

## GOVERNOR'S SPEECH



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**Governor:** Mr. Tariq Bajwa

**Title :** Islamic Banking & Finance Awareness Drive - 2017

**Date :** August 03, 2017

**Event :** Opening Ceremony at Mega Event Islamic Banking & Finance Awareness Drive - 2017

**Venue :** Movenpick Hotel, Karachi

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Dr. Ishrat Hussain, Chairman IBA Centre of Excellence in Islamic Finance Education, Dr. Imran Usmani, Shariah Scholar, Mr. Irfan Siddiqui, Chairman Steering Committee on Islamic Finance Media Campaign, members of the Dunya Media Group, Presidents/CEOs of Banks and Financial Institutions, Distinguished Guests, Ladies & Gentlemen;

### **Assalam-o-alaikum**

I am pleased to be here today at the opening ceremony of the mega event of Islamic Banking & Finance Awareness Drive-2017 by Dunya Media Group which was aimed at creating awareness and removing misconceptions about Islamic banking and finance in the country. Dunya Media Group deserves appreciation on successful completion of this awareness raising venture. I am hopeful that results of this campaign will be long lasting due to effective collaboration among various stakeholders and arranging multiple programs for public and targeted groups like students and business communities all across the country.

### **Ladies & Gentlemen;**

Growth of Islamic banking industry particularly over the last decade is reflective of increasing acceptability of its merits; the total global size of the Islamic financial assets by end 2016 has reached to US \$ 2.29 trillion and is expected to go beyond US \$3 trillion by 2020<sup>1</sup>. However, practitioners of Islamic finance cannot be complacent with this growth especially in the backdrop of changing global infrastructure for the financial sector. Today there is more than ever a compelling environment for Islamic finance industry to capitalise on its inherent strengths like asset backed nature of financial

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<sup>1</sup> Global Islamic Finance Report 2017

transactions, being devoid of interest and prohibition against gambling, uncertainty and speculation to move away from the traditional business models and explore new opportunities.

Talking about domestic industry, the fast growth of Islamic banking in Pakistan would not have been possible without sound regulatory, supervisory and Shariah foundations laid down by the State Bank of Pakistan under my illustrious predecessors. Promoting Islamic finance has remained an important component of strategic goals of the central bank. Overwhelming demand coupled with the support of the regulator and other stakeholders has contributed towards significant progress of the industry; Islamic banking industry by now constitutes 11.6 percent share in assets while 13.7 percent in deposits of the total banking industry with 21 banking institutions and more than 2,300 branches across the country.

It would also be befitting to acknowledge the commitment and determination of the Government of Pakistan towards developing conducive infrastructure for growth of Islamic finance industry in the country. Formation of a high level Steering Committee for Promotion of Islamic Banking in Pakistan followed by formation of Implementation Committee for implementing recommendations of the Steering Committee, issuance of international sukuk after a gap of nine years and allowing tax neutrality for Islamic financial institutions and their customers through Finance Act 2017 are few examples in this regard. I would also like to take this opportunity to applaud other stakeholders of the Islamic finance industry for their strenuous efforts in achieving stellar growth.

#### **Ladies & Gentlemen;**

Islamic financial institutions have the potential to be major contributors towards growth and broad based development of a country owing to their closer link with real economic activities. However, in line with global trends the domestic industry is also concentrated in corporate clients and few big sectors ignoring others that are either unserved or underserved by conventional industry. I believe that given their risk sharing model and ability of financing ventures on the basis of their feasibility, Islamic financial institutions can penetrate into underserved sectors like agriculture, small & medium enterprises (SMEs) and housing, particularly low cost housing, which are sectors of paramount importance in terms of their contribution to inclusive and sustainable GDP, employment generation and overall development of the country. This will also contribute towards improving financial inclusion in the country.

Recognizing the importance of these sectors, State Bank of Pakistan is persuading the industry to increase their financing to SMEs and agriculture sectors. We are assigning annual indicative targets to banking industry including Islamic banking institutions for SME and agriculture sectors. We at State Bank of Pakistan do not compromise on stability of the sector and hence fully acknowledge issues like adverse selection and moral hazard linked with participatory based modes of financing particularly to these sectors. However, this challenge demands the industry to diverge from traditional business approaches and develop adequate risk management framework through coordinated efforts. This can enable

industry to tap these strategically important sectors and create value for their shareholders, depositors and country's economy as a whole.

