THE REVIEW

مصرف البحرين المركزي
Central Bank of Bahrain

Published by the Central Bank of Bahrain (CBB)

2030 البحرين BAHRAIN

September 2012 Issue 32

Bahrain insurance industry continued to grow in 2011

Bahrain's insurance industry grew by two percent in 2011, even as the global economy remained subdued, according to the Insurance Market Review 2011, issued by the Central Bank of Bahrain (CBB).

Total gross premiums underwritten by the domestic insurance industry, including takaful (Islamic insurance) operators, grew to BD214.9 million (US$570.1 million) in 2011, compared to BD210.48 million (US$558.3 million) in 2010.

Other key highlights of direct insurance business in 2011 included:

- An increase of 31 percent in engineering insurance premiums to BD16.5 million in 2011, representing almost eight percent of total premiums underwritten that year;
- Medical insurance also posted strong growth, with gross premiums totaling BD31.8 million in 2011, an increase of 10 percent over the previous year;
- Total assets of all insurance (including Islamic insurance) firms stood at BD1.5 billion, up by almost eight percent over 2010.

"The insurance sector in Bahrain holds tremendous promise for growth, as demonstrated by the industry's strong performance not only during 2011 but also during the past five years," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

"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, as well as due to the surge in economic growth in Bahrain and the soundness of the regulatory and supervisory framework for the insurance sector in the Kingdom."

Detailed data and analysis related to the insurance industry are contained in the Insurance Market Review 2011, which is available on the CBB website at www.cbb.gov.bh

According to this annual report, Bahrain's domestic insurance market, at 2011-end, comprised 27 locally incorporated firms and 11 overseas insurance firms (branches of foreign companies) carrying out insurance, reinsurance, takaful, retakaful and captives business.

The locally incorporated companies consisted of 14 conventional insurance firms, seven takaful firms, two reinsurance firms, two retakaful firms and two captives, while the overseas firms consisted of eight conventional insurance firms and three reinsurance firms. In addition, there are a substantial number of firms conducting insurance brokerage services, actuarials, insurance consultancy and other insurance ancillary services.

Bahrain-incorporated firms took the lion's share of the market, with gross premiums totaling BD163.9 (76 percent of total premiums), while gross premiums of overseas insurance firms, totaling BD51 million, were an improvement of eight percent over 2010.

A significant part of the growth in 2011 was due to a surge in engineering insurance, which saw gross premiums increase by 31 percent to BD16.5 million in 2011, compared with BD12.6 million in 2010.

Medical insurance also posted strong growth, with premiums growing by 10 percent to BD34.8 million in 2011.

The takaful industry also continued to expand with overall gross premiums reaching BD40.2 million in 2011, an increase of four percent over the 2010 figure of BD38.6 million.

It is worth mentioning that the industry employed a total of 1,661 people in 2011, of whom 62 percent were Bahraini nationals.

See also 'Insurance firms thrive' – Page 4

Bahrain bond issue is big success

A US$1.5 billion international bond issue by the Central Bank of Bahrain (CBB) was oversubscribed by 400 percent.

The Government of Bahrain development bond, with a 10-year maturity, was issued on 12 June 2012. The bonds carried a credit rating of BBB/BBB, with a stable future outlook, from international rating agencies S&P and Fitch.

The issue was marketed in the United States, Europe, and Asia.

Shaikh Salman bin Isa Al Khalifa, Executive Director, Banking Operations, at the CBB, said the market response to the offering was proof of the strong credit standing enjoyed by the Kingdom of Bahrain and the confidence given by the international markets for Bahrain's financial sector.

He said the issue was used to create a yield curve for long-term government bonds. This was the second time that Kingdom of Bahrain bonds were offered in the US.

INSIDE

Economics of life insurance

Mr. Mohammed Jaffar Iqbal, Senior Insurance Specialist, Central Bank of Bahrain, discusses the drivers of life insurance consumption in the context of the growth of this class of business in Bahrain, which boasts the highest penetration of life insurance in the GCC region.

Life insurance has been an important part of the financial sector, providing a range of products and services for the protection of consumers and has been a major source of investment in the capital market. However, what drives the large variation in life insurance consumption across countries remains unclear.

There have been numerous studies conducted in the past to determine the consumption of life insurance. The studies highlighted a number of economic, demographic and institutional factors (determinants) that affect the demand and consumption of life insurance. These determinants are listed in Table 1.

Table 1: Determinants of Life insurance consumption

Demographic	Economic	Institutional
Young Dependency Ratio [1]	Income – Real GDP per capita	Political stability
Old Dependency Ratio [2]	Private savings rate	Voice and accountability
Life Expectancy	Inflation	Government effectiveness
Level of Education	Real Interest rate	Regulatory quality
Religious inclination	Banking sector development	Rule of Law
Urbanization	Size of Social Security system	Control of corruption
	Income distribution	

Many of the potential determinants of life insurance consumption are highly correlated with one another. For example, richer countries generally have older populations, longer life expectancies, higher levels of education, lower inflation, and better developed banking systems. There is also a correlation of the various determinants with the measures (indicators) of life insurance consumption, such as life insurance penetration (i.e. insurance activity relative to the size of the economy), life insurance density (premiums per capita), life insurance in private savings (ratio of total premiums to private savings), and life insurance In-force to GDP (ratio of sum of mortality risk underwritten and savings accumulated to GDP).

The variation in life insurance consumption across countries could be explained by variation in determinants such as income, old dependency ratio, religious inclination, inflation, and banking sector development. There is a positive relationship between the old dependency ratio and life insurance penetration, which suggests that demand for savings and annuity products increases as the population ages. On the other hand, a lower inflation rate results in more life insurance consumption.

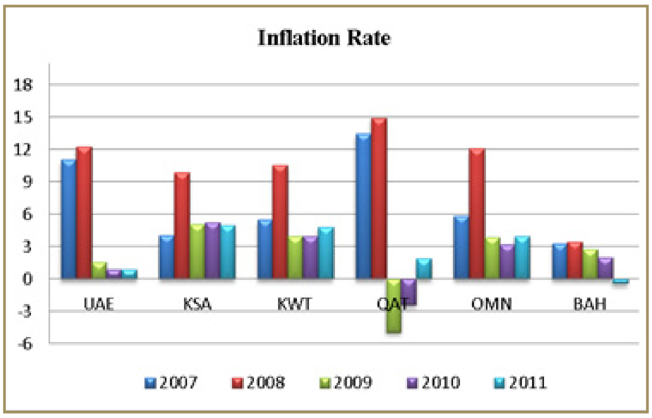
Further, the real interest rate is positively related to life insurance penetration when inflation is controlled. As far as banking sector development is concerned, there was a positive correlation with life insurance penetration, which suggests that countries with a well-developed banking sector also have higher life insurance consumption.

In summary, real GDP per capita, inflation, dependency ratio, level of education, urbanisation and banking sector development are considered to be robust predictors of life insurance consumption across countries and over time. In addition, religious and institutional differences can explain some of the variation in life insurance consumption across countries.

