THE REVIEW

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Insurance market posts healthy growth in 2009

Bahrain's insurance industry grew by a healthy 7.5% in 2009, even as international financial markets remained subdued in the aftermath of the global financial crisis, according to insurance market statistics compiled by the Central Bank of Bahrain (CBB).

Total gross premiums underwritten by the domestic insurance industry, including takaful (Islamic insurance) operators, grew to a record BD200.56 million (US$532 million) last year, from BD186.64 million (US$495 million) in 2008.

Other key highlights of direct insurance business in 2009 included:

- An increase of 11% in long-term insurance (life and savings products) premiums to BD57.3 million (US$152m) in 2009, from BD51.6 million (US$136.9m) in 2008;
- Bahrain's Insurance Penetration Rate grew to 2.59% in 2009, compared with 2.27% in 2008;
- Net investment income of insurance firms surged by 677% to BD43.02 million (US$114.1m) in 2009, compared to BD5.54 million (US$14.7m) in 2008.

Detailed data related to the insurance industry are contained in the CBB's Insurance Market Review 2009, released last month. The report is available on the CBB website at www.cbb.gov.bh

Bahrain's domestic insurance market comprised 27 Bahraini insurance firms, including seven takaful operators, and 11 overseas insurance firms (branches of foreign companies) carrying on direct insurance business in the Kingdom of Bahrain. The total number of insurance companies and insurance-related organizations authorized in Bahrain was 168 during 2009, including firms operating outside Bahrain, representative offices, brokers, loss adjusters, actuaries, consultants and others.

Bahrain-incorporated firms took the lion's share of the domestic premiums market, with 76.6%, while overseas insurance firms (foreign branches), with premiums totaling BD47 million (US$124.7m), represented the remaining 23.4%.

The main contributors of growth in insurance business were long term and medical lines of business as well as takaful, according to the CBB data.

Medical insurance surged by 27%, raising gross premiums to BD27 million (US$71.7m) in 2009, from BD21.2 million (US$56.3m) in 2008.

The growth in long-term insurance saw this class of insurance become the largest single segment of the insurance industry, outclassing motor insurance. Long term insurance represented 29% of the total gross premiums during 2009, while motor insurance took second place with premiums of BD57 million (US$151.2m).

The takaful (Islamic insurance) industry also continued to expand with overall gross premiums reaching BD32.67 million (US$86.6m) in 2009, an increase of 22% over the 2008 figure of BD26.7 million (US$70.9m).

The growth in insurance business reflected positively on the insurance employment market, with the number of employees working in the industry growing by 12% to 1,566 in 2009, compared to 1,394 in 2008.

The Insurance Market Review 2009 also shows the capital breakdown in accordance with regulatory requirements, referring to Tier 1 and Tier 2 capital. The CBB analyses capital available in terms of the quality and nature of the elements that are included in capital, particularly looking at the permanency of the capital involved. This is rather significant, particularly as accounting figures allow for full recognition of unrealised gains on investments. From a regulatory perspective, in line with best international practices, the CBB only recognises 45% of such gains for capital purposes.

The 2009 report also introduces information on the reinsurance market of pure reinsurers licensed by the CBB. It notes that Bahrain is fast becoming a domicile for major reinsurance and retakaful companies in the region.

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INSIDE

Insurance sector poised for continued growth

The insurance sector in Bahrain holds tremendous promise for growth, as demonstrated by the industry's strong performance not only during 2009 but in several recent years, says Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the Central Bank of Bahrain (CBB).

In remarks coinciding with last month's release of the CBB's Insurance Market Review 2009, Mr. Al Baker said official data contained in the annual report pointed to a continuation of the industry's growth momentum in the coming years.

"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 life and medical insurance as well as the introduction of new insurance products by existing insurance firms," said Mr. Al Baker.

Total gross premiums underwritten by the domestic insurance industry, including takaful (Islamic insurance) operators, grew to a record BD200.56 million (US$532 million) last year, from BD186.64 million (US$495 million) in 2008.

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

"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 licensees and the general public."

The total volume of general insurance business was BD143.3 million (US$380.1m) in 2009, an increase of 6% over the 2008 figure of BD135.1 million (US$358.3), while long-term insurance (life and savings products) surged by 11% to BD57.3 million (US$152m), representing 29% of total premiums.

Following are the details of the performance of each class of business, as provided in the Insurance Market Review 2009, which is available on the CBB website at www.cbb.gov.bh:

Long-Term Insurance

Long-term insurance includes such policies as group life assurance, group credit life assurance, children's education policies and level and decreasing term assurance. With total premiums rising by 11% to BD57.3 million, long-term business became the largest contributor to total insurance premiums in 2009, representing 29% of total premiums underwritten.

Gross claims, on the other hand, declined by 36% to BD13.8 million (US$36.6m) in 2009, from BD21.5 million (US$57m) the previous year. Long-term insurance claims accounted for 15% of total claims last year.

Motor Insurance

Motor insurance premiums rose by 4.5% to BD57 million (US$151.2m) in 2009, from BD54.7 million (US$145.1m) the previous year. The increase in premiums was primarily due to the continuous increase of motor vehicles in Bahrain and the offering of additional coverage by most insurance companies. Motor insurance business represented 28% of total gross premiums in 2009.

In line with the norm, motor claims recorded an increase of 10% in 2009 to reach BD46.7 million (US$123.9m), compared with BD42.5 million (US$112.7m) the previous year.

Fire , Property & Liability

Fire, Property & Liability insurance premiums represented 16% of the market, with premiums totaling BD32.5 million (US$86.2m) in 2009, which was an increase of 5% over the 2008 figure of BD30.9 million (US$82.1m).

Claims, on the other hand, declined by 26% to BD7.2 million (US$19.1m) in 2009, from BD9.7 million (US$25.7m) in 2008.

Marine & Aviation

Premiums for this class of insurance, which includes cargo, hull and aviation insurance, rose by 4% to BD7.9 million (US$20.9m) in 2009, from BD7.5 million (US$19.9m) in 2008, while claims decreased significantly by 73% to BD0.76 million (US$2m), from BD2.8 million (US$7.4m) in 2008.

Medical Insurance

Gross premiums for medical insurance surged by 27% in 2009 to BD27 million (US$71.6m), from BD21.2 million (US$56.3m) in 2008. This line of business represented 14% of total premiums of 2009.

Claims, too, rose by 28%, amounting to BD17.1 million (US$45.3m), compared to BD13.4 million (US$35.5m) in 2008.

Other Classes

Other Classes of insurance includes miscellaneous financial loss, engineering and others. Gross premiums of this class of insurance decreased to BD18.8 million (US$49.9m) in 2009, from BD20.7 million (US$54.9m) in 2008. Claims, on the other hand, rose to BD7.4 million (US$19.6m), from BD4.5m (US$11.9m) in 2008.

Reinsurance

Reinsurance and retakaful gross premiums increased to BD292.98 million (US$777m) in 2009, an increase of 25% over the 2008 figure of BD235.3 million (US$624.1m). However, reinsurance firms saw their underwriting income decline by 25% to BD2.4 million (US$6.4m) in 2009, from BD3.1 million (US$8.2m) in 2008.

Nevertheless, the reinsurance market registered a net income of BD14.4 million (US$38.2m) in 2009, compared to losses of BD2.4 million (US$6.4m) in 2008. The turnaround was due largely to positive results generated from investment income of BD11.6 million (US$30.8m) in 2009 compared to losses of BD4.7 million (US$12.5m) the previous year.

Premiums and claims at a glance

BD'000	Gross Premiums		Gross Claims	
	2009	2008*	2009	2008*
Long-term	57,310	51,572	13,847	21,511
Fire, Property & Liability	32,506	30,952	7,184	9,677
Miscellaneous Financial loss	1,943	3,194	985	(133)
Marine & aviation	7,870	7,539	762	2,805
Motor	57,009	54,659	46,741	42,490
Engineering	10,541	12,931	4,954	3,347
Medical	27,021	21,232	17,090	13,355
Other	6,360	4,558	1,511	1,278
Total	200,560	186,637	93,074	94,330

*2008 Restated figures

BSE eases restrictions on trading by certain insiders

The Bahrain Stock Exchange (BSE) has eased restrictions on certain company insiders trading in their own shares on the stock exchange during a company's close period.

The move means that certain key persons of a company, given that such persons do not possess or are aware of any inside information that might affect a share's price in the market, are permitted to trade in securities of an issuer throughout the year. Such persons, including directors and senior management executives, were previously prohibited from trading in their own stock for 15 days before the issuance of the company's quarterly and annual financial results.

The new rules, which were issued by the BSE on 21 July 2010, have come into effect from 1 October 2010. The rules were drafted in coordination with the Central Bank of Bahrain (CBB) and are in line with the BSE's efforts to enhance the trading environment and increase its turnover.

The new rules are aimed at facilitating trading by key persons of issuers, while ensuring sufficient controls are instituted to lower the potential of abuse of inside information. The new guidelines also aim to reduce the administrative burden on issuers of securities and key persons, and are intended to establish greater transparency at the BSE and ensure a fair environment for trading by all investors in the market.

The new guidelines define "key persons" as members of an issuer's Board of Directors, senior management, the issuer itself, and such other persons as decided by the issuer's Board of Directors.

Dealing Policy

The new guidelines require the issuer to issue, maintain, and enforce a key person dealing policy, a copy of which must be provided to all key persons. Issuers should also maintain a register of key persons containing the basic personal data of key persons of the issuer, their holdings and interests in the issuer, and details regarding their dealings in securities of the issuer. The register should be updated regularly and a copy should be submitted to the BSE.

Key persons will be required to comply with the dealing policy and should not trade or encourage others to do so, while in possession of inside information. The new guidelines will also require key persons in listed companies to inform the appointed representative about the details of the dealings conducted for their benefit in the shares and securities listed on the BSE and other markets by the end of the next business day, upon completion of the transaction.

The new guidelines offer advantages to both the key persons and issuers. Key persons will be allowed to buy and sell shares and securities issued by listed companies on the BSE at any time throughout the year, provided that key persons do not possess or are aware of any inside information that might affect a share's price at the market.

The close period, which currently prohibits trading by insiders 15 days before the end of each financial year and each financial quarter until the company publishes its quarterly and/or annual financial statements will no longer be applied.

The new guidelines also do not oblige issuers to form a committee in order to monitor the dealings of key persons in listed companies.

The new guidelines require listed companies to issue the key person dealing policy without the BSE's approval, taking into consideration that the policy should comply with the requirements of BSE's guidelines and the requirements related to the Markets Abuse and Manipulation Module, contained in Volume 6 (Capital Markets) of the CBB Rulebook.

Realizing the importance of adhering to the policy, any conduct by key persons contravening the provisions of an issuer's dealing policy will be dealt with severely. The courses of action that an issuer may impose should be clearly stated in the policy.

In accordance with standard practice, the BSE provided in May 2010 a draft of the key person dealing guidelines to all listed companies and licensed brokers on the exchange for the purpose of soliciting their opinions and comments regarding the proposed rules. In addition, the BSE published the draft guidelines as a consultation paper on its website to receive comments of investors and other concerned parties, prior to the issuance of the guidelines.

BSE Workshop

In order to prepare issuers for the implementation of the new guidelines, the BSE held a workshop on 4 August 2010 for representatives of listed companies, licensed brokers and other related parties, to explain the details of the new guidelines and the requirements for implementing them.

Over 75 participants attended the 'Guidelines on Issuers' Key Person Dealing Policies workshop, which was conducted by Mr. Ebrahim Al Aradi, Head of Trading & Members Affair, and Mr. Abdullah Abdin, Head of Clearing & Settlement, at the BSE.

BSE officials briefed the audience about the contents of the new guidelines on issuers' key persons dealing policy. They emphasized that the guidelines allow key persons to trade throughout the year without any restrictions, as long as they adhere to the rules of the issuer's policy in this regard.

The presentation highlighted the definitions that are mentioned in the guidelines as well as the objectives expected to be achieved from implementing these guidelines.

Participants were also briefed about the obligations of issuers and key persons. The new guidelines state that any conduct by relevant parties that contravenes the provisions of an issuer's dealing policy must be dealt with severely. The guidelines also require that the courses of action and penalties that an issuer may impose should be clearly stated in the dealing policy.

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CBB takes part in key IOSCO meeting

The Central Bank of Bahrain (CBB) took part in the 35th Annual Conference of the International Organization of Securities Commissions (IOSCO), which was held in Montreal, Canada from 6-10 June 2010.

The Conference was particularly important this year, as it addressed head-on the impact of the financial crisis and the regulatory tools and amendments required to strengthen the financial system.

In this regard, IOSCO has reformulated its strategic mission and goals for the next five years, in order to take into account IOSCO's increased role in:

- Maintaining and improving the international regulatory framework for securities markets by setting international standards;
- Identifying and addressing systemic risks;
- Advancing implementation of the IOSCO Objectives and Principles of Securities Regulation; and
- Pursuing full implementation of the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

The Executive Committee Task Force on Strategic Direction is continuing its review of IOSCO's role and key functions, in order to position IOSCO to continue to provide the lead in the development of regulatory standards for capital markets, taking account of lessons learned from the global financial crisis.

In addition to the above, the IOSCO Objectives and Principles of Securities Regulation (IOSCO Principles) were revised to include eight new Principles, as well as a number of revisions to existing Principles.

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The new IOSCO Principles address concerns regarding systemic risk in markets, recognizing the vital importance of this concept, and emphasize the need to look over the perimeter of regulation. Additionally, the new Principles address other market practices highlighted during the global financial crisis.

