

Keynote Speech

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Muscat

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**Excellencies, Distinguished Participants, Ladies and Gentlemen,
And good morning to all of you!**

Allow me to express my gratitude to His Excellency Shaikh Salim Bin Mustahail Al Mashani for extending an invitation to me to present the Keynote Address at this esteemed assembly of professionals in Islamic banking and finance, comprising participants from the Sultanate of Oman and beyond.

Looking at the theme of this Summit, I will focus in my speech on rapid rise of fintech firms, with especial focus on Islamic fintech. I will also highlight to you CBO's ongoing initiatives to support the development of fintech sector, the progress achieved so far and the future plans. Similarly, I will also highlight some other CBO programs to accelerate the digital transformation of the financial sector. However, before that, let me underline some key developments and contributions made by Islamic banking and finance industry in the Sultanate of Oman.

The Contribution of Islamic Finance to the Advancement of Oman's Economy

Ladies and Gentlemen

Since the 10 years of the introduction of Islamic banking in Oman, we can notice that this sector aligns strategically with – and acts as a catalyst for – achieving multiple objectives outlined in Oman Vision 2040. This industry has played a vital role in augmenting national savings and investment, contributing to the development of a more diversified investment base.

According to a recent survey conducted by the CBO, an Islamic window reported, 'The Islamic Banking business has attracted approximately 130,000 additional retail customers and more than 350 corporate relationships to the bank.' These statistics are derived from just one of the seven Islamic banking entities in the country, underscoring the collective impact these players have had in bolstering national savings, extending the reach of financial products and services across diverse demographic segments, and promoting financial inclusion.

As of September 2023, Islamic banks and windows amassed total assets of OMR 7.0 billion, marking a 13.0% YoY increase. Financing from Islamic banking entities amounted to OMR 5.8 billion, with total deposits reaching OMR 5.3 billion, translating to a 17.6% market share in total assets and over 19% in both Islamic financing and deposits. This remarkable progress occurred in just over 10 years, signifying the sector's rapid growth.

From another perspective, conventional banking in Oman saw a 4.3% compound annual growth rate (CAGR), whereas the Islamic banking sector experienced a substantial CAGR of 25.8% during the same period, approximately four times that of the conventional side.

More importantly, I would like to highlight that despite its smaller total assets compared to conventional banking, the Islamic sector has played a disproportionately large role in driving new financing and deposit growth in the Sultanate.

The additional financing to the economy in last decade amounted to over OMR 14.6 billion, out of which Islamic banking sector made a notable contribution of 36.6% (OMR 5,364 million). This emphasizes the Islamic banking sector's effectiveness in financing economic activities in the country, much larger than its smaller market share in terms of total assets.

Examining additional deposits of OMR 4.1 billion generated by banking system from 2013 to June 2023, Islamic banking sector contributed about 40% of additional deposits, amounting to OMR 1.6 billion. Despite its smaller size, Islamic banking proved to be efficient in mobilizing funds, significantly contributing to overall deposit growth and contributing to increasing national savings.

Overall, Islamic banking sector, though starting with a modest market share, has shown significant growth and made substantial contributions to new financing and deposit growth in the banking market since inception. We hope that this sector will continue to make remarkable contribution to Oman's banking and financial system and the overall economy.

Role of Fintechs in Achieving the Aspirations of Oman Vision 2040

Ladies and Gentlemen,

Oman Vision 2040 holds paramount importance for the country by not only charting a course for economic diversification, social development, and environmental sustainability but also by placing a strong emphasis on fostering technological advancements and innovation, thereby positioning Oman as a competitive player in the global landscape of technological progress.

More importantly, the national priorities outlined in Vision 2040 envisage Oman to have a "diversified and sustainable economy that is based on technology, knowledge and innovation, operates within integrated frameworks".

Similarly, a strategic direction of Oman Vision document aims to achieve "advanced base and infrastructure that empowers all sectors, and is capable of keeping pace with the latest developments and cyber security challenge".

The Central Bank of Oman (CBO) is taking several steps to achieve these strategic objectives of Oman Vision 2040. Before explaining the steps taken by CBO, let me highlight to you why fintech are important for the changing landscape and development of the financial sector.

We all are aware that financial literacy is the prerequisite for financial stability, economic growth, and sustainable development. However, financial literacy remains lags behind in many jurisdictions. Low financial literacy also hinders the objective of enhancing the financial inclusion. The solution, I propose, lies in the embrace of technology. Leveraging tech-based finance can not only bridge the literacy gap but also foster financial inclusion, as seen in the transformative impact of mobile money accounts in many development countries, which has uplifted 1.2 billion unbanked adults and reducing the unbanked population by 35%¹.

