THE REVIEW

مصرف البحرين المركزي
Central Bank of Bahrain

Published by the Central Bank of Bahrain (CBB)

March 2014 Issue 38

Get rated, Bahrain's Islamic banks being told by CBB

The Central Bank of Bahrain (CBB) is asking Bahrain's Islamic banks to get rated by international credit rating agencies, Mr. Rasheed Mohammed Al Maraj, Governor of the CBB, said at a major conference.

Islamic banks are also being asked to use standardised documentation for their financial transactions, amongst a raft of market development practices being initiated by the CBB, he said.

The initiatives are part of CBB's strong commitment to develop and strengthen the Islamic financial services industry, Mr. Al Maraj said at the Euromoney conference, held in Bahrain on 4 March 2014.

"After almost five years, we are finally starting to witness some improvement in the global economy and recovery in financial markets," he said.

"We hope that the bitter experience which the world has undergone shall bring about the adoption of new practices that emphasise integrity and social responsibility for all banking transactions, including improving corporate governance and risk management practices."

In this context, the CBB has sought to improve the regulatory framework, including implementing international standards, especially those related to governance and risk management.

"To maintain and improve stability in the banking sector, the CBB has encouraged bank consolidation, which to date has resulted in the merger of 10 banks, creating stronger and well capitalised banks," said Mr. Al Maraj.

CBB's four-pronged strategy for Islamic finance covers consolidation, regulation, human capital development and enhancement of market practices, he said.

With regard to regulation, the CBB is introducing:

- A new solvency framework for the takaful industry;
- New Shari'a governance rules to complement Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards;
- Business and market conduct rules to provide protection to investment account holders and depositors;
- Rules to enhance independence of risk managers, compliance officers, internal auditors, internal Shari'a reviewers and anti-money laundering officers; and
- New rules for offering of securities to address the technical aspects of Shari'a compliance for public and private securities.

On human capital development, the CBB, the Waqf Fund and the Bahrain Institute of Banking and Finance (BIBF) are working together to provide training for the Islamic finance industry.

In line with this, the CBB has issued new modules on training and competency requirements for senior positions in Islamic financial institutions, including board members.

For market practice enhancement:

- The CBB has advised all Islamic banks to seek credit ratings.
- The Waqf Fund, in consultation with the CBB and the industry, has started to review practices related to internal Shari'a review, internal Shari'a audit and, most importantly, external Shari'a audit, in order to improve consistency and transparency.
- The CBB requires full compliance to all Shari'a principles, and full disclosure of assets and liabilities which are not Shari'a compliant.
- The CBB has urged all Islamic banks to use standard documentation, issued by the International Islamic Financial Market (IIFM), on unrestricted wakala transactions as a replacement for commodity murabaha.

"Our commitment to develop Islamic finance remains strong and we will continue to work with the industry to ensure further progress," said Mr. Al Maraj.

In addition to this, the CBB's framework for full implementation of Basel III continues apace, including the draft revised Capital Adequacy Module. Underpinning all of this are the CBB's recommendations for improving the corporate governance culture in financial institutions.

"We have a challenging time ahead of us and by building a strong regulatory framework based on international standards and best practices, and working with our partners in the financial services sector, we can demonstrate our commitment to maintaining a safe working environment," said Mr. Al Maraj.

INSIDE

Insurance firms urged to improve risk assessment

Insurance firms must be able to assess and price risk more accurately, in order to be profitable and maintain growth, according to a leading Central Bank of Bahrain (CBB) official.

Currently, many firms determine premium rates based on those being charged by competitors, often ignoring the risks involved, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

Instead, insurance firms would be much better served if they underwrite the business in a way that all the inherent risks are considered, he said in his inaugural keynote address at the 10th annual Middle East Insurance Forum (MEIF), held in Bahrain on 10 and 11 February 2014. The event, organised under the patronage of the CBB, was held under the theme ‘Strengthening the regional insurance industry: Overcoming competitive pressures and capturing profitable growth’.

“The CBB is firmly of the view that in order to overcome competitive pressures and capture profitable growth, insurance companies must ensure that the risk is assessed and priced properly,” Mr. Al Baker told an audience of over 550 delegates attending the event.

