

State Bank developing new five-year strategic plan for Islamic banking industry: Kazi Abdul Muktadir

Kazi Abdul Muktadir, Deputy Governor, State Bank of Pakistan (SBP) has said the central bank is developing a new five-year (2013-17) strategic plan for Islamic banking industry.

‘The new plan will set the strategic direction for the Islamic banking industry. This would define the strategies and action plans to move the industry to the next level of growth and SBP would expect active and meaningful involvement of the industry in development of the plan,’ Mr. Muktadir said while delivering his keynote address on ‘Islamic Finance in Pakistan – Where We Stand and The Way Forward’ at the Islamic Finance News (IFN) Roadshow – 2012 at SBP Learning Resource Centre (LRC), Karachi today.

He said the Islamic finance industry is likely to increase its share in the banking system to 15 percent during next five years. Growing from scratch in 2002, he said that Islamic banking now constitutes over 8 percent of the country’s banking system with a network of 964 branches and over 500 windows across the country. ‘Encouragingly, the sustained growth of Islamic banking in the country during the last decade has also started catalyzing growth and development of Islamic capital markets, Mutual funds and Takaful companies etc. Presently, we have 5 Takaful operators, about 30 Islamic mutual funds,’ he added.

Mr. Muktadir disclosed that the State Bank is also developing a comprehensive Shariah Governance framework to further strengthen the Shariah governance in Islamic Banking Institutions (IBIs) and added that the framework will explicitly define the roles and responsibilities of different organs of IBIs including the Board of Directors, Shariah Advisors/Committees and Executive Management for ensuring Shariah compliance.

He said the State Bank has developed a comprehensive profit distribution & pool management framework in consultation with the industry and added that the framework will be issued most probably within this month.

Mr. Muktadir said that sovereign Sukuk of Rs.369 billion (USD 4 billion approx) were issued during the last two years that have largely addressed the liquidity management issue of the Islamic banking industry. ‘The regular issuance of the Sukuk, almost on quarterly basis, has improved market confidence and tradability of the Sukuk,’ he added.

He said that the State Bank has been taking initiatives to strengthen the legal, regulatory and Shariah compliance framework, create awareness amongst the masses and build the Islamic banking industry’s Human Resource capacity.

Mr. Muktadir said that SBP will soon be launching a mass media campaign to create awareness about Islamic banking. ‘The campaign we believe will be instrumental in enhancing public awareness and would give further boost to the growth momentum of Islamic banking industry,’ he added.

Referring to challenges facing the industry, he said that one of the main challenges will be to develop suitably qualified and trained HR to man this growth. 'While SBP will be further intensifying its efforts to build the industry's HR capacity through its regular and specialized training programs, the IBIs would also have to significantly increase their investment in HR development,' he added.

SBP Deputy Governor said that another challenge would be diversification of assets mix and tapping non-traditional sectors like agriculture and Small & Medium Enterprises (SMEs) to deploy the growing deposit base in productive avenues. 'Presently the IBIs' exposure in these sectors is nominal that needs to be increased significantly, which would not only improve their reputation amongst the masses but would also provide them an attractive avenue to develop and expand their assets portfolios,' he said, adding that SBP would be willing to provide necessary support to IBIs to build portfolios in these non-traditional but strategically important sectors.

He said that since the inception of modern Islamic finance in 1960's, Islamic banking has evolved from its relatively modest size to a vibrant industry with an increasing global footprint. 'With a size of US\$1.35 trillion and annual growth rate of more than 20 percent, the Islamic financial industry now comprises 430 Islamic banks and financial institutions and around 191 conventional banks having Islamic banking windows operating in more than 75 countries,' he added.

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