

**Welcome Address at the launching ceremony of Financial Innovation
Challenge Fund 3rd Challenge Round on
“Promoting Excellence in Islamic Finance”**

**Mr. Ashraf Mahmood Wathra,
Governor - State Bank of Pakistan
9 January 2015, Islamabad**

- Hon'ble Senator Muhammad Ishaq Dar, Federal Minister for Finance, Revenue, Economic Affairs and Privatization,
- Dr. Waqar Masood, Finance Secretary,
- Mr. Saeed Ahmad, Deputy Governor SBP and Chairman of the Steering Committee for promotion of Islamic Finance,
- Prof. Dr. Mukhtar Ahmed, Chairman, Higher Education Commission,
- Mr. Jan Wimaladharm, Team Leader, DFID Pakistan
- Syed Samar Hasnain, Executive Director, SBP
- Distinguished Speakers, Guests, Speakers, Colleagues,
- Ladies and Gentlemen

Assalamu alaikum and very good morning!

First of all, I would like to express my gratitude to all the distinguished guests: the Chief Guest, Honorable Finance Minister Senator Ishaq Dar, representatives from the diplomatic community, development partners and agencies, government officials, higher education institutions, representative of all Banks, non-governmental organizations and other stakeholders for joining us today.

It is my great pleasure to extend a very warm welcome to all of you to this auspicious ceremony held to commence the launch of 3rd challenge round of Financial Innovation Challenge Fund, aiming to promote excellence in Islamic finance.

Ladies and gentlemen!

Improving financial access to alleviate poverty is a global challenge. More than 2 billion adults in the world do not have access to formal or semi-formal financial services. Since financial exclusion is particularly pronounced in Pakistan, both the Government and State Bank of Pakistan are addressing this challenge using innovative policy approaches and actions. There is a full commitment of the government to provide sustainable financial access to the under-served economic and geographic segments including youth, women, and SMEs. In this effort, the role of multilateral institutions and bilateral donors particularly the UK's Department for International Development (DFID) has been critical.

State Bank of Pakistan has undertaken several initiatives to broaden access to financial services to the unbanked marginalized segments of the society. One of the initiatives towards this end is the implementation of the Financial Inclusion Program (FIP), sponsored by the UK Aid.

FIP has earmarked GBP 10 million in grant under the Financial Innovation Challenge Fund (FICF) to help reduce the financial exclusion levels in the country. FICF operates through competitive challenge rounds to support innovations for financial inclusion while leveraging funds to attract private investment and create linkages with industry to help ensure scale and

sustainability of successful pilots. To date two challenge rounds have been held. The 1st Challenge Round in 2011 [**Slide 1**] was aimed at promoting “Financially Inclusive Government to Person (G2P) Payments” through branchless banking models while the 2nd Challenge Round held in 2014 was focused on “promoting innovative rural and agricultural financial services”. I am happy to share that the first two challenge rounds have created innovative partnerships to foster financial inclusion in the country. I believe the demonstrated success in some of these areas will be replicated to give it scale and sustainability.

Today, the 3rd Challenge Round is being unveiled to support the growth of Islamic Financial services through establishing a centre of excellence for Islamic finance in the country.

Ladies & Gentlemen!

Islamic finance has witnessed tremendous growth in the last four decades and its outreach currently spans across the globe, with an asset base of US\$ 1.8 trillion. According to estimates, global Islamic finance industry is likely to grow to US\$ 5 trillion by 2020. Having established itself as a viable alternative during the last financial crises, standard-setting bodies are increasingly viewing Islamic finance as means to promote broad-based, inclusive economic growth.

Islamic banking industry in Pakistan has grown significantly since its re-launch in 2001. The industry now accounts for nearly 10 percent of the country’s banking system [**Slides 2 & 3**]. Presently 22 Islamic Banking Institutions (IBIs) (5 full-fledged Islamic banks and 17 conventional banks having Islamic banking branches) are operating in the country with a

network of over 1,400 branches and about 1150 windows. Islamic banking sector in Pakistan is likely to double its share in the banking system by 2020.

