



# Digital Transformation in the Islamic Banking Sector

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Executive President

Central Bank of Oman

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**17<sup>th</sup> April 2022, Sunday**

Rozna Restaurant, Muscat

9:00pm

# Agenda



CBO Initiatives to Support Digital Transformation of Financial Sector



Payment System Initiatives



Islamic Banking Sector & CBO Islamic Banking Strategy



Moving Forward



# CBO Digital Transformation Initiatives



# CBO is taking a range of initiatives to support digital transformation of banking and financial sector

On 10<sup>th</sup> December 2020, CBO issued and launched its **Fintech Regulatory Sandbox Framework**

**The first cohort for Payment received a good response**, with several local and international participants, coming forward to present their payment solutions, which are going through different stages in the sandbox.

The next cohort, will be launched after Eid ul Fitr. It will be a special cohort for banks to test the **use of blockchain for trade finance**. The aim is to digitize the end to end process of letter of credits through the use of distributed ledger technology.

CBO has an approved **Open banking Strategy** for the sector. We have rolled an RFP in March 2022 to develop **Open Banking Regulatory Framework** and the technical API specifications of Open banking.

We are working on the establishment of **National E-KYC and Customer Digital Onboarding Utility**. It will be supervised by CBO and implemented through *Mala'a*. The initiative is being implemented in stages.

CBO in collaboration with CBFS has introduced **professional diploma program, with specialization in fintech**. The program will be offered later this year and will have two paths; leadership Fintech path and a technical path.

**CBO has signed a cooperation programme with SQU** to benefit from scientific and practical experiences in the academic field, financial technology and innovation.

CBO will participate in the 2<sup>nd</sup> edition of **Banking and Fintech Zone** within an annual technology local exhibition “Comex 2022”.

**CBO and Oman Environment services Holding company Be'ah**, signed an MOU to open new horizons on sustainability and the circular economy.