Indicators for Bahrain

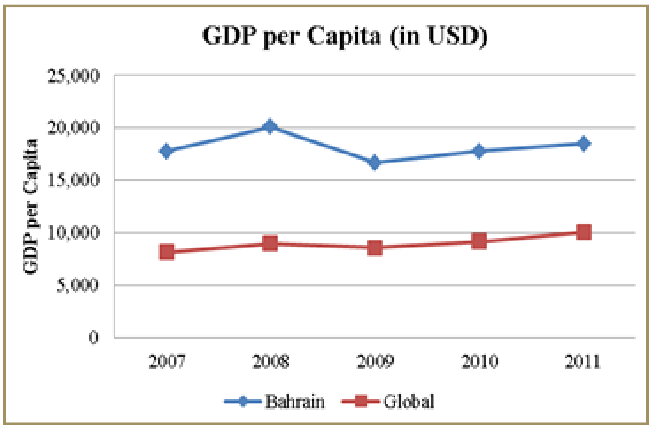
Bahrain's economy has been able to sustain high growth due to robust economic policies. Bahrain's GDP has been growing at a compound annual growth rate (CAGR) of almost 12 percent since 2001. The International Monetary Fund (IMF) projects the Kingdom's GDP to expand at a CAGR of six percent during 2012-15. As far as inflation rate is concerned, it has been around two to three percent for quite some time, and decreasing (See Figure 1). GDP per capita has been higher than the global average as shown for the period 2007-2011 (See Figure 2).

Figure 1



Sources: Sigma- Swiss Re, World Bank, Central Bank of Bahrain

Figure 2



Sources: Sigma- Swiss Re, World Bank, Central Bank of Bahrain

1- The ratio of young dependents to the working-age population
2- The ratio of old dependents to the working-age population

Continued on Page 3

Economics of life insurance

Continued from Page 2

The financial sector in Bahrain is sound and continues to be the largest contributor to the Kingdom's economy, accounting for 24.7 percent of real GDP in 2010. The banking sector is strong, well-capitalized and profitable, which is a very important determinant of life insurance consumption, as discussed above.

The proportion of educated and economically active population (as a percentage of total population) in Bahrain has been increasing, which shows the potential for increase in demand for insurance products. According to the United Nations' Human Development Index (HDI), as of 2010, the adult literacy rate (% of 15 years and older) is 90.8 percent and life expectancy at birth is 76 years. All these economic and demographic factors demonstrate the immense potential of life insurance growth in the country.

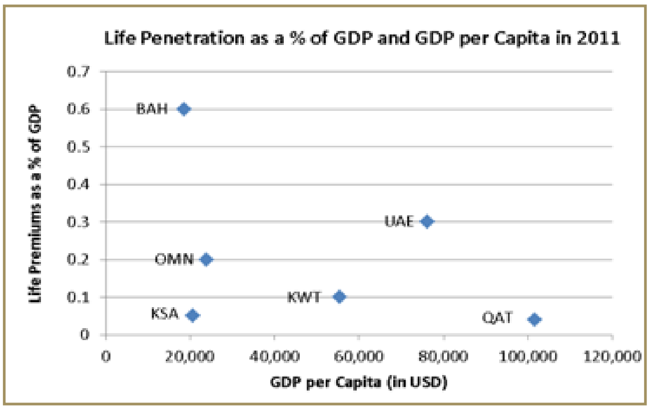
The presence of a robust regulatory environment and world class regulatory framework further enhances the insurance growth potential of the Kingdom. As the regulator of the financial sector, the Central Bank of Bahrain constantly works to strengthen regulatory policies and to develop appropriate prudential regulations, in order to maintain financial stability and market integrity.

Life Insurance

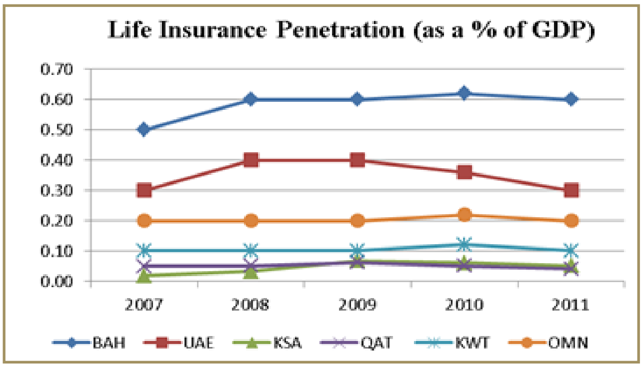
The life insurance sector has been growing at a CAGR of almost 14 percent for the period 2001 to 2011. GDP has been growing at almost 12 percent CAGR for the same period. Life insurance penetration and density have increased by seven percent and 11 percent, respectively, in the last five years.

Life insurance consumption in Bahrain, measured in terms of life insurance penetration and density is depicted in Figure 3. A comparison is also shown with other GCC countries to highlight the progress made by the sector in the region.

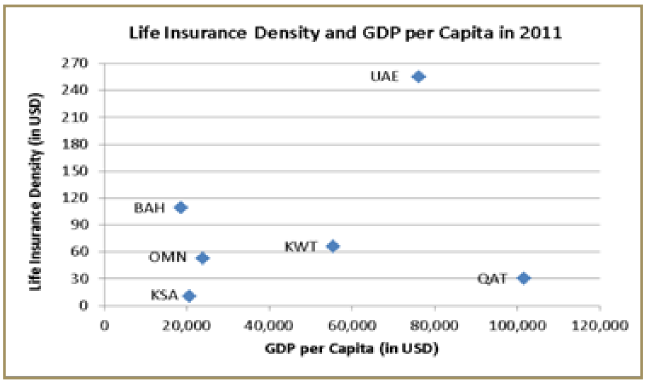
Figure 3



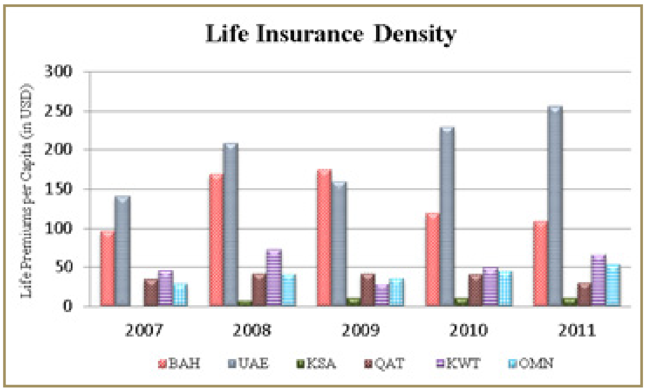
Source: Sigma- Swiss Re, World Bank, Central Bank of Bahrain



It is very clear that Bahrain has the highest life insurance penetration in the GCC. Although the penetration is still below the global life penetration of 3.8 (as a % of global GDP), there is tremendous growth potential. According to a recent study by Alpen Capital, the life insurance sector in the Kingdom is expected to grow at a CAGR of 14 percent between 2011 and 2015. Life insurance penetration is expected to reach 1.05 percent of GDP by 2015, which will continue to be the highest in GCC.



Source: Sigma- Swiss Re, World Bank, Central Bank of Bahrain



Life insurance density in Bahrain has historically been strong compared to the other GCC countries (except the UAE). However, the insurance density has been lower than the global average of US$378. It is expected that the life insurance density in the Kingdom will grow at a CAGR of 11 percent during the period 2011-2015 to reach US$289.92 in 2015.