In particular, the new Principles require securities regulators to monitor, mitigate and manage systemic risk and ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed.

In addition, new entities are being brought under the scope of the IOSCO Principles with auditors, credit rating agencies, hedge funds and other entities offering services to investors being subject to adequate levels of oversight. Auditors should also be independent of the entity they audit.

While IOSCO has added or modified certain Principles, the recent financial crisis has underscored that proper implementation of all IOSCO Principles is critical to a sound regulatory system.

In many cases, some of the activities and practices implicated in the financial crisis appear to fall squarely under existing regulatory IOSCO Principles, even if those IOSCO Principles had not previously been applied to a particular category of products or activities. Accordingly, even where a principle remains unchanged, its effective application remains an important response to market crisis.

CBB Support

"The CBB, as a full member of IOSCO, fully supports the initiative of IOSCO and the new and amended Principles of Securities Regulation and will ensure that these Principles are reflected in the CBB Rulebook (Volume 6 – Capital Markets) and its supervisory activities," said Mr. Ali Thamer, Director, Capital Markets Supervision, at the CBB.

In addition to the regulatory initiatives, IOSCO is further developing the implementation of its Multilateral Memorandum of Understanding (MMoU) Concerning Consultation and Cooperation and the Exchange of Information. The IOSCO MMoU is the international benchmark for enforcement, cooperation and exchange of information among regulators.

During the recently held meeting, IOSCO noted its success in meeting an ambitious target, set in 2005, that all member jurisdictions should apply to become signatories to the MMoU by 1 January 2010. At present, 96% of IOSCO's 115 member regulators either met the requirements needed to become signatories or have committed themselves to legislative changes that will allow them to do so.

To pursue full implementation of the IOSCO MMoU, IOSCO has resolved to ask all ordinary members and associate members, with primary responsibility for securities regulation in their jurisdictions, to become full signatories to the IOSCO MMoU by 1 January 2013.

The CBB, in addition to its role on the Presidents Committee and signatory to the IOSCO MMoU, is also a member of the Africa and Middle East Committee (AMERC) and the Emerging Markets Committee (EMC).

"The CBB is supportive of the development and implementation of reports and recommendations emanating from these Committees on subjects such as the development of bond markets, disclosure and accounting, the regulation of secondary markets and market intermediaries and the enforcement and exchange of information," said Mr. Thamer.

At the Conference, IOSCO also welcomed the addition of new ordinary members from the Kingdom of Saudi Arabia (Capital Market Authority); Syria (Syrian Commission for Financial Markets and Securities); Iceland (Financial Supervisory Authority); and the Republic of the Maldives (Capital Market Development Authority).

"The CBB looks forward to working with these new members and the various Committees of IOSCO in helping IOSCO meet its goals and priorities," Mr. Thamer added.

IOSCO will hold its next Annual Conference in Cape Town, South Africa from 17-21 April 2011.

Wholesale banks a drag on stock markets

Mr Jithesh Gopi, Head of Research at Bahrain-based Securities & Investment Company (SICO), reviews the performance of GCC capital markets during the past quarter and provides insights into the developments that affected listed companies as well as an outlook on the overall markets.

Bahrain's stock market has been one of the frailer performers among GCC markets, losing 1.3% YTD, along with Kuwait and the UAE; following a 19% drop in 2009. The index started the year on a positive note increasing 6.1% in 1Q10, then registered a sharp drop of 9.7% in 2Q10, followed by a moderate recovery in the current quarter. The broader economy staged a comeback during the year with 1H10 nominal and real GDPs increasing by 20% and 4.7% respectively compared to same period last year, helped by a recovery in oil prices, manufacturing and the service sectors.

In contrast, the stock market is taking longer to recover, affected by the poor performance of listed financial stocks. Commercial banks continue to prefer safety to growth in light of asset quality concerns, higher provisions and a weaker real estate market. The other highlights of the year have been the tight liquidity positions of investment banks (both Islamic and conventional), credit rating downgrades and management changes leading to a sharp decline in most financial sector stocks, with the exception of leading retail banks.

Bahrain Stock Exchange (BSE) trading activity dropped sharply following regional trends, with average volumes dropping by 25% YoY to 2.7 million shares YTD, and traded value declining by 33% YoY during the same period. The drop in liquidity and continuing concerns on some of the previously active stocks is a worry for investors further aggravating the situation.

Profitability Improves

Volatile earnings of listed financial stocks have affected the overall market's earnings and valuations, in spite of a far more consistent performance of non-financial stocks. This has also led to reduced earnings visibility for the broader market, hurting prospects of better performing stocks. Although 2Q10 profits of listed Bahraini companies increased by nearly 11% YoY (due to a low base), they declined by 28% QoQ (compared to 1Q10) due to losses in non-bank financial institutions.

Consequent to concerns on asset quality and the challenged liquidity situation of investment banks, a number of rating changes (mostly downward) during the year added to the overall negative investor sentiment. The downgrades included Gulf Finance House (GFH), one of Bahrain's prominent investment houses, which was downgraded sharply to 'SD/SD' (selective default) by S&P on concerns of its challenging liquidity position and inability to sell assets in a timely manner.

Bond Sales on Rise

Bahrain's debt market is showing momentum, as a number of corporates announced plans to issue debt securities to secure financing, as banks continue their reluctance to lend. Bahrain sovereign wealth fund Mumtalakat's US$50 million issue (five-year dollar-denominated Eurobond) was well received, attracting nearly US$3 billion. Gulf International Bank (GIB) raised a five-year, SAR3.5 billion in a bond sale after postponing the issue following the Dubai World fallout last year. The Central Bank of Bahrain (CBB) has also announced government plans to issue a US$1 billion sovereign bond with a 10-year maturity and Al Baraka Banking Group may also issue sukuk worth US$200 million before the year-end. UGB postponed a planned bond sale due to unfavourable investor reaction, while BBK scrapped its plan to issue a US$500 million bond, as investors demanded higher yields, albeit at a time of particular volatility in the markets in May.

AUB was the top performer amongst heavy weight stocks, rallying 65.5% YTD on Kuwaiti media rumours of a possible stake sale to Qatari investors by one of its major shareholders, Tamdeen Investment Company. The deal is estimated at US$1.3 billion and is expected to be completed before December 2010. AUB continued its regional growth plans by increasing stakes in its Libyan and Egyptian operations, and is looking to increase its stake in AUB Iraq.

GFH was the top loser among blue chip stocks falling 57% YTD. The company struggled to meet its debt repayments and restructure its operations after the drop in regional property prices and increased aversion of lenders towards the sector. The company reported a US$728 million loss for 2009 impairment provision, followed by a US$48 million loss during 1H10. GFH recently announced plans to increase its capital base by issuing equity linked convertible murabahas. A successful restructuring will have a positive impact on the overall investor confidence in Bahrain's investment banking sector.