In addition, it is important for insurance entities to ensure that their investments are highly diversified and are not concentrated in a particular sector or in high risk assets.

Employing Asset Liability Management (ALM) techniques and methodology ensures that the asset portfolio matches the liability profile of the insurance company. Without proper investment management, it is not possible to offer savings and investment-linked products to the public and this may restrict the company from realising its true potential.

Indeed, implementing risk management policy and strategy, whereby underwriting, pricing, investment and operational risks are managed effectively, is vital for achieving profitable growth, said Mr. Al Baker.

On their part, regulators must ensure that adequate legislation is in place to develop, and strengthen the enterprise-wide risk management concept in the insurance industry throughout the region.

It is important to enhance the quality of services provided to customers, to overcome competitive pressures and capture profitable growth.

“It may be easy to compete on prices, but difficult to compete on quality services. Superior service creates loyalty which is vital for the company to maintain profitability in the long-run,” said Mr. Al Baker.

In order to be profitable, an insurance company must distinguish itself from its competitors and, to do so, it must offer superior services.

Product innovation is another area which can add significant value to both conventional and Islamic insurance companies, he said.

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

For sustainable business growth, it is vital that the proper line of business is chosen for business expansion, Mr. Al Baker stressed.

Bahrain, for example, has the highest life insurance penetration in the GCC. Although the penetration is still much below the global life penetration, there is tremendous potential for growth. Due to the huge potential for long-term insurance business in both Bahrain and the GCC, it would be sensible to invest in this line of business, he said.

“By pooling the resources of existing insurers and through active support and involvement of GCC governments, long-term insurance institutions could be established,” said Mr. Al Baker.

Another line of business with tremendous growth potential is medical/health insurance. Mandatory health insurance, coupled with growing populations and increased government spending, is expected to lead to a sharp rise in business for medical insurers. The GCC insurance sector is forecast to grow at a compound annual growth rate (CAGR) of 18 percent between 2012 and 2017 to reach $37.5 billion in 2017, he said.

“Looking ahead, we see great new and untapped potential for the insurance industry in the coming years,” said Mr. Al Baker.

His remarks addressed the theme ‘Towards a Stronger Insurance Industry: Building a Sophisticated Regulatory Framework and Strengthening Supervision to Support Further Success in the Middle East Insurance Industry’.

Insurance leadership award for industry veteran

Bahrain insurance industry veteran Abdullatif Janahi won the ‘Industry Leadership Award’ and AXA Insurance (Gulf) won the 2014 Middle East Insurance Forum (MEIF) ‘Institutional Excellence’ Award.

The MEIF was held in Bahrain on 10 and 11 February 2014, under the patronage of the Central Bank of Bahrain (CBB).

The awards were given at a ceremony held on the sidelines of the event, which was attended by over 550 delegates.

The awards recognise individuals and institutions that have made significant contributions to the advancement of the Middle East insurance industry.

Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB, presented the awards to the winners.

Recognised for his outstanding contribution to the regional insurance industry, Mr. Janahi is one of the pioneers in Islamic economy, Islamic banking and Islamic insurance and has made significant contributions towards promoting the idea and concept of Islamic banking, Islamic insurance and Islamic reinsurance in the region.

He has also led the establishment of a number of banks, financial institutions and insurance and reinsurance companies in the region.

The MEIF Institutional Excellence Award recognises a leading institution that has demonstrated outstanding achievements and institutional excellence in major performance areas.

AXA Insurance was chosen from a shortlist of nominees through a unique industry-based voting system.

“We have been pooling resources, sharing best practices and leveraging international capabilities to benefit from expertise in terms of our differentiated and comprehensive offering, efficient multi-channel distribution and sound risk management practices,” said Mr. Jerome Droesch, Regional Chief Executive, AXA Gulf and Middle East, who received the award on behalf of the company.

“We have placed our customers at the heart of our strategy and have delivered segmented and compelling solutions to answer each of their needs.”

CBB goal to protect policyholders and support firms

The Central Bank of Bahrain (CBB) has taken many measures to protect consumers, while enabling the insurance industry to thrive and prosper, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

He also called on insurance regulators in the Middle East and North Africa (MENA) region to work together to harmonise insurance regulations, to enable cross-border growth of firms.

