

# BUSINESS RECORDER

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## Islamic banking a growing reality: Wathra

### RECORDER REPORT

KARACHI: Governor State Bank of Pakistan (SBP) Ashraf Mehmood Wathra said on Monday that the ability of Islamic finance to introduce greater discipline into financial system owing to its inherent strengths is relatively more stable and resilient.

"Despite its impressive growth, Islamic finance industry cannot be complacent as there still prevails huge untapped market," he said speaking at the World Islamic Finance Forum, organized by Institute of Business Administration (IBA)'s Centre for Excellence in Islamic Finance (CEIF), at a hotel, here.

He said that in addition to 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.

Wathra said that prudential supervision on banks was as necessary in an Islamic system as in conventional systems; however, the supervisory framework needed to recognize special characteristics of Islamic banks in order to be more effective.

"State Bank of Pakistan being the regulator of banking sector is

aware of the significance of prudent and effective supervisory framework and remains committed to this end," he said adding that Islamic banking was a growing reality which was expanding outside the traditional borders of Muslim countries into western economies. At present, global Islamic financial assets reached \$1.8 trillion in 2015 from \$150 billion in the 1990s and were expected to exceed \$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.

"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," said the SBP governor.

Wathra said that SBP was improving regulatory and legal infrastructure by providing a balanced tax regime, enhanced disclosure requirements, strengthening of insolvency framework and standardizing practices.

He also proposed a dialogue at

global level for harmonization and standardization of practices across Islamic finance industry.

"This signifies that the strategy of Islamic banking industry should be customer-centric in its proposition, delivery and service. As a system, Islamic finance facilitates in stimulating economic activity and entrepreneurship towards promoting comprehensive human development and addressing poverty and inequality," he elaborated.

He further said that under Islamic system, not only the prevalence of re-distributive instruments such as zakat, waqf (endowment) and sadaqat (charity) could play a vital role towards broad-based development and poverty alleviation but characteristics such as equity financing could also lead to the same objective.

"Equity financing enables Islamic finance to cater to needs of unconventional but strategic sectors such as small and medium enterprises (SMEs), agriculture and low-income housing," he said adding that like many other jurisdictions, the penetration of banking industry and especially of Islamic banks to these sectors is very low in the country.

SBP governor said that Centre for Excellence in Islamic

Finance was established with the main objective of providing human resource for the industry with desired skills and knowledge.

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.

"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," he said.

Wathra was optimistic about the future outlook of the industry saying that events such as WIFF were helpful in mapping out a strategy for sustainable growth of the industry.

He assured his full support and cooperation on behalf of SBP. He appreciated the organizers for providing the forum to bring together global thinkers and practitioners who could synthesize the work so far done and build on the core competencies of Islamic finance for its sustainable growth.

Prepared by: