THE REVIEW

مصرف البحرين المركزي
Central Bank of Bahrain

Published by the Central Bank of Bahrain (CBB)

2030
البحرين
BAHRAIN

March 2013 Issue 34

Bahrain is sound base for insurance industry

The Central Bank of Bahrain (CBB) is taking the steps necessary to enhance Bahrain as a safe, stable and business-friendly jurisdiction for the insurance industry.

With infrastructure investment worth more than US$900 billion expected in the GCC alone over the next decade, prospects for the growth of the insurance industry are huge, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

As the regulator of the insurance industry in Bahrain, the CBB is laying the required regulatory groundwork for the industry to enable insurance market players to capitalize on the growth opportunities ahead, he said during the opening plenary session at the 9th Middle East Insurance Forum (MEIF), held in Bahrain on 4 and 5 February 2013.

The theme of the event, held under the patronage of the CBB, was ‘Balancing Growth with Profitability: New Strategies for the Middle East Insurance Industry’.

“Looking ahead, we see great new and untapped potential for the insurance industry in the coming years. There is huge investment in the region on construction, infrastructure, and petroleum industry related projects. According to an estimate, the GCC is set to invest more than US$900 billion in new infrastructure projects over the next decade,” said Mr. Al Baker.

“For new road and railway projects, the GCC countries will be spending around US$100 billion in the next eight years. This is expected to result in a surge in insurance activity as all of these projects need to be insured, and a growth in gross premiums of the insurance industry in the region.”

Thus, the current demand for sound conduct of business and transparency, as well as the enhancement of policyholders and shareholders confidence, are creating the need for strong and sound regulatory infrastructure for the insurance industry globally and in the Middle East and North Africa (MENA) region.

The CBB is committed to continual enhancement and improvement of its regulatory infrastructure for the growth and betterment of the insurance industry, said Mr. Al Baker.

The work towards revision of the existing takaful (Islamic insurance) model is one such step in reaffirming Bahrain as the jurisdiction of choice for takaful and retakaful companies globally.

“The objective of modifying the existing takaful rules was to facilitate a faster growth of takaful business in Bahrain while protecting the interest of all stakeholders, i.e. participants, shareholders, and takaful operators,” said Mr. Al Baker.

In addition, the CBB has introduced new rules on client money. The rules are aimed at enhancing the regulatory framework in relation to appointed representatives and insurance brokers.

The CBB has also taken various steps to ensure that a stable insurance market continues to thrive and prosper in the region.

“One of the main regulatory priorities that a regulator should address is the protection of the policyholders. This objective has been clearly outlined in the CBB Law as well as through the rules that have been introduced to specifically deal with tied agents. These rules require a minimum level of qualifications for those dealing with potential policyholders and recognize that the offering of insurance products must be made in a professional and ethical manner,” said Mr. Al Baker.

Training and competency of the workforce is also very important for profitable growth of a company and it is necessary that insurance licensees continue to improve the level of expertise and professionalism of their workforce.

The CBB is keen to see that all insurance licensees do their utmost to provide adequate training and development opportunities for their staff. The CBB has been working on enhancing its Training and Competency regime and the rules are expected to be finalized shortly. The updated rules would cover requirements for insurance licensees and their staff performing controlled functions and those involved in dealing with potential policyholders.

The CBB is also working on enhancing rules related to Market Conduct, initially for long-term insurance business. This is to ensure that the customers are treated fairly and the insurance entities deal with due skill, care, and diligence, when dealing with customers.

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Regulators must join hands to tackle systemic risks

Insurance industry regulators must work together at the local, regional and international level to effectively deal with the risks that can have a systemic impact, says a senior Central Bank of Bahrain (CBB) official.

Regulators also need to work more closely with insurance companies, service providers and other industry stakeholders to ensure a close oversight of their activities and a healthy financial sector, as the insurance industry is set for remarkable growth in the coming years, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

He was speaking during the opening plenary session at the 9th Middle East Insurance Forum (MEIF), held in Bahrain on 4 and 5 February 2013. The theme of the event, held under the patronage of the CBB, was 'Balancing Growth with Profitability: New Strategies for the Middle East Insurance Industry'.

"The global financial crisis has provided us an opportunity to address the weaknesses in the financial system and to build a platform for development and growth of the insurance industry," said Mr. Al Baker.

"Regulators all over the world, especially in the Middle East and North Africa (MENA) region, need to strengthen their regulatory framework so that the industry could capitalise on the growth opportunities. The financial crisis has been a reminder that markets need effective regulation if they are to operate properly."

Maintaining an adequate level of solvency that is in line with the best regulatory standards is another priority for the region's regulators, he said. Such solvency requirements should be helpful in providing early warning to regulators so that they could take the necessary measures should the capital of an insurance firm fall below the required level. Adequate solvency requirements enhance confidence in the financial stability of the insurance industry and further improve the financial standing of insurance firms.

Another area that regulators in the region need to focus more on is corporate governance, said Mr. Al Baker. Regulators must ensure that their respective rules and regulations on corporate governance are robust and in line with the best international practice. Regulators should require market players to establish and implement a corporate governance framework which provides for sound and prudent management, oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.

It is also important to balance growth with profitability as growth without profitability is unsustainable. Hence, the business should be underwritten and priced in a way that all the inherent risks are considered.

In addition, it is important that insurance licensees address investment risk by developing an investment strategy that is highly diversified and does not have concentration in a particular sector or high risk assets. Employing Asset Liability Management (ALM) technique and methodology ensures that the asset portfolio matches the liability profile of a business. Implementing risk management policy and strategy whereby Underwriting, Pricing, Investment and Operational risks are managed effectively, is vital for achieving profitable growth.

Sustainable growth in business could also be achieved by expanding regionally, said Mr. Al Baker.

"It has been observed that although local insurance players are expanding their business locally, there are few who have ventured out and expanded their business regionally. Expanding regionally opens up huge growth opportunities that could generate profitable income for companies that have the vision and the leadership to capitalize on them effectively," he said.

For sustainable business growth, it is vital that the proper business segment is chosen for expansion. Bahrain has the highest life insurance penetration in the GCC, he pointed out. Although the penetration is still below the global life penetration, there is tremendous growth potential.

According to a recent study, the life insurance sector in the Kingdom is expected to grow at an average of 14 percent between 2011 and 2015. Due to the huge untapped potential for long-term insurance business in both Bahrain and the whole MENA region, it would be sensible to invest in this line of business.

"As we know, long-term insurance business takes a longer time to break even compared to non-life business. Thus, a mechanism could be devised so that any one stakeholder is not unduly strained in the formation and running of a long-term insurer," said Mr. Al Baker.

The mechanism could be in the form of a public-private partnership or some sort of joint venture arrangement that could cater to the long-term insurance needs of the whole region.

He urged MENA region insurance regulators to work together to enable the sound and stable growth of the region's insurance industry.

