islamic Finance: A Global Growth Opportunity Amidst a
Challenging Environment'
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This decade has witnessed the rapid evolution of Islamic finance. This has resulted in the dramatic transformation of the industry, from being focused on retail financing to providing an extensive spectrum of financial products and services, from being focused on the Muslim community to having an extended reach that serves the non-Muslim community, from being governed by conventional regulatory and accounting standards to having promulgated its own standards and finally from being domestic centric to becoming increasingly internationalised. The Islamic financial services industry has during this decade transitioned into a dynamic, fast growing and competitive form of financial intermediation servicing the global community.

It is my honour and great pleasure to be here in Boston to participate in this inaugural State Street Islamic Finance Congress. With the recent evolution and expansion in Islamic finance, it has now emerged as a viable new asset class for investors and a competitive form of financing for businesses. It has therefore, not only allowed for the further diversification of risks, but, the resulting higher level of foreign participation and the increased cross border flows has not only strengthened international financial inter linkages between nations but also contributed to the more efficient international allocation of resources across borders.

Intrinsic Strength of Islamic Finance

Islamic finance has, thus far, remained positive, despite the current challenging global financial environment. The strengths in Islamic finance are derived from the Shariah principles, the key pillar of Islamic

finance that has contributed towards its overall stability and resilience. The Shariah injunctions require that the financial transactions be accompanied by an underlying productive activity thus giving rise to a close link between financial and productive flows.

In addition, under the risk sharing arrangement, the Islamic financial institution will share the profit or loss incurred by the entrepreneur. Under this arrangement, there is an explicit risk sharing by the financier and the customer and the real activity is expected to generate sufficient wealth to compensate for the risks. This arrangement, thus, entails the appropriate due diligence and the integration of the risks associated with the real investment activity into the financial transactions. In addition, the Shariah principles also prohibit excessive leverage and speculative financial activities thus insulating the parties involved from excessive risks exposures.

The intrinsic principle of profit and risk sharing thus provides an in-built check and balance to the Islamic financial transactions. Explicit in this arrangement is the element of risk management and governance practices. Hence, it is a modality in which there is strong explicit emphasis on the economic viability of the underlying assets and on good governance, ethics and transparency.

A demand-driven industry with growing potential

This decade has seen the global Islamic finance industry evolve from being faith-based to a business driven industry for all communities. Its significant similarities to the principles in ethical finance and socially responsible investment has been a further

factor that has drawn interest in Islamic Finance. Islamic finance does not only involve the avoidance of *riba* (usury) but also extends to issues relating to ethical values, such as fair trade and environmental protection. This has prompted participation from conventional global players in Islamic financial activities and in the acquisition of strategic stakes in Islamic financial institutions.

There is also a growing number of established international financial centres such as London, Tokyo, Hong Kong and Singapore that have initiated plans for the integration of Islamic finance into their financial systems. Islamic finance has now become one of the fastest growing segments in the global financial system. The total Islamic assets under management by Islamic banks and conventional banks offering Islamic banking services is reported to exceed USD500 billion. This growth has also been in the other major components of the Islamic financial system. Islamic mutual funds are estimated to be about USD300 billion, while global *takaful* or Shariah-compliant insurance contributions are estimated to be about USD5 billion.

Strengthening the International Infrastructure

Integral to the efforts in the development of Islamic finance has been the development of the supporting international Islamic financial architecture. The establishment of the Islamic Financial Services Board (IFSB) in 2002 to set the prudential standards for Islamic finance, and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) established in 1990 has been key to ensuring the soundness and stability of the Islamic financial system.

The IFSB and AAOIFI have had an important role in the harmonisation of prudential and accounting standards across the different jurisdictions. They are also instrumental in instituting international best practices in the global development of Islamic finance. The Islamic financial institutions are also subject to the requirements on anti-money laundering and anti-terrorist financing.