البنك المركزي العماني

# CBO Payment System Initiatives

# Expansion of E-payment Utilization



**Digital Processing of Salary Payments**



**Micro Business Inclusion under E-Payments**



**Collaboration with other entities to mandate E-Payments in the country**



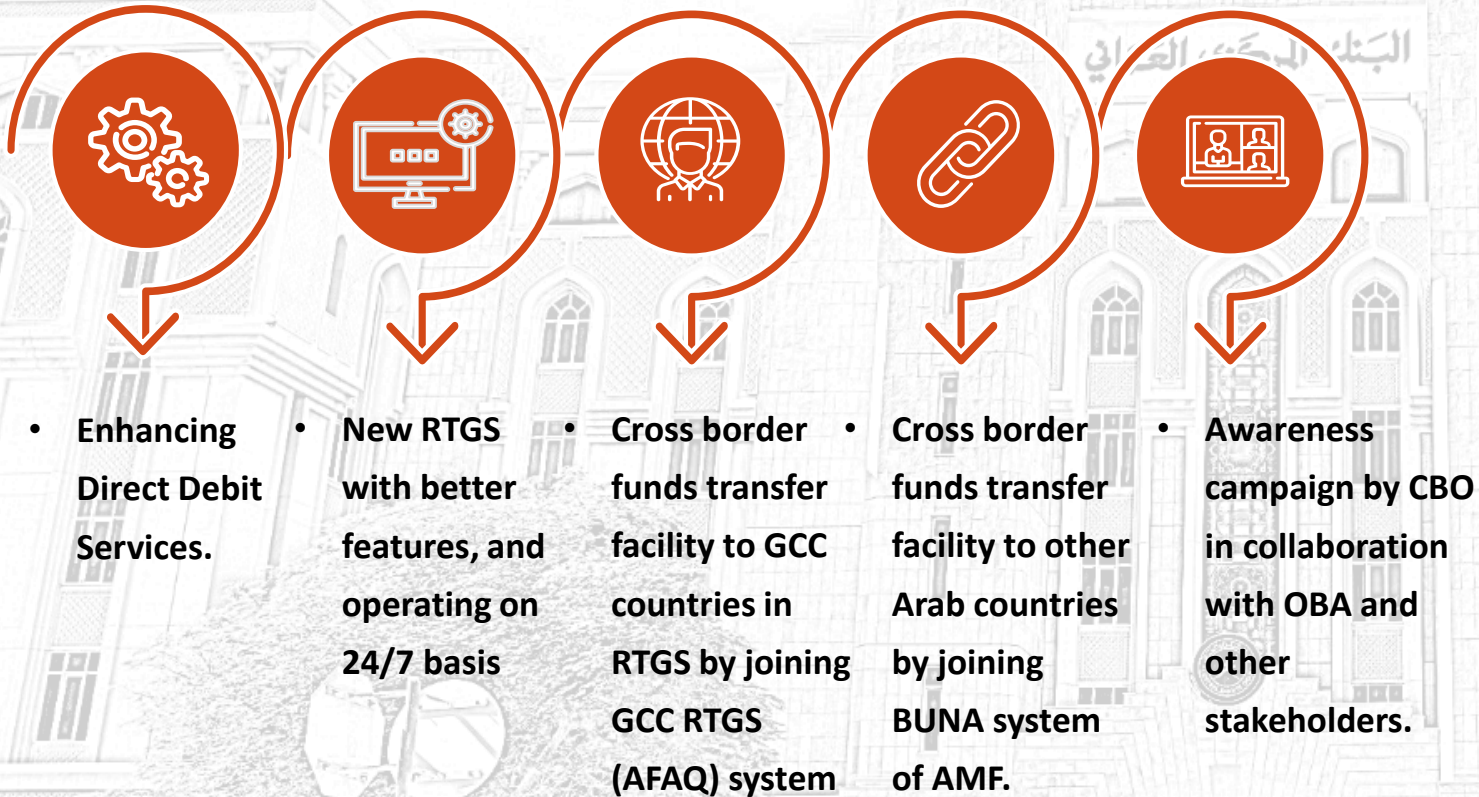
**Launch of direct debit service**



**Instant payments through national payment systems on 24/7 basis**



# Key Projects in the Pipeline



## Growth in e-payment transactions from 2020 to 2021

Growth in Payment Gateway → 79%

Growth in POS Transactions → 46%