Family Takaful

Takaful, generally known as Islamic insurance, is based on the Shari'a principles of mutual cooperation and social solidarity. It has steadily been growing in popularity around the world. The GCC contribution to the global takaful market was almost 70 percent in 2010. Increasing acceptance of takaful in the GCC has led to increased insurance penetration. The takaful market share in Bahrain is almost 19 percent (as of 2011) of the overall insurance market and has an insurance penetration of 0.45 percent, which is the second highest in the GCC after Saudi Arabia.

Family Takaful is one of the service sectors that is expected to continue to drive growth in the economy and play an important role in supporting economic and social development. Family Takaful, which comprises almost 8 to 10 percent of the life market in the Kingdom, has been growing at a CAGR of almost 59 percent since 2006. Although the rate of growth has slowed down a bit lately, the takaful markets remain robust.

Insurance firms thrive in well regulated market

Bahrain's well-established insurance regulatory framework is a key factor in the continued growth and expansion of the Kingdom's insurance industry, says a Central Bank of Bahrain (CBB) official.

"Due to the well-established regulatory regime, a number of leading international insurance companies continue to establish their insurance and reinsurance operations in Bahrain, both in conventional and takaful (Islamic) insurance, 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 insurance licensees and general public."

In remarks coinciding with the release of the CBB's Insurance Market Review 2011, Mr. Al Mandeel said official data contained in the annual report pointed to a continuation of the industry's growth momentum in the coming years.

Total gross premiums underwritten by the domestic insurance industry, including takaful operators, grew to BD214.9 million (US$570.1 million) in 2011, an increase of two percent over the 2010 total of BD210.48 million (US$558.3 million).

The takaful industry continued to expand with overall gross contributions of takaful operators reaching BD40.2 million in 2011, an increase of four percent over the total of BD38.6 million in 2010.

"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," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

By end of 2011, there were five conventional reinsurance firms and two retakaful firms in Bahrain. The gross premiums/contributions of reinsurance and retakaful firms increased eight percent to BD349.5 million in 2011, compared to BD323 million in 2010.

The total volume of general insurance business was BD166.1 million in 2011, an increase of four percent over the previous year's gross premiums of BD159.1 million, while long-term insurance (life and savings products) totaled BD48.9 million in 2011.

Following are highlights of the performance of some classes of business, as provided in the Insurance Market Review 2011, 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 and children's education policies. Gross premiums generated by this class of business totaled BD48.9 million in 2011, which represented 23 percent of total gross premiums in Bahrain for that year.

Motor Insurance

Motor insurance premiums decreased by three percent to BD55.6 million in 2011, from BD54.5 million the previous year. However, despite the decline, motor insurance business represented the most significant portion of insurance business written in Bahrain, representing almost 26 percent of the total gross premiums written in 2011. Motor claims totaled BD41.9 million last year.

Fire, Property & Liability

Fire, Property & Liability insurance premiums represented 18 percent of the market, with premiums totaling BD38.7 million in 2011, which was an increase of eight percent over the 2010 figure of BD35.7 million. Claims increased marginally, by two percent, to BD12.8 million last year, compared to BD12.6 million in 2010.

Medical Insurance

Gross premiums for medical insurance surged by 10 percent in 2011 to BD34.8 million, from BD31.8 million the previous year. This line of business represented 16 percent of total premiums in 2011. Claims, too, rose by 13.7 percent to BD24.6 million in 2011, compared to BD21.7 million in 2010.

Other Classes

Other Classes of insurance includes engineering, miscellaneous financial loss, and others. Gross premiums generated by this class of business increased by 14 percent to total BD29.9 million in 2011, compared to BD26.2 million in 2010. The increase was mainly due to a surge in engineering premiums, which saw a 31 percent increase to BD16.5 million in 2011. Claims, on the other hand, declined to BD6.7 million, from BD8.3 million in 2010.

Reinsurance

Reinsurance and retakaful gross premiums increased by eight percent to BD349.5 million in 2011, from BD323 million the previous year. Gross claims of reinsurance and retakaful firms increased significantly to BD272.8 million in 2011 compared to BD200.8 million in 2010, an increase of 36 percent.

The reinsurance market registered a net income of BD7 million in 2011, compared to BD6.5 million the previous year.

There has been rapidly expanding demand for retakaful business due to the increasing number of takaful firms in the international insurance market over the past decade. The gross contributions of retakaful firms increased from BD78.1 million in 2010 to BD86.2 million in 2011, an increase of 10 percent over 2010. The retakaful business represents approximately 25 percent of the total reinsurance and retakaful premiums/contributions in 2011.

The Insurance Market Review 2011 notes that Bahrain has achieved preeminence as the regional financial services centre through the Government's wise and far-sighted policy of maintaining an open and diversified economy and by paying close attention to the legal and regulatory infrastructure.

Main Highlights

	Gross Premiums			Gross Claims		
BD' 000	2011	2010	% Δ	2011	2010	% Δ
Long-term	48,877	51,356	-5%	19,971	18,843	6%
Fire, Property & Liability	38,645	35,656	8%	12,767	12,577	2%
Miscellaneous Financial Loss	4,043	4,302	-6%	1,190	2,092	-43%
Marine & Aviation	7,064	8,038	-12%	717	400	79%
Motor	55,627	57,467	-3%	41,855	46,494	-10%
Engineering	16,456	12,546	31%	3,513	2,948	19%
Medical	34,844	31,754	10%	24,636	21,679	14%
Other	9,387	9,365	0.2%	1,957	3,302	-41%
Total	**214,943**	**210,484**	**2%**	**106,606**	**108,335**	**-2%**

New risk management rules on way for Islamic banks

The Central Bank of Bahrain (CBB) is issuing a significant update to its rules on risk management for Islamic banks. The new rules, which come into effect from the start of 2013, provide the foundation for more effective risk management in Islamic banks. Mr. Richard Ellis, Advisor, Banking Supervision, at the CBB, outlines some highlights of the new rules.

The Central Bank of Bahrain (CBB) is set to introduce a new Module in Volume 2 of the CBB Rulebook in the new year. The Module has already been consulted with banks and has met a supportive and favourable reception. The new Risk Management Module (RM) outlines best practice standards of risk management for Islamic bank licensees. The RM Module follows the Guiding Principles set out in the Islamic Financial Services Board (IFSB) Risk Management Standard which complement principles issued by the Basel Committee on Banking Supervision in order to cater for the specific nature of Islamic finance.

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.

The CBB Rulebook already has specific chapters or modules on four of these risks. The new RM Module is not intended to duplicate or overlap these existing requirements. Instead, it acts as a high level set of guidance and rules, which in some cases have more detailed limits or procedures (market risk, for example) in existing Modules.

The impact of the new Module on banks is likely to be varied. A larger bank will most likely be following these principles already, since the new rules simply codify basic good practice. For smaller banks, it is likely that they will have to set up additional structures or processes in some cases. Therefore, the CBB will require all Islamic banks to perform a gap analysis and compliance review of the requirements of this new Module to ensure that these principles are implemented consistently and are followed on an ongoing basis.