Mr. A Baker was speaking during the 10th anniversary special edition of the Middle East Insurance Forum (MEIF), held in Bahrain on 10 and 11 February 2014.

Held under the theme 'Strengthening the regional insurance industry: Overcoming competitive pressures and capturing profitable growth', the event was attended by over 550 industry leaders to discuss new growth strategies for the regional insurance industry.

During his inaugural keynote speech, Mr. Al Baker pointed to the role of the global insurance industry, which contributes more than US$4 trillion in worldwide revenue. In addition, macroeconomic trends of emerging markets in Asia, Latin America, Africa, as well as the Middle East point to continued growth.

"As a result, the current demand for sound conduct of business and transparency, as well as enhancement of policyholders and shareholders confidence, create the need for strong and sound regulatory infrastructure for the insurance industry, globally, and in the MENA region," he said.

With the global financial system undergoing regulatory overhaul, Solvency II, Corporate Governance and other financial regulations are reformulating the future landscape for finance, as reserve and capital regulations transition from the traditional, prescriptive approach to a principles-based approach.

"This fundamental change most likely signifies the gradual global convergence of regulations across countries and insurance products," said Mr. Al Baker.

"As the regional insurance industry expands, the need to standardise insurance regulations in the GCC countries, in terms of regulatory and market conduct requirements, is of paramount importance."

Regulators all over the world, especially in the MENA region, need to work closely and strengthen their regulatory framework so that there is greater harmony amongst the different jurisdictions, enabling the industry to capitalise on the growth opportunities.

Growth Measures

In Bahrain, the CBB has taken various steps to ensure that a stable insurance market continues to thrive and prosper.

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

The CBB always believes in continual enhancement and improvement of its regulatory infrastructure for the growth and betterment of the industry.

He highlighted the CBB's many new initiatives to develop the insurance industry both locally and regionally.

The initiatives include revision of the existing takaful (Islamic insurance) model to facilitate a faster growth of takaful business in Bahrain while protecting the interest of all stakeholders, i.e. participants, shareholders, and takaful operators.

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

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

Regulatory Priorities

The CBB is also keen to see that insurance licensees provide adequate training and development opportunities for their staff. The CBB has been working on enhancing its Training and Competency regime and the rules are expected to be finalised in due course. The updated rules would cover requirements for insurance licensees and their staff performing controlled functions and those involved in dealing with potential policyholders (customers).

Maintaining an adequate level of solvency that is in line with the best regulatory standards is a priority for regulators in the Middle East, said Mr. Al Baker.

Solvency requirements should be helpful in providing early warning to regulators so that they could take the necessary measures should the capital of an insurance firm fall below the required level. Adequate solvency requirements enhance confidence in the financial stability of the insurance industry and further improve the financial standing of insurance firms.

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

Regulatory authorities should also enhance public awareness about insurance and the importance of such financial services. As far as consumer education is concerned, the CBB, in collaboration with the Bahrain Insurance Association (BIA), has initiated an annual 'Insurance Week' to recognise the achievement and contributions of the market leaders and to educate the public about insurance and financial services. The 'Insurance Week' has so far been successful in enhancing insurance awareness amongst people.

"There is an expectation of increased investment in the GCC on construction, infrastructure, and petroleum industry related projects. According to an estimate, the GCC is set to invest more than US$900 billion in 1,638 new projects over the next decade. All of this is expected to result in a surge in insurance activity and a growth in gross premiums," said Mr. Al Baker.

With such a remarkable growth expectation for the Middle East insurance industry, it is important that regulators work together at the local, regional and international levels to effectively deal with the risks that can have a systemic impact.

"Regulators also need to work more closely with insurance companies, service providers and other industry stakeholders to ensure a close oversight of their activities and a healthy financial sector," he concluded.

Insurance Week to focus on home, health, life

Inspired by the success of the 'Insurance Awareness Week 2013', campaign, the Bahrain Insurance Association (BIA) has announced its plans to continue the event in 2014.

The 2014 awareness campaign, from 20 to 26 March, is being organised in association with the Central Bank of Bahrain (CBB), and the support of the Manama Municipality.