Growth in Mobile Payments (MPCSS) Transactions → 325%

Growth in ACH System → 39%



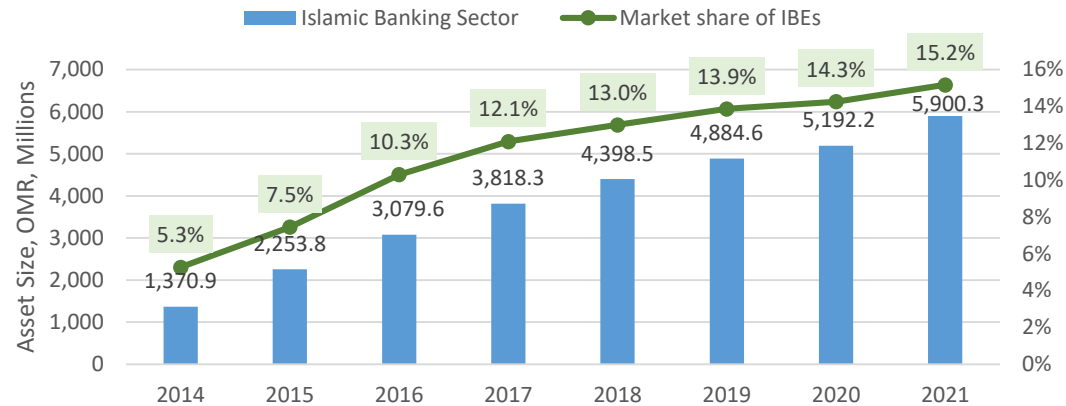
البنك المركزي العماني

# Islamic Banking Sector in Oman and CBO Islamic Banking Strategy



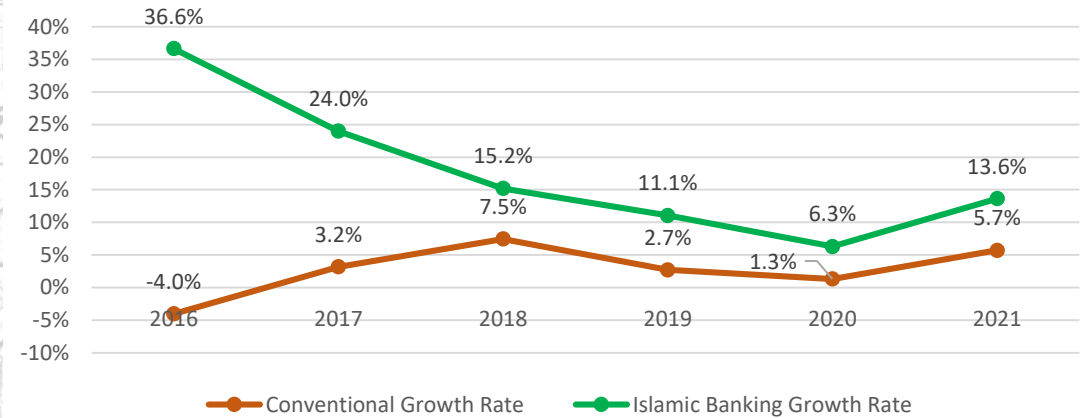
# Nine Years of Islamic Banking in Oman - a Thriving Success Story

## Islamic Banking Growth Indicators



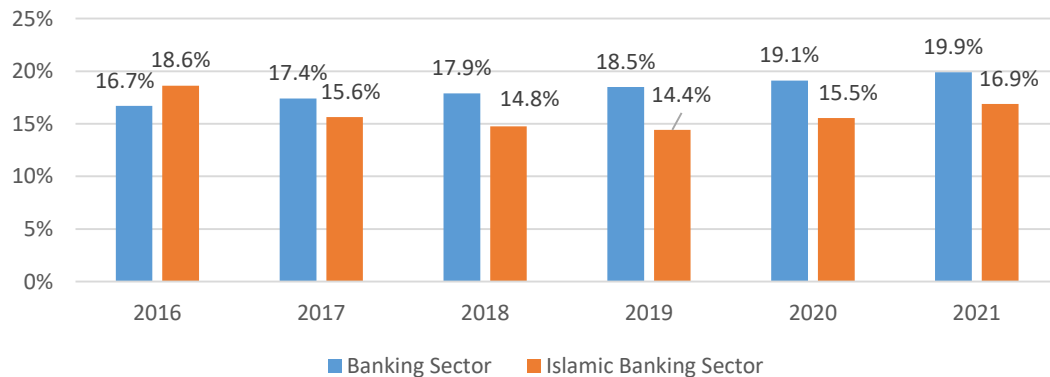
**Total Assets of Islamic banking sector surpassed OMR 5.9 billion in December 2021  
Market Share reached 15.2% - Making it "Systemically Important" Sector as per IMF**