The new Module is 53 pages long and so the summary below of the key changes should not be regarded as exhaustive.

Credit risk: Banks must produce a credit strategy document that outlines pricing and tolerance for undertaking various types of credit risk. The board must define and set the overall levels of risk appetite applicable to products and geographical spread. Banks must also establish policies for performing due diligence on their counterparties and then develop appropriate risk measurement and reporting methodologies for each type of Islamic financing instrument in respect of counterparty risk. There are also requirements concerning collateral arrangements and pricing for risk exposures.

Equity investment risk: is a variation on investment risk unique to Shari'a-compliant financing arrangements, such as Mudaraba and Musharaka, where funds raised through such arrangements are used to purchase equity in companies or inject capital into projects and profit is shared between bank and client. Banks are required to set appropriate strategies and risk management processes for such equity partnership arrangements. Valuation methodologies and profit sharing must be appropriate and consistent and agreed with the mudarib or musharakah partners before signing agreements. Most importantly, banks must define and establish exit strategy prior to commitment. A lack of exit strategies has been a noteworthy feature of certain real estate and private equity projects and so this principle is important.

Market risk: is slightly different (i.e. wider) for Islamic banks than their conventional counterparts, because it also includes market risk on the value of leased assets or (parallel) Salam, particularly assets which are not traded on exchanges where there is no established secondary market. So banks are required to identify such other market risks and manage them accordingly.

Liquidity risk: For this, there is the high level requirement to have a liquidity management framework to take into account each category of liability (e.g. current accounts and unrestricted investment accounts). The framework must include crisis management, asset realisation policies and the availability of additional (standby) funding.

Rate of return risk: is very similar to interest rate risk for conventional banks. In short, Islamic banks must have a comprehensive risk management and reporting process to assess the potential impact of market factors affecting rates of return on assets in comparison with the expected rate of return for investment account holders. They must use gapping or repricing methodologies to mitigate rate of return risk and use cashflow forecasts of rate of return risk.

Unique to Islamic banks is displaced commercial risk (DCR). Islamic banks may sometimes be under pressure to pay a return that exceeds the rate being earned on assets funded by investment accounts in order to retain their fund providers. Islamic banks are required to develop and maintain an appropriate framework for managing DCR. This would include making a judgment about the appropriate level of a profit equalisation reserve (PER) to provide mitigation for DCR.

Operational risk: has a wider meaning for Islamic banks as it may include not just failures of internal processes as it does for conventional banks but also includes possible internally generated losses from Shari'a non-compliance and failure in fiduciary responsibilities to customers. Therefore, Islamic banks must develop a comprehensive and sound framework management of operational risk with appropriate disclosures.

In conclusion, these principles embody what banks' customers would expect a prudent and well-managed bank to do (at a high level) to control risk and look after the interests of customers. The business of banks is risk and, therefore, a core function of banks is risk management. The new RM Module embodies the internationally accepted best practice standards of the Islamic Financial Services Board (IFSB) and is a valuable addition to the CBB Rulebook.

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.

Cooperation needed to advance Islamic finance

*Dr Khaled Al Fakih, Secretary General and Chief Executive Officer of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), talks to **The Review** about the challenges facing the Islamic finance industry and AAOIFI's work priorities.*

Q. What are the main challenges facing the Islamic financial services industry?

Dr Al Fakih: I would say that the main challenges include development of liquidity management instruments, broadening the supply of Shari'a advisory, and promoting continuing business innovation.

Challenges relating to liquidity management instruments have been discussed at length by the industry. The establishment of the International Islamic Liquidity Management Corporation (IILM) and its planned issuance of liquidity management instruments can partially address the requirement for an effective cross-border liquidity management mechanism. However, there is also a need for domestic liquidity management mechanisms to give Islamic banks access to tradable instruments in their home markets. This will also help Islamic financial institutions (IFIs) manage their statutory reserve requirements with a view to mobilising those reserves into secured Shari'a-compliant investments. In turn, this will help IFIs grow their deposits or investment funds. Development of cross-border and domestic liquidity management mechanisms and instruments will also help deepen Islamic capital markets as an avenue for investing liquid assets.

On the issue of Shari'a advisory, the industry is currently blessed to have the guidance and expertise of esteemed Shari'a scholars, who have been working tirelessly to develop the industry and guide IFIs. The growth that the industry has achieved thus far would not have been possible without the high quality Shari'a advisory provided by the scholars. However, we need to ensure that there will be a steady supply of quality Shari'a advisory to guide the industry for the next few decades. The industry will not be able to expand if the quality of Shari'a advisory is not maintained or enhanced. The industry needs to collectively support and contribute towards the ongoing efforts to broaden the supply of Shari'a advisors especially bearing in mind that Shari'a scholarship requires years and decades of learning and experience.

Yet another challenge is the need to promote continuing innovation in Islamic finance, especially against the backdrop of an ever-changing economic environment. Of course, as with finance in general, the demand for Islamic financial services will, to a great extent, depend on the state of the real economy, which operates in upward and downward cycles. So it is important for the industry to be nimble enough to navigate the economic cycles. This calls for IFIs to continuously assess their business models, product offerings and customer segmentation. And, business innovation must result from collaborative efforts between market practitioners – in generating ideas on business models and products and Shari'a scholars– in giving guidance and practical solutions on Shari'a compliance matters.

Q. What are the main lessons of the global financial crisis for the Islamic financial services industry?

Dr Al Fakih: The global financial crisis has provided some hard lessons on the issue of risk management, including the need for proper risk assessment and monitoring of products, sensible credit evaluation on financing IFIs extend, and management of long-term assets versus short-term liabilities. In addition, there are lessons to be learnt in terms of leveraging practices and proper valuations of investments. All these stress the need for strengthening risk management frameworks and incorporating them within a strong corporate governance structure.

Also, IFIs are increasingly expanding beyond their home markets and, in some cases, into non-core banking activities. Such expansion needs to be supported by regulatory and supervisory arrangements that are effective across borders and sectors. As an international industry infrastructure development body, AAOIFI potentially has much to contribute through working with regulators and supervisors across markets as well as with other industry infrastructure development bodies.

Q. Are you satisfied with the pace of standardisation in Islamic finance?

Dr Al Fakih: I think the Islamic finance industry has come a long way in certain aspects of standardisation but there is much more to be done. From AAOIFI's perspective, we feel that standardisation of product structures for the main Islamic finance offerings, such as Murabaha, Mudaraba, and Ijara, has been quite high. Adoption of AAOIFI Shari'a standards – either as a regulatory requirement or voluntarily by IFIs – has, to a great extent, contributed towards standardisation and harmonisation of Islamic finance practices. This has also been made possible through the efforts of Shari'a scholars who serve on the Shari'a Supervisory Boards of IFIs.

However, much more needs to be done to promote standardisation of accounting treatment for Islamic financial transactions. The accounting treatment needs to reflect the characteristics, substance and form of Islamic finance transactions, so that accounting records and reports can provide a true and fair representation of IFIs' financial positions. Adoption of AAOIFI accounting standards can help achieve this as the standards and guidelines on accounting treatment also form part of the overall framework to ensure Shari'a compliance in Islamic finance operations.

