

Keynote Address

By

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بسم الله الرحمن الرحيم

Excellencies, Distinguished Participants, Ladies and Gentlemen,

السلام عليكم ورحمة الله وبركاته And good morning to all of you!

Let me begin by thanking the organizers for inviting me to deliver Keynote Address at 'Alam Al-Iktisaad Islamic Banking and Finance Summit' being organized in Muscat. I am pleased to be part of this distinguished gathering of Islamic banking and finance professionals from Oman and around the world.

In my address, first of all, I will highlight major milestones achieved by Islamic banking sector in the Sultanate in the past ten years. Subsequently, I will share some CBO plans for providing further support and spur the growth of Islamic banking and finance sector. Finally, I will highlight a few areas in which the attention of Islamic banks entities will be needed to ensure sustained growth and resilience of the sector.

Current Status of Islamic Banking Sector in Oman

Ladies and Gentlemen,

This year 2022 is an important milestone in the history of Islamic banking and finance in the Sultanate. A decade ago, in year 2012, Central Bank of Oman issued its licensing framework for full-fledged Islamic banks and Islamic windows of conventional banks. In the same year, Islamic Banking Regulatory Framework was promulgated which outlined the detailed regulatory and Shari'a governance requirements for Islamic banking entities. Similarly, in the month of December of the same year, CBO granted license to establish first full-fledged Islamic bank, called Bank Nizwa.

Islamic banking and finance sector in Oman have gone a long way since then. With two full-fledged Islamic banking and five Islamic windows, the share of Islamic banking sector reached 16.2% of total assets of the banking sector as of September 30, 2022. Islamic banking is now being offered in over 70 countries. With this growth, Oman is now 15th

largest Islamic banking market in the world both in terms of banking sector assets and market share.

Total assets of Islamic banking sector have increased from OMR 5.7 billion in December 2021 to OMR 6.1 billion in September 2022, showing growth rate of 7.1%. Similarly, total financing in these nine months increased from OMR 4.8 billion to 5.2 billion, a growth rate of 9.1%. Total deposits of the sector have also steadily increased from OMR 4.4 billion to OMR 4.8 billion in this period, with a growth rate of 8.7%. Most importantly, profitability trend of the sector is showing quite encouraging signs. Against a total gross profit of OMR 14.6 million during year 2021, in first nine months of 2022, Islamic banking sector has shown a profit of OMR 17.2 million, an increase of 18.3%.

This remarkable growth in Islamic banking sector is backed by a low non-performing ratio of 1.92% as of September 2022, with an average capital adequacy ratio of 15.57%.

Within the sector, two Islamic banks are also increasing their market share over time and now contribute over 41% of total Islamic banking assets, with remaining assets are held by Islamic banking windows.

In terms of physical presence, Islamic Banking entities (IBEs) have continued to expand their operations in various governorates and regions of the Sultanate with about 100 branches, coupled with onsite banking, mobile banking units as well as online and mobile banking platforms. Similarly, in terms of product range, IBEs are now offering products for all major segments of economy including corporate, retail as well as small and medium enterprises.

CBO's Initiatives to Support and Strengthen Islamic Banking Sector

Ladies and Gentlemen,

As most countries slowly recover from the impact of the pandemic, inflation is rising globally due to major geopolitical events and disruptions in the global supply chain. Similarly, recent

catastrophic environment disasters such as floods, hurricanes and droughts in various regions highlight the important of aligning financial sector practices to environmental, social and governance (ESG) and green finance initiatives.

In such challenging policy environment, 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. 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). We have also agreed to enter into an MOU with AAOIFI, which focuses on standards development, capacity building events, awareness and training programmes and policy development meetings in the Sultanate of Oman.

Going forward, in order to have a sustained growth and robust development of the sector, CBO plans to strengthen the entire ecosystem for this sector focusing on five main pillars: 1) Sustaining the momentum, 2) Enhancing the stability, 3) Expanding the outreach; 4) Nurturing the talent, and 5) Boosting the awareness.

CBO will also soon begin launching Shari'ah compliant liquidity tools for IBEs which will gradually cover a range of products such as lender-of-last-resort, emergency liquidity support facility and remuneration on deposits with CBO. A few months ago, High Shari'a Supervisory Authority reviewed and approved the contract structures of these products. Now, efforts are being made to complete the remaining groundwork and gradually offer these products to the market players.

We will also prepare a roadmap with associated regulatory instructions and thresholds for the conversion of Islamic banking windows into independent Islamic banks or subsidiaries.

With the sophistication of banking market and changes in the global regulatory standards in past ten years, we are also formalizing plan to make suitable revisions in Islamic Banking Regulatory Framework (IBRF). This review will also aim at enhancing Shari'a Governance Framework and strengthen external Shari'a audit guidelines.

Role of Islamic Banking Players

Ladies and Gentlemen,

To promote Islamic banking, CBO aims to achieve 'sector-led' focus so that market players can play significant role in further strengthening the ecosystem for Islamic banking and finance sector in the Sultanate.

I would suggest IBEs to work on improving service quality, branch experience and automation, while enhancing post-sale experience. Several studies have shown that these are the primary areas focused by the customers when dealing with the banks – whether Islamic or conventional.

Another dimension where all banks need to focus are products for the youth. Young people in the 18-30 age group represent about 30% of the total population in the Sultanate. For this reason, comprehensive economic and social development requires focus on this important pillar for a promising future.

Our Islamic banks sector also needs to expand its outreach to unconventional and priority sectors such as small and medium enterprises (SMEs), agriculture and logistics. There is a need to expand the range of competitive product offerings for these segments.

Finally, due to relatively smaller physical presence and possibility of reducing their high operational expenditures, IBEs have a more reason to invest in technological tools to expand their outreach. 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 in recent past.

Ladies and Gentlemen!

On that note, I wish to close my remarks with the expectation that Islamic banking and finance sector in the Sultanate will continue to flourish, expand and meet the financial needs of its customers.

I wish all of you an informative and productive day ahead.

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