BKIC is voted winner of the MEIF 2013 award

Major achievements, innovations and excellence in the regional insurance industry were recognised at the Annual Middle East Insurance Forum 2013 award ceremony on 4 February 2013.

Bahrain Kuwait Insurance Company (BKIC) was voted as the winner of the MEIF 2013 Institutional Excellence Award

Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the Central Bank of Bahrain (CBB), presented the award to Mr. Ebrahim Al Rayes, Chief Executive, BKIC.

"We are delighted to receive the MEIF Institutional Excellence Award for 2013," said Mr. Al Rayes.

"It is a great honor to receive this award, which is considered to be one of the most prestigious in the regional insurance industry."

The award highlights the financial strength of BKIC, its excellent record in achieving profitability in the core insurance business, as well as a well-balanced policy of investment management and a good reputation enjoyed by the company in the markets in which it operates.

"It reflects our collective success in creating significant value for all our stakeholders – be it for our clients, our shareholders, the employees or the society at large," said Mr. Al Rayes.

"This award is a major milestone in our path to achieving our vision of becoming the leading insurance and risk solution provider in the region. It further strengthens our commitment and dedication towards excellence."

The MEIF Institutional Excellence Award is designed to recognise institutions that have made a significant contribution to the regional insurance industry and demonstrated institutional excellence in key performance areas.

Life insurance driving insurance growth in Bahrain

Life insurance and motor business are driving the growth of Bahrain's insurance sector, according to the Central Bank of Bahrain (CBB).

Gross premiums increased by a robust 9 percent to BD184.1 million (US$488.5 million) at the end of the third quarter of 2012, compared with the same time the previous year.

A significant part of this increase is attributed to a surge in long-term insurance (life and savings products), which saw gross premiums soar by 17 percent to BD42.3 million at September-end 2012, compared with BD36.1 million at the same time in 2011. The long-term insurance premiums represented almost 23 percent of total gross premiums written by September 2012.

Remarkable growth was also seen in the motor insurance business, with gross premiums surging by 12 percent to BD46.6 million at the end of the third quarter of 2012, compared with BD41.7 million at the same time in 2011.

Motor insurance constituted the single largest class of business, representing almost 25 percent of the gross premiums written at the end of the third quarter of 2012. The growth in motor business was mainly due to the increase in the number of new vehicles insured in Bahrain.

The takaful (Islamic insurance) industry also surged, with gross premiums up by 24 percent to BD41.9 million at the end of the third quarter of 2012, compared to BD33.8 million at the same time in 2011.

Growth was also reported in medical insurance business, which saw gross premiums increase by 5 percent to BD32 million at the end of the third quarter of 2012, compared with BD30.4 million at the corresponding time in 2011. Medical insurance premiums represented 17 percent of the total premiums written by the insurance market in Bahrain by the end of the third quarter of 2012.

The fire, property and liability sector also posted robust growth, with gross premiums increasing by 8 percent to BD33.8 million at the end of the third quarter of 2012, compared with BD31.4 million at the same time in 2011. The fire, property and liability business represented 18 percent of the total premiums written by Bahrain's insurance market by the end of the third quarter of 2012.

At September-end 2012, Bahrain's domestic insurance market comprised 26 locally incorporated firms and 11 overseas insurance firms (branches of foreign companies) carrying out insurance, reinsurance, takaful, retakaful and captive insurance business in the Kingdom of Bahrain.

The locally incorporated firms comprised 14 conventional insurance firms, seven takaful firms, two reinsurance firms, two retakaful firms and one captive insurance firm, while the overseas firms comprised eight conventional insurance firms and three reinsurance firms.

In addition, there are a number of firms restricted to conducting business outside Bahrain as well as insurance ancillary services.

"The insurance sector in Bahrain continues to hold tremendous promise for growth, as demonstrated by the industry's strong performance not only during the third quarter of 2012 but also in the past five years," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

He said Bahrain is fast becoming a hub for major regional and international reinsurance and retakaful firms as evidenced by the increasing number of such firms that are established in the Kingdom.

"We expect the insurance sector to continue its growth momentum in the coming years, mainly due to the increase in public awareness about the importance of insurance in general, as well as due to the surge in the economic growth of the Kingdom and the soundness of the regulatory and supervisory framework for the insurance sector in Bahrain," Mr. Al Baker added.

Mr. Nader Al Mandeel, Director, Insurance Supervision, at the CBB, said that due to the well established regulatory regime in Bahrain, a number of leading international insurance companies have established their insurance and reinsurance operations in Bahrain both in conventional and takaful, which has further consolidated Bahrain's global profile as a centre for finance.

The increase of insurance ancillary services in Bahrain provides an important source of synergy to these international companies, he pointed out.

"The CBB continues to further enhance its regulatory framework to be in line with the best international financial standards and boost the confidence of the insurance licensees and the general public," said Mr. Al Mandeel.

Public awareness campaign on insurance

Under the patronage of the Central Bank of Bahrain (CBB), the Bahrain Insurance Association (BIA) held a weeklong campaign aimed at creating insurance awareness and introducing various insurance products and highlighting their role in enhancing people's lives and protecting their property and possessions.

The campaign was held from 21 to 27 March 2013 as part of an annual Insurance Day instituted by the CBB to educate people about the benefits of insurance.

Mr. Younis Jamal, Chairman of the BIA, said public perceptions about insurance have changed over the years from protection against life's unfortunate events to investments that support life's dreams and aspirations.

"We want to capitalise on this by educating the public about the advantages of having insurance products that suit everyone's lifestyle needs. The Insurance Awareness campaign is a critical step in this direction."

Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB said the CBB was committed to the development of Bahrain's financial sector in general, and insurance in particular.

"There is a huge potential market for innovative insurance products and by creating awareness of available products, insurance companies can boost their business prospects greatly," he said.

"In association with the BIA, we are bringing together the companies of the insurance sector to cooperate constructively for the benefit of the sector and the public."

BIA officials voiced optimism about the growth of Bahrain's insurance sector and praised CBB's initiatives and policies to promote Bahrain as a regional financial hub, especially for insurance services.

The BIA will also launch a new media campaign to educate people about the benefits of various insurance products.

Predicting insolvency of insurance firms

Regulators have a crucial role to play in preventing company failure, which leads to a decrease in market confidence and consumer suffering. Mohammed Jaffar Iqbal, Senior Insurance Specialist at the Central Bank of Bahrain, highlights the tools available to regulators for predicting company distress.

Insolvency of a company is a condition where the capital has been eroded to a point where it is likely that it will be unable to meet its insurance liabilities. Insolvency, financial distress or conditions leading to insolvency of insurance companies have been a concern for insurance regulators, investors, management, financial analysts, banks, auditors, policy holders and consumers.