Much more also needs to be done on standardisation of Shari'a compliance and supervision governance structure in Islamic finance. Having said that, we must bear in mind that the ultimate objective here is not to have a standardised structure but to ensure that IFIs follow the governance principles they put in place that best support their own operations.

Q. What are AAOIFI's priority areas?

Dr Al Fakih: Our priorities are standards development, adoption, and application. On standards development, we will continue to review existing standards and develop new ones. We have extensive development programs with our standards boards – i.e. Shari'a Board for Shari'a standards, and Accounting and Auditing Standards Board for accounting, auditing, ethics, and governance standards. The review of existing standards is important because we need to ensure that our standards remain relevant to the market. We also need to develop new standards to keep up with market developments.

We also need to work more closely with regulatory authorities and the industry to achieve greater adoption of AAOIFI standards, which will also facilitate effective Shari'a compliance. For standards application, we need to create more awareness and offer educational programs to increase technical understanding and application of the standards.

And, in all our work, we need to enhance collaboration with our institutional members, regulatory and supervisory authorities, and other industry infrastructure development bodies.

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

Regulatory clarity key to Islamic banking growth

Why is it that Bahrain and Malaysia have successfully established themselves as Islamic banking hubs with over 20 percent market share while others, such as Egypt and Turkey, languish at five percent or below despite having had a head start? Regulatory clarity is the answer, argues Sohaib Umar, Executive Manager, Ernst & Young MENA Islamic Financial Services, Bahrain. The path to success in Islamic banking is, therefore, quite clear for African and central Asian countries that are now opening up – ensure regulatory clarity at the outset through a separate Islamic banking regulatory framework.

It was 1963 when the world's first Islamic bank was established – in Egypt. It took another 12 years for the second Islamic bank – Dubai Islamic – to begin operations in the UAE. Despite such a head start, Egypt's Islamic banking market share today is only five percent of the total banking market in the country. With a largely Muslim population of over 80 million, there has certainly been no dearth of demand for Islamic banking services, but the regulatory environment has not been conducive, owing to political pressures.

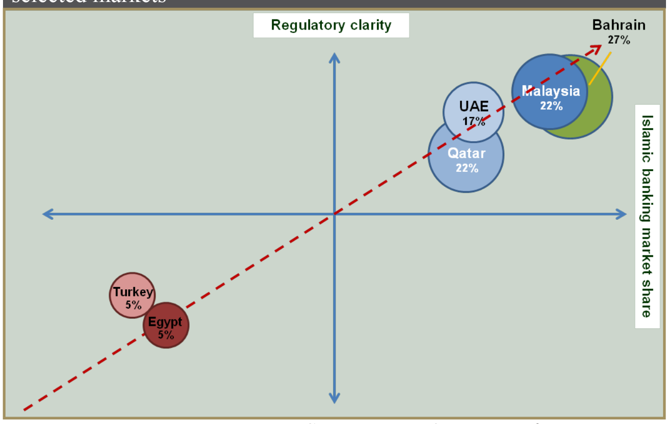
Similar is the case of Turkey where the secular provisions of its constitution were used by successive political governments as a reason to not introduce Islamic banking. Public demand was overwhelming though and, as a result, Islamic banking was allowed in the 1980s under the title "Participation Banking" (to avoid the reference to religion). Today, there are four participation banks in Turkey but their cumulative market share is no more than five percent of the total banking market.

Let us now turn to Bahrain and Malaysia, two countries that are globally recognised as Islamic banking hubs. The first Islamic bank was established in Bahrain in 1979 while Islamic banking started in Malaysia in 1983. Regulators in both countries recognised the importance of this infant industry in not only fulfilling local demand but also putting the respective countries on the global map of Islamic banking.

Both created separate Islamic banking regulatory frameworks which provided the much needed regulatory clarity to the industry and enhanced its credibility viz. Shari'a governance in the eyes of the general public.

Bahrain, in particular, has a separate Rulebook for Islamic banks which is available online and is regularly updated. Islamic banks' market share has exceeded 22 percent in Malaysia and 27 percent in Bahrain.

Figure 1: Islamic banking market share and regulatory clarity in selected markets



Source: Ernst & Young, industry estimates

In a regulated industry like banking, the link between regulatory clarity and industry performance should not come as a surprise. There are many benefits of having a clear-cut regulatory framework. The industry loves the certainty that comes with setting the rules of the game. The regulator can adopt global best practices in a systematic way in preparing the regulatory framework. Also, it can do so in a proactive manner (rather than reactively and in response to crises). A separate regulatory framework also makes bankers' lives easier who have to implement the rules and live them every day. Interestingly, and contrary to general perception, it makes the regulators' lives easier too, after the initial hard work of creating a separate framework.

What is the process like of putting together a separate Islamic banking regulatory framework (IBRF)? The most recent example is that of Oman. The only GCC country that had not allowed Islamic banking until early last year, Oman decided at the highest level to permit Islamic banking in 2Q 2011. The Central Bank of Oman (CBO) developed a comprehensive 600-page IBRF within six months. The following inputs went into developing the framework:

- Existing conventional banking framework based on Omani Banking Law and Basel II guidelines (where they do not contradict Shari'a);
- Shari'a, governance and accounting standards of the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI);
- Islamic Financial Services Board (IFSB) guidelines on capital adequacy and risk management; and
- Leading practices on Shari'a governance from around the world.

The IBRF, presently in circulation as a draft, has been generally regarded by the market as conservative, which is in line with the preference of religious conservatism by the local Omani society. Two licenses for full-fledged Islamic banks have been granted while more than half a dozen conventional banks are preparing to launch their Islamic windows. Some research surveys indicate (and anecdotal evidence also suggests) that Oman's Islamic banking growth is likely to surpass all other markets in the GCC.

Encouraged by the flurry of queries and assistance requests by the African and central Asian markets, the Islamic Development Bank, whose mandate is to promote Islamic banking in Organization of the Islamic Conference (OIC) member countries has allocated technical assistance grants for many countries to create their own IBRFs.

Libya, Iraq, Tunisia, Kenya and Nigeria are showing keen interest in opening up for Islamic banking. Kazakhstan, Tajikistan and Azerbaijan are also moving in that direction. The governments and regulators in these countries would do well to recognise the importance of regulatory clarity and create a separate IBRF right at the beginning rather than later. This is the most likely route for accelerated, yet sustainable growth of Islamic banking industry.

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

Evolution of corporate governance in Islamic banks

The continuing fallout from the global financial crisis underscores the need for good corporate governance practices, particularly for Islamic banks which have the additional commitment to Shari'a principles. Sabeen Saleem, Chief Executive Officer of the Islamic International Rating Agency (IIRA), outlines a three-step approach to strengthening Shari'a governance in Islamic financial institutions.

The recent spate of banking scandals involving certain high profile European banks, once again reminds us of the vulnerability of banking institutions, given the highly global nature of banking services.

Islamic financial institutions (IFIs) have remained largely protected from corporate scandals stemming from poor governance. This is partly owing to the fact that IFIs have generally not scaled the level of globalisation that many of their conventional counterparts have. The sheer volume of transactions in a multinational bank exposes these institutions to a myriad of operational risks and potential for loss of control. However, institutionalised control systems and their unfailing effectiveness remains key to managing the ever growing Islamic banking system, justifying the continuing emphasis on risk management and adopting sound governance standards.