Overall, the performance of the Bahrain stock market will be driven by the financial sector's performance and news flows related to key banking institutions. Financial sector concerns have overshadowed the consistent performance of non-financial stocks such as Batelco, Seef properties, Nass, Gulf Hotels, Bahrain Cinema, making their stock undervalued and attractive for potential investors. However, any sustainable rally in the market is linked to a recovery in regional markets, a stable performance by financial stocks and improvement in their operating environment and liquidity.

The planned IPO of Aluminium Bahrain (Alba), one of the world's largest aluminium smelters, later this year is likely to attract the attention of regional and local investors as this will be the first IPO in three years at the BSE. Moreover, the stock will provide the much-needed diversification for the bourse, which is dominated by financial stocks.

GCC Market Statistics

Country	Mcap	Vol	Turnover	Trades	P/E (x)		P/B	D/Yld	ROE
	$ bn	mn shr	$mn	VWAP	09A	10E	09x	09x	09x
Saudi	337	124.9	718.7	60,519	18.3	13.7	2.1	2.8	12.0
UAE	104	415.9	186.0	6,812	11.8	7.3	0.9	3.4	8.6
Kuwait	110	276.9	154.5	2,847	49.2	16.3	1.5	4.2	3.3
Qatar	111	9.4	107.3	4,444	15.1	14.2	2.5	3.5	17.6
Bahrain	17	0.7	0.4	49	17.1	10.8	1.1	3.6	5.4
Oman	18	12.5	13.1	2,517	12.8	12.5	1.9	4.0	15.0
GCC	**696**	**840**	**1,180**	**77,188**	**17.6**	**12.3**	**1.7**	**3.3**	10.0

The views expressed in the article are not necessarily those of the CBB.

Investment business sector surges ahead

Bahrain's asset management industry has posted another year of growth, despite the ongoing negative fallout of the global financial crisis.

Central Bank of Bahrain (CBB) figures show that assets under management by the CBB's Investment Business licensees grew by over 135% to BD2.9 billion (US$7.6 billion) in the year ended 30 June 2010.

"After the global slowdown in 2009, when adverse market conditions had a negative effect on the growth and profitability of all international financial centers, the Investment Business sector in Bahrain has made a comeback with growth comparable to their larger peers, the investment banks," said Mr. Mohammed Ayman Al Tajer, Director of Financial Institutions Supervision at the CBB.

The CBB created the specialist Investment Business licence in 2006, prior to which such services were offered by banks through their asset management arms. The creation of the new licence has spawned an industry of institutions specializing in serving the investment needs of high net worth clients.

The Investment Business licence, which was part of a new regulatory regime for investment business, was structured to provide more flexibility to the industry and to cater for various investment activities. Category 1 Investment Business companies may hold client assets and undertake all types of regulated investment services, including dealing in financial instruments as principal. Category 2 Investment Business companies may also hold clients assets and undertake all types of regulated investment service except dealing in financial instruments as principal. Both Category 1 and 2 companies may also act as Custodians to financial instruments and mutual funds. Category 3 investment business companies may only arrange deals and offer independent advice on financial instruments. However they may not hold client money.

According to the latest CBB figures, the total investment as principal (for Category 1) decreased by 24% from BD135.1 million (US$358m) in June 2009 to BD102.4 million (US$271.5m) in June 2010. However, the total investments as agents, i.e. assets under management (for Category 1 and Category 2) increased by 63% from BD1.8 billion (US$4.6 billion) in June 2009 to BD2.9 billion (US$7.6 billion) in June 2010.

"This is a clear indicator that investors still have confidence in the institutions and demand for new investment products is showing growing trends," said Mr. Al Tajer.

"The global financial crisis had put heavy pressure on valuation of assets which brought about their real value, giving an opportunity to interested investors to evaluate such investment prospects."

The number of Investment Business licensees reached 52 in September 2010, compared to 47 in September 2008, and the CBB continues to receive applications for Investment Business licenses both for newly established companies and from reputable international institutions wishing to establish a presence in Bahrain, in addition to requests for upgrades from existing investment business licensees, wishing to upgrade their category of license.

"Since the introduction of the new investment business regime, the CBB has been vigilant of the reaction of the industry to the initial regulation and of the development in investment business regulations in other reputable financial centers, in addition to predominant market conditions at that time," said Mr. Al Tajer.

As a result, the initial regulations, contained in Volume 4 (Investment Business) of the CBB Rulebook, have been enhanced by regular quarterly updates, most of which were issued only after consultation with the industry, in line with CBB's established practice. This is an ongoing process and is part of the CBB's policy in development of market regulatory requirements.

"In 2006, when Volume 4 was introduced, there was considerable demand not only from the local and regional industry, but also from reputable asset managers worldwide, to establish a presence in Bahrain," said Mr. Al Tajer.

The development of the fund management industry is an integral part of Bahrain's strategy to remain the strategic financial hub in the Middle East & North Africa (MENA) region, he pointed out. This initiative is facilitated by the fact that international investment firms view Bahrain as an attractive base from which to tap into the enormous opportunities that exist in both the GCC and the wider MENA region.

Bahrain's position is further strengthened by the track record of its regulator and its comprehensive and transparent regulatory regime.

"The CBB expects prudent asset managers to align their interest and efforts in structuring products, alongside investors' interest and assets protection," said Mr. Al Tajer.

"The engagement of locally-based asset managers in the structuring of financial products, deal sourcing, executing and managing successful exit deals through a pre-determined exit strategy, was a very important market shift. Unlike the past, the new reality shows that market interest is becoming more favorable towards local and regional assets.

"At the CBB, it is our mandate to facilitate the structuring of local financial products that best suit the demand and requirements of the local and regional investors, by developing and introducing regulations to protect our market."

New report on OIC capital markets

Bahrain-based Islamic International Rating Agency (IIRA) and US-based Dinar Standard issued a joint research on 28 major capital markets of the Organisation of Islamic Conference (OIC).

'Pulse of the OIC', released on 31 August 2010, summarizes the current state of Islamic capital flow within its core OIC markets. It provides investors, finance managers, and investment managers with a broad overview of areas of opportunities in three key representative sectors: stock markets, the sukuk industry and Islamic funds market.

According to the report, the total market capitalization of the equity markets covered in the research was US$1,860 billion, with a total of 6,655 companies listed. This is less than the Shanghai Stock Exchange with a market capitalization of US$2,196 billion and 879 listed companies listed.

The largest market by market cap among OIC member countries is Saudi Tadawul (US$327 billion) while Bursa Malaysia Berhad is the largest in terms of number of listings, with 967 listed companies.

The full report is available on IIRA's website at www.iirating.com or at www.dinarstandard.com/oicpulse

AAOIFI issues new standard on investments

Bahrain-based Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the international standard-setting organisation for Islamic finance, recently issued two new accounting standards and one new accounting guidance note.