This concern has stemmed from the perceived need to protect the general public against the consequences of insurer insolvencies. As failure of company costs money, it should be a concern of every company both to identify potential failures and to minimize the financial impact of such failures. Actuaries are well placed to do a lot of this work. From a public interest point of view they also have a role to play in preventing and minimizing the cost of such failures to the public.

Market forces play an important role in determining the fate of an insurance company. The increased level of competition for the same pool of business drives premiums down, which results in reduced profitability. Studies have shown that there is a strong positive correlation between the number of companies in the market and the frequency of insolvencies. An increased level of competition not only reduces profitability for the entire market, but it also increases the number of insolvencies.

Regulation is very important in defining the level of competition in a market. A regulator may restrict entry into the market by requiring prospective entrants to fulfill fit and proper criteria, and through licensing and capital requirements. It may also restrict how companies compete through pricing restrictions and how products are sold. On the other hand, less regulation leads to greater competition, with the consequence of a larger number of company failures. The regulator needs to balance the need for competition in improving the efficiency of the market with the cost of companies failing as a result of competition.

As the sole regulator of Bahrain's financial services industry, the CBB has the following objectives:

- Set and implement monetary, credit and other financial sector policies;
- Provide effective central banking services to the Government and financial sector;
- Develop the financial sector and enhance confidence therein; and
- Protect the interests of depositors and customers of financial institutions, and enhance the Kingdom's credibility as an international financial centre.

The above objectives clearly specify that the role of the CBB is also to safeguard the public against insurance company failures.

Predicting Failures

There are a number of factors that may cause a company to fail. These include the state of the economy, the level of regulation, competition in the market, as well as company specific factors. It is not easy to develop a model that captures all of these factors. There are, however, a number of statistical approaches that use company specific data to give an early warning of an impending failure. These methods include:

- Ratio analysis;
- Multiple regression models;
- Multiple discriminant analysis (Altman z-scores); and
- Neural networks.

Ratio Analysis: is the simplest and most commonly used approach, which serves as an early warning system to identify companies that need to be looked at in more detail. In the United States (US) the same ratios are calculated for every insurance company. The best-known regulatory solvency monitoring systems employed in the US are the Insurance Regulatory Information System (IRIS) ratio system, the Financial Analysis Solvency Tools (FAST) - a ratio-based risk scoring system, and the Risk-Based Capital (RBC) system. There are 12 ratios of IRIS; if a company falls outside the acceptable range for four of these ratios, they are identified as being at risk. These systems were developed at different times and by design have different areas of emphasis, but they are meant to work together, as part of a coordinated solvency monitoring approach.

Multiple regression models and Multiple Discriminant Analysis (MDA): The two approaches are related. Under each approach, statistical models are fitted to historical data. The result is a model that provides an expected failure frequency for a particular company. Altman z-scores are based on MDA and are used in practice by credit analysts to establish default probabilities.

Neural Networks (NN): These networks are useful in predicting insurance company failures. The NN model for insolvency prediction is an alternative to ratio analysis, regression and discriminant analysis. Regulators could potentially use NN to more adequately warn of likely financial difficulties among insurers.

In addition, rating agencies also play an important role in predicting company failure. Rating agencies, through their respective ratings, assign a default probability to companies. They not only base their ratings on quantitative analysis but also incorporate the qualitative aspects of the company. By acting as an early warning system, insurer financial strength ratings (IFSRs) have been credited with reducing the number of insolvencies. They are, however, only as good as the information (both qualitative and quantitative) upon which they are based.

It is often not possible to identify an individual cause for a company failure. Failures usually occur due to a combination of factors, which may or may not be visible prior to the failure. Likely causes range from lack of underwriting controls, exposure to a catastrophe, over-reliance on reinsurers, unforeseen claims, under-reserving, fraudulent activities, management incompetence and greed, to name a few.

Preventing Failures

The role of a regulator is extremely crucial in preventing failures. The problem of underpricing and under reserving can be dealt with by requiring companies to have an actuarial signoff on rates and reserves. Similarly, to prevent failure through exposure to catastrophic events, the regulator must ask the companies to provide a return showing the impact of a number of different realistic disaster scenarios. For management incompetence, tighter regulation on corporate governance might help prevent the collapse of a company.

It needs to be understood that although there are good reasons for wanting to prevent failures, it is sometimes healthier to have a certain level of failure. This may be due to expensive bailout processes and the detrimental impact it can have on other companies through the imposition of unnecessary tight regulations. The CBB is cognizant of its role and responsibilities and strives to ensure that Bahraini insurance market continues to remain healthy and vibrant.

New regulatory developments in Bahrain

As part of the Central Bank of Bahrain's continuous initiatives to strengthen the regulatory framework for licensees in the financial sector and to protect customers' interests, a number of rulebook updates and consultations have taken place during the last quarter of 2012 and first quarter of 2013. Mrs. Ebtisam Al Arrayed, Head of Policy and Central Risk, at the CBB, highlights briefly the CBB's recent regulatory developments.

The Central Bank of Bahrain (CBB) continually monitors the latest international standards issued by key global standard setting bodies, including the Basel Committee on Banking Supervision, the Islamic Financial Services Board (IFSB), the International Association of Insurance Services (IAIS), and the International Organization of Securities Commissions (IOSCO), and identifies any policy gaps that need to be filled. Five major international regulatory initiatives would be our focus for 2013 onward. These are the implementation of revised capital adequacy standards, the new liquidity requirements and the further enhancement in the corporate governance framework including remuneration policy, the implementation of IFSB standards and the regulatory enhancement needed on the capital market.

Specialised Licensees

As part of the CBB's initiative to develop a regulatory framework for licensees not covered by the other volumes of the CBB Rulebook, a series of modules for financing companies were officially launched in January 2013. Therefore, effective from January 2013, financing companies are subject to Volume 5 and are required to use it as their reference for applicable supervisory rules and guidance.

The release of modules is being carried out in phases. The initial release includes the common modules as well as Modules Authorisation (AU), High-level Controls (HC), CBB Reporting (BR), Capital Adequacy (CA) and General Requirements (GR) along with the updated Glossary and associated reporting forms. Until such time as all modules are released, financing companies should continue to follow the requirements of Volume 1 (Conventional banks) or Volume 2 (Islamic banks) for the outstanding modules.

Consultation on treating all Restricted Investment accounts as Collective Investment Undertakings

To strengthen the regulatory framework for the Islamic finance industry, effective from January 2013, Islamic bank licensees are subject to new requirements regarding the issuance of restricted Shari'a profit sharing investment accounts. The requirements prohibit the issuance and opening of any new profit sharing investment arrangements in the form of 'restricted investment accounts' (RIAs) where the bank acts as mudarib or trustee. Any new restricted Shari'a profit sharing investment relationships may only be opened in the form of units or shares in a collective investment undertaking and will be subject to the Rules and guidance contained in CBB's Rulebook Collective Investment Undertakings (CIU) Volume 7.

