



# Islamic Capital Markets In Malaysia

## "Challenges & Opportunities"

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# Outline of Presentation

- **Global Financial Crisis**
- **Credit Risk in Islamic Financial System**
- **Drivers for Growth in Sukuk Market**



# Global Financial Crisis

- **Meltdown in credit market – sub prime follies**
- **Continuing “credit crunch” into 2009**
- **Slowing economic activity**

**leading to...**

- **Flight to quality – acute risk aversion**
- **Depressed equity/asset valuation**
- **Lower new corporate bonds issuance**
- **Deterioration in credit quality – higher default rates**
- **Increasing credit risk premium**

# Credit Risk in Islamic Finance

- **Absence of speculation (gharar) in Islamic Finance – safer instruments?**
- **Reduces risk but will not eliminate risk**
  - No marked differences in default rates of Islamic vs conventional instruments
  - Hence, no less vulnerable under current financial market turmoil
- **Flight to quality is driving demand for less risky asset (higher rated instruments)**
  - No notable differentiation between Islamic & conventional instruments

... for the simple reason...

- **Existing Islamic financial instruments merely replicate the substance of contemporary financial instruments**
  - Absence of true risk sharing
  - Insufficient alignment of rewards to risk

# Drivers for Growth in Sukuk Market

- **Financial Innovation**
- **Regulatory Support & Guidance**
- **Standard Governance**
- **Development of Adequate Legal Syariah Framework**
- **Flexibility to Differences in Syariah Jurisprudence**



*Thank You*