Keynote Speech

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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 organizer, Al Roya Oman, to invite me to deliver Keynote Address at this prestigious gathering of Islamic banking and finance practitioners from the Sultanate of Oman, the GCC and other regions.

Oman Vision 2040 and Role of Islamic Finance in Achieving its Key Themes

Ladies and Gentlemen,

It is over 10 years since the introduction of Islamic banking in Oman. A question is generally posed: what impact it has created in achieving Oman Vision 2040 and various segments of financial system in the Sultanate. As you all know, Vision 2040 envisages, among others, achieving the goals of economic diversification, human capital development, social welfare and inclusion, sustainable development, technology and innovation, regional and global engagement private sector development.

The last decade has shown that Islamic banking and finance sector has been a strategic fit and accelerator for achieving several goals of Oman vision 2040. This sector has contributed to increased national saving and investment and fostering a diversified investment base. In a recent CBO survey, one window shared with us: "The Islamic Banking business has attracted approximately 130,000 additional retail customers and more than 350 corporate relationships to the bank." And these are figures from just one out of the seven Islamic banking players in the country. Imagine the impact these players have collectively made in enhancing the national savings, expanding the outreach of financial products and services to various population segments and enhancing financial the inclusion.

This sector has helped corporates and businesses to diversify their sources of funding and raise new funds, thus promoting entrepreneurship, competitiveness and job creation in the economy.

We have also witnessed more equity investment from abroad into many Islamic financial institutions – Islamic banks, takaful companies, Islamic funds, Shari'a compliant stocks and crowdfunding platforms.

This sector has also expanded the sophistication, penetration and range of products available to the consumers and businesses, leading to more efficiency through better service quality, product innovation and digitization.

It has also supported the shaping of Omani financial sector development agenda and making the Sultanate more self-sufficient economy. Islamic banks and windows are now a key partner in funding many infrastructure projects in the Sultanate directly as well as co-financers in syndicated or consortium financing projects.

Islamic banking and finance sector has also offered an alternative source of funding to government for raising funds from domestic and international markets for budgetary support and building infrastructure.

And last but not the least, it has allowed Central Bank of Oman and other national financial sector regulators to play more effective role in and build partnerships with the global Islamic finance standard setting bodies and international organizations such as IFSB (Islamic Financial Services Board), AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), IIFM (International Islamic Financial Market) , COMCEC (OIC Standing Committee for Economic and Commercial Cooperation), rating agencies etc.. It has also allowed CBO to take a leading role and share Oman's successful experience in developing policy, standards and regulations for Islamic finance industry globally.

SDGs, Fintech, Digital Banks and Islamic Finance

Ladies and Gentlemen,

The most recent Global Sustainable Development Report 2023 from the United Nations (UN) delivers a stark warning: as we reach the midway point from 2015 towards 2030, we are not making the necessary progress to achieve the Sustainable Development Goals (SDGs). According to the UN, approximately half of the 169 sub-targets of 17 SDGs are significantly or moderately behind schedule, with about 30% of the targets regressing or stagnating below the 2015 baseline we had hoped for. The challenges of eradicating hunger, poverty, combating climate change, and addressing inequality are proving to be formidable. Income inequality has widened, with nearly one billion people still suffering from hunger, surpassing levels seen before the pandemic. The negative impacts of climate change continue to exacerbate poverty and food security concerns, with many economically disadvantaged regions experiencing up to a one-third decrease in agricultural productivity. These are unmistakable and concerning signs that we are not on the path we had envisioned for sustainable development.

The good news is that most, if not all of the seventeen SDGs, are aligned with the *Maqasid Shariah*, making Islamic finance naturally support and spearhead towards achieving sustainability goals. The guidelines of Shariah, which outline what is permissible and what is prohibited, are designed to improve people's welfare by safeguarding five fundamental *maqasid* of Shariah. These objectives include the protection of wealth, faith, lives, lineage (posterity), and intellect.

Islamic banking entities need to fully harness the complete array of Shariah contracts in financial applications to their maximum potential. Contracts promoting benevolence, risk sharing, and other asset-based agreements have not been fully employed to provide a wider range of funding, investment, and protective solutions. The application of risk-sharing in financial transactions strengthens the incentives for both financial institutions and business clients or investors to screen and monitor transactions for commercial viability and risks.

Similarly, the integration of cutting-edge technologies such as big data, artificial intelligence, and machine learning has the potential to enhance the influence of Islamic finance in advancing sustainability objectives. To illustrate, these technologies facilitate a deeper comprehension of the unique requirements within various market segments, particularly those that have been historically overlooked or underserved. Consequently, this paves the way for more tailored financial solutions and the selection of Shariah-compliant contracts, as Islamic financial institutions gain a more comprehensive grasp of the associated risk factors, ultimately leading to more resilient decision-making processes.

From CBO side, through our Sandbox and new Fintech Strategy, we will continue to nurture a conducive environment for innovation, including enhancing channels for fintech firms to test, learn, and potentially exit if needed. So far, we have already given in-principle approval to several fintech firms to do live testing of their Shari'ah compliant products and services.

We are also finalizing the framework for licensing digital banks, which will include an open to use Shari'ah compliant contracts. We are strong confidence that this will expand the possibilities for our society to engage in economic activities, by transcending geographical limitations, lowering transaction costs, and encouraging improved financial supervision. Furthermore, it will facilitate individuals and businesses in obtaining improved access to personalized solutions supported by data analysis.

Progress of Islamic Banking & Finance Sector in Oman

Ladies and Gentlemen,

Before, I close my remarks, let me shortly brief you on Islamic banking sector in Oman.

As of September 2023, total assets of Islamic banks and windows reached to OMR 7.0 billion, which increased by 13.0 percent on a Year-on-Year basis. Islamic banking entities provided financing of OMR 5.8 billion and had total deposits for OMR 5.3 billion. This corresponds to a market share of 17.6% in terms of total assets, and over 19% market share both in terms of Islamic financing and Islamic deposits. This is quite significant as this major progress has been achieved in a relatively short time of just over 10 years.

Since its introduction, Islamic banking sector has also been a growth driver of banking sector in the Sultanate. Between 2013 to December 2022, conventional banking segment in Oman has grown at a compound annual growth rate (CAGR) of 4.3%. In comparison, the compound annual growth rate (CAGR) of Islamic banking sector for these 10 years has been 25.8% - about four time the conventional side.

Against capital adequacy requirements of 11%, sector's capital adequacy ratio was 15.5. The more important thing is that a predominant part of this regulatory capital is fairly high-quality, consisting of Tier 1 Capital. This asset growth is backed by a low non-performing financing (NPF) ratio of 2.1%, still much lower than NPL ratio of 4.4% for the entire banking sector.

In terms of physical presence, Islamic Banking entities (IBEs) have continued to expand their operations in almost all 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. We have also recently given in-principle approval for an Islamic banking window to launch an Islamic equity fund.

Within GCC, as per IFSB Stability Report 2023, you will be pleased to know that the market share of Oman's Islamic banking sector is now 5th largest. At the global level, this market share is 14th largest, among over 70 countries having Islamic banking institutions.

Ladies and gentlemen, I encourage all of you to actively engage in this dialogue as we collectively work towards advancing the field of Islamic banking and finance in Oman to achieve the objectives of Oman Vision for private sector development, employment generation, economic diversification, human capital development and social welfare and inclusion.

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