

Speech of Governor

At the Launching Ceremony of Media Campaign for Promotion of Islamic Banking

18th July, 2013

I am pleased to be here today at the launch of Islamic banking media campaign which is aimed at creating awareness, improving Islamic banking literacy in the country and clearing misperceptions and confusions about the Islamic banking practices. The joining of hands by all the industry players to address one of the key challenges faced by the industry is very encouraging and gives optimism about its ability and commitment to resolve the key issues and take the industry to the next level of growth and development. Full marks to IBIs on this remarkable achievement, which will go a long way in expanding the outreach of Islamic banking in the country.

Ladies & Gentlemen: Modern Islamic finance that started off with some local initiatives catering to the needs of faith sensitive individuals has evolved into a dynamic and vibrant industry over the last four decades. Growing annually by more than 20 percent the Islamic financial industry over this period has spread beyond Muslim countries and is now operative in more than 75 countries with a network of 430 Islamic banks and financial institutions managing assets of more than US \$ 1.3 trillion. In post financial crisis era the stability and resilience that Islamic financial industry has shown largely due to its inherent strengths has attracted wider acceptability of this system as a viable alternate to conventional banking.

The history of Islamic banking in Pakistan also dates back to the origin of Islamic banking in the world. Some milestone achievements in legal and regulatory infrastructure have taken place during the decade of 80's; however the re-launch of the industry in 2001 has been rather successful. Over the years the industry has made significant progress in developing regulatory, supervisory and Shariah compliance framework and diversifying the product base to serve the banking and financial services needs of various sectors of the economy.

The Industry with support of SBP, has shown significant growth rate of above 30 percent annually, occupying 8.6 percent in terms of assets while around 10 percent in terms of deposits which depicts its rising acceptability and recognition across the country. However, the industry

both internationally and domestically is still at an evolutionary phase requiring more concerted efforts for enhancing its depth and breadth.

Ladies & Gentlemen: State Bank of Pakistan (SBP) has been playing a leading role in promotion and development of Islamic banking in the country on sound footings. It has assumed the dual responsibility of regulator and facilitator. As a regulator, SBP has provided a comprehensive legal, regulatory and supervisory framework along with multi-tiered Shariah compliance framework. Further, the regulations are reviewed on an ongoing basis to ensure that they meet evolving needs of the industry. The profit distribution and pool management regulations issued in the recently concluded fiscal year have been widely appreciated locally as well as globally as a step towards improving transparency and bringing standardization in profit computation and distribution practices of the industry. Similarly we are at an advanced stage of issuing a detailed Shariah Governance Framework, which will crystallize the roles of various organs of IBIs including the Board of Directors, the executive management and Shariah Boards and will improve Shariah compliance levels in IBIs.

The SBP has also partnered with the industry in developing the next five years strategic plan for the industry that envisages further improvement in legal, regulatory and taxation environment for the industry, diversification of products and markets covering non-traditional but strategically important sectors of agriculture and SMEs, doubling of existing branch network and increasing the Islamic banking share to over 15% of the country's banking system. The plan developed in consultation with the industry sets the future direction for the industry and identify specific action plans to move in that direction.

Ladies & Gentlemen: The Research & Development is another critically important area the SBP is focusing to help develop the industry; we cannot move to the next level of growth trajectory without developing innovative Shariah based solutions for all the financial services needs of the masses generally and business community particularly. Thus we will have to significantly improve investment in research and development to develop such solutions which provide better value to the masses and society. To this end SBP has conducted a survey based study " Knowledge, Attitude and Practices of Islamic Banking in Pakistan (KAP)" with a sample of 10,000 (both retail and corporate) from all over the country to quantify the demand as well as

to see the underlying factors affecting the growth of the industry. The survey is completed and the research results will soon be shared with the industry enabling them to respond proactively to growing demand and its dynamics.

Ladies & Gentleman: In its role as a facilitator SBP has remained active in creating awareness by arranging seminars, focused group discussions and conferences etc. However, there still prevails a significant population that is either unaware of Islamic banking or have confusions and misconceptions about its current paradigm. It has thus mobilized the industry to launch the nationwide mass media campaign to create awareness and address the perception issues. It is encouraging that the industry has developed the consensus strategy for improving Islamic finance literacy and initiating a **Mass Media Campaign for Promotion of Islamic Banking**. The campaign would be instrumental in clearing the misconceptions and also in promoting Islamic banking as a viable and competitive banking system. Let me repeat this industry consensus is a remarkable achievement and I would emphasize the industry to develop similar consensus and joint strategy to address the issue like HR capacity constraints, lack of investment in research and development, diversification and expansion in non-traditional markets. Experienced players in the field can share their expertise and knowledge with relatively new entrants. Let me assure you SBP's full support and ownership for all such initiatives; our Islamic Banking Department would be partnering with the industry in all such endeavors.

Ladies & Gentleman: Islamic financial industry being a sub set of Islamic Economic systems demands for characteristics like high integrity, truthfulness, ethical behavior, and absence of exploitation etc. These values should not just be reflected in our advertisements but also in our policies and practices thus enabling the consumers to appreciate and value our services. This I believe would also be instrumental in nourishment and inculcation of these elements and values in the society as a whole.

Thank You.