

## The Hong Kong Islamic Finance Forum Keynote address

Alexa Lam  
Executive Director / Deputy Chief Executive Officer

25 November 2008

### Opening

Good morning Ladies and Gentlemen. First of all I would like to thank the organisers for giving me the opportunity here to speak today at the Hong Kong Islamic Finance Forum.

### Growth of Islamic finance industry

Over the past several years, we have experienced a rapid evolution in Islamic finance, from being a niche product serving the financial management needs of the Islamic community to a mainstream product for all types of investors in the global financial market. Currently, Islamic assets worldwide total around US\$450 billion, accounting for approximately 1% of global banking assets. With the expected growth rate of 15% - 20% per annum, it is expected that Islamic assets will top US\$1 trillion by 2010<sup>1</sup>.

### Opportunity for growth

While the current financial crisis has led to a slowdown of activities in the financial sector, I believe that with its growth potential, this is a great opportunity for the Islamic finance industry to look back and examine how the industry can further enhance its stability and robustness, and maximise its growth potential. As a start, I think there are a few areas which the Islamic finance industry can look into.

First, clarity of the legal and contractual rights and obligations of the respective stakeholders in a product is important to ensure the product's viability. This is particularly important during times of crisis, when parties need to quickly and clearly identify their counterparties and their exposures in assessing their positions.

Second, the development of hedging tools for Shariah products is also vital to the development of the Islamic finance in the global financial markets. Hedging is an important element in risk management. Without offsetting products that allow investors to hedge the investment risks associated with the Shariah products, it will be difficult for investors to include Shariah products in their portfolios.

Third, the Islamic finance industry should also take a look at ways to enhance the robustness of its market infrastructure, one that promotes transparency, free flow of information and timely disclosure. These are key elements to the development of any financial markets.

---

<sup>1</sup> [http://www.pwc.com/lu/eng/ins-sol/publ/pwc\\_islamic\\_finance\\_podcast.pdf](http://www.pwc.com/lu/eng/ins-sol/publ/pwc_islamic_finance_podcast.pdf)



## **Hong Kong as an international financial centre**

Given Hong Kong's position as an international financial centre, I believe that Hong Kong has the strengths and capabilities to develop its Islamic finance sector and make significant contributions to the growth of the global Islamic finance market.

### *An open market economy*

Named as the world's freest economy 14 years in a row by the Heritage Foundation, Hong Kong has an open market economy with world class infrastructure that is conducive to the development and growth of its financial market. Similar to other developed markets, Hong Kong has a judicial system where common law is practised. Hong Kong has no foreign exchange control, and relative to other neighbouring jurisdictions, both financial and human capital can move freely in and out of Hong Kong.

Furthermore, with a corruption-free society that enjoys high transparency in its policies and regulations, Hong Kong provides market players with a level playing field.

Having gone through several cycles of booms and downturns, Hong Kong also has a deep pool of talent that is well-experienced and possesses the necessary expertise to steer through different market conditions.

## **Hong Kong as a fund management centre and gateway for Islamic finance into Mainland China**

Islamic investors looking for investment opportunities can utilise Hong Kong as their platform to manage their wealth and invest into other Asian markets. The SFC's most recent Fund Management Activities Survey for the year 2007 reconfirmed Hong Kong's status as an international asset management centre. The Hong Kong asset management sector continued its strong growth in 2007, with combined fund management business reaching \$9,631 billion, representing an increase of 56.5% over the previous year and more than double the figure in 2005. Furthermore, over 82% of the assets managed in Hong Kong were invested in Asia, reflecting Hong Kong's position as a centre for managing investments in the Mainland and other parts of Asia.

This April, we have signed an MOU with the Dubai Financial Services Authority, such that the funds that we authorise in Hong Kong can actually be sold in Dubai, so we have mutual recognition with Dubai. The funds that are allowed in Dubai will have to be Islamic products and Shariah-compliant.

The Fund Management Activities Survey also revealed that 68.4% of Hong Kong's fund management business was sourced from non-Hong Kong investors, indicating large overseas investor participation in the Hong Kong market.

Given its proximity to the Mainland China market, Hong Kong is also the gateway for Islamic investors to invest into the Mainland China market, which is still seen as a market with great growth potential despite the financial crisis. By investing in the Mainland China through Hong Kong, investors can capture the investment opportunities in an emerging market, while enjoying the services and investor protection of a developed market. Meanwhile, the Mainland China could also provide a new source of funding for Islamic financial institutions.



## **Closing**

The Chinese characters for crisis (危機) incorporate two elements: danger and opportunity. While the financial crisis has brought times of instability and volatility and this is likely to remain for some time in the near future, the Islamic finance sector can capitalise on this opportunity to promote the benefits of Shariah-compliant products and expand its market reach worldwide.

As reiterated by the HKSAR Government in its 2008/09 Policy Address<sup>2</sup>, the development of the Islamic finance platform is a key priority for the Hong Kong financial market. The SFC will work closely with Hong Kong Government, as well as the global Islamic finance community, to develop Hong Kong's Islamic finance platform. The SFC also welcomes discussions with any new intermediaries or investors that are interested in coming to Hong Kong.

Finally, I wish the Hong Kong Islamic Finance Forum a great success and all of you a fruitful and enjoyable day at the forum. Thank you.

End

---

<sup>2</sup> <http://www.policyaddress.gov.hk/08-09/eng/p33.html>