The new accounting standards are on Conceptual Framework for Financial Reporting by Islamic Financial Institutions and Investments in Sukuk, Shares and Similar Instruments while the new accounting guidance note is on First Time Adoption of AAOIFI Accounting Standards.

Apart from laying down principles of financial reporting for Islamic financial institutions and providing the basis for AAOIFI accounting standards, the new Conceptual Framework also gives updated guidance on accounting treatment for investment accounts. It introduces the concept of authority over investment decisions to guide financial reporting for investment accounts. If an Islamic financial institution has authority over decisions with regards to the use and deployment of investment funds received from its investors, then such funds are considered to be an on-balance sheet item for the institution's financial reporting.

Under the new accounting standard on Investments in Sukuk, Shares and Similar Instruments, Islamic financial institutions are required to segregate their investments between debt-type and equity-type instruments. The segregation depends on characteristics of the investment instruments and purposes of the investments. Accounting treatments and disclosures that Islamic financial institutions have to carry out are to be based on this segregation.

The new accounting guidance note on First Time Adoption of AAOIFI Accounting Standards provides Islamic financial institutions with the starting point for preparing financial accounting records and reports based on AAOIFI standards. Islamic financial institutions that are adopting AAOIFI accounting standards for the first time are required to follow rules set out in the guidance note.

Dr Mohamad Nedal Alchaar, Secretary General of AAOIFI, said that the new accounting standards and guidance note were developed in consultation with over 200 AAOIFI institutional members from over 45 counties as well as other key industry stakeholders.

"AAOIFI accounting standards ensure that Islamic financial institutions are transparent with their financial performances and consequently enhance the credibility of the international Islamic finance industry," said Dr Alchaar.

Standard on Investments

With the new accounting standard, Islamic financial institutions are required to segregate their investments between debt-type and equity-type instruments.

Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital to the holder of the instruments. The basic features of debt-type instruments include contractual terms that give rise on specified dates to cash flows that are payments of capital and profits computed based on the capital outstanding. The payments may be either fixed or determinable. Other contractual features that result in cash flows that are not payments of capital and profits are not basic features of debt-type instruments.

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that indicate residual interests in the assets of an entity after deducting all its liabilities.

The standard largely requires that investments shall be periodically re-measured at fair value – the indicative amount for which an asset could be exchanged or an obligation settled between well informed, willing parties (seller and buyer) in an arm's length transaction.

An exception to the requirement for remeasurement at fair value is for debt type-instruments that are managed on an effective yield basis and for which their performances are evaluated by the entity's key management personnel on the basis of the contractual cash flows. Such instruments shall be measured consistent with the management's intention, hence at amortised cost using the effective profit rate so as to reflect a constant return over the period of the investment.

The classification of the investments – either as debt-type or equity-type instruments – will also determine the accounting treatment, including on subsequent gains and losses, and disclosures required for those investments.

The new standard replaces the previous accounting standard on investments. This revision reflects the development that has taken place in the international Islamic finance industry. Over recent years, with the constant progression and innovation in Islamic finance, new forms of complex and hybrid Shari'a-compliant investment products have been launched. Furthermore, the recent global market crisis and its effect on financial reporting has necessitated international standard setters and regulators to revisit the financial reporting aspects of investments and how improvements in financial reporting could help enhance investor confidence in financial markets.

The new standard is effective for financial periods beginning from 1 January 2011 but earlier applcation is also permitted.

AAOIFI is currently developing revised accounting standards on investments in real estate, equity of investment account holders and takaful (Islamic insurance). In addition, it is also formulating a new standard on governance for Shari'a Supervisory Boards (SSBs) that will regulate the conduct of Shari'a scholars serving on Islamic financial institutions' SSBs.

The new governance standard will address concerns, including the number of boards that a Shari'a scholar can effectively serve on, whether Shari'a scholars can have shareholdings in the institutions that they serve, and potential governance issues relating to Shari'a advisory services given to Islamic financial institutions by commercial entities that are owned by Shari'a scholars.

AAOIFI -World Bank conference

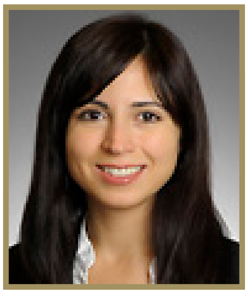
The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), in cooperation with the World Bank, will convene the AAOIFI - World Bank Annual Conference on Islamic Banking and Finance on 1 and 2 December 2010 in Bahrain. The event will be held under the auspices of the Central Bank of Bahrain.

The Conference forms part of AAOIFI's consultative process with the international Islamic finance industry to facilitate its standards development and review program. Discussions at the event will cover topics including on governance for Shari'a Supervisory Board, capital market development, financing defaults, and international accounting standards for Islamic finance.

"This Conference, which is a premier event for the international Islamic finance industry, brings together the leading Shari'a scholars, regulators, academicians, and Islamic finance practitioners to debate pertinent industry issues," said Dr. Mohamad Nedal Alchaar, Secretary- General of AAOIFI.

M&A activity to gather pace as firms pursue growth

Leading corporate executives in the GCC expect M&A activity in the region to increase over the next year, with bank loans to be the most popular financing source for such transactions, finds a study commissioned by Blake, Cassels & Graydon LLP (Blakes), a leading Canadian law firm with offices in Bahrain. Zein Semaan, Blakes Associate, Gulf Region, explains the findings of the study.



During the course of a recent mergermarket[1] study commissioned by Blakes, to mark the opening of its Gulf offices in Bahrain and Saudi Arabia, more than 75 GCC executives were interviewed to gain perspective on the business community's outlook for investment and trends in the region over the near term. Among the findings of the GCC Investment Outlook study were predictions and expectations with respect to the GCC region's economic growth sectors, cross-border investment activity and financial markets.

Growth Areas

Unsurprisingly, a majority of respondents foresee the GCC region's economic growth as primarily dependent on international economic conditions and the stabilization of oil prices, with certain respondents directly correlating the price of oil and the state of the GCC economy, due to the region's dependence in recent years on major cash flows from oil revenues. However, many respondents de-emphasize the role of the oil sector in the region's future economy and view the development of non-oil industries and government stimulus packages as the most important factors in fuelling growth.

The GCC region's shift away from oil dependency is expected to bring about the most rapid development in the telecommunications and infrastructure sectors over the next one to two years. Telecom in particular is viewed as an area "not greatly affected by the global meltdown or events happening in the current market". Within the infrastructure sector, various early-stage projects are likely to stimulate growth and significant expansion is expected in the areas of natural resources and transportation, particularly as the populations of certain Gulf countries continue to increase.

Significant Findings

Saudi Arabia and Qatar are expected to see the most investment activity, both foreign and intra-regional, as well as the most bank-lending activity, over the next year. Significant bank lending and investment activity in Saudi Arabia can be attributed in part to the country's rapid infrastructure expansion and banks' readiness to finance "major railway and port development projects", as well as to the increasingly progressive Saudi legal system. With the recent legal reform, business transactions have become more timely and cost-efficient, making the country an attractive hub for both internal and foreign investment. While China and India are identified as the leading countries spurring foreign investment activity into the GCC region, they are also expected to be the countries to draw the most outbound investment activity from the GCC region.