## Total Assets Growth Rate



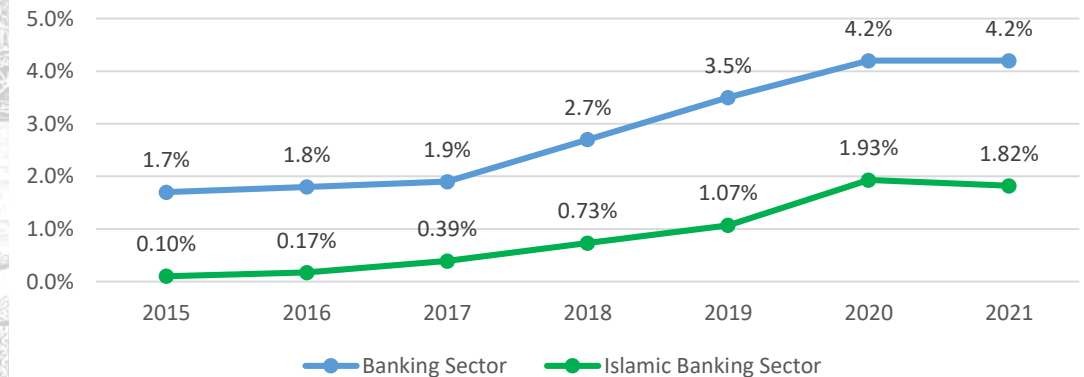
**Annual growth rate of Islamic Sector has been consistently higher than conventional banking sector in Oman since inception**

## Capital Adequacy Ratios



**Both the overall banking sector and Islamic banking segment have strong capital adequacy ratios – much higher than regulatory requirements**

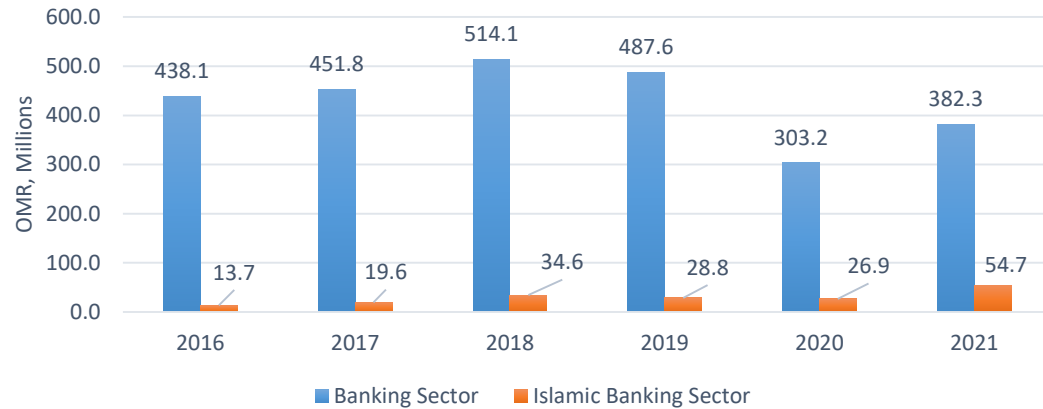
## Gross NPF Ratio



**Asset quality remains strong for Islamic banking sector**

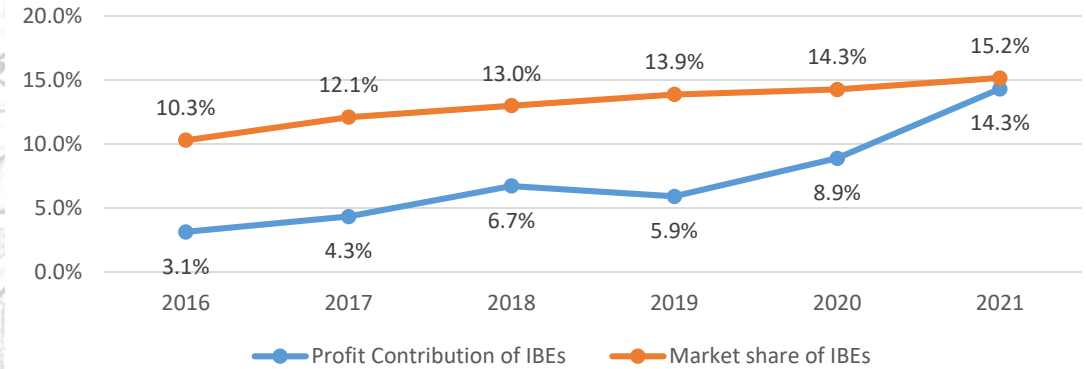
# A Significant Rise in the Profitability of Islamic Banking Sector in 2021