Disclosure of fees and charges

To protect the interests of customers of financial institutions and to enhance the Kingdom's reputation as an international financial centre, the CBB has updated Rulebook Volumes 1 and 2 in October 2012 to include new public disclosure requirements regarding credit facilities as well as those disclosures that must be made by credit institutions to individual borrower(s), whether these be during the course of the initial negotiation of the credit facility or during the term of the facility being offered. The purpose of these requirements is to ensure that customers of retail banks and financing companies are fully informed of the interest/profit rates and other fees charged in respect of all credit facilities.

New Deposit Protection Scheme

A further attempt to achieve the CBB's objective of protecting the interests of the customers of financial institutions is the activation of the new Deposit Protection Scheme effective from October 2012. The CBB has taken the initiative considering the need to replace the current post-funded scheme with a new prefunded scheme to bring deposit protection more closely in line with international best practices, as many such schemes have become prefunded where funds are collected up front to compensate depositors if a bank were to fail.

The new scheme will allow faster compensation to depositors because it will not depend on collecting funds from other banks retrospectively, possibly at times when they too are under stress. The new scheme requires the establishment of two separate funds (Conventional and Islamic) which shall be maintained and administered by one board. The funds will be accumulated separately based on regular contributions by the member banks. The two funds cover deposits in retail conventional and Islamic banks from consumers and non-bank institutions. Additionally, unrestricted investment accounts at retail Islamic banks will be covered in the new scheme. These accounts were not covered in the previous scheme.

CBB Rulebooks Volume 1 and 2 for Conventional and Islamic Banks respectively have been updated in October 2012 to include the requirements of this Regulation.

Risk Management for Islamic Banks

The CBB has issued a new Risk Management (RM) Module for Islamic Banks Volume 2 of the CBB Rulebook in January 2013. The Module incorporates the Guiding Principles included in the Islamic Financial Services Board (IFSB) "Risk Management Standard" and Risk Management Principles issued by the Basel Committee. The Module sets out 15 principles of risk management under six categories of risk along with a general requirement for Islamic banks to have a comprehensive risk management and reporting process, including measures to comply with Shari'a rules and principles. The six categories of risk are credit risk, equity investment risk, market risk, liquidity risk, rate of return risk and operational risk.

Basel III adoption

The CBB has formed working groups with banks to discuss and study the main issues in order to develop an implementation plan for Basel III.

The CBB issued a directive to all banks in December 2012 stating that with effect from March 2013 all locally incorporated banks should start reporting proforma Basel III ratios on a quarterly basis. These ratios are requested in order that the CBB and bank licensees may have an idea of the likely impact of Basel III on their capital adequacy ratios and the extent to which the liquidity requirements may lead to a change in the structure of their balance sheets. Basel III ratios to be reported quarterly include the common equity capital ratio, total capital ratio, liquidity coverage ratio, net stable funding ratio and leverage ratio.

Strengthening banks a top priority for CBB

The Central Bank of Bahrain (CBB) is continuing to push ahead to strengthen Bahrain's banks, in the aftermath of the global financial crisis.

The CBB is using a two-pronged approach for this – improving regulations, particularly those related to risk management, and encouraging banking consolidation, said Mr. Rasheed Mohammed Al Maraj, Governor of the CBB.

Banks are complex entities and the CBB is deploying international and locally-crafted regulations to enhance the soundness of the banks and Bahrain's banking system, he said.

Mr. Al Maraj was speaking at the opening session of the Euromoney Bahrain Conference, held on 5 March 2013. The event, held in partnership with Bahrain's Economic Development Board, was attended by more than 350 leading bankers, financiers and investment experts from across the region.

Outlining some of the actions the CBB has taken to help the financial industry in Bahrain to develop in the post-crisis period, Mr. Al Maraj said that, within the regulatory framework, Basel III continues to be a major topic of discussion throughout the financial industry.

However, most stakeholders recognize that Basel III is a minimum set of standards, and the CBB is one of many regulators which are in the process of adopting local practices which will impose additional requirements to deal with local risks.

"The end result will be banking systems which are significantly more robust, and which are much better equipped to support economic growth than they were at the end of 2007," said Mr. Al Maraj.

"There is no longer any such thing as a 'simple' bank in today's world. Traditional lines of business, such as retail and commercial banking, are complex entities. Therefore, capturing the risk profile of these businesses in a single measure of financial soundness is extremely difficult."

Adequate Capital

Basel III, like most regulations, is about trade-offs as it raises many challenges to finding the optimal point for any regulatory proposals, he pointed out.

For example, the CBB must try to ensure that all banks have an adequate level of capital relative to their risk profile. Linked to this is the need to provide a measure of capital that is realistic and comparable over time and between banks.

While most observers agree that comparability provides the confidence that the capital requirements are reasonable, achieving that comparability to the satisfaction of all stakeholders is very challenging.

To address these challenges, the CBB has, as is its practice, initiated a programme of communicating closely with its licensees about how Basel III will affect their business.

"These negotiations cannot be concluded overnight. The outcomes are crucial to the sustainability of the financial sector and, therefore, to the economic stability of the country. That is why the CBB has embarked upon this programme of discussions at this stage," said Mr. Al Maraj.

"The early signs are encouraging insofar as each stakeholder understands the importance of what we are trying to achieve and, as the dialogue proceeds, will ultimately find a workable, sensible, way forward."

The CBB has also done a great deal to strengthen the regulatory framework in the post-crisis period and it has done so in consultation with banks.

"This is the foundation of the successes of our regulatory framework over the years, and we shall continue to enhance and improve that framework in future," Mr. Al Maraj stressed.

Managing Risk

In parallel with Basel III, the CBB has implemented a number of improvements to the way in which risk is managed.

"Our Rulebook has emphasized the need for, and benefits of, a robust risk framework. We continue to enhance the professional standards of those who manage risk within our banks through qualifications and other courses delivered by the Bahrain Institute of Banking and Finance," said Mr. Al Maraj.

The role of corporate governance also continues to be enhanced, including regulations related to capital adequacy and disclosure.

"All of these are positive initiatives which have come at a time when the Bahrain financial sector has witnessed the beginnings of what is anticipated to be an increasing degree of consolidation over the coming years," said Mr. Al Maraj.

Three local banks have recently merged and the latest merger, of Ithmaar Bank and First Leasing Bank, has been completed.

"These are major and important developments in the financial sector landscape, and other mergers and acquisitions are under discussion. The CBB plays a major role in this respect, including facilitating constructive dialogue between relevant parties," said Mr. Al Maraj.

"Mergers and acquisitions of this nature provide stronger banks, which, in turn, are more able to absorb larger deals and, critically, develop a much stronger base with which to absorb financial and economic downturns. We shall continue to work with the industry in this respect."

