

Sri Lanka celebrates 25 years in Islamic finance



SRI LANKA

By Shiraz Refai

It has been 25 years since Sri Lanka embraced Islamic banking and finance in 1997, a significant milestone to the Islamic banking and finance industry in Sri Lanka as the initial Islamic banking and finance product offerings were introduced to the market during this time. Amana Investments pioneering the deliberations of regulating the concept was instrumental in realizing the Islamic banking and finance blueprint with the amendment of the Banking Act in 2005 to accommodate Islamic banking and finance instruments in the banking sphere.

From this point on, the industry saw many mainstream commercial banks entering the arena to explore this concentrated segment. In the non-bank financial institutions (NBFI) segment, LOLC Finance was the first to enter in 2005 with a single leasing product and developed its business model by relaunching its formal operations under the brand LOLC Al-Falaah in 2007.

Although between 2007 and 2012 the Islamic banking and finance market witnessed a period of consolidation, Amana Bank (formerly Amana Investments) received its banking license in 2010, making the entity a fully-fledged stand-alone Islamic bank in Sri Lanka.

The industry recorded phenomenal growth between 2012 and 2022 with more Islamic banking and finance windows of larger mainstream banks such as MCB Bank, Hatton National Bank, Commercial Bank and the largest state-owned Bank of Ceylon together with key players from the NBFI segment such as People's Leasing and LB Finance increasing their activities in the market.

Further on, the product range offered by the industry expanded from basic financing to more complex working capital-generating options and capital market investment options. Supporting the Islamic banking and finance industry, a key complementary product, ie Takaful, also grew during the period, where Amana Takaful, LOLC Takaful



and HNB Takaful contributed to the industry immensely.

From a regulatory perspective in seeking to open up more investment avenues to both local and foreign markets, the Securities and Exchange Commission of Sri Lanka took the initiative to invite written submissions in a public consultation paper in Q3 2022, under the title 'Public Consultation on Proposal for Introducing Sukuk Products at the Colombo Stock Exchange'.

As at the close of 2022, the banking segment's financed assets were estimated at LKR130 billion (US\$380.58 million) and the deposit base at LKR175 billion (US\$512.32 million), whereas the NBFI segment's financed assets were estimated at LKR70 billion (US\$204.93 million) and the deposit base at LKR50 billion (US\$146.38 million).

The Takaful gross written premiums (GWP) stand at an estimated LKR6 billion (US\$17.57 million).

Further, it is estimated that over 1,500 employees are directly involved in supporting the banking sector, over 1,000 employees are in the NBFI sector and over 500 employees are in the Takaful industry services with an estimated customer base exceeding 700,000 across the island nation.

The Association of Alternate Financial Institutes (AAFI), a formal professional body formed within the membership of Islamic banking and finance industry practitioners, is an entity that deliberates to take up formal issues related to the Islamic banking and finance industry with the regulators and policymakers. AAFI has been very successful in making many key submissions and also continues to support the industry by various market activities to enhance and spread Islamic banking and finance knowledge to the public.

As the country celebrates 25 years of Islamic banking and finance in Sri Lanka, many financial institutions have contributed to the early stages of Islamic banking and finance through awareness, education and training. These entities have facilitated both local and foreign scholars to conduct Islamic banking and finance awareness programs engaging not only customers, but also regulators and a diverse stakeholder base including schoolchildren, various professional bodies and also the religious clergy to create awareness and to clear misconceptions in the local market. ☺

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