With the institutionalisation of corporate governance and regulatory evolution in this area, governance runs the risk of becoming a matter of compliance, rather than good practices becoming institutionalised and thereby defining how business is to be done.

In our bid to tick down the checklist of governance related requirements, we lose sight of the ultimate goal of instituting strong controls all across honest conduct, and protecting fairly the interest of even the smallest stakeholder. There is not enough evolution in the area of tailoring supervisory and control practices for varying organisational structures even in the area of conventional banking. Rethinking governance and risk management should therefore be an institutional priority with regulatory impetus providing the necessary pressure to keep the focus alive.

Shari'a Governance

It is a well-established fact that IFIs are not only just as vulnerable to operational risks and risk management failures as their conventional counterparts, but that their commitment to Shari'a imposes a host of additional responsibilities. Even in the more developed banking jurisdictions, governance standards pertaining to an IFI's Shari'a framework have not received the attention that these deserve. While abundant scholarly guidance is available on governance standards specific to Shari'a infrastructure, the regulatory stance in most countries affords greater discretion to institutions and only a few requirements are generally mandated.

As a result, in general, the Shari'a governance framework generally does not find as much focus as does the organisational good practices common to all banks - Islamic and conventional. An IFI's Shari'a infrastructure seems usually to exist alongside the organisation's overall governance structure without achieving optimum interaction between these two systems. The seamless entrenchment of a Shari'a-mindful approach to business is rarely achieved.

Multi-layered Approach

To strengthen IFIs, and with special regard to ensuring that Shari'a principles are embedded in banking functions, a three-step approach may be helpful. Firstly, it is virtually impossible for an institution to achieve very high standards of Shari'a compliance and near-perfect application of governance standards, without smoothing out the multiple risks emanating from the environment. A bank, be it Islamic or otherwise, largely mirrors the state of affairs in its environment and the society it operates in. Therefore, a focus on resolving long-standing and much-debated issues pertaining to Islamic markets, which include further standardisation of products and services, availability of standardised documentation facilitating sukuk issuances, and availability of ancillary services like takaful, can serve the industry well.

As a second step, we see much value in the availability of external professionals overseeing business practices, as is the case with external auditors giving an opinion on compliance with general governance standards and corporate governance ratings that have found increasing utility over the last decade or so. Thirdly, independent opinions on the relative positioning of institutions, on the front of Shari'a-compliance, also serve the same purpose, while also affording comparability and, thereby, 'choice' to investors. The strongest impetus to all this comes from regulatory authorities, which give both guidance and set minimum benchmarks in any market.

Fiduciary Rating Concept

The Islamic International Rating Agency's (IIRA) fiduciary rating approach for IFIs attempts to recognize and assess the institutionalisation of values central to Islamic finance, while also delineating the institution's ability to protect the investments of account holders and generate expected returns. With fairness to all stakeholders being a pillar of Islamic banking, the framework implicitly incorporates an evaluation of an institution's governance system, central to which is the diligence applied to the institutionalisation of practices which ensure that business is conducted in a Shari'a compliant manner. While extensively evaluating the Shari'a infrastructure itself, i.e. the extent to which Shari'a personnel are aware of and involved in mainstream business and the overall framework of self-regulation, IIRA's rating approach is centered on the protection of joint investment account holders (IAH).

The framework is built around mechanisms in place to involve and inform the account holders regarding investments made using their funds, in acknowledgement of the greater risk that they take as against depositors in conventional banks. Even in jurisdictions where loss is not generally passed on to investors, IAH do take greater exposure, in the sense that legal protection and security offered by central banks, as lender of last resort for conventional banks, is generally not available to IFIs and their investors.

Much has been said and written on the subject of greater disclosure being warranted to IAH. This may not make a material difference in jurisdictions, where disclosure requirements are almost as high as they can be; however, in several other markets, regulators need to enhance disclosure requirements for the benefit of the IAH.

Timeless Standard

On a final note, Islamic finance existed in smaller communities well before the prevailing conventional financial order came to be in its present form. While globalisation has added a more complex dimension to international finance, good governance remains a function of a genuine appreciation of high moral standards and individual ethics of all those in charge, and derives strength from the prevailing standards of honesty and fairness in the society at large.

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

CBB licence for German industrial insurance giant

The Central Bank of Bahrain (CBB) has granted a license to HDI-Gerling Industrie AG, to open a branch in the Kingdom of Bahrain for industrial insurance.

HDI-Gerling Industrie Versicherung AG is a subsidiary of Talanx AG, Germany's third biggest insurance group by premium revenues.

HDI-Gerling Industrie Versicherung is an industrial insurer which covers the needs of industrial and commercial customers for tailor-made insurance solutions. The new branch in Bahrain will offer all major lines of business in industrial insurance, including engineering insurance, property, liability and marine insurance.

Mr. Ahmed Al Bassam, Director, Licensing and Policy, at the CBB said: "We welcome HDI-Gerling's decision to expand its operations in the region by opening its regional branch in the Kingdom of Bahrain."

"The presence in Bahrain of a member of a reputable group such as Talanx is a value added to the Kingdom's financial services industry and to Bahrain's leading role as a premier financial center in the region."

Dr. Christian Hinsch, Deputy Chairman of the Board of Management of Talanx AG and Chairman of the Board of Management of HDI-Gerling Industrie Versicherung AG said: "With the establishment of the new branch in the Gulf region, we are expanding the HDI-Gerling Global Network with a location in a very attractive economic region."

Alongside the German market, the company also has operations in more than 130 countries through branch offices, subsidiary and peer companies, and network partners.

"All these locations are available to the HDI-Gerling Global Network as service units for the international insurance programs of our customers," said Mr. Jens Wohlthat, who is responsible for the International Division in the Board of Management of HDI-Gerling Industrie Versicherung AG.

"The advantage for the companies is that they receive service packages directly in their region based on uniform global standards as well as coherent claims settlement. This approach enables us to meet all the aspirations of our major international customers from industry at any time."

The licence for HDI-Gerling Industrie Versicherung is the third CBB licence for a Talanx Group member. The other two are Hannover Retakaful, a subsidiary of Hannover Re, one of the leading reinsurance groups in the world, and Hannover Ruckversicherung AG Bahrain Branch.

Three Bahrain Islamic investment banks to merge

Three Bahrain-based Islamic investment banks have announced plans to merge, the first three-way merger to take place in Bahrain.

The proposed merger has been approved by shareholders of the three banks - Capivest, Elaf Bank and Capital Management House. The move is awaiting final regulatory approvals pending the successful completion of the transfer of business notification period.

Once implemented, the newly created entity will have shareholders' equity of almost US$350 million and assets in excess of $400 million.

Mr. Isa Habib, Vice Chairman, Elaf Bank, said the aim of the merger was to establish a strong banking institution that is able to compete solidly in a changing market.

"The merger will bring instant diversification of assets and revenues. Also, the bank will be able to capture larger projects and will be able to diversify its capital sources."