## Profit Before Tax



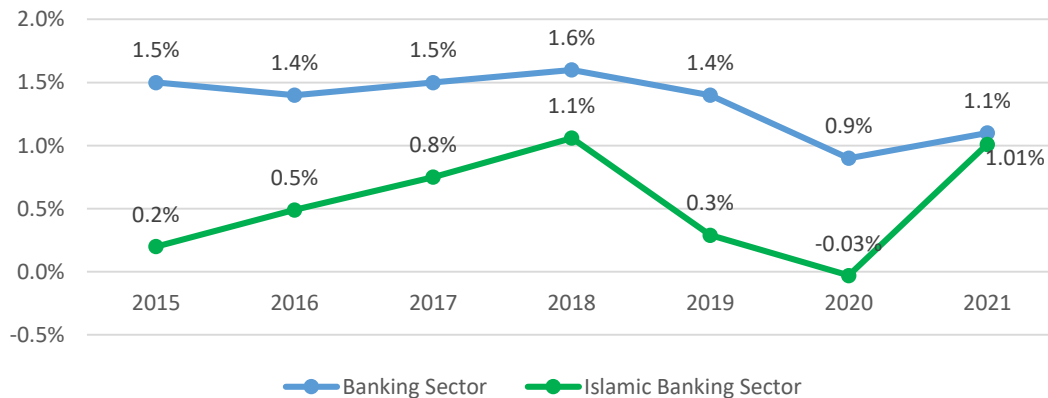
Profitability of banking sector as well as Islamic banking segment improved during 2021, though will take some time to reach pre-pandemic level

## Islamic Banking Share in Total Assets & Profitability of Oman's Banking Sector



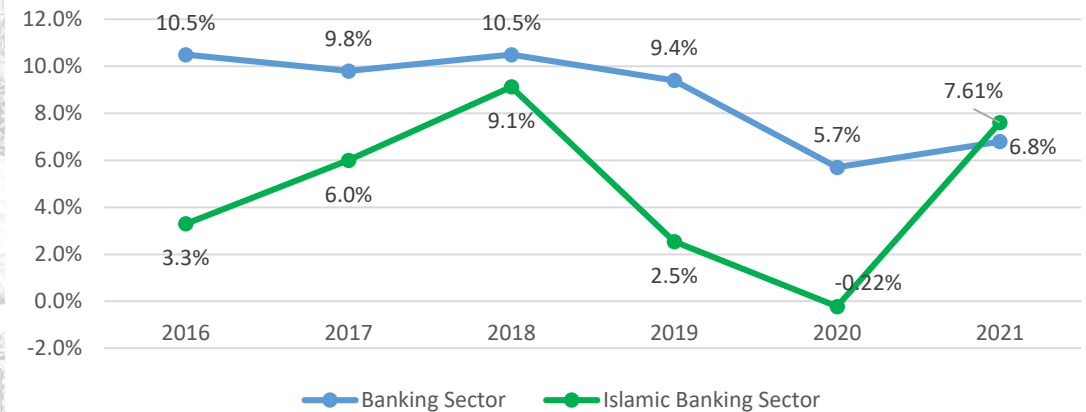
The profitability of Islamic banking sector has been much less than its market share until 2020. However, in year 2021, sector profitability improved significantly.