The Euromoney Bahrain Conference was launched in 2012 as a platform to discuss wealth management and private banking industry. This year's event also focused on Bahrain's macroeconomic strategy and public finances, development of the financial sector, the financing of the country's infrastructure needs, the progress of capital markets, and Vision 2030, Bahrain's development blueprint.

"We are very fortunate to have been joined at the Euromoney Conference Bahrain by some of the leading international companies that have set up in Bahrain over the past few years," said Mr. Kamal Ahmed, Acting Chief Executive, Economic Development Board (EDB).

"Our core role at the EDB is to help businesses invest in Bahrain. This is true when people are first looking to invest in the Kingdom, but it's also true once they've set up, to support the creation of long-term, quality jobs for Bahrainis.

"In order to achieve this, Bahrain is committed to sustaining and strengthening its core business fundamentals."

> "The end result will be banking systems which are significantly more robust, and which are much better equipped to support economic growth than they were at the end of 2007," said Mr. Al Maraj.

Bahrain unrivalled as financial services hub

Bahrain has a clear edge as a financial services jurisdiction and will remain the hub for financial services in the region, according to leading representatives of the financial industry.

Speakers at a 'Meet the Press' roundtable event, organized on 18 February 2013 by the Bahrain Association of Banks (BAB), were unanimous in saying that what Bahrain offered as a location to the financial services sector was unmatched.

The panel of speakers included Mr. Abdul Karim Bucheery, Chairman of BAB; Mr. Mohamed Al Mutaweh, Chief Executive, Al Baraka Islamic Bank; Mr. Boyd Winton, Financial Services Director, Economic Development Board (EDB); Dr. Jarmo Kotilaine, Chief Economist; and Mr. Arshad Khan, Managing Director and Chief Executive, Bahrain Financial Exchange.

Mr. Bucheery said he hoped that the country would regain its A- rating soon, following an upgrade to its outlook to 'stable', by Standard & Poor's rating agency.

"In the current year we should start to see the beginning of the growth cycle," said Mr. Bucheery.

Bank lending to the private sector is expected to expand, he said, and banks have shown strong profit as compared to the previous year.

Financial results released to date look positive for both retail and wholesale banks in the conventional and Islamic sectors and this confirms the positive trend, said Mr. Bucheery.

He said the outlook appears bright, with the promise of improved profits and a more stable macroeconomic environment further boosted by higher oil prices.

"The country's retail banks are generally in robust health and have been working to remobilise their liquidity," added Mr. Bucheery.

Highlighting Bahrain's edge in the banking space, Mr. Winton said: "If you have a long-term five to 10 year strategy to integrate into the wider regional market, then Bahrain has the unique mix of attributes that you look for – in terms of regulatory environment, legal framework, and qualified local workforce.

"Studies have shown that in terms of cost-effectiveness, Bahrain is 55 per cent cheaper."

Dr. Kotilaine said growth is also likely to pick up further in 2013 due to planned large-scale industrial investments and increased infrastructure spending.

Mr. Al Mutaweh said overall there was a marked pick-up in asset growth and profits in 2012, compared with the previous year.

"Islamic banks will look to identify new strategies for growth and prosperity while addressing new opportunities," he said.

S&P upgrades Bahrain outlook

The Central Bank of Bahrain (CBB) welcomed the revised outlook of the Kingdom from negative to stable by Standard & Poor's (S&P) rating agency. Bahrain's credit rating remained at BBB/A-2.

In revising its outlook, issued in January, S&P recognized that Bahrain has emerged from its 2011 crisis with a more restrained but stable economy, primarily driven by a buoyant hydrocarbon sector and higher public spending. In fact, the outlook on the Kingdom reflects S&P's view of Bahrain's stable growth, well regulated financial system, and manageable asset quality risks amongst other factors.

Welcoming the announcement, Mr. Rasheed Mohammed Al Maraj, Governor of the CBB, said: "The revision of Bahrain's outlook by S&P is not only a recognition of Bahrain's sound economic management and financial stability but also a vote of confidence in the Kingdom's economic reform programme, and ability to withstand different shocks."

"Our ambition to be a dynamic, competitive, well-diversified economy for the post-oil era continues, and encouraging the growth and diversification of the financial sector is a major pillar in that strategy," he added.

Bahrain remains most free economy in MENA region

Bahrain remains the most economically free country in the Middle East and North Africa (MENA) region, according to The Heritage Foundation's 2013 Index of Economic Freedom.

Bahrain is ranked first out of 15 MENA region countries included in the annual Index, published by the US-based think tank and the Wall Street Journal newspaper.

Globally, Bahrain is ranked 12th out of 177 countries and is the only MENA region country to be featured in the top 20 economies.

The Kingdom's economic freedom score of 75.5 showed year-on-year improvement and is well above the world average.

The report points out that Bahrain's "transition to greater openness, diversification, and modernisation is based on strong foundations of economic freedom," and states that as a regional leader in economic freedom, Bahrain sets a critical example for other countries in the region.

Bahrain has maintained above-average levels of economic freedom in almost every measure included in the Index and remains a financial hub for dynamic economic activity, with high levels of trade and investment bolstered by a competitive and efficient regulatory environment, according to the report.

The 2013 Index of Economic Freedom measures the level of economic freedom in 10 pillars: business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption and labour freedom.

The report includes positive comments on Bahrain's open market environment, stating that the Kingdom has a low average tariff rate and relatively few non-tariff barriers, no restrictions on repatriation of profits or capital, no exchange controls, and no restrictions on converting or transferring funds, whether associated with an investment or not.

It highlights Bahrain's diverse and competitive financial sector which is a significant contributor to GDP. Bahrain's ranking reflects the Kingdom's competitive advantage as a location in the GCC region, an economy worth more than US$1 trillion.

In September 2012, the Fraser Institute's annual Economic Freedom of the World Index ranked Bahrain as the seventh freest economy in the world.

Bahrain Islamic Bank is acquired in key deal

The National Bank of Bahrain (NBB) and Bahrain-based asset management company, Social Insurance Organisation (SIO), have acquired a controlling stake in Bahrain's oldest Islamic bank, Bahrain Islamic Bank (BIsB).

In an announcement in early March, NBB and SIO said they had agreed terms with The Investment Dar (TID) of Kuwait to purchase its and associated companies' shareholding of 51.6 percent in BIsB, in a transaction valued at BD70 million (US$185.6 million). NBB and SIO have each acquired a 25.8 percent stake in BIsB.

"This investment represents a strategic initiative for NBB," said Mr. Abdul Razak Al Qassim, Chief Executive of NBB.

"We have been looking for an appropriate opportunity to establish a footprint in the Islamic banking industry and BIsB represents a suitable vehicle for us.

"BIsB's strengths in Islamic banking and its sound retail franchise will complement our business. We expect to be closely involved with SIO and other stakeholders in the future growth of BIsB."

Shaikh Abdulla bin Khalifa Al Khalifa, Chief Executive of SIO, said the firm was delighted to conclude the BIsB transaction on behalf of its clients.

