

**Speech by Mr. Riaz Riazuddin  
Deputy Governor, State Bank of Pakistan**

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**Honorable Finance Minister Government of Punjab Dr. Aisha Ghaus Pasha,  
Rector COMSATS Dr. Raheel Qamar, Distinguished Panelist,**

**Distinguished Guests, Ladies and Gentleman!**

Assalam-o- Alaikum and Good Morning!

I am delighted to be here today at fifth Global Islamic Finance Forum (GIFF) focusing on "Present and Future of Islamic Banking in Pakistan". I would like to convey my sincere appreciation to the organizers; COMSATS, being consistent in their successful efforts of gathering leading scholars, researchers and practitioners of Islamic finance all across the globe. Programs like this are significant given the industry is graduating towards a more mature level with an increasing debate on its greater contribution more towards social welfare, wealth redistribution and poverty alleviation.

As Muslims we firmly believe that Islam provides a perfect architecture for civilization with guidelines for every sphere of life that complement and support each other. Finance being an integral pillar of an economy, is of critical importance. Development of financial sector can be a great stimulator for economic growth if it has the capacity to direct resources towards productive sectors that demand these the most. To this end, Islam has put forward a system that eradicates riba, emphasizes on real economic activity, links risk with return and creates circulation of wealth that results in equitable distribution of income.

## **Ladies & Gentlemen!**

It gives me a great deal of pride as a Muslim to witness that Islamic finance has expanded rapidly over the past few decades, and is now emerging as a strategic financial segment to many economies. The recurring financial crises and especially the severity of the last one has indicated the inability of conventional financial system to withstand the endogenous and exogenous shocks due to its, structural flaws. This also highlighted some key issues regarding *effective* financial intermediation, financial innovation and regulatory and surveillance framework. In this background, Islamic finance, which has been around for over three decades, has received significant attention as the only alternate to conventional system. The relative resilience of Islamic Finance on one hand, has earned confidence in its viability and sustainability, but, on the other hand, has brought huge responsibility for practitioners of this Shari'ah compliant system to capitalize on its intrinsic strengths to demonstrate advantages that this system claims. This task is challenging given the changing global financial landscape and the evolution of Islamic finance industry to advanced level. Though impressive growth rate of the industry in general is being witnessed as a sign of greater fortune around the corner, however, there are challenges that still need to be addressed for ensuring the sustainable growth of Islamic finance for becoming an integral component of overall finance.

## **Ladies & Gentlemen**

Before I discuss challenges faced by the industry, let me take this opportunity to share with you, briefly, the current state of Islamic banking in Pakistan and the direction it is taking for having a strong foothold in the banking system. Both the Government and State Bank of Pakistan (SSP) are fully committed and are making serious endeavors for promotion of Islamic banking and its related fields in the country. These efforts have undoubtedly assisted in broadening of access to Shariah based financial services to faith sensitive clients. SBP's approach of re-launching Islamic banking in 2001-02, in parallel to conventional banking, has worked well, as reflected by the increasing share of Islamic banking in overall banking system of

the country. Islamic banking industry has posted an impressive annual growth rate of over 20 percent over the last five years. By end December 2016, the share of Islamic banking has reached to 11.7 percent in terms of assets, while in terms of deposits its share is 13.3 percent, with a network of 2,322 branches of 21 Islamic banking institutions in 112 districts across the country. Given the strong growth momentum owing to overwhelming demand, supportive government and the central bank, future outlook of the industry is positive. SBP has played a critical role in growth of Islamic banking in the country over all these years. Promoting Islamic finance has remained an important component of strategic goals of the central bank and we have tried to perform a dual role of regulator as well as facilitator for the industry. SBP is among the few regulators that have introduced comprehensive legal, regulatory and Shariah compliance framework for Islamic banking industry.

## **Ladies & Gentlemen!**

Taking the best of diversified audience here including industry experts, academia and Shariah scholars, I am urged to discuss some of the key challenges Islamic finance industry has to overcome to further accelerate its growth. Effective liquidity management has always been the primary focus of banking industry; however, this has gained more significance in present times. Basel III, aimed at developing more resilient and sustainable financial sector focused on liquidity risk management along with improving the quality and quantity of capital, is a reflection of this. With particular respect to Islamic banking industry, this issue is more prominent owing to factors like dearth of Shariah compliant investment opportunities, limited availability of Shariah compliant money markets & instruments and Shariah compliant alternate of standing facilities. In Pakistan, issuance of domestic sovereign sukuk since 2008 did provide some relief to the domestic industry for its liquidity management but the gap between demand and supply could not be bridged due to infrequent issuance of sukuk owing largely to issues regarding documentation, title of assets, taxation etc. Being cognizant of this challenge, we at SBP, in consultation with industry, are working on developing multiple solutions for liquidity management for Islamic banking industry. In this backdrop, I encourage industry and academia to collaborate to develop innovative solutions for deployment of excess liquidity. In a global environment where Islamic banking is

operating parallel to centuries old conventional industry, it is imperative to expand its scope. It would be difficult for Islamic financial institutions with their prevalent model, having limited product mix and outreach, to compete with conventional banks in the future. I believe that in order to harness the true potential of Islamic finance, the industry needs to revisit its prevalent paradigm. There is a need for Islamic financial institutions to move away from the traditional business model and explore new opportunities/markets by developing more innovative products and reaching out to non- traditional sectors.