Over the years, SBP has developed a supportive regulatory and supervisory regime for Islamic banking that is in line with international best practices. SBP is continuously refining and improving the regulatory framework to meet the evolving industry dynamics. Recent measures taken by the central bank include (i) the downward revision of paid up capital requirement for Islamic banking subsidiaries from Rs 10 billion to Rs 6 billion, (ii) initiated OMOs for Islamic banking industry after meeting all Shariah requirements for liquidity management of Islamic Banking Institutions, (iii) issuance of Shariah Governance Framework for strengthening of Shariah compliance on part of Islamic banking institutions and (iv) the Strategic Plan for Islamic Banking Industry (2014-18).

Ladies & Gentlemen,

Despite showing significant growth, Islamic banking industry in Pakistan is still confronted with a number of challenges. Among these, lack of the general public's understanding of prevalent Islamic banking paradigms is one of the major impediments to sustainable growth of the industry. SBP believes in the importance of financial education and awareness to create mass public awareness of Islamic financial services, an industry wide media campaign under the support and guidance of State Bank of Pakistan has already been launched. The second round of this campaign was launched last week and the campaign on TV and radio is live and being well received. We expect that this mass media campaign will narrow the awareness gap among public at large.

Another challenge to the growth of Islamic Finance is the lack of trained human resources in Pakistan. Over the years SBP has under taken a number of capacity building initiatives by training Islamic finance professionals through structured focused training programs, seminars and conferences in collaboration with local and international organizations. The extensive program by National Institute of Banking and Finance, which is the training arm of SBP, has contributed significantly to training both local and international Islamic finance professionals. We also held a joint training program with Islamic Research and Training Institute (IRTI) and Islamic Development Bank (IDB) in November last year. **[Slide 4]** While these programs are a regular feature, we believe the pace of growth of the industry has remained higher than the supply of trained Islamic finance professionals. This may be gauged from the fact that about 450 new branches and windows commenced their operations during last CY 2014, pushing up the demand for specially trained Islamic Banking human resources for each branch.

To sustain the pace of growth of Islamic banking industry and realize the target **[Slide 5]** of acquiring 20 percent market share by 2020, Islamic finance industry in Pakistan needs human capital in the form of Islamic finance specialists including Shariah scholars, banking professionals, academicians and researchers. In this backdrop, the Steering Committee for the promotion of Islamic finance set by the ministry of finance has proposed to establish a Centre of Excellence for Islamic Banking and Finance in the country with the objective to provide qualified human resource to the Islamic Banking Industry. The central bank is fully on board and has been extending all out support to the committee to meet its objectives. Today's challenge

round fund aimed at promoting Islamic financial services in Pakistan is a big step in this direction.

I am confident, that the establishment of Centre of Excellence will contribute towards developing a more inclusive Islamic financial system through development of financial products that create closer links between Islamic finance and real economic activity. I also believe that the Centre will serve to provide Shariah based solutions for fiscal needs of the government and monetary policy instruments for the central bank.

Ladies & Gentlemen:

There cannot be a more conducive environment where all stakeholders share a common goal that is the promotion of Islamic finance. The government is fully committed and the Finance Minister Senator Ishaq Dar is providing unprecedented support and cooperation for the development of Islamic banking industry. I would use this platform to encourage the industry to come forward and capitalize on this facilitative environment for further growth of the industry.

Today, the Financial Innovation Challenge Fund round on promoting excellence in Islamic finance is being unveiled **[Slide 6]**. The challenge round is aimed at establishing Islamic finance education and research infrastructure in partnership with leading higher education institutions in Pakistan to serve the Islamic finance through quality and value added services and knowledge products.

The objectives and detailed modalities of the challenge round are in your “Information Pack”. The successful implementation of this challenge round requires utmost commitment and support from everyone who is present here.

I am positive that the pool of skilled human resource graduating from this Centre will help in resolving issues and challenges confronted by the industry and provide innovative Shariah compliant financial solutions. In the end, I would like to once again extend my gratitude to the Honorable Finance minister for his support and my appreciation to DFID U.K for their continuing partnership through the financial inclusion program.

I thank and welcome you all once again and hope that the stakeholders will join hands in getting behind this latest initiative to further enhance financial inclusion in Pakistan.

Thank you!