While talking about these unserved sectors I would also like to draw your attention to the fact that like any Muslim dominant country financial exclusion in Pakistan is voluntary and involuntary. Islamic banks can play a key role in minimizing both segments of this incidence. Along with significant faith-sensitive voluntary exclusion in the country the prevalence of huge unbanked population in rural and semi urban areas signifies an attractive opportunity for Islamic banks. You must be knowing that our survey based research study on Islamic banking "Knowledge Attitude and Practices of Islamic Banking in Pakistan" identified the potential greenfield growth for Islamic banking in the country. This implies that the true potential of Islamic banking industry of the country lies in underserved areas/sectors, particularly Balochistan, interior Sindh, south Punjab. However, Islamic banking branches are still concentrated in very few regions; 80 percent of Islamic banking branches are concentrated in eighteen big cities only. Moreover, at present the share of Islamic microfinance is insignificant, though, the inclination of Islamic banking institution towards this sector is encouraging.

#### **Ladies & Gentlemen;**

There are three challenges to rapid growth for Islamic banking: the first is developing new instruments to cover all aspects of banking.

We as stakeholders of Islamic banking industry should recognize that we cannot move the industry to the next level of growth trajectory unless innovative Shariah based solutions for all financial services needs of the clients generally and business community particularly are developed. This highlights the need of research and development to be the core ingredient of the strategy of Islamic banking industry. The industry needs to establish knowledge sharing and research platforms to evolve strategies on how best to meet the surging demand for Shariah compliant products and services in Pakistan. To this end industry can capitalise on strengths and expertise of Centres of Excellence in Islamic Finance Education that have been established as research incubator and for the capacity building of the industry. Moreover, collaboration between academia, Shariah scholars and industry professionals can be established through these research centers which will allow synergies along with identifying priority research area.

#### **Ladies & Gentlemen;**

The second challenge is capacity building and awareness.

The State Bank of Pakistan, as a regulator performs the role of facilitator for Islamic banking industry in the country. In this role, our major focus is on capacity building and awareness raising about Islamic banking and finance in the country. To this end we are not only using our training arm, National Institute of Banking and Finance (NIBAF) for undertaking multiple capacity building programs but have also been

supportive for such initiatives of industry and academia. While talking about human resource of Islamic finance industry, the discussion about role of Ulema in promoting Islamic banking and finance cannot be ignored. Fortunately we are among those countries which are regularly producing good number of Shariah scholars with many of those being of international repute. However, with the high growth of the industry, there still prevails demand supply gap. State Bank of Pakistan is using multi-pronged strategy to ensure adequate supply of Shariah scholars in the country; Not only NIBAF is conducting targeted customised programs for Shariah scholars but Centres of Excellence in Islamic Finance Education have also been specifically mandated to develop customised programs for Shariah scholars. From the platform of State Bank of Pakistan, efforts are also being made to encourage *madaris* to play their role in growth of Islamic finance industry.

The third challenge, especially in the context of Pakistan, is that Islamic banking is to find Shariah compliant instruments for investment. As Islamic banks have excess liquidity, we are already witnessing this. Unless we are able to develop asset-based Sukuk, growth may become stunted in future. The State Bank in its Vision 2020 has set target of 20% of deposit with the Islamic banking by 2020 and this is very much a focus of our efforts as a regulator. We will be interacting with all the stakeholders to ensure that the challenges highlighted above to sustained and high growth in Islamic banking and finance to overcome.

Electronic and social media platforms have become most effective mean of opinion formation and information dissemination. One of the major benefits of advancement in information technology and communication is empowerment of masses through access to information. State Bank of Pakistan is supporting the industry's mass media campaign which is aiming at creating awareness among public at large in addition to conducting seminars, conferences, targeted programmes and focused discussions for business community, academia, bankers and policy makers. We feel that such initiatives taken by Dunya Media Group & its peers would contribute in creating the much needed awareness regarding Islamic finance and improving perception of public at large.

**Ladies & Gentlemen;**

At the end, I would encourage and persuade all stakeholders to collaborate more effectively to address challenges faced by the industry. I assure you full support and cooperation from the central bank side to develop a vibrant industry on sound foundations

I wish again the success to all future endeavours of the Dunya Media Group.