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THE Islamic financial services industry here has remained a laggard sector for almost two decades. The lack of a critical mass of consumers, the arcane nature of products and profitability concerns are part of the reasons for this.

A Deloitte Touche Tohmatsu Malaysia study, however, showed that much of Islamic banking in Malaysia is accounted for by non-Muslims. Even those who disagree that Western banking is a moral disaster would be attracted to the idea of a system less given to habitual risk. Islamic banking, whose key feature is the ban on interest, has grown substantially in its modern phase, although underlying problems include "subscale operations, very basic risk culture, incomplete market segmentation, low engagement with clients and an absence of technologically oriented value propositions", as an Ernst & Young manager commented.

Still, global Islamic banking assets held by commercial banks will exceed US$1.8 trillion (S$2.3 trillion) this year, according to Ernst & Young's World Islamic Banking Competitiveness Report 2013. Among the reasons for its growth are deleveraging by global financial institutions and a demand for back-to-basics investment in recent years. The advantages of the industry are that it is well-capitalised and anchored in real economic activities instead of exotic financial products. Equally, however, for the Islamic financial industry to be a credible global player, it would have to integrate itself with global finance, particularly through access to key international financial centres.

This is where Singapore should play an essential role. For example, Middle East banks based here have begun to offer Islamic window facilities to their corporate clients. Singapore's reputation for integrity, high regulatory standards, a deep and liquid capital market, and a critical mass of financial intermediaries underpin what Trade and Industry Minister Lim Hng Kiang called "a vibrant Islamic finance ecosystem" at the recent World Islamic Banking Conference here. Singapore can and should be a key centre pushing for the growth of cross-border Islamic financing.

Although there has been progress, more needs to be done. One area that the Monetary Authority of Singapore is working on is the review of regulatory and tax treatment to speed up the issue of Islamic financial instruments. Educational institutions, on their part, need to develop human capital for the sector. Singapore Management University's masters programme in Islamic law and finance is a good example.

Singapore must look ahead to remain at the centre of developments as the global economic momentum moves towards Asia, and Islamic finance looms larger on the continent's financial trajectory.