Opportunities through greater international financial integration

The globalisation of Islamic finance has gained significant momentum in this recent five years. While the early development of Islamic finance was domestic centric, its internationalisation is now manifested by increased cross border flows, greater participation in international Islamic financial markets, the increased presence of financial institutions in new jurisdictions and more recently, the increased number of Islamic financial institutions which have shareholders from multiple jurisdictions.

Greater financial integration has essentially been facilitated by the more rapid pace of liberalisation that has been supported by the progress that has been achieved in the development of the international Islamic financial infrastructure. This trend has also been prompted by the need for greater diversification of risks in the management of funds. In the current international financial environment, this trend has become more pronounced prompting investors to consider other asset classes and markets that provide stability. Thus far, the global financial crisis has had limited direct effects on Islamic finance. While Islamic finance by its very nature only engages in transactions that have underlying tangible productive activities, the slower overall growth and the increased uncertainties have affected pricing and activity in certain market segments. However, this in part reflects the shift in activity from the financial markets to the Islamic financial institutions.

The scope of Islamic financial business has now expanded to more sophisticated financial products in response to the changing global customer base. Such Shariah-compliant products include private equity, project finance, the origination and issuance of *sukuk*, as well as fund, asset and wealth management products. The *sukuk* market in particular, has become an important avenue for international fund raising and investment activities. This market has expanded by an annual growth rate of 40%. The year 2007 saw an exceptional growth of the global *sukuk* market which expanded by more than 70%. New issues during the year reached a record high to about

US\$47 billion and the outstanding global sukuk market has now surpassed the US\$100 billion mark. Up until August this year, it has held its ground with a total global issuance now exceeding US\$14 billion, and is expected to exceed USD200 billion in 2010. This growth is spurred in part by the growing funding requirements in emerging market economies, in particular, in Asia and the Middle East. This is reinforced by the continued confidence of investors in the Islamic financial instruments.

Malaysia's Islamic Finance Journey

Let me now turn to Malaysia's journey in the development in Islamic finance. Islamic finance in Malaysia first started as a strategy for greater financial inclusion, so as to have a greater outreach to the underserved segment of society to basic banking and insurance products that are compatible with Shariah principles. After three decades, the Islamic financial industry in Malaysia has evolved as an integral and competitive component of the overall financial system that operates in parallel with the conventional financial system.

The Malaysian Islamic financial system is founded on three major strategies. **Firstly**, the Islamic financial system has been evolved as a comprehensive financial system that is diversified in terms of its institutions, markets and players. The Islamic financial system comprises the Islamic banking institutions, the takaful industry, the non-banking institutions and the Islamic money and capital markets. The supporting financial infrastructure includes the robust regulatory and supervisory framework that is reinforced by the legal and Shariah framework, the payment and settlement systems and the mechanism for the liquidity operations by the Central Bank.

The assets of the Islamic banking system now comprise 16% of the market, while the takaful sector has garnered 7% market share. Significant progress been achieved in particular in the Islamic capital market where the outstanding amount of Islamic private securities amounted to USD79 billion or 54.3% of the total outstanding private securities in the market. The number of Shariah-based unit trust funds have also increased to 136

with a net asset value of over USD5.2 billion while 85% of the listed Malaysian stocks are Shariah-approved counters.

The second strategy is to accord greater emphasis on the enabling environment for increased innovation in the Islamic financial industry. The product range in Islamic finance has now expanded into a broad spectrum of innovative instruments, including investment and equity linked products based on musyarakah, mudarabah and ijarah. These products are competitive both in terms of product structure and pricing. The enhanced depth of the Islamic financial markets, in particular, the sukuk market, has increased the attractiveness of the Islamic financial instruments as an asset class for investment.