Spreading the awareness on various insurance products such as health insurance, home insurance and life insurance will be the focus of this year's campaign. "Amna", BIA's insurance mascot sporting traditional Bahraini attire, will play a key role in conveying messages to the public.

The centrepiece of the awareness campaign will be the stand at the Bahrain City Centre mall. A cut out of 'Amna' will draw the attention of mall visitors, who will be provided more information about insurance products.

Announcing the campaign, Mr. Younis Jamal, Chairman of the BIA, said, "As the insurance industry's umbrella organisation, the BIA has been promoting the importance of insurance in people's lives. Thanks to our initiatives over the past years, we have been quite successful in changing the perception of insurance as a protection against life's unfortunate events to a sound investment to achieve one's aspirations."

"People are still in the dark when it comes to the various benefits offered by insurance products. For instance, most people are not aware that health insurance can cover home nursing expenses or for that matter, home insurance can protect domestic servants as well. So our main focus will be to make the public aware about the multiple benefits of having a home, health or life insurance," said Mr. Al Sayed.

In addition to the promotional stand at the Bahrain City Centre, BIA's multi-media campaign utilises other media vehicles such as outdoor banners, SMS, radio jingles and press advertisements. The print advertisements will follow a three-day 'answer & win' teaser campaign that enables readers to win surprise gifts with their knowledge of insurance products.

"The insurance industry is a vital segment of the Bahraini economy and the CBB is committed to supporting its growth. There is a huge potential market for innovative insurance products and by creating more awareness, insurance companies can boost their business prospects greatly. In association with the BIA, we are bringing together the companies in the insurance sector to cooperate constructively for the benefit of the sector and the public," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

Insurance prospects are huge, say industry leaders

Balancing premium growth with profitability and transforming the business to overcome increasing competitive pressures are key challenges faced by the region's insurance industry, according to insurance experts who attended the Middle East Insurance Forum (MEIF), held in Bahrain on 10 and 11 February 2014.

Industry leaders said that with an increasingly strong economic growth outlook for the Middle East – and given the region's historically low insurance penetration at just one-fifth of the global average – prospects for the regional insurance industry continue to be very positive with considerable room for growth.

"Local corporations are going to increasingly look to internationalise their businesses, at which stage they will need (insurance) providers who can meet their needs internationally. Therefore, insurers in this region need to ensure that they have the necessary skills and market access to compete internationally for corporate and mid-tier commercial lines of business," said Mr. Geoff Riddell, Chairman (Middle East) of Zurich Insurance Group.

"This means local insurers have a strong interest in encouraging the development of a regulatory environment that is consistent with international rules and perhaps counter-intuitively, that allows international firms – and by association, international talent and technologies – to access the local market."

Asia Insurance Review and Middle East Insurance Review editor-in-chief Sivam Subramaniam, AXA Gulf and Middle East Region chief executive Jerome Droesch, and Bahrain National Holding chief executive Sameer AlWazzan discussed new strategies for strengthening the regional insurance industry.

Milliman managing director and consulting actuary for Middle East and Africa Safder Jaffer led a debate featuring Crescent Global Group managing director Jamil R Bahou, Arig chief executive Yassir Albaharna, Solidarity General Takaful general manager Youssef Al Kareh, and Chedid Re chairman and chief executive Farid Chedid.

The speakers were in agreement that to realise the full growth potential of the insurance industry in the region, the sector needs to develop talent and expertise.

"The industry must create affordable and tailored products that cater to the growing and complex needs of consumers in the Middle East," said Mr. Chedid.

"It is also vital for regulators in the region to ensure that the right regulatory and supervisory infrastructure is in place to enable the sector to deliver its economic and social benefits."

New rules on way for takaful industry in Bahrain

The Central Bank of Bahrain (CBB) will release soon a new regulatory framework for takaful (Islamic insurance) business.

The Kingdom is a major hub for Islamic finance and the overhaul of takaful standards is expected to attract new business in a sector the CBB helped to pioneer.

According to EY estimates, global takaful contributions will total an estimated US$17.1 billion by 2015.

The new rules, developed after two years of consultations with the industry, cover the operations and solvency of takaful firms, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

They are expected to increase takaful firms' ability to distribute surpluses to policyholders and dividends to shareholders, he said.