He said the merger is in line with the government's efforts to enhance the banking sector and reinforce the country's position as a regional and international financial hub.

Mr. Mohammed Abdulmalik, Chief Executive, Capivest, said the three banks will gain numerous benefits from the merger; in particular, the merged bank will have a strong balance sheet which will create a positive impact on Bahrain's dynamic banking sector.

"In addition, the merger will enable the new entity to unify its strategy to provide innovative and targeted services to clients. I strongly believe that these three banks constitute a strong and logical combination which is capable of confronting any future challenges."

Mr. Khalid Najibi, Managing Director, Capital Management House, said the three banks have significant cumulative experience in financial services and each has particular niche strengths which, when combined, makes the whole greater than the sum of its parts.

Bahrain economy on solid growth path

Bahrain's economy has returned to a solid growth path, according to the Central Informatics Organization (CIO).

On an annualised basis, real gross domestic product (GDP) expanded 4.3 percent in the second quarter of 2012, after a 5.9 percent jump in the first quarter.

Bahrain's balanced fiscal and monetary policies helped economic growth and fiscal stability, enabling the economy to face domestic challenges and the continuing fallout from the global financial crisis, said the CIO.

Meanwhile, foreign direct investment (FDI) in Bahrain bounced back strongly last year after a period of decline in the wake of the global financial crisis.

FDI in Bahrain totaled US$781 million in 2011, according to the latest World Investment Report, launched in Bahrain by the United Nations Conference on Trade and Development (UNCTAD). The report was launched at leading financial centres across the world, with Bahrain chosen as the venue for the West Asia region.

Speaking on the occasion, Mr. Paul Wessendorp, Chief of Investment and Enterprise at UNCTAD, said that while FDI to West Asia had decreased last year, it had seen an upturn in the first five months of the year.

"High corporate profits at leading international companies, which freed up funds for overseas investment, was the main reason for the recovery but given the financial problems in the West Asia region, we are likely to see corporates paying out cash in dividends and writing down debt as the year progresses," he said.

CBB issues new rules on trading, listing of securities

The Central Bank of Bahrain (CBB) has issued a new regulation relating to rules and procedures of listing and trading of securities and financial instruments in the financial markets in Bahrain.

The main objective of the CBB in issuing this regulation is to expand on the general provisions stated in the CBB Law in relation to the process and procedures for listing and trading of securities and financial instruments in the licensed financial markets as well as the rules concerning the suspension of trading and delisting of the securities and instruments.

The regulation is both a mandatory point of reference for the licensed exchanges, clearing houses and central securities depositories in Bahrain, who are required to include and expand on their own processes and procedures in this area in their Rulebook as well as an additional basis to the CBB's expanded and more detailed requirements, which will shortly be issued under the CBB's Rulebook Volume 6 (Capital Markets), particularly the modules dealing with the Offering of Securities (Module OFS) and Listing (Module LIS) which will be issued to the market for consultation before the end of the year.

This regulation contains the requirements and general conditions for issuing and listing of securities and financial instruments and thus all current issuers and listed companies in Bahrain, together with applicant companies, will be interested in noting the required documents, data and information which must be provided when submitting a listing application to the CBB and licensed exchange.

In addition to the requirements of the CBB Law and this regulation, prospective applicants will also need to ensure they meet the requirements of the respective licensed exchange, clearing house or central depository as well as the detailed requirements of the CBB as per CBB Rulebook Volume 6.

The regulation and the upcoming rulebook modules also reflect the agreement reached between the Securities Supervisory Authorities in the Gulf Cooperation Council (GCC) and ensures that the concept of a "GCC passport" exists in the capital market and that there are no additional barriers to entry for entities within this market.

Bahrain bond issue reflects investor confidence

The success of Bahrain's recent US$1.5 billion international bond issue is a demonstration of global investor confidence in the Kingdom, says a leading Central Bank of Bahrain (CBB) official.

The country's first conventional bond issue in two years was oversubscribed by 400 percent with bids from the US, Europe and Asia. The bonds were issued in June 2012.

"Oversubscription is a continuing sign of investor confidence in the region and Bahrain as a sovereign issuer," said Mr. Richard Ellis, Advisor, Banking Supervision, at the CBB.

He was speaking at a roundtable hosted by the Bahrain Association of Banks (BAB). The event was held in July 2012.

Mr. Abdulkarim Bucheery, Chairman of BAB, said Bahrain's banks are unlikely to be affected by the crisis in the Euro zone.

He said Bahrain banks had done well in redirecting investment from abroad into the region in the wake of the 2007 global financial crisis.

"Most banks focused back on Bahrain and neighboring countries and Bahrain banks have very little exposure to Europe," said Mr. Bucheery, who is also Chief Exective of the Bank of Bahrain and Kuwait (BBK).

"Financial results of banks for the first half of this year show a positive outlook for the sector. Credit extension in the country has grown and year-on-year growth has increased by five percent on loans in the retail sector and is much higher in the corporate sector."

Meanwhile, Bahrain's attractiveness to global investors received a boost as Fitch Ratings upheld its investment potential.

The agency, in July, affirmed the country's long-term foreign currency issuer default rating (IDR) at BBB and its local currency IDR at BBB+.

Bahrain's outlook is stable and the affirmation reflects a return to stabilization in the political environment, the agency said. Economic performance has been robust, with the country benefitting from high oil prices as well as production levels and an increase in government spending.

Bahraini listed firms post strong profits

Listed companies in Bahrain and elsewhere in the GCC region had a good start to the year with 56 percent surpassing analysts' profit estimates in the first quarter of the year.

Companies reported a cumulative first quarter profit of US$14.1 billion, which was a 12 percent year-on-year increase compared with a profit of US$12.6 billion for the first quarter of 2011, according to research by Bahrain-based Securities and Investment Company (SICO).

This profitability improvement was the highest in the past eight consecutive quarters, according to the findings contained in the 'GCC Equities Results Snapshot - June 2012' report.

"GCC-listed companies' aggregate profits in the first quarter were also higher than forecast, after reporting disappointing profits for the previous two quarters in 2011."

Bahraini, Kuwaiti and Omani companies reported strong year-on-year growth in the range of 20 to 28 percent during the first quarter of this year, while Saudi and UAE companies' profits grew by 10 to 15 percent.

Qatari companies were the exception, reporting a year-on-year decline in profits of two percent, led mainly by non-banks.

Most UAE companies surprised investors with higher-than-expected profits for the quarter, while Saudi companies disappointed, with just under 50 percent of companies missing estimates.

GCC listed companies' aggregate revenues for the first quarter of 2012 increased eight percent year-on-year. Real estate, diversified financials, building materials and consumer companies' revenues grew by double digits in the range of 14 to 30 percent.

Over 1,000 to attend Islamic banking forum in Bahrain

The 19th annual World Islamic Banking Conference (WIBC) will be held in Bahrain from 9 to 11 December 2012.

The event is being held under the theme 'Islamic Finance: Adapting to the New Dynamics of Global Finance'. Over 1,000 delegates are expected to attend the conference, which is being organised under the patronage of the Central Bank of Bahrain (CBB).

Following a day of pre-conference workshops on 9 December, WIBC 2012 will be officially inaugurated on 10 December with a keynote address by Mr. Rasheed Mohammed Al Maraj, Governor of the CBB.