The drive for innovation has been supported by the investment in human capital development. A sufficient pool of the talent and expertise has been key to the development of the Islamic financial hub in Malaysia. The International Centre for Education in Islamic Finance (INCEIF) was established in 2006. INCEIF which has an international faculty and students from more than 40 countries is focused on programmes for Islamic finance professionals and specialists in Islamic finance. The first group of students for the Chartered Islamic Finance Professional qualification, CIFP, offered by INCEIF, is expected to graduate at the end of this year after completing a three year programme that includes an internship with an Islamic financial institution. INCEIF also offers a Masters and PhD Programme in Islamic finance.

To promote research in Islamic finance, the International Shariah Research Academy (ISRA) was established this year to conduct applied Shariah research on the contemporary Islamic finance issues. ISRA also provides a platform that promotes active engagement and dialogue among global Shariah scholars that promote mutual respect in Shariah and the convergence of views from different jurisdictions in the global Islamic financial system.

The third strategy is to promote greater financial integration with the global Islamic financial system. The Malaysian Islamic financial system has also been progressively liberalised to allow for increased foreign entry and participation in our financial system, thus facilitating greater

cross border flows and thus strengthening the international financial inter-linkages. This has taken the form of issuance of new licences and increasing foreign participation in both Islamic banks and takaful companies to 49%. New licences were also issued to foreign fund managers and foreign stockbrokers. In this new phase of development for Islamic finance, Malaysia as an international Islamic financial hub, has increasingly become a meeting place for businesses from different parts of the world that need to raise funds and for investors that have surplus funds for investment.

Islamic Finance Going Forward

There is now a strong and growing demand for Islamic financial products in the global market, far exceeding the current availability of financial products and services being provided by the Islamic financial institutions. Going forward, there is therefore tremendous upside potential for Islamic finance.

As the pace of development of the Islamic financial services industry accelerates, the increasingly more complex and challenging environment will continue to shape the advancement of the industry. Central to this will be the expansion of the business parameters and innovative product offerings. For this, there is increased investment in research and development to yield new instruments and structures to meet the changing requirements of the international community. An area of focus, in particular, is related to the development of mechanisms for risk mitigation and liquidity management. Of importance, are the solutions needed to converge the market requirements and the Shariah compliance.

Increased innovation also calls for greater emphasis on the implementation of best practices and higher standard of risk management. Vital to this is the implementation of the prudential standards promulgated by the IFSB. There is also a need to leverage more on IT applications and the strengthening of management capabilities of the Islamic financial institutions. Going forward, with the increased awareness and understanding of Islamic finance, the role of market discipline will become increasingly important in driving Islamic financial institutions towards ensuring Shariah

compliance in the operations, in improving operational efficiency and in instituting sound and dynamic risk management practices.

The forces of innovation also raise a number of issues concerning the divergence of Shariah views underlying a number of the Islamic financial transactions. While such a divergence of opinions in Islamic financial transactions is not a new phenomenon, it has now prompted increased international dialogue among the Shariah scholars from the different parts of the world. It is the closer linkages between the global Islamic financial markets and the increased platforms for greater engagement on Shariah issues that will contribute towards promoting an increased common understanding and mutual acceptance on the rules, standards and Shariah views, and for convergence to occur. This would evolve global Shariah standards for the Islamic financial industry.

As Islamic finance continues internationalise with expanding scale, there will be greater financial intermediation linkages among the East Asian, West Asian, and the Middle East regions – creating the “New Silk Road”. While this New Silk Road of financial flows is enhancing connectivity between Asia and the Middle East, both regions have, as in the case of the old Silk Road, extended the New Silk Road to the rest of the world. Global investors and the international financial community have already drawn benefits from the increased diversification of investment activity to the two regions. The expansion of the interlinkages of intermediation to and among these regions would in turn contribute towards a more efficient allocation of capital in the global financial system.

Closing Remarks

Against a backdrop of an increasingly uncertain global environment, Islamic finance, as a form of financial intermediation in the international financial system, has continued to be viable and competitive. In the coming years, the greater global participation in this developmental process, both directly and indirectly, would enhance the potential role that Islamic finance would have in contributing towards greater global financial stability in the international financial system.