"We are in the final process of the new solvency framework for takaful. This will not only enhance the industry in Bahrain but also have an impact around the world," he said.

Addressing how takaful solvency requirements, a concept similar to capital adequacy ratios for banks, are calculated will help to ensure firms match the risks on their books to their future obligations to policyholders.

This is expected to provide greater clarity to the sector while attracting firms to set up in Bahrain, he added.

Bahrain's banks report improved profits in 2013

Bahrain's banks are reporting healthy improvements in profitability for 2013, compared with 2012, a top Central Bank of Bahrain (CBB) official said.

Bahrain's retail banks, in particular, have stayed strong and stable even through the global financial crisis, said Mr. Khalid Hamad, Executive Director, Banking Supervision, at the CBB.

Bank consolidation continues apace, with one more merger between two banks in the pipeline, he said during a keynote address at the first Business Forum Bahrain, which was held on 24 March 2014.

The event, organised by the Bahrain Institute of Banking and Finance (BIBF) and SWIFT, was attended by senior representatives from Bahrain's banking industry, regulators and policy makers to discuss the challenges and opportunities for the country's financial services industry.

"As a regulator, I keep on referring to the financial crisis of 2008, time after time due to the mammoth tasks central banks had to shoulder and the rich lessons the whole world has gained from the financial crisis," said Mr. Hamad.

The financial crisis inflicted significant damage to the world economic system; countries defaulted; large financial institutions failed and disappeared; several international banks had to be bailed out through an unprecedented bail-out program; and some markets tumbled while others were severely restricted.

"Despite these painful consequences, our major Bahraini retail banks continued to perform successfully and even managed to distribute dividends during the financial crisis period," said Mr. Hamad.

"The vast majority of Bahraini banks which have already published their 2013 results achieved better performance as compared to 2012 and a lot of them intend to distribute dividends."

He said the financial crisis threatened the financial stability of banking sectors in several jurisdictions.

The CBB accordingly took a proactive initiative to encourage mergers and acquisitions among the small and medium sized banks in the Kingdom.

"The implementation of this strategic initiative was delicately managed by the CBB and resulted in several mergers involving 10 banks, conventional and Islamic, since 2009. In addition, we are currently dealing with one more merger involving two banks," said Mr. Hamad.

"Our mergers and acquisitions initiative is neither to produce too-big-to-fail banks nor to achieve regional prominence, it is rather to enhance our financial stability through strengthening our banks' endurance and loss absorbency so as to be able to underwrite relatively larger transactions, provide better quality services and attract highly skilled resources; a formula for sustainable growth and leadership."

He said economists often use 'sustainable' in the context of sustainable growth or sustainable development but it is particularly apt to apply this word to the future of banking.

"The banking industry is currently experiencing a lot of challenges; new uneasy regulations such as Basel 3, hard restrictions on international derivatives markets, strict and tight remuneration requirements, and more regulatory scrutiny in case of domestic systemically important banks (D-SIBs) and global systemically important banks (G-SIBs)," said Mr. Hamad.

"All such tough, unprecedented regulations and developments would eventually force banks worldwide to be more prudent in risk management, compliance and growth strategies as slippage could lead to unpleasant consequences at the institution level, but also at senior management level.

"To accommodate such situations, we at the CBB have already started to technically and diligently question any periodical growth of 5 percent or more in balance sheet figures. Moreover, we are in the process of writing to the banks to increase their staff in Internal Shari'a Review, Compliance, Risk Management, and Internal Audit."

Mr. Sido Bestani, Head of Middle East, North Africa & Turkey, SWIFT, said: "Growth across the Gulf region brings with it both opportunities and challenges.

"Bahrain's financial industry is well placed to capitalise on growth. It is clearly evolving so that it can seize opportunities as the region's economies develop and diversify.

Stage set for AAOIFI Shari'a Conference

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) will host the AAOIFI Annual Shari'a Conference on 14 and 15 April 2014 in Bahrain, under the auspices of the Central Bank of Bahrain.