## Return on Assets



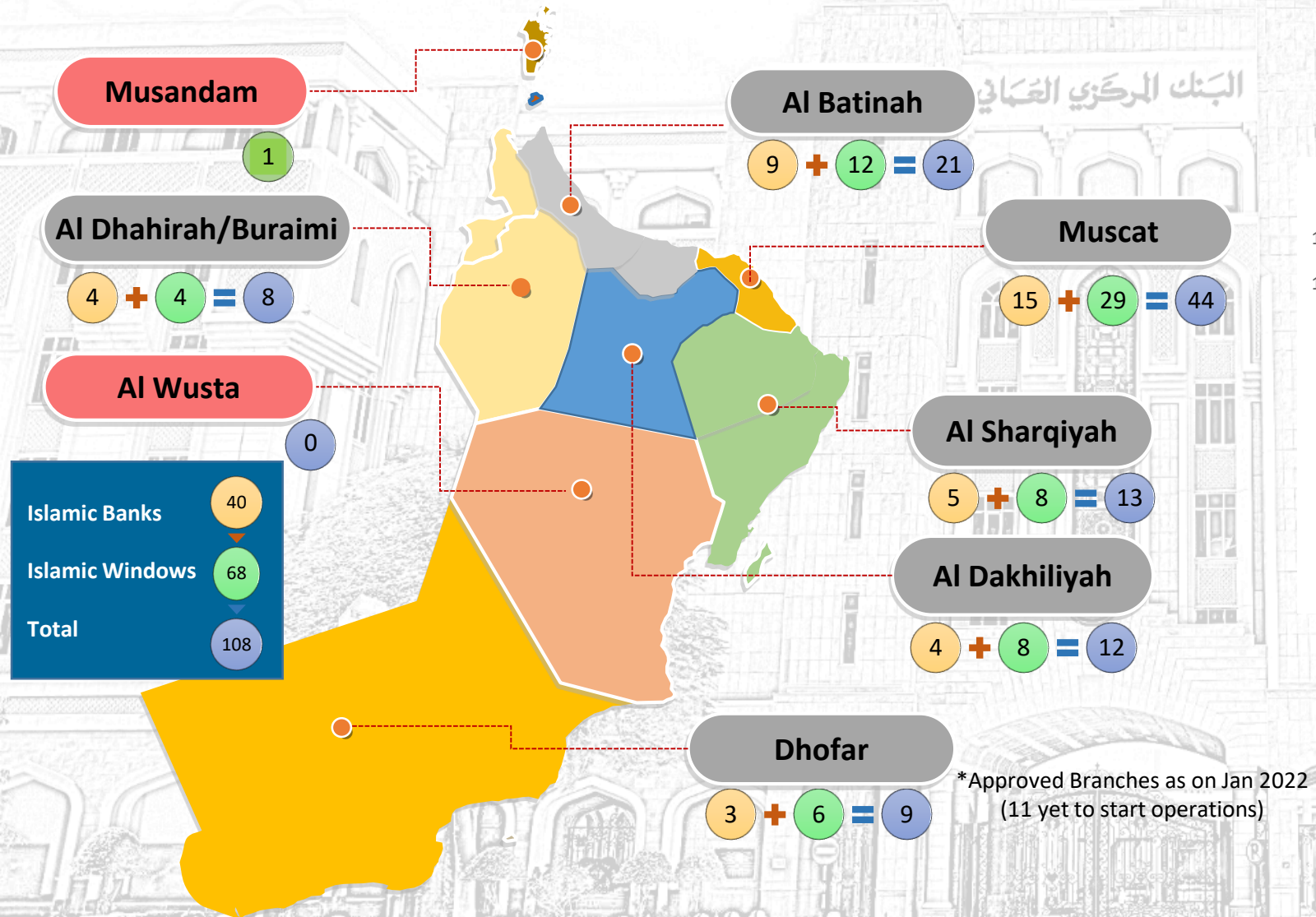
Improved profitability during 2021 results in higher ROA...