"We are committed to investing in sound Bahraini businesses and BIsB is an illustration of that," said Shaikh Abdulla.

"BIsB presents excellent value for money and is a major player in the Islamic banking sector. We will be working with NBB and other stakeholders to build the business further."

A spokesman for BIsB welcomed the deal, saying that NBB and SIO have strong market recognition and are reputable financial institutions in Bahrain.

"This is to be considered one of the major strategic acquisitions occurring in Bahrain, taking into consideration its size and assets and it will contribute greatly to support the bank's growth and enhancement of shareholders' representation," said the spokesman.

"The bank now looks towards rebounding to profitability and growth in a short time. BIsB would also like to thank all governmental agencies which helped bring this transaction to success."

BIsB posted a net loss of BD36 million in 2012, compared with a net loss of BD17 million for 2011.

Meanwhile, the BIsB held its annual general assembly meeting on 26 March 2013. The meeting was the last general assembly to be chaired by the outgoing board, prior to its reconstitution to secure representation for the new major shareholders.

The meeting was attended by representatives of the Central Bank of Bahrain, Ministry of Industry and Commerce, Bahrain Bourse, external auditors and share registrars.

"All the topics on the agenda were approved by the shareholders present in person and by proxy, with an attendance level of 85 percent," said Mr. Khalid Abdulla Al Bassam, Chairman of BIsB, in a statement following the meeting.

"The discussions during the meeting were constructive. Last year was one of the most difficult years experienced by the bank owing to the continued consequences of the global financial crisis and slow recovery of the world economy, which adversely affected banking institutions in general and Bahrain Islamic Bank in particular.

"Thanks to the prudent policy pursued by the bank, it was able to compete in difficult circumstances and was able to achieve the required growth and to continue to develop services."

Need for investor safeguards stressed

The Waqf Fund for Islamic finance education, training and research held its 5th Roundtable Discussion on 'Shari'a and Corporate Governance Issues in SPV Governance' on 18 February 2013.

The Roundtable was attended by a select group, including senior executives of Waqf Fund member institutions, lawyers, professional firms and Shari'a scholars. The Roundtable highlighted the key issues facing the Islamic banking industry in governing Special Purpose Vehicles (SPVs) both from Shari'a and corporate governance perspectives.

The event featured a presentation from Ms. Hana Al Murran of the Central Bank of Bahrain (CBB) who highlighted the regulatory and legal issues related to SPVs.

It was followed by another presentation from Mr. Khalid Madani of Venture Capital Bank who presented the perspective of a market player. The floor was then opened for discussion, debate and questions which continued for over two hours.

The key issues highlighted by the presentations and subsequent discussion were (1) Board composition and related governance (2) Mechanism to safeguard investors' interest (e.g. investor meetings, representation on the board, etc.) (3) Shari'a governance and compliance (4) Mechanism and type of fee charged to investors (5) Protection of investor interests in the event of liquidation (6) Reporting frequency and transparency (7) Due diligence – technical, accounting and legal, and (8) Related party issues.

The following are some of the key conclusions that the participants reached at the Roundtable:

- It is fundamental to build investor confidence in Islamic banks and their structures; greater transparency, open communication and simpler fee structures should be adopted.
- There should be clarity on whose responsibility it is to ensure Shari'a governance of SPVs; Islamic banks' Shari'a Supervisory Boards can be given the additional task.
- SPV board's composition is important to ensure investors' interests are being safeguarded; appointment of independent directors should be encouraged who should be appropriately remunerated for their services.
- Islamic banks should write their "living wills" to address the many complexities that may arise in the event of liquidation.
- There should be automatic resignation of SPVs' board members if and when the Islamic bank goes into liquidation; also, proxies should get transferred to the Central Bank as a protective measure in such an event.
- There should be no front-loading of the fee in order to enhance investor confidence and align the interests of all parties.

The conclusions reached and recommendations provided by the Roundtable Discussion will be compiled and submitted to the Central Bank of Bahrain for its consideration.

Strong growth prospects for Bahrain economy

Bahrain's economy is estimated to have grown by 3.9 per cent in 2012, and growth to exceed 5%, according to Mr. Kamal Ahmed, Minister of Transportation and Acting Chief Executive, Bahrain Economic Development Board (EDB).

Speaking to international delegates at the Euromoney Conference, held in Bahrain on 5 March 2013, Mr. Ahmed said the Kingdom attracted more than US$750 million in foreign direct investment (FDI) in 2011 and the EDB helped 40 firms set up operations in Bahrain last year. Bond markets, too, have shown faith in the country's short and long-term economic stability.

"Bahrain is committed to sustaining and strengthening core business fundamentals to underpin the sustainable growth it has achieved over the past decade long into the future," said Mr. Ahmed.

"At the EDB, our aim is to support the creation of long-term, quality jobs for Bahrainis, and to do that we need smart FDI and to help you to create a lasting presence in Bahrain and in the region, because our success depends on your success. In order to achieve this, Bahrain is committed to sustaining and strengthening its core business fundamentals.

"We know that Bahrain is uniquely positioned as the natural gateway to the GCC. We all know the Gulf is a sizeable economy - the six countries of the GCC now comprise a market worth US$1.4 trillion. And it's a market that the Economist Intelligence Unit has predicted will grow to US$2 trillion by 2020."

The GCC is an economic group that is becoming increasingly well-integrated with two-fifths of Bahrain's non-oil exports going to the rest of the GCC and the same is true of over half of Oman's non-oil exports, 30 percent of Saudi Arabia's and around a quarter of the UAE's, he pointed out.

"It is clear that growth in one country in the region, and the success of important economic diversification projects, is increasingly tied to growth elsewhere in the region," said Mr. Ahmed.

"Using oil wealth to support diversification and infrastructure investment is something we are seeing an increasing amount of whether it is investment in industry, infrastructure or financial and professional services, to name just a few examples."

In Bahrain, despite continuing global economic uncertainty, 2012 was a year of steady consolidation for the domestic economy, with progress across the non-oil sector of the economy, according to the latest Economic Quarterly Report from the EDB.

The rebound in economic activity was supported by a significant increase in lending by Bahraini retail banks. The country's retail banks are in robust health and have been working to remobilize their liquidity after a period of elevated risk aversion.

Growth is also likely to pick up further in 2013 due to planned large-scale industrial investments and growth in infrastructure spending.

PineBridge Investments opens Bahrain office

Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB), attended the official opening of the Bahrain offices of global asset manager, PineBridge Investments.

The establishment of the Bahrain office will spearhead PineBridge's expansion in the Middle East and North Africa (MENA) region and Turkey.

"As one of the leading independent asset managers, PineBridge Investments possesses the expertise and capabilities that support the thriving financial ecosystem in the Kingdom," said Mr. Al Maraj at the opening ceremony on 27 January 2013.