Shaikh Ibrahim bin Khalifa Al Khalifa, Chairman of AAOIFI Board of Trustees, said: "The AAOIFI Annual Shari'a Conference is indeed a unique event where esteemed Shari'a scholars from across the world lead the discussions and actively participate in the debates, together with senior representatives of central banks and regulatory authorities, Islamic financial institutions, and other stakeholders of the international Islamic finance industry. This allows rigorous and insightful dialogues that can support the industry in its efforts to achieve sustainable growth without compromising the essence and principles of Islamic finance."

Dr. Khaled Al Fakih, Secretary General and Chief Executive Officer of AAOIFI, explained that the topics that will be discussed at the conference relate to the overall themes of advancing the technical understanding of Shar'ia and Islamic finance principles, the dynamics between Shari'a principles and contemporary international law, and application of Shari'a principles to support continuing development of Islamic finance products and transactions structures.

On advancing the technical understanding of Shari'a and Islamic finance principles, specific discussion topics will be on theory and practice concerning earnings or profits prohibited by Shari'a, application of prophetic traditions for which the strength of evidence is not widely considered as solid in structuring Islamic finance transactions, and effects and stipulations concerning collusion or pre-arrangement relating to Islamic finance transactions.

On the dynamics between Shari'a principles and contemporary international law, specific discussion topics will be on modular contracting laws for Islamic financial transactions, implications concerning legal and beneficial ownership in the structuring of sukuk, and application of legal rights as underlying subject matters in sukuk.

On application of Shari'a principles to support continuing development of Islamic finance products and transactions structures, specific discussion topics will be on contemporary applications of Salam sukuk, and Shari'a perspectives on transactions such as lending, leasing, and pledge that involve stocks.

Discussion papers and researches on the specific topics will be presented by influential Shari'a scholars, leading Islamic finance practitioners and senior academicians. The conference forms a major part of AAOIFI's consultative process with the international Islamic finance industry to support its standards development and review program, and to identify potential areas for further standardisation.

CBB issues new rules on securities, sukuk

The Central Bank of Bahrain (CBB) has introduced new regulations to govern the offering and issuing of securities and sukuk in Bahrain.

The Regulatory and Supervisory Module on Issuing and Offering of Securities and Shari'a Compliant Sukuk (OFS Module) through public offering or private placement, in or from the Kingdom of Bahrain, is a major part of the CBB's Capital Market Rulebook Volume 6.

The OFS Module contains the regulatory and supervisory provisions that cover the issuing, offering, floating and subscribing to different types and classes of securities, whether conventional or Shari'a compliant.

The provisions also cover different stages of issuing, offering, floating and subscription in securities as well as the standards and criteria for designating or appointment of the capital market advisory service providers which includes legal, Shari'a, financial, technical or any other services.

The Module details the procedures and documentation that need to be prepared by the issuer for the submission of their application to obtain CBB approval in accordance with Article 81 of the CBB Law.

The main purpose of the OFS Module is to regulate the operations of issuing, offering, floating and subscription in securities. It encourages shareholding companies and all other issuer entities, whether issuing ordinary shares, Shari'a compliant securities, debt instruments or any other type of securities issued by a shareholding company, whether for the incorporation of new companies or projects, or subsequent issues for financing existing business or projects, or to capitalise on investment opportunities that the market may provide inside or outside the Kingdom of Bahrain.

Comprehensive Rules

The OFS Module specifies the role and responsibilities of the parties involved in the issuing, floating and subscribing in securities, their responsibility in adherence to the standards and requirements regarding the fair value of subscription price, particularly their responsibilities to provide accurate and comprehensive information, with no omissions, to enable investors to make informed investment decisions and to protect their rights.

The new Module is in line with best international standards, particularly those set by the International Organisation of Securities Commissions (IOSCO).

The OFS Module contains nine sections, the first of which specifies the minimum and general requirements applicable to all types of securities along with the specific and additional requirements related to each type or class of securities.

The second section specifies the requirements related to each method of issuing, floating and subscribing in securities, including public offering, private placement, preemptive right, book building, underwriting or any other method of the offering.

The OFS Module also contains provisions on the standards and requirements for designating or appointment of any capital market advisory service providers, which covers the regulatory, Shari'a principal, financial, accounting, qualification and experience requirements that need to be observed at the time of such appointment.