## **Ladies & Gentlemen!**

Let me share with you that to address the challenge of low level of financial inclusion, Pakistan has launched a National Financial Inclusion Strategy (NFIS) and Islamic Banking & Finance has been identified as an integral part of the strategy to target both voluntary and involuntary financial exclusion. I believe that Islamic finance has the potential to contribute to inclusive economic growth by increasing access of formal financial services to underserved sectors like small and medium enterprises (SMEs), agriculture, low cost housing and microfinance. Recognizing the importance of these strategic sectors towards economic development, SSP has also assigned indicative targets to banking industry including Islamic banking institutions for SME and agriculture sectors. Catering to these sectors can also help Islamic finance industry to play its due role towards social welfare and poverty alleviation.

At this point, I would like to emphasize on the role of technology as we have seen that branchless banking has produced impressive results in increasing financial inclusion. Islamic finance can also leverage on technology to increase its penetration to the lowest spectrum of population; microfinance clients, who are otherwise considered costly.

The growing interest in Islamic finance warrants availability of required level of skilled human resources. However, one of the biggest challenges faced by the Islamic finance industry is the shortage of qualified Islamic finance professionals, who can lead the industry into the next level of growth and development. Further, locally as well as' globally there is a disconnect between academia and industry,

which is critical in supplying high quality talent, matching the needs of the industry. Being cognizant of the importance of skilled human resource for the industry, SSP, as a facilitator has supported the industry not only by conducting programs on its own and through its training subsidiary National Institute of Banking and Finance (NIBAF) but has also provided assistance to initiatives taken by other stakeholders.

Towards this end, another significant step of SBP is establishment of three Centers of Excellence in Islamic Finance Education (CEIFEs) at well renowned educational institutions- IBA Karachi, LUMS Lahore, and Institute of Management Sciences Peshawar. These institutions are fully operational and are working effectively not only to provide regular supply of human resource but are also conducting training programs for existing human resource of the industry.

We, at SBP, recognize that Research & Development (R&D) is key for any evolving industry; therefore, we are encouraging the culture of research and development in Islamic finance. These Centres of Excellence I just mentioned have been mandated to work as research incubators as well. I would like to use this platform to encourage universities/academic/training institutes to undertake action oriented research on key areas like efficiency, innovative business models and participatory based modes which can provide the much needed boost to the emerging Islamic finance industry and support its growth trajectory. Collaboration between academia, Shariah scholars and industry professionals can be effective in this regard.

## **Ladies & Gentlemen!**

Present Government has shown strong commitment towards building sound foundations of Islamic finance industry in the country. To this end the most significant initiative was the formation of a high level Steering Committee (SC) for Promotion of Islamic Banking in December, 2013. The committee completed its tenure of two years in 2015 and submitted a comprehensive set of recommendations aimed at addressing challenges faced by the industry. You will be pleased to know that this time task has not been finished with the finalization of the report but an Implementation Committee (IC) has also been formed by Ministry of Finance in order to execute the recommendations of the Steering Committee. Honorable

Minister of Finance, Revenue, Economic Affairs, Statistics and Privatization is Patron-in-Chief while Governor State Bank of Pakistan is Chairman of the Committee. Under the Implementation Committee, four subcommittees have been formed; (i) Sub-Committee on Legal & Regulatory Framework (ii) Sub-Committee on Taxation (iii) Sub-Committee on Islamic Capital Market and (iv) Sub-Committee on Awareness & Capacity Building. These sub-committees are working diligently for smooth and efficient implementation of the Steering Committee's recommendations in their respective areas.

Given the commitment and concerted efforts of all stakeholders, I am optimistic that Islamic banking and finance is likely to grow on a sustainable basis in the future to a level where it provides a genuine alternative to a riba based system. However, I would reiterate that true potential of Islamic finance in Pakistan is still to be explored and there is a need of financial intermediation based on real economic activities. Islamic finance needs to emphasize on value adding and value based financial intermediation to achieve next level of growth trajectory. I believe that this would bring more stability to the financial systems, improve equitable distribution of economic gains, and support the overall economic development.

In the end, I wish you all a very productive conference and again thank the organizers for inviting me here.

Thank you!

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