"We are pleased with PineBridge's decision to locate their MENA region headquarters in Bahrain which is a strong validation of Bahrain's open business and strong regulatory environment, highly skilled work force and proximity to other GCC markets."

Mr. Talal Al Zain, Middle East Chief Executive of PineBridge Investments, said the opening of the Bahrain office was an important milestone that demonstrates the firm's belief in and commitment to the growth of the region.

"PineBridge Investments has experience and presence in developed and emerging markets spanning more than 60 years. MENA was a region where we have not had a substantial presence. We see significant opportunities for investment and substantial liquidity across the region and Turkey, which have many underpenetrated markets across all asset classes," said Mr. Al Zain.

PineBridge Investments received a Category 1 Investment Firm licence from the CBB in July 2012.

Stage set for Arab banking forum in Bahrain

Bahrain will host the Arab Banking Conference 2013 under the auspices of His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa.

The conference, on 3 and 4 April, will take place on the sidelines of the annual general meeting of the Arab Banking Federation and its board of directors meeting.

The conference is organised by the Federation of Arab Banks in cooperation with the Central Bank of Bahrain (CBB), under the theme 'Requirements for Sustainable Socio-Economic Development'.

Leading Arab and international financial and banking organisations interested in socio-economic development are expected to participate.

The conference aims to shed light on the significance of socio-economic development in the Arab world, boosting inter-Arab investments, creation of job opportunities for Arab youth, combating poverty and mobilising the public and the private sectors to usher in reconstruction and restoration in countries that suffered from unrest.

Investing in human and natural resources, making capital funds available, facilitating investment, boosting the private sector as a key partner in development and benefiting from Arab banks' potential for promoting development in Arab countries, are some of the other topics on the agenda.

Bourse in bid to promote online trading

Bahrain Bourse (BHB) recently issued a consultation paper for the Online Trading Incentive Programme. The consultation paper has been distributed to the Bourse's member brokers and concerned parties to receive their views and comments prior to approval by the Bourse's Board of Directors, followed by implementation.

Shaikh Khalifa bin Ebrahim Al Khalifa, Deputy Director of the Bourse, said the Online Trading Incentive Programme is in line with implementing Bahrain Bourse's strategy that aims to develop all BHB's operations, including a variety of initiatives and programmes that the Bourse will launch in the upcoming period.

"The objective of the incentive programme is to facilitate and increase the accessibility of Bahrain Bourse in order to increase trading turnover in the stock market and widen the investors' base by offering brokers incentives," said Shaikh Khalifa.

"Those incentives will make brokers more capable of attracting new types of investors and offering them better quality service at a reasonable cost and utilising the latest technology."

The implementation of this programme will allow investors, regardless of their geographical location, to make transactions at Bahrain Bourse and manage their investments directly in listed companies through their assigned brokers, he said.

"After implementing the programme, investors will find it much easier to follow-up trading and place their orders using the brokers' platforms with no human interference. We believe that this programme will make Bahrain Bourse more accessible to investors," Shaikh Khalifa added.

Meanwhile, Bahrain Bourse is working towards creating a full-fledged business model for buyers and sellers alike.

Addressing a gathering of international and local finance industry leaders during the Euromoney Bahrain conference, Mr. Fouad Rahman Rashid, Director, Bahrain Bourse, said the stock exchange, which currently had a low share of the regional capital market trading turnover at only two per cent, had a new strategy which targeted growing it 10-fold to 20 percent in the medium term.

Mr. Rashid said the bourse was working towards more listings and wider retail investor participation.

There were plans to introduce an automated disclosure system, which would ensure greater, faster and more reliable information transparency and access.

BHB has also identified a vendor to replace the current trading system with a more robust, high-tech system. The exchange also planned to offer lower commissions and fee waivers/holidays to incentivise brokers to go for online trading.

Another upcoming development is remote trading which would enable some sort of virtual consolidation of GCC bourses. Brokerages across the region would be able to execute trades on the bourse, without having a presence here.

More than half of the bourse investors were non-Bahraini which makes it a regional exchange already, said Mr. Rashid.

Government bonds listed on Bahrain Bourse

A Bahrain Government development bond issue worth BD185 million has been listed on the Bahrain Bourse.

The bond was issued on 8 November 2012 by the Central Bank of Bahrain on behalf of the Government of Bahrain.

The face value of the bond is BD1 each and the issue will mature in seven years, on 8 November 2019.

The bond pays a fixed annual interest rate of 4.3 percent, payable every six months on 8 May and 8 November each year.

The minimum amount of investment in the bond was BD10,000 or multiples thereof. Following the listing of this issue, the number of conventional bonds and sukuk issues listed on Bahrain Bourse reached nine, with an approximate total value of US$3.01 billion.

Bahrain to host major forum on occupational insurance

More than 350 Arab insurers, experts and stakeholders are expected to converge on Bahrain for the Middle East and North Africa (MENA) region's first 'Professional Occupational Insurance Forum'.

The event, which will be held on 21 and 22 October 2013, is being organised by the General Arab Insurance Federation (GAIF), in cooperation with the Bahrain Insurance Association (BIA).

"Occupational insurance, a method of protection against legal expenses and other costs associated with medical malpractice and general corporate malfeasance, is becoming increasingly important, with more and more organisations across the MENA markets seeking to offset the potential liabilities resulting from the negligent activities of employees, directors and officers," said Mr. Abdul Khaliq Rouf, General Secretary of GAIF.

The forum will focus on building awareness about the value of occupational insurance, he said.

It will also examine similar protection for losses resulting from political violence, an issue that has becoming increasingly relevant for companies operating in a number of Arab countries in transition.

On the choice of Bahrain as the venue, Mr. Rouf said the Kingdom was the "ideal location and longstanding centre for business and finance as well as a strategic gateway to the broader GCC and MENA region markets, where the insurance sector continues to grow."

Calling the forum a "groundbreaking event", Mr. Younis Jamal, Chairman of BIA, said the event would aim to highlight and explore a number of key issues and trends impacting both insurers offering occupational insurance and clients requiring such protection.

"We are currently in the process of developing the programme for the forum and engaging with leading experts and high-level industry representatives," said Mr. Jamal.

"The idea is to develop it as a highly strategic platform for exchange and dialogue and for the advancement of this important and growing segment within the insurance industry."

Stage set for annual AAOIFI Shari’a forum

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) will host the AAOIFI Annual Shari’a Conference on 15 and 16 April 2013 in Bahrain. The conference will be held under the auspices of the Central Bank of Bahrain.

Shaikh Ibrahim bin Khalifa Al Khalifa, Chairman of the AAOIFI Board of Trustees, explained that the conference will bring together leading Shari’a scholars and Islamic finance industry practitioners from across the globe.

“The discussions at the event will help AAOIFI in our standard-setting efforts, and ensure that our standards can continue to support the industry growth and expansion,” said Shaikh Ibrahim.

