

**SPECIAL ADDRESS BY
HIS ROYAL HIGHNESS RAJA NAZRIN SHAH
CROWN PRINCE OF PERAK, MALAYSIA
AT THE
2ND SECURITIES COMMISSION –
OXFORD CENTRE FOR ISLAMIC STUDIES ROUNDTABLE
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VENUE: DITCHLEY PARK, OXFORDSHIRE**

Assalamualaikum Warahmatullahi Wabarakatuh.

Good afternoon, ladies and gentlemen.

I am delighted to be part of this important event for the second successive year and to have this opportunity to address such an eminent group of scholars, academicians, regulators and practitioners of Islamic finance. I am pleased to note that the Securities Commission Malaysia is again collaborating with the Oxford Centre for Islamic Studies to provide this platform for intellectual discourse on Islamic finance, a subject matter very close to my heart.

2. The fact that this year's Roundtable is held here at Ditchley Park, close to my alma mater, the University of Oxford, makes it all the more appealing. Returning to Oxford brings back many memories of the fun, the freedom, the joys, the sweat and the tears of being a student. Most of all, it reminds me that, consistent with the teachings of Islam, the quest for knowledge is a lifelong obligation. Oxford has a very long history of seeking and sharing knowledge, never thinking twice about venturing off the beaten track in the pursuit of knowledge. It heartens me that the spirit of inquiry is also very much alive in the Islamic finance industry. Initiatives such as this Roundtable are proof of this.

3. At the inaugural SC-OCIS Roundtable in Kuala Lumpur last year, I spoke about the importance Islamic finance places on social welfare. The emphasis on transparency and fairness, the principle of risk-sharing and the prohibition of *riba*, all contribute to preserving the public good. These characteristics, as prescribed by *Shariah* also serve to distinguish Islamic Finance from conventional finance.

4. The theme for this year's Roundtable is "Islamic Finance and the Public Good". A lot of the research in Islamic finance has been on the distinguishing features between Islamic and conventional finance. This is understandable given the need to ensure the purity of Islamic finance. However, the many similarities and common principles between the two should not be overlooked.

5. Public good is one such concept that is common to both conventional and Islamic finance. The 18th century British jurist, Sir William Blackstone, said, "The public good is in nothing more essentially interested, than in the protection of every individual's private rights". Today the growing interest in the sustainability of businesses and their social, environmental and economic impact; the pursuit of Socially Responsible Investments (SRIs); and the commitment to corporate social responsibility (CSR); demonstrate the pertinence of the concept of public good. Index providers for the capital market have introduced a number of SRI-related indices on themes such as sustainability and green technology in tandem with developments in the market.

6. In Islamic finance, consideration of the public good is inherent in the *Maqasid Shariah*, which is the rationale of the *Shariah*. In the words of Imam Al-Ghazali, "The objective of the *Shariah* is to promote the well-being of all mankind, which lies in safeguarding their faith (*din*), their human self (*nafs*), their intellect (*aql*), their posterity (*nasl*) and their wealth (*mal*). Whatever ensures the protection of these, serves the public interest and is therefore desirable."

7. The *Shariah* seeks to establish justice, eliminate prejudice and alleviate hardship. The prohibition of *riba*, for instance, serves to ensure that Islamic financial transactions promote real, as opposed to artificial, wealth creation. Therefore, it serves the public good. On the other hand, the artificial creation and transfer of wealth through so-called “toxic products” do not serve the public good. Such activity can have catastrophic consequences as demonstrated during the financial crisis.

8. The recognition and use by most Islamic finance scholars of the concept of *maslahah*, is yet another testament of the close link between Islamic finance, *fiqh* and the public good. *Maslahah* literally means seeking benefit and repelling harm. In the world of modern finance, the maintenance of financial stability and ensuring an equitable and orderly market, are intended to benefit the people and prevent harm to society and the economy.

9. This applies to both Islamic and conventional finance. When investors entrust an institution with their assets, they are relying on the institution to reciprocate by acting with wisdom and honesty. Following the financial crisis, trust in the financial services industry as a whole has all but evaporated. Financial services needs to now regain its place by rebuilding that trust and restoring confidence in the market. It can only do so by demonstrating that it is indeed concerned with the public good, and not just profits.

10. In the aftermath of the crisis, much has been said about the resilience of Islamic finance relative to its conventional counterpart. The buoyancy of Islamic finance was largely owed to the fundamental features of the *Shariah*-compliant instruments; such as the requirement for them to be backed by real assets or real transfers; and the absence of speculative elements. However, it is vital that we turn our focus away from the pursuit of form and towards the pursuit of the substance, as guided by the *Maqasid Shariah*.

11. The values advocated by the *Shariah* are not only confined to the detailed technical aspects of transactions, but also in the extent to which the objectives of the *Shariah* are achieved. If every aspect of Islamic finance were to be subject to a “public good” test, arguably no negative repercussion could ever arise. Likewise, if all conventional financial products were subjected to a “public good” test, the catastrophic effects of the recent crisis would have been avoided; and finance would serve its rightful purpose – as an engine that drives and supports the real economy.

12. Recognising the role of public good in Islam, one may then ask if in Islamic finance, the pursuit of public good should be at the expense of profits. From a narrow perspective, it may appear so. However if one chooses to take a holistic view, the principle of risk-sharing within Islamic finance promotes greater efficiency as it encourages all parties involved to achieve the best possible returns. Maximisation of profits must be accompanied by efforts directed toward achieving *al falah*, or ultimate happiness, through ensuring that public good is not compromised.

13. In discussing public good, it would be relevant at this point for me to touch on the concept of *tayyib*. The term “*at-tayyib*” is used in the *Qur'an* and *Sunnah* to describe something that is good. In the context of food, there are several verses in the *Qur'an* that call on mankind to consume food that is both *halal* and *tayyib*. We should not be satisfied with just achieving something that is *halal*, but instead should strive for something that is also good or wholesome. If we are to adopt a similar approach in our endeavour to bring Islamic finance to greater heights, we therefore must not overlook the need to incorporate the element of *tayyib* into products and practices. This need is especially relevant when the Islamic Finance industry remains largely in an adaptive, as opposed to innovative, mode. The process of adapting a product or practice from

conventional to *Shariah*-compliant may at times focus on eliminating the *haram* while neglecting to incorporate the *tayyib*.

14. Looking ahead, for Islamic Finance to sustain its growth momentum, it is important to recognize that the products and services it offers must be in keeping with the needs and demands of the day. While conforming to the principles of *Shariah*, these products and services would also have to be commercially competitive in terms of pricing, returns and risk management. In this regard, I am happy to note that in line with the growth in the industry, there has been an impressive expansion in the range of *Shariah*-compliant banking and investment products in the market, including *sukuk*, mutual funds, commodity funds, ETFs, REITS, *Takaful*, *Shariah*-compliant derivatives and hedge funds. Practitioners and scholars have also developed greater ability to come up with more complex and sophisticated product structures.

15. This healthy development, nevertheless, should be accompanied by concerted efforts to strive towards more equitable and equity-based *musharakah*; or even the more risk-participative based *mudharabah* instruments and structures to be truly in keeping with the *Maqasid Shariah*, which requires adherence to the spirit rather than just the letter of the law.

16. I am confident the Roundtable sessions today and tomorrow will generate meaningful discussions on how to further strengthen the Islamic Finance industry and contribute to both its continued growth and the public good.

Thank you.