

# **Keynote Address**

By

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**بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ**

**Excellencies, Distinguished Participants, Ladies and Gentlemen,**

**السلام عليكم ورحمة الله وبركاته**

**And good morning to all of you!**

Allow me to first begin by thanking the organizers for inviting me to deliver this Address at IFN Oman Forum. It is a pleasure for me to be here this morning in the company of such distinguished audience with Islamic finance and financial sector professionals from Oman and across the world.

In my note, I will begin my remarks by providing some key highlights of Islamic banking sector in Oman and globally, followed by highlighting some key steps Central Bank of Oman is taking to further strengthen this sector. As technology is a key theme of this event, I will close my remarks by providing some perspective on rapid developments in this area and how Islamic finance sector can benefit from these advancements.

### **Current Status of Islamic Banking Sector in Oman and Globally**

Despite an unprecedented year 2020, at the global level, Islamic banking and finance sector performed well during the last year. According to IFSB Stability Report 2021, the global Islamic finance industry maintained its positive trend with a year-on-year double-digit growth rate of 10.7% during 2020, and assets reaching USD 2.70 trillion by the year end. Out of these assets, over two-thirds (i.e. 68.3%) are contributed by Islamic banking sector, equivalent USD 1.8 trillion, whereas Sukuk, Islamic funds and takaful respectively constituted 25.6%, 5.3% and 0.9% of the total assets of this sector.

Domestically, in spite of challenging macroeconomic environment and covid-induced recession during the pandemic, Oman's Islamic banking sector demonstrated a robust and consistent performance. During the year 2020, the sector grew at the rate of 6.3% year-on-year, much faster than other segments in the financial sector.

As of June 2021, Islamic Banking sector assets in Oman have reached OMR 5.679 billion (equivalent to over USD 14.7 billion), with a market share of 15.13%. Similarly, market share of Islamic banking in gross financing and total deposits reached 16.9% and 16.8% respectively on this date. This robust growth has been backed by high asset-quality with a low non-performance financing ratio of less than 2%.

This remarkable growth in Islamic banking sector in Oman has already made the Sultanate the 15<sup>th</sup> largest Islamic banking market at the international level – both in terms of market share and assets size of the sector.

Oman's strong legal and regulatory framework for Islamic banking sector and its rapid advancement and growth are being globally acknowledged. Lately, *State of The Global Islamic Economy Report 2019* ranked Oman's Islamic finance sector 5<sup>th</sup> best in the world. In addition, the International Monetary Fund, Islamic Financial Services Board, Islamic Development Bank and its private sector arm Islamic Corporation for the Development of the Private Sector (ICD), international rating agencies – all have commended Oman's progress on Islamic banking and finance in their reports and publications in recent years.

Central Bank of Oman, as a part of its efforts to contribute to global policy dialogue on financial stability and development of new international standards, has strengthened its partnership with Islamic finance standard setting bodies and international organizations in the past few years. These collaborations have permitted our staff to be part of key oversight and technical committees as well as working groups of standard setting bodies such as Islamic Financial Services Board (IFSB) and Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI). Two of our staff have been recently selected for senior management and technical positions at the IFSB. Similarly, we have leveraged these partnerships to host capacity building events, awareness and training programmes and policy development meetings in the Sultanate of Oman.

Islamic Banking entities (IBEs) have continued to expand their operations in various governorates and regions of the Sultanate. As of today, IBEs have already established 94 branches, with some additional under process. Additionally, with other outlets such as onsite banking facilities, mobile banking units, over 150 automated machines (ATMs, CDMs etc.) as well as online and mobile banking platforms, Islamic banking sector is expanding its outreach and is widely offering its services to individual, business and public sector customers.

## **Moving Forward for Islamic Banking Sector**

Ladies and Gentlemen!

The remarkable progress of Islamic banking and finance sector in the Sultanate is surely a source of comfort. However, this is not a reason to be complacent.

A realisation needs to be made that annual growth rate of the sector has been moderating over the passage of time. Similarly, the legal and regulatory framework – especially the issuance of comprehensive Islamic Banking Regulatory Framework (IBRF) and associated Shari’a governance framework – have worked quite well until now. However, with the sophistication of the banking market and changes in the international regulatory standards, several updates are required in this regulatory framework. We also realise that more work is needed for introducing financial safety nets for Islamic banking in Oman.

In these eight years of introducing Islamic banking and finance in the Sultanate, Challenges have also been witnessed in preparing local talent for various functional areas of IBEs, which require a careful consideration and collaboration between relevant stakeholders, including institutes of higher learning and training organisations.

In addition, the awareness of unique features of Islamic banking products and services needs enhancement, especially business community and small and medium enterprises (SMEs), which has resulted in relatively slower growth of Islamic banking in the latter two segments.

