

Dynamic growth of Islamic finance in Sri Lanka



SRI LANKA

By Shiraz Refai

The Islamic finance industry in Sri Lanka continues to experience dynamic growth, fueled by the increasing demand for ethical and financial products based on Islamic economic jurisprudence. Over the past few years, Islamic financial institutions have expanded their offerings to cater to diverse customer needs while maintaining strict adherence to Islamic principles. Recent product launches in the sector showcase the industry's ability to innovate, offering solutions that balance financial inclusion, ethical responsibility and technological advancement.

Islamic digital banking

One of the major trends in the Islamic finance industry is the rise of digital banking platforms and payment gateways, which leverage technology to provide financial services in a more accessible and convenient manner.

Significant strides have been made by the country's largest non-banking financial institution (NBFI), LOLC Al-Falaah, offering a complete digital onboarding of deposit customers to Islamic banking services via its i-Pay app for both savings and term investment products which are fully operational, while most other Islamic financial institutions are developing similar product offerings.

This technological revolution marks a significant shift in the market by ensuring transparency, security and is particularly appealing to younger, tech-savvy customers who seek seamless banking experiences without compromising their ethical and religious values.

Islamic asset-backed financing solutions

Islamic asset-backed finance provides ethical alternatives to conventional financing, focusing on real assets and profit-sharing, ensuring fairness, transparency and compliance with Islamic principles. The Sri Lankan Islamic banking and finance industry has introduced innovative asset-backed products notably the Amana Bank



Murabaha structure offering home-solar financing for consumers to benefit from saving electricity tariffs with extended rental repayment periods.

Ijarah financing is widely used in the local market for vehicle leasing and refinancing options with flexible and structured rental options to customers. Additionally, as the project and property mortgage requirement raises, most of main local banks and NBFIs are offering diminishing Musharakah structured financing which is an alternate to traditional business finance and home financings. This model has gained popularity due to its conformity with Islamic financing principles.

Capital market developments

With the regulations in place for tradable-Sukuk listings, many Islamic financial institutions in the banking sector and non-Islamic financial institutions in the sustainable energy sector are evaluating listings to raise capital for projects and working capital requirements. The market watch is that we would see a Sukuk listing by Q3 of 2025. With the stabilization of the country's economy, significant activity is seen in the stock markets, where demand for alternative margin-trading finance is increasing. At present a few Islamic financial institutions are offering alternate options and are evaluating

the formalization of access to a larger audience. Very soon these options will be available to the consumers.

ESG investments

ESG investing has gained significant traction across Sri Lanka, and the Islamic finance sector is no exception. Responding to both the growing demand for ethical investing and the increased awareness around sustainable finance, in recent years several Islamic banks and NBFIs have prioritized ESG funds. These funds focus on investments that align with both Islamic ethical guidelines and ESG criteria. For example, Amana Bank has invested in ground mounted solar power plants to facilitate rice mills on the island. LOLC Al-Falaah continued its commitment to environmental stewardship with ongoing reforestation and ecosystem restoration projects. This comprehensive initiative encompasses a 50-acre land area by planting 20,000 trees, demonstrating its commitment to ESG principles.

The Islamic finance sector in Sri Lanka has made substantial efforts to enhance comprehension and advocate sustainable practices with diverse initiatives and strategies aimed at mitigating the economic decline and ensuring stability.

Conclusion

The recent development in the Sri Lankan Islamic finance banking industry reflects a growing trend towards innovation and customer-centric solutions. As the demand for finance products based on Islamic jurisprudent law continues to rise, Islamic financial institutions are embracing technology, sustainability and ethical investment principles. These developments not only offer exciting opportunities for customers but also signal a bright future for Islamic finance as it continues to evolve in the global financial landscape. ☺

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