The adoption of technology is underpinned by at least two elements: the substantial shifts in behavior brought about by the pandemic and the present demographic characteristics of the population in GCC and many emerging markets. The global Muslim demographic is increasingly younger and more technologically adept compared to the global population average.

The landscape of Islamic Fintech Firms

Ladies and Gentlemen,

Global Islamic Fintech (GIFT) Report of 2022 highlights that the Islamic Fintech market, measured by transaction volume, reached USD 79 billion, which is expected to grow steadily at 18% each year, reaching around US\$179 billion by 2026. This growth is noteworthy, especially when compared to the global Fintech growth rate of 13.5%.

¹ GSM Association's Mobile Money Report 2021. GSM Association represents mobile operators worldwide, uniting more than 750 operators.

According to the report, the GCC (Gulf Cooperation Council) boasts the highest concentration of Islamic fintech, housing over one hundred firms. Following closely is Southeast Asia, especially Indonesia and Malaysia, hosting 97 Islamic fintech firms. Europe, particularly the UK, stands as the third-largest Islamic fintech region, hosting 63 firms. The report showed that South Asia, despite its substantial Muslim population, lags behind with only 26 Islamic fintech firms. Most notably, Oman secures the 17th position in this landscape, signifying its presence and contribution to the global Islamic fintech scene.

Globally, Islamic fintech firms are active in almost all major dimensions of financial sector: be it alternative finance, fund management, digital assets, payments, raising funds and deposits, robo advisory, wealth management and takaful. Similarly, Islamic fintech firms are operating in equity crowdfunding, peer-to-peer (P2P) financing and digital asset exchanges segments. More importantly, Islamic equity crowdfunding and P2P financing firms are offering micro, small and medium enterprises (MSMEs) a viable alternative for Shariah-compliant financing.

CBO Initiatives to Accelerate Digital Transformation of the Financial Sector

Ladies and Gentlemen,

It is my pleasure to share with you the strides taken by the Central Bank of Oman in fostering innovation within the financial technology landscape.

Firstly, in 2020, CBO established Fintech Regulatory Sandbox to provide a nurturing environment for groundbreaking financial solutions. The Sandbox operates on a cohort-based model, and already, three cohorts have made their mark. The inaugural cohort focused on Payment Solutions, with five entrants, resulting in a successful exit for OMPay. The second cohort delved into blockchain/digital ledger technology in Trade Finance, where the CBO conducted a comprehensive study, laying the

groundwork for engaging with licensed banks. Currently, the third cohort centers on digital financing and alternative finance solutions, embracing seven companies, two of which plan to offer Shari'ah compliant services.

The future promises even more innovation, with upcoming cohorts from 2024 onwards focusing on open banking, embedded finance, open finance, and green Fintech, aiming to propel Oman further into the realms of financial innovation.

Secondly, our acceleration program and joint innovation lab with Omantel have enabled partnerships between the startups and licensed Banks/PSPs, whereby four startups have successfully exited the program.

Thirdly, as part of our commitment to innovation, we are implementing projects that embrace the potential of Open Banking API standards. This approach fosters collaboration between Fintech companies and traditional banks, encouraging the development of groundbreaking banking solutions through the interconnectedness of Open Data.

Fourthly, a notable development on the global stage is the rise of Central Bank Digital Currencies (CBDC). According to a survey by the Bank of International Settlements, 80% of central banks are actively researching CBDC, with many expected to launch their digital currencies in the coming years. The CBO is actively engaged in researching "use cases" for CBDC issuance, collaborating with regional partners and positioning itself among the forward-thinking central banks at the forefront of this transformative trend.

Fifthly, in our role as an enabler, the CBO is dedicated to simplifying regulations for Fintech and enhancing payment services. One of our key initiatives involves the implementation of a Digital Onboarding mechanism for clients. Collaborating with

Oman Credit and Financial Center (Mala'a), we have soft-launched the National E-KYC platform. This platform facilitates secure digital onboarding of clients, contributing to the ongoing digital transformation in the financial sector. Our aim is to instill confidence in clients while upholding the highest standards of security and credibility.

And **finally**, we are finalizing the framework for licensing digital banks, a pivotal move in advancing Oman's financial sector, which will include provision of offering Shari'ah compliant services. This strategic step is poised to transcend geographical limitations, lower transaction costs, and enhance financial supervision, fostering a more inclusive economic landscape. With strong confidence, we anticipate that this initiative will empower our society to engage in economic activities more seamlessly.

Ladies and Gentlemen,

Let us collaboratively strive towards realizing the goals outlined in Oman Vision, fostering private sector growth, generating employment, diversifying the economy, enhancing human capital, and promoting social welfare and inclusion. Together, we can make significant strides in shaping a prosperous and inclusive future for Oman.

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