Disclosure Requirements

The Module specifies the information, statistics and contents of the documents and procedures for submitting an application to the CBB to obtain its approval.

It also lays out the minimum requirements related to the information, statistics and content of the prospectus. The appendices to the Module provide details on such requirements for each type and method of issuing and offering of securities.

The Module also stipulates the requirements on disclosures, announcements, advertisements and invitation for the subscription, particularly with respect to public offerings.

One section stipulates the requirements related to the allotment of subscribed securities, along with the procedures and timeframe for the issuing of certificates or ownership evidence, dispatching and refunding of excess subscription amounts, as well as requirements for depositing of issued securities with a licensed clearing house. All of these functions need to be performed within the pre-determined timeframe provided in the offering documents.

In his introductory statement, Mr. Rasheed Al Maraj, Governor of the CBB, said that as a part of its responsibility to develop the regulatory and supervisory framework for the capital market in the Kingdom, the CBB was proud to provide the industry with a comprehensive set of provisions related to primary market operations covering the issuing, floating and subscribing in securities.

Mr. Al Maraj said it was the CBB's intention to make Bahrain the preferred jurisdiction for issuing of all types of securities. To this end, the CBB is undertaking several initiatives to develop the regulatory framework and the infrastructure for capital markets to be on par with international standards and best practices, enhancing the level of transparency, maintaining market integrity and enhancing investor confidence.

He further added that the CBB is committed to shortening the time taken to grant its approval for issuing and offering of securities.

"The CBB will shorten the timeframe required to grant approval for the issuing and offering of securities, provided that the involved parties, including the issuer's board of directors, meet the requirements for the accuracy and comprehensiveness of information for investors in all types of securities, including Shari'a compliant securities, newly established Small and Medium Enterprises (SMEs), and private placement," said Mr. Al Maraj.

GCC Integration

In particular, the CBB will accept all applications submitted by GCC issuers which are prepared in accordance with the Unified Standards issued by the Gulf Cooperation Council, in order to facilitate the integration of the GCC securities markets which is a major objective of the CBB, said Mr. Al Maraj.

Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB, said the OFS Module is an important module of the Capital Markets Rulebook Volume 6 as its objective is to further develop primary market operations in Bahrain.

"This Module came as a result of the continuous programme of the CBB to develop, review and enhance new and existing laws and regulations," he said.

"The CBB looks forward to private sector companies and institutions in Bahrain and the region to benefit from the OFS Module for establishing new companies or financing the expansion of existing projects, enhancing their role and contribution in the Kingdom's economic development and attracting more foreign direct investment by expanding and activating Bahrain's primary securities market."

Islamic capital markets and finance standards

This article, by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), discusses the link between Islamic financial intermediation and economic growth which can be reinforced through Islamic capital markets. It also outlines measures that can be applied to further develop Islamic capital markets, and the importance of application of international Islamic finance standards in supporting those measures.

For financial systems in general, be it Islamic finance or conventional finance, the functions of financial intermediation, through the banking sector and capital markets, are to support aggregation of savings or surplus funds, and allocation of those funds into investments or financings.

Efficient financial intermediation that leads to efficient allocation of financial resources will lower the cost of operations to the real sector, increase returns and, in turn, accelerate economic growth.

For Islamic finance, the linkage between financial intermediation and economic growth is arguably even stronger. Investments and financings in Islamic finance, by nature, have to be accompanied by underlying transactions based on assets or trade, for example, that contribute towards supporting the real economy.

In addition, the principles of Islamic finance also prescribe that proper financial intermediation to support the real economy should be carried out based on equitable sharing of risks and returns.

Consequently, an important objective of the Islamic financial systems is to promote equitable wealth creation and distribution, and equitable economic growth.

It has been argued that the Islamic finance tenet on equitable sharing of risks and returns, to underpin equitable wealth creation and economic growth, can be best reinforced through capital markets instruments and supported through further development of domestic and regional capital markets.

Islamic Capital Markets' Development

Recent studies have highlighted that further development of regional or domestic capital markets can be facilitated through important measures including those relating to prioritising further development of capital markets as a strategic agenda, improving market efficiency, enhancing market infrastructure, widening the investor base, developing a wide range of capital markets instruments, and strengthening investor protection.

