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Islamic finance all set to become alternative to conventional banking: Deputy Governor SBP

Deputy Governor of the State Bank of Pakistan Mr. Saeed Ahmad has said that Islamic finance is all set to become a better alternative to the conventional banking. He was speaking today in Karachi on the occasion of completion of ten successful years of 'Raast Islamic Banking' programme of Bank of Khyber.

Congratulating Bank of Khyber Management, Board of Directors, and 'Raast Islamic Banking' team, Mr. Saeed Ahmad hoped that with continued demand on an accelerated basis for the Islamic banking in the country, Bank of Khyber would participate in the sector and reap benefits for all stakeholders including its shareholders.

According to the Deputy Governor, Islamic finance is one of the fastest growing segments of the global as well as domestic financial sector. "Given its global outreach, growing recognition as a prudent and stable system and ability to provide financial solutions for all business needs, Islamic finance is all set to establish itself as a better alternative to the conventional financial system having capacity to ensure financial stability and inclusive economic growth."

He said that global financial crisis in 2008/09 made western financial experts to look for an alternative under which the international financial system could overcome the weaknesses of the conventional system based on fixed predetermined return in the form of interest. The search was for a system which leads to equitable treatment of all stakeholders under all circumstances. A lot of attention was focused on solutions which are not far from the Islamic financing where system allows fairness of return, sharing of risk and reducing income inequalities.

He said that Pakistan was amongst the first few countries that undertook the ambitious aim of Islamizing the banking system. Significant efforts towards this end were made during the 1980s. However, it went through rough ride until some 12 years ago when SBP allowed three types of Islamic banking institutions i.e. full-fledged Islamic banks; Islamic banking subsidiaries of conventional banks; and Islamic banking branches (IBBs) of conventional banks. Moreover, conventional banks having Islamic banking branches were also allowed to have Islamic banking windows in their conventional branches.

“Islamic Banking industry starting from almost a scratch in 2001 has acquired over 10 percent share in the country’s banks branch system with over 1300 branches across the country. Based on deposits, IBI’s share has increased to 12%. The industry is growing at an impressive rate of over 30 percent annually for last 5 years and prospects of further strengthening of this growth momentum in the near future are very bright.”

He told the audience that last year SBP allowed 3 more conventional banks to initiate Islamic banking operations whereas 2 conventional banks had recently announced conversion into full-fledged Islamic banks over the next 2-3 years. “These highly positive market sentiments give me optimism that the industry would easily surpass the strategic plan target of 20 percent by 2020,” he added.

He said that the SBP has been at the forefront of all the key initiatives to develop and support the industry, both regulatory and promotional. He informed the audience about the five-year Strategic Plan for Islamic banking industry, a comprehensive Shariah Governance Framework, increased frequency of its Islamic banking certificate course offered by NIBAF and other initiatives taken by the central bank for the promotion of Islamic banking.

“We are also exploring the possibility and feasibility of establishing a Centre of Excellence for Islamic Banking and Finance in Karachi and I will be discussing this proposal in my meeting with the heads of business and economics schools.”

He highlighted the strong commitment demonstrated by the present government in promotion of Islamic banking and finance in the country and mentioned the steering committee constituted last year by the government for the promotion of Islamic banking.
