

High Commissioner's keynote speech at Global Islamic Finance Forum

14:30 – 14:45 Weds 27th October 2010

Good afternoon distinguished guests, ladies and gentlemen.

It's a great pleasure for me to be here today and to be given this opportunity to address the delegates at the Global Islamic Finance Forum.

I'd like to thank Bank Negara Malaysia, for hosting this important forum and the Red Money Group for giving me the opportunity to speak.

Gatherings like this are very important for people to come together to debate the key issues, form new partnerships and identify new opportunities.

There is much work to be done to communicate the benefits of Islamic financial services – to Muslims and non Muslims alike.

Many people are aware of the prohibition of interest payments in shariah-compliant financial products. But some of the other underlying principles of Islamic finance – the sharing of risk and the emphasis on tangible assets – are less well understood and have a lot of relevance to the recent financial crisis.

There are, of course, different interpretations of Shariah – and the implications for products, regulations and standards.

But I think there is a common desire in the Islamic finance community to grow the industry – to innovate, and to do so in a way that builds on Shariah foundations while avoiding the mistakes made by the conventional system.

I'd like today to give you some background about the UK Financial Services sector and the regulatory and other changes which are currently underway. I'll then talk more specifically about the Islamic Finance sector and how we are developing our cooperation with Malaysia, before looking ahead to the future.

The UK is at the centre of the financial services industry – home to the world's largest foreign exchange market, more foreign banks than any other world centre and unique in that most of its financial markets are international.

No other financial centre can match the international capability of the UK, with the square mile in the centre of London – 'The City' at its heart. From the diversity of its markets to its strong skills base, the UK attracts talent and expertise from across the globe.

London's position at the centre of eastern and western time zones, its diversity of nationalities, cultures – and languages spoken – set it apart from other centres.

While London is an international centre and the main hub of the UK industry, other cities – Edinburgh, Glasgow, Manchester, Birmingham, Bristol and Leeds – are important centres in their own right - offering additional flexibility, skills and lifestyles to overseas investors.

In regulation, the UK is leading the argument in the EU and internationally, for robust, internationally consistent regulatory standards that will benefit the world economy in the long run.

At home, the UK Government will abolish the tripartite structure – there will be an overhaul of the roles and responsibilities of:

- The Financial Services Authority
- The Bank of England and
- HM Treasury

The FSA will cease to exist in its current form and a new Financial Policy Committee within the Bank of England will have the remit:

- To protect financial stability by identifying risks and vulnerabilities in the system
- And to address imbalances – such as by damping the credit cycle

The Bank will also take on responsibility for regulation and oversight of important market infrastructure, such as settlement systems.

A new Prudential Regulation Authority will implement the decisions of the Bank and be responsible for day to day supervision of firms.

A further body will regulate exchanges and act as the consumer's champion.

Along with most of the Western world, over the past two years the UK has faced the toughest business conditions many of us can remember. But the fundamentals of our economy remain very strong – and the arguments for doing business in – or with – the UK are compelling.

The UK is very much open for business and provides the best environment for companies to internationalise, find new partners and access new markets.

The fact is that we attracted a fifth of Foreign Direct Investment in Europe in 2009.

And we are the number one destination for European headquarters. And more than a third of Fortune 500 companies have made the UK their base for Europe.

We now have an energetic new coalition Government, with a clear plan to take us back to growth and a sustainable future. The Government has placed the prosperity agenda at the centre of its strategy. Our Embassies and High Commissions have already been given an increased business focus. As the new High Commissioner here, after just two weeks I'm already spending a very large amount of my time supporting British business and attracting investment to the UK.

The UK has been offering Islamic financial services for 30 years, but as interest in the sector has grown recently, we've seen a rapid expansion in the number of UK based firms operating in the sector. Many companies have chosen the UK as the base from which to grow an Islamic finance business – including many from the Middle East.

The UK now has 5 wholly Islamic banks – four of whom are represented here at the conference – and a further 17 windows. We also have expertise in other areas such as:

Legal advice, with around 20 UK based law firms providing services for Islamic finance.

With the growing demand for skills, **education and training** is a key area, with UK institutions at the forefront of providing qualifications for the industry.

We have a strong offer in **professional services**, with all of the 'big four' firms having established teams in London offering specialist advice on tax, compliance, transactions and management.

And the UK has played it's part in **developing new products**, for example the first Shariah compliant credit default swap was structured by Merrill Lynch in the UK in 2007.

One of the factors that has enabled the UK sector to grow, has been the establishment in 2003 of an enabling fiscal and regulatory structure for Islamic finance.

This has created a level playing field with the conventional sector – allowing individuals to choose financial products consistent with their faith.

There have been a number of initiatives, such as:

- The removal of double tax on Islamic mortgages
- And reform of arrangements for the issue of bonds, making London a more attractive destination for the issue and trading of sukuk

Just last August – a UK engineering company – Innovative International Technologies – became the first UK company to issue a sukuk. At ten million US dollars it is relatively small – but a very important development and we expect to see other UK corporates follow.

Another recent development was the establishment of the **UK Islamic Finance Secretariat**. The UK IFS has been seed funded by UK Trade and Investment and its objective is to act as a one –stop shop for the UK sector, to work with Government and develop the industry.

Just as the UK is the leading Western centre for Islamic finance, so Malaysia is the number one centre in Asia.

Malaysia is located among some of the world's fastest growing economies, has strong links to the Middle East and the rest of the Islamic world. The Malaysian Government is very supportive of the sector – and also has highly respected institutions and well regulated markets.

Let me pass on our congratulations to Tan Sri Dr Zeti, for being awarded central bank Governor the year for Asia – adding to what must be an already bulging trophy cabinet.

These factors have all combined to make Malaysia an ideal location for companies looking to grow their Islamic finance business world wide.

UK companies have not been slow to take advantage of this opportunity.

Standard Chartered and HSBC have both been operating in Malaysia for more than 100 years. Both now offer Islamic banking services for Malaysians through their *Saadiq* and *Amanah* businesses.

Last May HSBC, Barclays Capital and CIMB were joint lead-managers and book runners for the Malaysian US dollar denominated sovereign sukuk.

The Prudential is one of the leading insurers in Malaysia – having established here in 1924. In November 2009 the Pru located their Islamic asset management business – *Prudential Al Wara* in KL.

The UK has long been a leader in insurance, with some UK firms now offering takaful products. So we were delighted that the UK's Friends Provident and AmBank were together awarded a takaful licence, recently announced by Bank Negara. The two companies will create a new business together, known as *AmTakaful*.

So there are many established Islamic finance businesses from the UK already in Malaysia – and over past year, we've seen a great deal of interest from many other firms, interested in opportunities in Malaysia – looking at business here, and keen to find partners for new ventures in other markets.

If you would like to see evidence of this interest for yourself – or if you are looking for a UK partner – then I encourage you to visit the UK pavilion – next door in the Emerald room – and talk to the 14 companies there.

As leaders in Islamic finance, the UK and Malaysia share a desire to learn from each other and to see the sector grow. So it's only natural that we work together our partnership was made formal with the signing of a Memorandum of Understanding in 2009.

The MoU between UK Trade & Investment and Bank Negara was signed in London by Sir Andrew Cahn for UKTI – and Governor Zeti for Bank Negara. It commits both sides to work together for mutual benefit, to identify new opportunities and work to reduce barriers to growth.

That is why the British Government places such value on our MoU with Malaysia – and gatherings like this are so important for people to come together to debate the key issues, form new partnerships and identify new opportunities.

I wish you productive and enjoyable forum – and look forward to working with you over the coming years.