

**Key Note Address by Ashraf Mahmood Wathra**

**Governor, State Bank of Pakistan**

**World Islamic Finance Forum (WIFF)**

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**Respectable Senator Muhammad Ishaq Dar, Federal Minister for Finance, Revenue, Economic Affairs, Statistics, & Privatization, Justice (R.) Muhammad Taqi Usmani, Dr. Ishrat Hussain, Chairman, Dr. Azmi Omar, Director General, Islamic Research & Training Institute, Professor Dr. Abbas Mirakhor, Dr. Farrukh Iqbal, Dean and Director, Center of Excellence in Islamic Finance Education-IBA, Distinguished Guests, Ladies & Gentlemen**

**Assalam-o-alaikum**

It gives me immense pleasure to see global strategic players like International Centre for Education in Islamic Finance, The Islamic Research and Training Institute, International Shari'ah Research Academy for Islamic Finance (ISRA) joining hands with the Centre of Excellence in Islamic Finance Education, IBA for organizing World Islamic Finance Forum in the largest city of Pakistan. This is a clear reflection of Pakistan being a significant contributor towards the growth and development of Islamic finance industry. I want to appreciate the

organizers for providing this forum bringing together global thinkers and practitioners who can synthesize the work so far done and build on the core competencies of Islamic finance for its sustainable growth. I wish all the best for the success of this global event and a very pleasant stay to the distinguished foreign delegates.

### **Ladies & Gentlemen**

The ability of Islamic finance to introduce greater discipline into the financial system owing to its inherent strengths indicates this system is relatively more stable and resilient. Islamic banking is a growing reality which is expanding outside the traditional borders of Muslim countries into western economies; at present global Islamic financial assets have reached US \$1.8 trillion in 2015 from US \$150 billion in the 1990s and are expected to exceed US \$6.5 trillion by 2020. Asia is expected to be the key driver in advancing the growth of the Islamic finance industry; according to Islamic Financial Services Board's (IFSB) Report, 2015, Pakistan is among potential leaders of Islamic finance.

Despite its impressive growth, Islamic finance Industry cannot be complacent as there still prevails huge untapped market. There are some challenges that the industry is facing in order to sustain its growth

momentum. I would like to touch upon some of these challenges with respect to the theme of this event.

Enabling supervisory, regulatory and legal environment, a suitable accounting and auditing framework and supportive financial market infrastructure are all pre-requisites for successful development of the industry. It is agreed that prudential supervision on banks is just as necessary in an Islamic system as in conventional systems, however, the supervisory framework needs to recognize special characteristics of Islamic banks in order to be more effective. State Bank of Pakistan (SBP) being the regulator of banking sector is aware of the significance of prudent and effective supervisory framework and remains committed to this end. Improving market development and regulatory regimes are continuous processes in the context of changing industry needs and overall macroeconomic environment; therefore, we regularly review and update our regulatory framework. In this regard one significant example of recent past is the issuance of Shariah Governance Framework for Islamic banking institutions which has enhanced the earlier issued Shariah compliance regulations for the industry.

Moreover, we are working on improving regulatory and legal infrastructure by providing a balanced tax regime, enhanced disclosure requirements, strengthening of insolvency framework and standardizing

practices. By taking the advantage of having global audience here, I would suggest for a dialogue at global level for harmonization and standardization of practices all across Islamic finance industry.

## **Ladies & Gentlemen**

Many researches including the Knowledge, Attitude and Practices of Islamic banking in Pakistan (KAP) Study issued by the State Bank of Pakistan indicated the concentration of demand for Islamic financial industry in the category of clients who are not only faith sensitive but are also responsive to efficient operations and high quality services. This signifies that the strategy of Islamic banking industry should be customer centric in its proposition, delivery and service. This demands for widening product range, improvement in operational efficiency and service quality. I would take this opportunity to urge industry to take full advantage of these Centres of Excellence with particular respect to product innovation and for conducting research on contemporary issues. As a system, Islamic Finance facilitates in stimulating economic activity and entrepreneurship towards promoting comprehensive human development and addressing poverty and inequality. Under this system, not only the prevalence of re-distributive instruments such as zakat, waqf (endowment) and sadqaat (charity) can play vital role towards broad based development and poverty alleviation but characteristics like

equity financing can also lead to the same objective. Equity financing enables Islamic finance to cater to needs of unconventional but strategic sectors like small and medium enterprises (SMEs), agriculture and low income housing. However, like many other jurisdictions, the penetration of banking industry and especially of Islamic banks to these sectors is very low in the country. Lack of skilled professionals and relatively young age of the industry is quoted as one among major reasons in this regard. Centers for Excellence for Islamic Finance Education have been established with the main objective of providing human resource for the industry with desired skills and knowledge. Closer interaction between industry and these centres is critical in making Islamic Finance & Banking successful in Pakistan. I would also like to encourage industry to make use of technology especially to cater to these sectors to minimize cost. By expanding the range and reach of financial products, Islamic finance can help in improving financial access and foster the inclusion of those deprived of financial services whether voluntary or involuntary.

### **Ladies & Gentlemen**

While growth is likely to continue at reasonably fast pace, issues and challenges confronting the industry need attention and ownership on part of all stakeholders. The huge untapped potential market of Islamic Finance can be harnessed by capitalizing on its distinct characteristics. I

would encourage all Islamic financial institutions to actively engage themselves and be recognized as value embedded, efficient financial players committed towards contributing to the real economic growth. I am optimistic about the future outlook of the industry and events like today's are helpful in mapping out a strategy for sustainable growth of the industry. I assure the full support and cooperation from the central bank.

I wish you successful deliberations during the conference and the best of luck for all future endeavors.

Thank You.

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