Dr. Khaled Al Fakih, Secretary General and Chief Executive Officer of AAOIFI, said the high-level annual conference is aimed at highlighting and debating important issues relating to the application of Shari’a to Islamic finance products, services and practices, with a view to introducing greater harmonisation and standardisation in the international Islamic finance industry.

Discussions at the conference will focus on issues relating to the role of Maqassed Al Shari’a (Intents of Shari’a) in directing Islamic contracts, Sukuk and products; differences between assets-backed and assets-based securities; relationship between assets and their inherent risks, special purpose vehicle and its role in Sukuk structures; effects of non-registration of leased assets in lessor’s books from Shari’a, legal and accounting perspectives; stipulations of lenders’ benefits from loans; and effect of bankruptcy on restricted investment account holders.

AAOIFI is also organising training courses for its Certified Shari'a Adviser and Auditor (CSAA) and Certified Islamic Professional Accountant (CIPA) programmes from 17 to 20 April 2013. CSAA and CIPA are designed for Islamic finance professionals to gain technical understanding and assist application of AAOIFI standards for Islamic finance operations.

Standards Development

The Annual Shari’a Conference also forms a major part of AAOIFI’s consultative process with the industry to identify potential areas for further standardisation.

To date, AAOIFI has issued a total of 88 standards for the international Islamic finance industry in the areas of Shari’a, accounting, auditing, ethics and governance. The standards are followed by leading Islamic financial institutions throughout the world and have introduced a progressive degree of harmonisation and standardisation of global Islamic finance practices.

Over the part year, AAOIFI has issued seven new Shari’a standards covering the topics of financial rights and disposal of those rights; insolvency; liquidity management relating to sources and uses of liquidity; capital and investments protection; investment agency; rules on bases for determination and calculation of profit from investment instruments; and “Amanah” options, covering rights relating to options for termination of legal contracts due to bad faith.

During the same period, AAOIFI has also issued a new accounting standard on investments in real estate as well as preliminary exposure draft and consultation note for the proposed revised accounting standards relating to investment accounts.

AAOIFI is currently working to finalise the issuance of revised accounting standards relating to investment accounts, to update and replace two of the existing accounting standards.

At the same time, AAOIFI is also working on the revision of four existing accounting standards on Takaful. In addition, its other on-going standards work includes revision of existing accounting standards on Murabaha and Ijara, development of a new accounting standard on issuance of Sukuk, and development and review of a number of Shari’a standards.

“The discussions at the event will help AAOIFI in our standard-setting efforts, and ensure that our standards can continue to support the industry growth and expansion,” said Shaikh Ibrahim.

Islamic funds forum on way in Bahrain

The Annual World Islamic Funds and Financial Markets Conference (WIFFMC) is set to be held in Bahrain on 27 and 28 May 2013.

The event, supported by the Central Bank of Bahrain, will be held under the theme ‘Broadening the Base of Investors and Issuers: New Strategic Insights on Boosting the International Growth of Islamic Capital Markets and Investments’.

WIFFMC 2013 will focus discussions on overcoming the challenges facing the Islamic asset management industry and will analyse key initiatives that need to be taken to broaden the international base of Islamic investments.

Discussions at the 2012 event had concluded that in the Islamic funds market there is a need to build a system that can facilitate effective and efficient capital and trading flows.

This requires further development of an Islamic financial system which has the required infrastructure that includes Islamic financial institutions ranging from banking, takaful, capital market, fund and wealth management entities.

This is an issue that will be debated again at WIFFMC 2013.

“There is a need to create a conducive legal and Shari’a framework and a financial system that has a comprehensive range of Islamic financial products and services,” said Mr. David McLean, organiser of the conference.

“With significant infrastructure and social development expenditure in key markets, particularly in Asia and the Middle East, and a challenging global conventional bond market environment, market borrowers are seeking to diversify to other alternate funding sources.

“Given the continued level of liquidity within the overall Islamic investor base, Islamic instruments will continue to emerge as an increasingly attractive and viable alternative.”

Financial Sector Fact Sheet

Regulator: Central Bank of Bahrain
Financial Institutions: 406 (March 2013)
Financial Sector Workforce: 14,342 (2010)
Bahraini nationals 9,467 (66%)
Foreign nationals 4,875 (34 %)

Key Economic Indicators

GDP (Current) US$29.0 billion (2011)
Growth 12.8%
GDP (Constant) US$26.2 billion (2011)
Growth 1.9%

Financial Sector contribution to GDP 17.1%
Sovereign Rating
BBB (S&P Dec 2011) with stable outlook
BBB (Fitch Dec 2011) with stable outlook
Population 1,234,571 (2010)

Banking Sector

Assets US$191.2 billion (February 2013)
No. of institutions 114 (March 2013)
Retail banks 29
Locally incorporated 14
Branches of foreign banks 15
Wholesale Banks 73
Representative Offices 11
Bank Society 1

Islamic Banks (included in left):
No. of banks 26 (March 2013)
Assets US$25.4 billion (February 2013)

Insurance Sector

Total No. of Insurance Companies & Organisations Authorised in Bahrain 160 (March 2013) * excluding Appointed Representative
Domestic market
Gross premiums US$556 million (December 2010)
No. of insurance firms 36
Locally incorporated insurance firms 25
Takaful & Retakaful Firms (included above) 8
Captives (locally incorporated, included above) 1
Overseas insurance firms 11
Insurance Brokers 31
Insurance Consultants 5
Insurance Managers 2

Representative Offices 5
Loss Adjusters 11
Actuaries 31
Insurance Ancillary Services 3
Insurance Pools & Syndicates 2
Insurance Society 1
Insurance Licensees Restricted: 33
Insurance Firms restricted: 27
Insurance Brokers restricted: 4
Insurance Consultants restricted: 2
Insurance Appointed Representative 16
Corporate 12
Individual 4

Investment Business Firms

No. of firms 57 (March 2013)
No. of Investment Business firms 48 (March 2013)

Representative Offices 9

Specialised Licensees

Total no. of institutions 48 (March 2013)
Money Changers 18
Fund Administrators License 1
Registrar License 1
Registered Administrators 1

Financing Companies 8
Microfinance Institution 2
Trust Service Providers 3
Ancillary services 13
Registered Professional Body 1

Capital Markets

Market Capitalisation US$15.9 billion (March 2013)
No. of firms 27 (March 2013)
Licensed Exchanges 2
Licensed Clearing, Settlement and Central Depository Systems 1

Licensed Securities Brokers 4
Licensed Securities Dealers 1
Licensed Securities Clearing Member 7
Licensed Securities Broker Dealers 12

Funds Industry

Authorised Funds 2,811 (March 2013)
NAV US$8.39 billion (September 2012)

Local Funds 108
NAV US$5.14 billion (September 2012)
Conventional-Local 57
Islamic-Local 51
Foreign Funds-Offshore 2,703 (March 2013)