The statistics with respect to Saudi Arabia and Qatar aside, respondents expect a general decrease in bank lending activity in the GCC region and an increase in the cost of financing due to the recent volatility in the financial sector. All the same, a large percentage of respondents (42%) believe that bank loans will be the most frequently used financing source for M&A transactions over the next year, followed by Shari'a-compliant financing, private wealth and government loans, respectively. The choice of financing is apparently most affected by flexibility and leniency principles, both in conventional and Shari'a-compliant contexts. For instance, one respondent believes conventional bank loan terms are becoming decreasingly stringent while another respondent believes Islamic financing "accommodates a degree of flexibility".

Although the deadline has been extended for the issuance of a single GCC currency, a strong majority of respondents supports plans for a common currency for Bahrain, Kuwait, Qatar and Saudi Arabia, as this is anticipated to encourage intra-regional trade and investment. A minority of respondents opposed to a common currency cite the varied economic cycles and size of economy of each GCC state as impediments to establishing common ground, instead favouring the view that "each country should find value for its economy individually".

Trends

Nearly half of the study's respondents (46%) predict joint ventures to be the most common GCC deal structure over the near term, which is not surprising given that joint ventures are "powerful vehicles for driving business expansion and entry into new markets – particularly international markets". Thus, joint ventures will continue to be the preferred business model for many investors in the GCC region, as this particular deal structure tends to allow a degree of flexibility and transparency for procuring financing in the private and public debt markets. With respect to legal issues regarding joint ventures, the three most important factors for non-GCC entities partnering with GCC-based entities are the lack of clarity in local ownership rights, legal and enforceability risks and taxation laws. Conversely, GCC entities entering into joint ventures with non-GCC entities are most concerned with economic free zone and taxation laws, followed by local ownership rights and management structures.

Finally, respondents expect publicly-held companies to present the most abundant investment opportunities over the next year, followed by family businesses and state-owned enterprises. Apart from the sheer volume of opportunities that public companies offer, investors appear to be wary of the comparably less rigorous reporting standards of private companies.

The study findings set the scene for a generally optimistic investment outlook in the GCC region. Nevertheless, respondents have identified a strong need for reform in financial reporting standards, foreign investment regulation, credit/lending standards and corporate governance in order to improve the investment climate and provide investors with increased confidence.

[1] mergermarket, part of The Mergermarket Group, is an independent M&A intelligence service focused on potential deal flow, potential mandates and valuations. The complete study is available at www.blakes.com/english/GCCReport/

The views expressed in the article are not necessarily those of the CBB.

CBB grants licence to Swiss-based Bank Sarasin

The Central Bank of Bahrain (CBB) has granted an Investment Business Firm Category 2 license to Bank Sarasin & Co. Ltd., a major Swiss private banking group with assets under management totaling US$92.5 billion, to establish a subsidiary in Bahrain called Sarasin-Alpen (Bahrain) BSC (c).

The new entity will offer advisory services to high net worth private clients.

The Sarasin Group is incorporated in the GCC and India as Sarasin-Alpen. It operates alongside its investment banking associate, Alpen Capital. The two organizations operate through a simple and successful business model where the investment banking services of Alpen Capital complement the private banking activities of Sarasin-Alpen.

Mr. Ahmed Al-Bassam, Director, Licensing & Policy, at the CBB, said, "We welcome Bank Sarasin & Co. Ltd's decision to expand its operations in the Arabian Gulf by establishing Sarasin-Alpen in Bahrain.

"Despite the prevailing international market conditions, there is still demand for investment services from professional advisors. The future of Bahrain, the GCC and the Middle East region economies is very promising."

Mr. Rohit Walia, Executive Vice Chairman and Chief Executive Officer of Bank Sarasin-Alpen, said: "As the 'Best Private Bank in the Middle East' (The Banker Middle East Awards 2010) we are confident that we can offer tailored advisory services to our new clients in Bahrain that will provide genuine value-added benefits to their investment portfolios."

Mr. Fidelis M. Goetz, Head of Private Banking at Bank Sarasin & Co. Ltd said: "We are delighted to announce our presence in Bahrain, yet another country in this important strategic region. Sarasin-Alpen has been very successful in establishing itself in the Middle East over the last five years and we are now looking to replicate this success story in Bahrain."

Court validates CBB decision on Awal Bank

A Bahrain court ruled in favour of the Central Bank of Bahrain (CBB) following an appeal launched by the former Chairman of Awal Bank, against the decision made by the CBB on 30 July 2009 to place Awal Bank into administration.

The ruling supported the CBB decision to place Awal Bank into administration due to Awal Bank's defaults on certain of its obligations in June 2009, under Article 136 of the Central Bank of Bahrain and Financial Institutions Law (Decree No. 64 of 2006).

Since Charles Russell LLP, the Bahrain and London-based law firm, was appointed as external administrator, together with Baker Tilly Restructuring and Recovery LLP, have worked in close coordination with the CBB to instigate a process of asset realization and has initiated legal proceedings across a number of jurisdictions, including Bahrain, London, New York, the Kingdom of Saudi Arabia and the Cayman Islands.

These activities will continue to be driven forward following the court's ruling on 29 June 2010.

Mr. Khalid Hamad, Executive Director, Banking Supervision, at the CBB commented: "The priority of the CBB is clearly to maintain the strength and reputation of the Bahrain banking sector and, given the circumstances, we were ultimately left with no other option except to appoint administrators.

"The ruling clearly validates our decision and we will continue to support the independent administrators. Their priority is the realization of Awal Bank's assets, for the benefit of all stakeholders and creditors, through all available means."

Shaikh Salman bin Isa al Khalifa, Executive Director, Banking Operations, at the CBB commented: "The CBB has worked closely with Bahrain's financial sector to help it through the inevitable fallout from the global financial crisis. Our aim throughout has been to maintain financial stability in the Kingdom and the decision to place Awal Bank into administration should be viewed in this context. Maintaining financial stability, when combined with a supportive business environment, means that the financial services sector in Bahrain continues to enjoy a positive outlook."

He added: "In the last three years, employment in banking and financial services as a whole rose by 16%, now totaling around 14,000 employees, a clear illustration of the ongoing progress being made. Importantly, from Bahrain's perspective, is that around two-thirds of the employees in the financial services sector are Bahraini."

Mr. Rasheed Mohammed Al Maraj, Governor of the CBB, commented: "During its 40 years as the financial centre for the Middle East and North Africa region, Bahrain has weathered a number of storms yet emerged from each in a stronger position. The reputation that we have built as a well-regulated and transparent financial centre is important to us and we will continue to defend it. This means that, when necessary, we will make the difficult decisions required, such as placing Awal Bank and The International Banking Corporation (TIBC) into administration.