I would also like to highlight that Oman vision 2040 foresees a dynamic, diversified and sustainable economy that encourages entrepreneurship and supports private sector and small businesses, which is aided by a dynamic regulatory environment, high-quality labour force and additional job opportunities for Omanis. Islamic finance, having become a 'systemically significant' segment of the Omani banking sector with over 15% market share is fully capable of contributing to these national strategic objectives.

Central Bank of Oman is fully aware of all these gaps and opportunities and is aiming Islamic finance to be the key contributor of the national development agenda to foster technology adoption, financial deepening and inclusiveness in the Sultanate. Last year, Central Bank of Oman obtained the written feedback of all IBEs and other stakeholders on several dimensions of legal and regulatory updates, awareness building and talent development initiatives needed in the market. These written feedbacks were further supported by 'expert studies' and 'benchmark assessments' on 1) legal framework for Islamic banking, 2) Shari'ah governance framework, and 3) implementation of international standards such as prudential standards issued by the Basel Committee on Banking Supervision and IFSB, accounting and auditing standards by IFRS and AAOIFI, conduct of business and product documentation standards and so on.

The objective of all this exercise is to prepare a Strategy for Islamic Banking Sector Development in the Sultanate. I believe that outlining the strategic direction of the Islamic banking industry will promote healthy and balanced growth of the sector, attract foreign investors and ease the path of collaboration with international and regional partners, Islamic finance standard setters and multilateral organizations for training, awareness building and transfer of knowledge. Similarly, this Strategy will aim to boost the sector's awareness among various segments of the population and strengthen the existing framework for talent development in Islamic finance.

## **Benefiting from Technology**

Ladies and Gentlemen!

As a final note, you are aware that technological solutions are changing the landscape of banking and financial sector and improving customer satisfaction due to the provision of rapid service, time saving and convenience. IBEs have an additional reason to invest in technology: Relatively smaller physical presence and possibility of reducing their expenditures as their cost-to-income ratios remain constantly higher than their conventional counterparts, which is mainly due to their nascent stage, smaller operations and early growth trajectory.

For this reason, “clicks versus bricks” technology offers a springboard for expanding the outreach of IBEs. Investment in technology will also foster alignment of Islamic banking sector with Oman Vision 2040 which aims to develop a diversified and sustainable economy that is based on technology and digitization, knowledge and innovation. In terms of population profile, the concentration of Millennials and Generation-Z in Omani society, with high familiarity of mobile phone and new technology incentivizes the IBEs to invest in people and systems and become the frontrunner in Omani banking sector for offering technology based, reliable and tailored solutions to meet the financial needs of the target population in a Shari’a compliant manner.

In order to expand the outreach, IBEs not only need to expand their physical and digital presence through available options, they need to make use of alternative delivery channels and digital onboarding, while keeping the legal and regulatory requirements into consideration. IBEs in Oman are already using most of the available options for alternative delivery channels. Central Bank of Oman has already permitted banks to digitally onboard their clients through simplified e-KYC for mobile wallets and prepaid cards though framework for formal account opening remains a work in progress.

Similarly, the emergence of financial technology (fintech) companies in the last decade was considered as a disrupter, 'intruder' or a competitive threat to the financial sector in the early phase, which is typically dominated by 'conservative' commercial banks and other financial institutions. This relationship has evolved over time. Not only some progressive banks invested in fintech, some others purchased successful fintech firms that could complement their business model. However, more commonly, this relationship has evolved into 'partnerships' which allows banks to reach new targets in terms of speed and ease of product delivery, expanding the outreach or offering more agile solutions to tech-savvy and young customer base. This collaboration is benefitting both the parties as fintech see banks as their important customers which permits them to expand their customer base and provide source of capital, leading to their fast expansion and a stable business model.

I am glad that several Islamic banking players in Oman have taken a lead in this direction and introduced new products in partnership with fintech firms during the pandemic.

I will urge all Islamic as well as conventional banks to seek opportunities for building partnerships with local and regional fintech companies and expand their product offering. Similarly, they should take benefit of CBO Fintech Sandbox which allows them live testing of innovative financial products and services in a controlled environment. We are also in the final stage of issuing *Open Banking API Strategy* as well as *Regulatory Framework for Availing Cloud Services* by the licensed institutions.

**Ladies and Gentlemen!** CBO's role in all these developments is that of an enabler and facilitator. It is the market players who have to come forward and utilize and benefit from all these initiatives being taken by CBO to develop the national fintech infrastructure. We are also working tirelessly to increase the integration between different national entities to ease the application of fintech ideas across various sectors of the Sultanate.

**Ladies and Gentlemen!**

On that note, I wish all of you an informative and productive day ahead.

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