

**Speech by Mr. Riaz Riazuddin,
Deputy Governor, State Bank of Pakistan
On “Transforming Strategies to Revitalize Growth: Forging the Next Phase of Progress for
Islamic Finance in the Region” The Fifth Islamic Finance Expo & Conference Organized
By The Professional Network @ Marriott Hotel, Karachi
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Mr. Younus Muhammad Bashir, President, Karachi Chamber of Commerce and Industry (KCCI), Mr. Mehmood Tareen, Founder & CEO of Professional Network, Mr. Ateeq Ur Rehman, Chairman KCCI Committee on Banking, Distinguished speakers, ladies and gentlemen,

Assalam- o- alaikum

I feel honored to be here today at the fifth Islamic Finance Expo & Conference and address this distinguished gathering of notable scholars, practitioners, and eminent members from academia. The organizers of this event deserve to be highly appreciated for holding this event aimed at showcasing industry players with their products and services. It is highly encouraging to see the level of participation here which is a clear reflection of increasing popularity of Islamic finance in the country.

Ladies & Gentlemen:

Islamic finance is increasingly gaining importance on the global landscape as a viable alternate to the conventional financial system. Islamic finance industry, based on strong fundamentals due to its asset-backed nature and risk sharing principles, has witnessed significant growth. The current asset-base of global Islamic finance industry stands at around 2 trillion US\$. In addition to Islamic banking, Islamic wealth management (IWM) is one of the fastest-growing financial segments in the global Islamic finance industry. As of December 2015, the total global Islamic assets under wealth management reached 58 billion US\$ and the number of Islamic funds stood over one thousand.

In Pakistan Islamic banking industry has shown significant progress since its re-launch in 2002. At present, the Islamic banking industry has acquired 11.4 percent share in assets and 13.2

percent share in deposits of overall banking industry. State Bank of Pakistan has played an instrumental role in providing an enabling environment for growth of the Islamic Banking industry and its promotion at gross root level. SBP is among the few regulators who have introduced a comprehensive legal, regulatory, and Shariah compliance framework for the Islamic Banking Industry. As a facilitator, SBP is not only actively engaged in capacity building of the industry through various promotion and training programs but in collaboration with the industry has also issued five year strategic plan for the Islamic banking industry which provide a direction and roadmap for the industry to sustain its growth momentum.

Ladies & Gentlemen:

SBP conducted a survey based study; “Knowledge, Attitude and Practices of Islamic Finance in Pakistan (KAP)”, during FY15. The survey findings reflect that there is a huge potential for further development of Islamic banking in Pakistan and a significant proportion of demand lies amongst those who are still financially excluded. We feel that competitive advantage of Islamic banking and finance is yet to be capitalized as depicted by its lower penetration into strategic sectors like agriculture, small & medium enterprises, microfinance, and low income housing

In order to increase financial inclusion and promote financing to priority sectors, the banking industry (including Islamic banking institutions) has been given financing targets for SMEs and Agriculture. In this regard, the banking sector has been given a cumulative target of increasing outstanding SME financing by approximately 100 billion rupees of which about 26 billion rupees have been given to Islamic Banking Institutions (IBIs). Similarly for agriculture sector, a disbursement target of 600 billion rupees has been given to the banking industry of which 7.8 billion rupees have been allocated to IBIs. Similarly to encourage Islamic microfinance, SBP has introduced a comprehensive framework to offer Shariah compliant microfinance services. It is encouraging that NRSP Microfinance Bank Limited has started offering first Islamic microfinance banking services through a dedicated Islamic microfinance branch.

Ladies & Gentlemen:

The present Government has shown a strong commitment and inclination towards promotion of Islamic Banking and formed a higher level Steering Committee for Promotion of Islamic banking in 2013. During the last two years, the committee has worked on various top priority

areas including review of amendments in legal, regulatory and taxation frameworks, developing liquidity management solutions, developing solutions for conversion of government debt into Shari'a compliant financing, development of an Islamic capital market, reforms in Mudaraba sector, establishment of Centers of Excellence in Islamic Finance Education and several initiatives for capacity building and creating awareness among people about Islamic finance. It is a matter of pleasure for me that some key recommendations of steering committee like establishment of centers of excellence, launch of All Islamic Share Index and policy framework for establishment of Islamic banking subsidiaries have already been implemented.

Ladies & Gentlemen:

Islamic capital markets form an integral part of the Islamic financial system and growth and development of capital markets, mutual funds and takaful, is essential not only for Islamic banking industry but also for the overall growth and development of the country. In Pakistan, Sukuk market has witnessed growth over the years with both sovereign and corporate entities issuing sukuk. SBP is working with Securities and Exchange Commission of Pakistan (SECP), regulator of capital markets to further develop Islamic finance industry in the country. We appreciate and acknowledge key steps taken by SECP in last few years including review of Mudaraba guidelines, issuance of takaful rules, Sukuk guidelines, and believe that these are likely to help in further development of overall Islamic finance industry.

Ladies & Gentlemen:

Using this forum, I would like to highlight that the rapid growth of Islamic finance has also necessitated a need of strong risk management function and prudent corporate governance practices. The improvement in transparency and disclosure of transactions through enhanced financial reporting and effective monitoring is another key area for development of Islamic finance. After the global financial crisis, global regulatory regimes are becoming more stringent and financial institutions are subject to different regulatory instructions from various regulatory authorities. As we know, Islamic financial institutions face some additional risks as compared to their conventional counterparts. Therefore, it is important that Islamic financial institutions should strategically position themselves in the volatile global market by improving their risk management function. Islamic financial institutions should have a comprehensive risk

management and reporting process, including appropriate board and senior management oversight to identify, measure, monitor and control different categories of risk. I would also like to emphasize here that risk management framework of Islamic financial institutions should also take into account appropriate steps to comply with Shariah rules and principles. SBP has issued comprehensive Shariah Governance framework and guidelines for risk management for Islamic banking institutions.

Ladies & Gentlemen:

The development and sustainability of any industry critically hinges upon the development of adequate human resource. One of the biggest challenges faced by the Islamic finance industry is the shortage of qualified Islamic finance professionals, who can lead the industry into the next level of growth and development. State Bank of Pakistan being cognizant of the importance of skilled human resource for the industry is encouraging the culture of research and development in Islamic finance. The most significant achievement in this regard is the establishment of three Centers of Excellence in Islamic Finance Education at well renowned educational institutions including Institute of Business Administration (IBA), Karachi, Lahore University of Management Sciences (LUMS), Lahore and Institute of Management Sciences (IM Sciences), Peshawar with the support of SBP. We are hopeful that these centers will not only help in supplying adequate human resource to growing needs of the industry but will also create knowledge environment that promotes innovation.

In the end, I would like to congratulate the organizers for successfully organizing this event and thank them for inviting me here. I look forward to the success and concrete outcomes of this great initiative.

Thank you.