"I have no doubt that these decisions were the rights ones to make and in the best interests of Bahrain's financial sector; they ultimately mean that once again Bahrain's financial services sector will emerge from the downturn stronger than before."

CBB launches revamped website

The Central Bank of Bahrain (CBB) launched a new and improved website on www.cbb.gov.bh

The re-design of the website, launched in July 2010, was intended to help users navigate the substantial range of information that the CBB makes available online.

Most notably, the new website provides clearer links to the CBB's Rulebook, enabling both existing and prospective licensees to find the CBB's relevant regulatory requirements in a timely way. The new website also contains extensive economic and financial data and information about the CBB.

Welcoming the re-designed website, Dr. Huda Al Maskati, Executive Director, Corporate Services, at the CBB said: "The new-look CBB website is a further example of the CBB's long-standing commitment to transparency which has been one of the foundations of Bahrain's success as the leading financial centre in the Middle East and North Africa region."

The website features straightforward access to all directorates within the CBB, as well as statistical information which has been structured to accommodate the requirements of financial users as well as researchers and students.

"Reinventing the website to suit today's external users comes as part of CBB's ongoing initiatives to adopt best practice methods," added Dr. Al Maskati. "We welcome your input and feedback on the new and improved website on info@cbb.gov.bh."

CBB hosts Bahrain-Bermuda financial forum

The Central Bank of Bahrain (CBB) hosted the first Bahrain-Bermuda Conference on Global Financial and Insurance Services.

The event, held in Bahrain on 6 July 2010 highlighted the many opportunities that are available in the financial services sector of both countries.

The visiting Bermuda delegation was led by the country's Minister of Finance and Deputy Premier, the Hon. Paula Cox.

"Nothing is more important to the Ministry of Finance than promoting increased economic ties between Bermuda and its many trading partners. This includes not only encouraging Bahraini companies to increase their business in Bermuda, but also helping Bermuda companies to grow in Bahrain," said Ms Cox.

"The goal of the conference is to connect Bermudian and Bahraini firms to stimulate Bermuda - Bahraini commercial growth."

The event included presentations by senior Bermuda administration officials and executives from leading Bermudian firms.

The conference also provided participating Bermuda companies the opportunity to meet with potential business partners and network with key Bahraini government and industry officials.

Bermuda entities with Bahrain interests are expected to grow significantly as local service providers expanding their offerings to the Middle East and the North Africa (MENA) market utilizing the Kingdom of Bahrain as a gateway jurisdiction, in addition to offering Middle East clients immediate access to Bermuda.

"Many of our local service providers have extensive experience of Islamic structured finance, including conventional and Shari'a-compliant investment funds. Moreover, it is likely that the global market for takaful (Islamic insurance) will continue to grow, opening exciting possibilities for Bermuda reinsurers," said Ms Cox.

Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB said the conference helped further enhance areas of cooperation and coordination among key players in the financial services sectors of Bahrain and Bermuda.

The two countries can work together to build their financial sectors through cooperation because the political will is there to do this, Ms Cox said at the conference.

"The double taxation agreement we signed with Bahrain in Washington in April 2010 is the first of its kind we have signed with any country," she said.

"It offers more scope than other agreements we have with other countries and makes it easier for Bahrain and Bermudian businesses to co-operate in finance.

"We have carried out some gap analysis and it looks like there is not much required in the way of legislation to facilitate business. We will make sure that the enabling framework is in place at a public policy level which can see things start to move forward from the private sector before the end of the year."

She said the opportunities in Bahrain were "tremendous".

Mr. Greg Wojciechowski, President and Chief Executive Officer of the Bermuda Stock Exchange, said he believed there would be positive developments in building business between the two economies sooner rather than later.

"There is a serious desire from the Bermuda side to develop this relationship which is why we have such a high level government delegation here and we know there is a serious commitment also from Bahrain," he said.

"We also want to build strong ties between our two stock exchanges and look at joint listings in the future. In Bermuda, we are also interested in listing sukuk from this region on our market. We are interested in the cross listing of funds and working hand-in-hand with the Bahrain authorities.

"Bermuda can act as a gateway to North America for Bahrain's Islamic financial expertise and we hope Bahrain can act as a gateway for Bermuda's financial expertise for the Middle East and North Africa region."

BSE becomes member of key global association

The Bahrain Stock Exchange (BSE) has become a permanent member of the Association of National Numbering Agencies (ANNA), the global body responsible for implementing and promoting the international securities identification numbering (ISIN) system as a global identifier (based on ISO 6166) for securities listed and traded in various stock exchanges and capital markets.

ISIN is the only internationally recognized standard that uniquely identifies securities. ANNA is the ISO (International Organization for Standardization) maintenance agency for the ISIN numbering standard.

ANNA was founded in 1992 by 22 national numbering agencies (NNAs) and has rapidly grown to become a global association of regulatory authorities for securities, Central Depositary institutions, and stock exchanges responsible for identification such as: London Stock Exchange, Tokyo Stock Exchange, Singapore Exchange Limited, Euroclear Bank and Standard & Poor´s (USA). Its membership currently stands at 106 members representing 118 countries, with some members representing several countries.

The NNAs are responsible for the identification of financial instruments using the ISIN, which is a key component of straight-through-processing (STP).

"I am delighted with the BSE's success in obtaining a membership in ANNA, as this goes in line with the exchange's efforts in implementing international standards and practices," said Mr. Fouad Rashid, Director of the BSE.

The BSE is currently the only organization in Bahrain that can issue ISIN numbers, enabling the exchange to allocate and maintain ISIN numbers for all securities listed or non-listed in the Kingdom of Bahrain.

"This will ensure that a consistent numbering system, in line with international standards, is applied in the financial industry in the Kingdom, and will widen the areas of cooperation between the BSE and other exchanges and capital markets worldwide," said Mr. Rashid.

"A precise instrument identification scheme like ISIN is needed to improve efficiency, reduce the risks of trade failure, and avoid the confusion that may result in case the names of securities and companies are similar.

CBB wins takaful award for third consecutive year

For the third year in a row, the Central Bank of Bahrain (CBB) won the top award at the International Takaful Summit in London. This year's event was held from 13 -15 July 2010.

The CBB was named 'Best Financial Centre' for 2010 in recognition of Bahrain's status as the leading international centre for the takaful industry.

Bahrain hosts seven takaful and two retakaful operators, a critical mass for this growing sector of the insurance market. The takaful companies had gross contributions of BD32.7 million (US$87m) for 2009, representing a 22% increase over 2008. Of this, contributions from the family takaful class of business amounted to BD5.7 million (US$15.2m), representing 17.3% of total takaful business.

"The sound regulatory infrastructure and the active dialogues undertaken by the CBB with the takaful industry have been recognised as key drivers in the expansion of this sector," said Mr. Nader Al Mandeel, Director, Insurance Supervision, at the CBB.