## Return on Equity



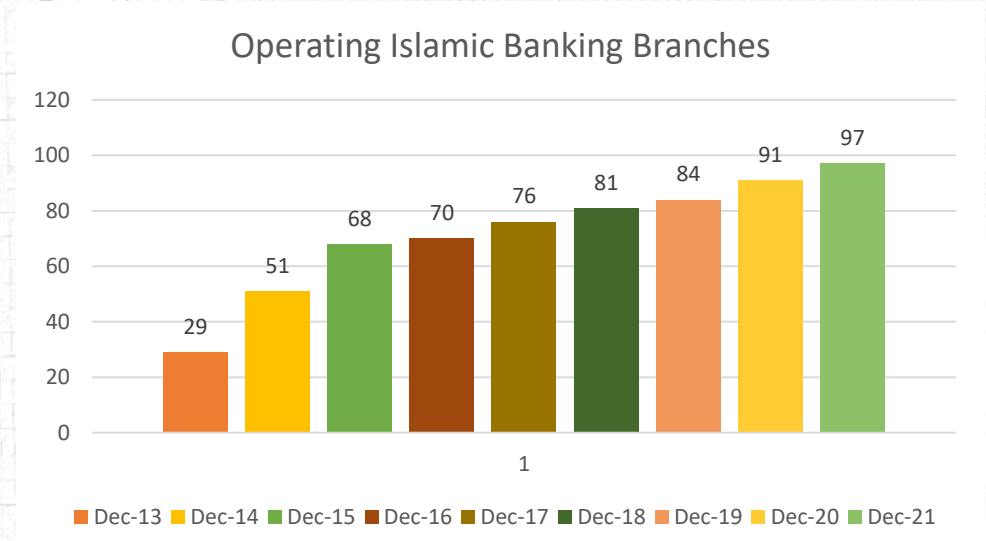
...as well as significantly higher ROE for Islamic banking sector in 2021

# Consistent sector growth is backed by rising physical presence in most regions of the Sultanate



Total Islamic Banks: 2

Total Islamic Windows: 5



- Physical existence of IBE branches has consistency increased since 2013.
- Branches, coupled with onsite/mobile banking units, online banking, mobile apps, ATM/CDMs provide a full range of services



# After incorporating feedback of OBA and IBEs, CBO Islamic Banking Strategy is being finalized – It is built on Five Pillars

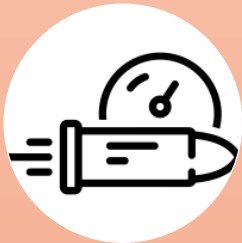
## Islamic Banking Strategy 2022-2025

**Vision**

To offer a proactive and robust regulatory environment for Islamic banking that supports innovative, efficient, stable and inclusive financial system in the Sultanate.

**Mission**

To achieve Islamic banking market share of 20% by the end of 2025, while supporting the objectives of Oman Vision 2040 and CBO Strategy



**Sustain the Momentum**

5 Goals

9 Initiatives

PILLAR 1

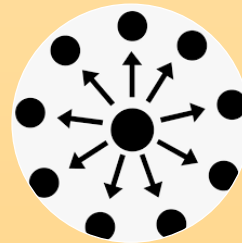


**Enhance the Stability**

6 Goals

12 Initiatives

PILLAR 2



**Expand the Outreach**

6 Goals

7 Initiatives

PILLAR 3



**Nurture the Talent**

3 Goals

6 Initiatives

PILLAR 4



**Boost the Awareness**

4 Goals

6 Initiatives

PILLAR 5

# Moving Forward

Technology offers an opportunity to boost financial innovation, lower the cost of transactions and enhance financial inclusion

Both conventional and Islamic banking sectors should proactively participate in the ongoing digital transformation and payment system initiatives of the CBO

CBO is committed to foster the growth of an effective ecosystem, wherein the fintech startups and banks work under a collaborative framework, for the benefit of all stakeholders

Islamic banking sector continues to show tremendous growth potential, serving the needs of community and contributing to the growth and stability of financial system in the Sultanate

Due to their relatively small branch network, they can utilize new digital initiatives in an effective manner to reach wider segment of their potential customer base



Thank You