The event will provide a platform for industry players to innovate the next generation of Islamic finance solutions that will meet the increasingly complex needs of corporate borrowers, consumers, issuers and investors; and create the conditions that will build a more globally harmonised footprint for their institution that, if achieved, will propel the Islamic finance industry to the next level of success.

A highlight of the event will be the launch of the 2012/13 edition of the World Islamic Banking Competitiveness Report, developed in collaboration with Ernst & Young.

The report, which is now in its 9th annual edition, will explore the key trends in Islamic finance and identify the successful strategies being deployed by leading Islamic banks. It will examine Islamic banks' efforts to penetrate mainstream retail customers.

The groundbreaking report will also explore the roadmap being adopted by Islamic banks to make a transition to a double-compliant model, i.e. excellence in banking operations topped by an exceptional Shari'a proposition.

A leading panel of international experts will participate in the Country Focus Roundtable session, which is designed to give the international Islamic finance industry a collaborative platform to highlight and discuss key issues the industry is facing across the globe.

During the session, the panel of international experts will address how well-positioned Islamic banks can explore international opportunities in the most dynamically evolving high-growth markets for Islamic finance. The Roundtable, along with the Country Pavilions at the WIBC exhibition, will explore opportunities in key jurisdictions, including Bahrain, the United States, United Kingdom, Bermuda and Luxembourg.

Showcasing their latest innovations, more than 60 leading industry partners and exhibitors will participate in the exhibition.

WIBC 2012 will also feature a series of pre-conference summits and executive sessions led by experienced and respected industry experts, who will place a range of complex themes in a practical framework, enabling a deeper understanding of the critical issues facing the Islamic finance industry.

Stage set for AAOIFI, World Bank conference

The AAOIFI-World Bank Annual Conference on Islamic finance will be held in Bahrain on 3 and 4 December 2012.

The event is expected to attract over 350 people, including Shari'a scholars and professionals, representatives of central banks, regulatory authorities and industry development bodies, as well as representatives of Islamic financial institutions, accounting and auditing firms, legal firms, besides academicians and students.

The event will focus on a number of topical issues, including Islamic finance in overall economic systems. During this session, speakers will address the questions on what is an Islamic economic model, what are key lessons for Islamic finance from the economic and financial crisis, and whether Islamic finance can be applied in monetary and fiscal policies to manage economic growth.

A session on 'Investment accounts – Murabaha vs Wakala' will focus on what are the key Shari'a principles and requirements for Murabaha and Wakala investment accounts – and effects on accounting principles and treatments, as well as how Murabaha and Wakala can be applied to interbank money market operations.

The event will also cover the issue of takaful (Islamic insurance), particularly on takaful operations and accounting. Speakers will address the differences in business and operating models of takaful operations across the markets, what are the Shari'a and recommended regulatory rules governing Qard Hassan loans from takaful operator to policyholders' pool, the challenges on investment of takaful surplus funds, besides providing updates on review of accounting standards for takaful.

A session on 'Risk management for Islamic finance' will explore the effects of capital adequacy standards on Islamic banks' liquidity and capital requirements, development of interbank liquidity management instruments, and risk management disclosure requirements in Islamic banks' financial reports.

'Shari'a issues and challenges for Islamic finance' will be the focus of a session which will address such issues as how to develop Shari'a-compliant overdraft facilities and working capital financing, how to develop Shari'a-compliant trade financing facilities and syndication and how to apply Shari'a-compliant financing in large-scale projects.

Leading speakers will also address the topical issue of 'New developments in accounting standards for Islamic finance'. They will provide insights on revised accounting standard for investments in real estate, revised accounting standard for Ijara, and new accounting standards for issuance sukuk.

Takaful forum set for Bahrain

The stage is set for a major conference on takaful (Islamic insurance) being held in Bahrain on 17 and 18 October 2012.

The Middle East Takaful Forum (METF) 2012 is hosted by the Central Bank of Bahrain (CBB) and organised by MEGA.

"The global takaful market has shown strong growth in the last few years," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

"Driven by increasing awareness and improvements in the quality of products and services being offered, the Middle East takaful industry has seen a significant increase in its market share. With tremendous growth opportunities yet to be fully tapped, the Middle East takaful industry is poised for major growth in the coming years and, therefore, it is essential to ensure strong foundations are in place to support this growth."

He hoped the discussions at the METF 2012 will provide insights as industry players seek to overcome the profitability challenge and achieve sustainable underwriting profits.

Financial Sector Fact Sheet

Regulator: Central Bank of Bahrain
Financial Institutions: 411 (August 2012)
Financial Sector Workforce: 14,342 (2010)
Bahraini nationals 9,467 (66%)
Foreign nationals 4,875 (34 %)

Key Economic Indicators

GDP (Current) US$25.8 billion (2011)
Growth 17.8%
GDP (Constant) US$13.9 billion (2011)
Growth 2.2%

Financial Sector contribution to GDP 24.7%
Sovereign Rating
BBB (S&P Dec 2011) with negative watch
BBB (Fitch Dec 2011 with stable outlook
Population 1,234,571 (2010)

Banking Sector

Assets US$188.8 billion (July 2012)
No. of institutions 119 (August 2012)
Retail banks 29
Locally incorporated 14
Branches of foreign banks 15
Wholesale Banks 75
Representative Offices 14
Bank Society 1

Islamic Banks (included in left):
No. of banks 26 (August 2012)
Assets US$25.3 billion (June 2012)

Insurance Sector

Total No. of Insurance Companies & Organisations
Authorised in Bahrain 163 (August 2012) * excluding
Appointed Representative
Domestic market
Gross premiums US$556 million (December 2010)
No. of insurance firms 36
Locally incorporated insurance firms 26
Takaful & Retakaful Firms (included above) 9
Captives (locally incorporated, included above) 1
Overseas insurance firms 10
Insurance Brokers 32
Insurance Consultants 5
Insurance Managers 3

Representative Offices 5
Loss Adjusters 11
Actuaries 30
Insurance Ancillary Services 3
Insurance Pools & Syndicates 2
Insurance Society 1
Insurance Licensees Restricted: 34
Insurance Firms restricted: 28
Insurance Brokers restricted: 4
Insurance Consultants restricted: 2
Insurance Appointed Representative 10
Corporate 7
Individual 3

Investment Business Firms

No. of firms 49 (August 2012)

Representative Offices 12

Capital Market

Market Capitalisation US$16.0 billion (July 2012)
Licensed Exchanges 2
Licensed Clearing, Settlement and Central Depository Systems 1

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

Specialised Licensees

No. of firms 23 (August 2012)
[comprising: Trust Service Providers 3; Ancillary services 14; Fund Administrators License 2; Registrar License 1; Registered Administrators 2; Registered Professional Body 1]

Money Changers 17
Financing Companies 8
Microfinance Institution 2

Funds Industry

Authorised Funds 2,797 (August 2012)
NAV US$9.17 billion (Mar 2012)

Local Funds 121
NAV US$5.68 billion (Mar 2012)
Conventional-Local 66
Islamic-Local 55
Foreign Funds-Offshore 2,672 (August 2012)