

Keynote Address

By

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بسم الله الرحمن الرحيم

Your Excellencies, Distinguished guests, Ladies and Gentlemen,

السلام عليكم ورحمة الله وبركاته

Sabah-al-khair and a very good morning.

It is a great pleasure for me to deliver a keynote address at IFN Oman Forum 2019. I am delighted to return to this forum for the second consecutive year. I thank the organisers - Islamic Finance News - for inviting me to speak before this august audience.

Excellencies, Ladies and Gentlemen!

Since the roll out of Islamic banking in Oman six years ago – in 2012 – a number of milestones have been achieved successfully:

1. Grounded on a strong legal and regulatory framework, Islamic banking sector in Oman – which includes two full-fledged Islamic banks and six Islamic banking windows - has achieved 13% market share in December 2018, with total assets of over RO 4.3 billion.
2. Within this short span of time, Islamic banking products and services are now available through 81 dedicated branches in most parts of the country.

3. The rate of growth in the Islamic banking sector in Oman has been one of the fastest in the world. An IMF Policy Paper titled *The Core Principles for Islamic Finance Regulations and Assessment Methodology* issued in May 2018 identified Oman as the country with highest growth in Islamic banking assets. This Paper also suggested that on the basis of this rapid growth, Islamic banking sector in Oman is achieving systemic importance.
4. The Islamic banking sector in Oman has been able to significantly improve its profitability during the year 2018 with a profitability of over RO 34 Million, which shows a growth of over 76% from the previous year.

Excellencies, Ladies and Gentlemen!

While, undoubtedly, all these indicators and trends are quite encouraging, demonstrating the hard work and determination of all the major stakeholders of the Islamic finance industry in the country, the Central Bank realizes that there is no room for self-comfort and complacency. For this reason, in the last one year, we have focused on strengthening the financial safety nets for the Islamic banking sector.

To elaborate, I will mention some of the initiatives being undertaken by the Central Bank of Oman to support Islamic banking industry in the Sultanate.

Last year, CBO finalized the design of Shari'ah compliant version of Bank Deposits Insurance Scheme, in coordination with our High Sharia Supervisory Authority (HSSA). This scheme intends to cover deposits and investment accounts offered by all Islamic banking entities. As a next step, required amendments to Bank Deposits Insurance Scheme Law have been identified. We are now coordinating with concerned authorities for the review of these legal amendments which will pave the way for the formal introduction of Shari'ah compliant Deposits Insurance Scheme in Oman.

We are also completing the groundwork for offering Islamic liquidity management solutions to Islamic banking industry that intends to not only offer remunerative deposit account with CBO but also provide standing liquidity facility and lender of last resort to support the Islamic banking entities. Simultaneously, we are closely working with concerned authorities for the issuance of more domestic currency based Sukuk. These tradable instruments will further expand Sharia compliant investment avenues available to IBEs and help them to effectively manage their liquidity.

We have also started an initiative to review the existing Banking Law. As a part of this exercise, we intend to suggest revising some clauses related to Islamic banking in order to provide further clarity and transparency in the operations of Islamic banking sector.

At the international level, we decided to upgrade our membership with the international standard setting body the Islamic Financial Services Board (IFSB) and become a Full Member. Consequently, from 2019, CBO has become a Council member of the IFSB. Similarly, this membership permits the CBO to play a more active role in the standards development agenda of the IFSB and nominate representatives in its key organs of governance such as the Technical Committee. Our staff are already part of several working groups and task forces established by the IFSB for preparation of new standards and technical notes. Through this membership, we also intend to organise more capacity building workshops for the Islamic banking industry professionals in Oman.

Excellencies, Ladies and Gentlemen!

As Islamic finance industry in Oman transitions to more maturity, a holistic approach will be needed to keep the momentum of existing high growth and extend the outreach of this sector. Similarly, all the key stakeholders of Islamic finance industry have to play their part in enhancing the relevance of Islamic banking for the end users and make contributions to the growth and sustainable development of the Sultanate. The theme of this Forum is quite relevant in this respect as various sessions are conceived to deliberate on key issues facing all the major sectors of Islamic financial services industry, including latest developments related to financial technology (Fintech).

With the passage of time, the growth in Islamic banking sector is moderating. Partly, it can be attributed to the result of relatively smaller base and macroeconomic factors in the regional and global economy. Similarly, it could be ascribed to the phenomena that segment of customers with strong loyalty for Shari'a compliant products has already started using these services. Therefore, Islamic banking entities need to initiate – individually and collectively – campaigns that will allow the sector to extend outreach to customers beyond this segment. A common customer wants more value for their funds and better service quality. Similarly, Islamic banking entities have to further raise the bar on customer service and use of digital channels. Geographical expansion of IBE branches to relatively unbanked areas of Sultanate will also help to enlarge the customer base and grow business.

Diversification of financing base is another area where IBEs need to focus more attention. As you are aware, the tenets of Islamic finance establish an inseparable link between finance and the real economy, and encourage economic risk-taking that helps improve growth and create jobs. This requires that financing by Islamic banks should be for productive investments, not for conspicuous consumption or speculative activities. While the CBO has given some relaxations on real estate exposure of IBEs, there is now a need to reduce concentration risk and serve the wider economic sectors in the Sultanate.

Therefore, IBEs should endeavour to build their financing base in corporate, small and medium enterprises, services and agriculture sectors going forward. The provision of finance to these sectors will allow to create employment, promote business and diversify the economy.

The value proposition of Islamic banking is also reflected in the features of products being offered to various segments of customers. For this purpose, more innovation in the product offerings is fundamental need that could enhance customer value, while simultaneously following the core principles of fairness, transparency and risk sharing.

For the promotion of digital economy, CBO is taking coordinated initiatives and studying the diverse needs and potential applications of Fintech from business, regulatory and technology perspective. We are also targeting that features of existing mobile payment clearing and switching system are further expanded to promote the use mobile banking services and mobile wallet in Oman, even to non-banking customers. IBEs are an essential part of these initiatives, which will increase financial inclusion and ease the access of digital financial services to the customers.

Excellencies, Ladies and Gentlemen!

With these thoughts, I would like to conclude by offering my best wishes for a productive and fruitful Forum.

Thank you and **والسلام عليكم ورحمة الله وبركاته**