

**ADDRESS BY
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AT THE SECURITIES COMMISSION –
OXFORD CENTRE FOR ISLAMIC STUDIES DINNER
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Bismillahi Rahmani Rahim

Assalamualaikum Warahmatullahi Wabarakatuh

Good evening ladies and gentlemen:

It is a great pleasure for me to be here this evening, and I would like to thank the organisers for the opportunity to address this distinguished audience. I believe that dinner speeches, when they absolutely cannot be avoided, should not be so long as to induce sleep, or jarring so as to cause sleeplessness. I will try to live up to these two strictures. We have an exciting time ahead of us in the next two days and I will reserve my detailed remarks for tomorrow afternoon at the Oxford Roundtable. I nevertheless do not want to pass up on this opportunity to make a few points that can perhaps serve as a preface to our discussions over the weekend.

2. Before I do so, allow me to summarise where I see the global financial system is today. Islamic finance does not exist in isolation but takes its place alongside a much larger conventional system of finance. This latter system was dealt a severe blow two years ago when it was brought to a near total shutdown. It was only the quick thinking and actions of governments, individually and in concert, that prevented the onset of the financial equivalent of a nuclear

holocaust. In the midst of the complete panic - one where even the world's best financial institutions would not lend to each other - governments in the advanced economies stepped in to take over the financial institutions that were considered "too big to fail" while pumping in liquidity. If they had not done so, we might be meeting under very different circumstances today.

3. A little more than two years down the road from the collapse of Lehman Brothers, it would appear the worst is over although things are still very far from optimal. Levels of risk and uncertainty are very high and extreme caution remains the order of the day. Given high levels of deficits and debt, the threat of sovereign risk defaults is still real. Households in the advanced economies also continue to be plagued by high levels of debt. Unemployment levels remain high. Steps to cut back public expenditure will further add to the ranks of those out of work.

4. In the United States and some other countries, the corporate sector has been aided tremendously by fiscal and monetary stimulus. They are now in net cash accumulation mode and are only very slowly and carefully investing their surpluses given the uncertainty of what lies ahead. Corporates are opting to reduce their existing debt levels, and this is not helped by banks that seem more concerned with avoiding business risks and conserving capital. As a result, the world economy has ample liquidity and interest rates are expected to remain low for now. The challenge is in channeling this liquidity beyond the financial market, into the real economy. I believe this is the scenario the Islamic finance industry faces today.

5. The UK, with its long history as a leading global financial centre, is strategically placed to play a prominent role in the growth of Islamic finance. Indeed, the UK has already made significant strides in this area, an achievement made all the more notable by the fact that Muslims make up less than 5 percent of the population. Over the past decade, the government has introduced tax and

legislative changes aimed at putting Islamic financial products on the same playing field as their conventional counterparts.

6. The UK had its first Islamic retail bank in 2004, the first in this part of the world. This was quickly followed by its first Islamic investment bank. Today, in addition to the full-fledged Islamic financial institutions, the UK also hosts a long list of conventional banking institutions offering Islamic 'windows', as well as legal firms that draw up and advise on Islamic finance contracts and transactions.

7. Islamic finance has largely managed to avoid being associated with the free-wheeling excesses of recent years, but it too is not free from negative perceptions. The global financial crisis has not left Islamic finance entirely unscathed. The system was affected by a few *sukuk* defaults and debt rescheduling. But it is recognised that the issue was one of credit risk and not because of any deficiency in the *Shariah* framework.

8. Pockets of fear and distrust of Islam and Muslims persist, and such negative images inevitably spill over into Islamic products, making it extremely difficult for them to penetrate non-Muslim markets. The challenges of marketing Islamic financial products to, and being accepted by, non-Muslim consumers, therefore, remain considerable.

9. For non-Muslim investors, the theology underlying Islamic financial products is understandably of little, or no, relevance. Expecting such products to be driven by religious loyalties, therefore, cannot and should not be the primary approach. It is critical that Islamic financial products be on par with their conventional counterparts in terms of competitiveness, comprehensiveness and returns. Islamic finance products have to be commercially driven and based on yield optimization. For this to happen, markets must be deep and liquid. They must have broader appeal than just to one section of Muslims. Increasingly, conventional investors are seeking sounder alternatives. For example, *sukuk* or

Islamic bonds is emerging as an established asset class among international investors.

10. This has been our experience in Malaysia. Malaysia's *sukuk* issuance has been able to attract investors from varied jurisdictions, including the United States and Europe, and from a wide range of institutions including banks, asset managers, sovereign wealth funds, insurers and pension funds.

Ladies and Gentlemen:

11. In the Islamic worldview, finance is not an end in itself. It is a means to uplifting the welfare of mankind. The requirement for funds to be invested only in worthy businesses; to be based on risk-sharing and on real assets; and the prohibitions against interest, speculation and exploitation; ensure that not only should Islamic financial products "do no harm", they should also serve the public interest.

12. For the global economic recovery to be sustained and far-reaching, there must be a return to real productive investments and to responsible risk-taking. This is where Islamic finance can come into its own. Islamic finance is, after all, very well suited to meeting the unmet demands for productive capital. The main goal of Islamic finance is to channel financial resources towards socio-economic development. With its emphasis on assets and partnership, Islamic finance is less exposed to risk. By avoiding speculation, Islamic finance reduces volatility and provides a sound basis for stability. In short, Islamic finance has the opportunity to step into the breach created by conventional finance and prove that it can offer the surety and quality that investors are after.

13. I congratulate the Securities Commission of Malaysia and the Oxford Centre for Islamic Studies for organising this evening's event and the Roundtable that will take place over the next two days. It is my fervent hope that this

gathering of minds will generate new insight and build many meaningful networks that are essential for the continued growth of the Islamic finance industry.

Thank you.