"More recently, much work has been undertaken dealing specifically with corporate governance as well as regulatory solvency issues. The unique structure of takaful companies requires a clear understanding of the various insurance risks and, through the years, the CBB has been at the forefront of ensuring the sound development of its regulatory framework in this regard.

"The CBB does recognise that consistent application of takaful rules is a key feature in ensuring the continued growth of this industry."

The CBB actively participates in the development of new international standards for the takaful industry. It plays an essential part in the various initiatives of the Islamic Financial Standards Board (IFSB) and supports the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) in evolving accounting, auditing and governance standards.

Commenting on the Award, Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB said, "The CBB is pleased to have been recognised by this prestigious award and will endeavour to continue working to build the takaful industry.

"The growing capacity of retakaful companies has helped the takaful industry in seeking mechanisms to place risks underwritten by takaful companies. In Bahrain, gross premiums from retakaful companies have grown from BD15.9 million (US$42.3m) in 2008 to BD50.5 million (US$134.3m) in 2009, registering a significant growth of 217.6%."

Mr. Al Mandeel noted that takaful growth has been exceptional over the past decade. In many countries, takaful business has experienced double-digit annual average growth rates. In Bahrain, the takaful market is expected to reach US$200m by 2015, judging by the number of takaful operators already established in the Kingdom and the market-friendly regulatory environment for the financial services industry at large, and takaful industry, in particular.

The industry currently comprises seven locally-incorporated takaful firms and two international retakaful companies, with more licensed firms expected in the future. In comparison, there are 14 conventional insurers and two conventional re-insurance firms operating in Bahrain.

"In order to sustain current growth rates in the future, takaful firms should work towards achieving common practices and common standards in all jurisdictions. A wide variety of interpretations of Shari'a principles would slow the international growth of takaful. In order for the Takaful industry to prosper, further standardization of the operating models is required," said Mr. Al Mandeel.

In Bahrain, takaful operators are required to adhere to regulatory standards set by the CBB. However, to make sure that these regulatory standards are fair and efficient, the CBB has an established practice of consulting with the industry and other interested parties, prior to the introduction of any new or amended regulations.

Another issue facing the industry is the "problem of success". Due to it's fast growth, a brisk supply of well-trained and qualified staff is needed to keep pace with the growth. He pointed to the partnership between the Bahrain Institute of Banking and Finance (BIBF) and the UK-based Chartered Insurance Institute (CII) to provide professional training in takaful. This cross-border initiative should help several other jurisdictions to produce a flow of qualified people to keep up with the demands of the takaful industry.

The shortage of Islamic investment products and instruments and the lack of retrotakaful is another challenge which could hamper the growth of the industry.

On the whole, the global takaful industry is firmly on a growth trajectory and and, according to industry estimates, the potential market for takaful is worth US$35 billion, said Mr. Al Mandeel.

"The increasing acceptance of the takaful concept and increased levels of business, particularly from general and family takaful, will sustain growth in the future," he said.

Stage set for annual Islamic banking forum

The stage is set for the annual World Islamic Banking Conference (WIBC) to be held in Bahrain.

The 17th WIBC will take place from 22-24 November 2010 under the theme 'Building a New Growth Paradigm'.

"As international financial markets move towards recovery, the Islamic finance industry continues to display robustness. And, industry leaders are devising and implementing growth strategies that embrace the new global financial landscape," said Mr. David McLean, Managing Director of MEGA Events, the organizers of the conference.

"The effects of the economic crisis have necessitated a thorough revision of key business thinking that previously underpinned the strategies of the leading players in the Islamic banking industry."

A key highlight of the event will again include the WIBC Competitiveness Report, developed in collaboration with McKinsey & Company.

A number of pre-conference workshops are scheduled to be held on 22 November, ahead of the official opening ceremony on 23 November.

These include a workshop on 'Hedging and Liquidity Management in Islamic Finance', which will be conducted by the International Islamic Financial Market (IIFM).

Ideal Ratings and Thomson Reuters will hold a workshop on Shari'a-compliant Fund of Funds Investments and Asset Allocation, while the 'Middle East Debt Market: Restructure, Refocus and Refine' will be the focus of a workshop by Deutsche Bank.

The Islamic International Rating Agency (IIRA) will conduct a ratings workshop and the 'Evolution of Murabaha: From Physical To Electronic Trading' will be spotlighted during a workshop by Bahrain Financial Exchange.

Financial Sector Fact Sheet

Regulator: Central Bank of Bahrain

Financial Institutions: 401 (Septmber 2010)

Financial Sector Workforce: 14,137 (2009)

Bahraini nationals 9,313 (65.9%)
Foreign nationals 4,824 (34.1%)

Key Economic Indicators:

GDP (Current) US$20.6 billion (2008)
Growth -5.9%
GDP (Constant) US$13 billion (2008)
Growth 3.2%
Financial Sector contribution to GDP 25%
Sovereign rating A (S&P 2008) with stable outlook
A (Fitch 2008) with stable outlook
Population 1,039,297 (2007)

Banking Sector:

Assets US$210.4 billion (August 2010)
No. of institutions 133 (September 2010)
Retail banks 30
- *Locally incorporated 15*
- *Branches of foreign banks 15*

Wholesale banks 76
Representative Offices 27
Islamic Banks (included in above):
No. of banks 27 (September 2010)
Assets US$24.9 billion (August 2010)

Insurance Sector:

Total No. of Insurance Companies & Organisations
Authorised in Bahrain 167 (September 2010)
Domestic market
Gross premiums US$532 million (December 2009)
No. of insurance firms 38
- Locally incorporated insurance firms 27
- Overseas insurance firms 11
  - Takaful & Retakaful Firms (included above) 9
  - Captives (locally incorporated – included above) 2

Insurance Brokers 33
Insurance Consultants 5
Insurance Managers 3
Representative offices 5
Loss adjusters 11
Actuaries 25
Insurance Ancillary Services 2
Insurance Pools & Syndicates 2
Insurance Society 1
Insurance licensees restricted 42
- Insurance Firms restricted 35
- Insurance Brokers restricted 5
- Insurance Consultants restricted 2

Investment Business Firms: No. of firms 45 (September 2010)

Capital Market:

Market Capitalisation US$16.8 billion (September 2010)
Brokers 11
Listings
- Companies 49
- Mutual Funds 35
- Bonds 10

Specialised Licensees:

No. of firms 20 (September 2010) [comprising: Trust Services Providers 3; Reg. Admin 5; Ancilliary Services 12]
Money Changers 19
Financing Companies 9

Funds Industry:

Authorised Funds 2,733 (September 2010)
- NAV US$9.56 billion (June 2010)

Local Funds 133 (September 2010)
- NAV US$5.64 billion (June 2010)
- Conventional-Local 73
- Islamic-Local 60

Foreign Funds-Offshore 2,600 (September 2010)