These measures can be applied to also further develop Islamic capital markets, and their application should be supported by adoption of international Islamic finance standards.

Prioritising further development of regional or domestic capital markets as a regional or national strategic agenda is particularly important, and calls for high-level policy and strategic direction, sequenced strategy for development, and streamlining and coordinating the regulatory framework for capital markets.

For Islamic finance, the regulatory framework must support and uphold the ultimate requirement for compliance to Shari'a and Islamic finance rules and principles. In this respect, the international Islamic finance standards and guidelines issued by international industry bodies, such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), should be incorporated in the regulatory framework for Islamic capital markets so as to give comprehensive support for Shari'a compliance.

The second measure is improving market efficiency, through adopting facilitative mechanisms and processes for capital market issuances, adopting standardised documentation for those issuances, and creating a benchmark yield curve based on regular and structured sovereign or quasi-sovereign issuances.

The third measure is enhancing market infrastructure through improving trading efficiency including using electronic trading platforms, developing market making systems including incentives for primary dealers, establishing an index to create visibility and track performances, establishing specialised third party guarantee institutions to widen participation and deepen liquidity, and scaling up the markets through regionalisation efforts.

The fourth measure relates to broadening and diversifying the investor base to include large segments of domestic, regional, and international institutional investors. For Islamic capital markets, it is crucial that the Islamic finance industry should work closely with institutional investors, such as national pension funds and sovereign wealth funds, to create and enhance awareness of Islamic capital market structures so that those institutional investors can gain a greater understanding of Islamic finance mechanisms and enhance their confidence in, and support for, Islamic capital markets.

In particular, this can be supported by incorporation of relevant Shari'a standards into Islamic capital market instruments. An important function of international Shari'a standards for Islamic finance is to provide international market benchmarks and operational guidance for Shari'a compliance – so that markets in general can gain technical understanding as to what makes practices and products Shari'a compliant.

Adoption of international Shari'a standards for Islamic finance is particularly critical for capital market instruments that are offered to attract investors from beyond domestic markets. Capital market instruments that conform to globally-recognised international standards can be more easily offered and marketed to regional and international investors.

The fifth measure is developing a wider range of capital market instruments to include varied types and structures, and tenures, to cater for investors' risk appetites and investment horizons.

A wide range of risk management and hedging instruments are also needed. Hence, for Islamic capital markets, there is a critical need to ensure proper development of, for example, hedging mechanisms that comply with Islamic finance principles, and to ensure that they can be accepted across the international Islamic financial market.

Investor Protection

The sixth measure is strengthening investor protection through promoting trading and price transparency via centralised information dissemination systems, enhancing market surveillance and supervision especially through regulatory capacity, strengthening professionalism of capital market intermediaries such as trustees and primary dealers, and strengthening bankruptcy and restructuring regulations to address possible distress situations and facilitate their resolutions.

An important component in strengthening investor protection is through promoting quality and timeliness of financial and operational information disclosures by issuers. For Islamic capital markets, and Islamic finance in general, this should naturally be supported through adoption of international Islamic finance accounting standards that give specific guidance on accounting treatment and corresponding disclosures for Islamic finance transactions.

Shari'a review, audit standards need to be revamped

Development of internal Shari'a Review, Internal Shari'a Audit and External Shari'a Audit was the focus of the Waqf Fund's 7th Roundtable Discussion, held in Bahrain on 2 March 2014.

The half-day session was attended by a select group of professionals, including representatives of the Big 4 audit firms, chief executive officers of Islamic banks and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Internal Shari'a Reviewers and officials of the Central Bank of Bahrain (CBB).

The participants discussed ways and means to strengthen the Shari'a compliance of Islamic financial institutions (IFIs) and provide additional comfort to regulators, investment account holders, shareholders and the general public about the institutions' compliance with Shari'a, which in turn would enhance the soundness of the Islamic financial services sector in the Kingdom and advancing it for more prosperity and success.

The discussion started with three thought provoking presentations from Mr. Imtiaz Ibrahim, Partner, EY; Dr. Khaled Fakih, Chief Executive Officer, AAOIFI; and Shaikh Abdul Sattar Al-Kattan, Shari'a scholar. This was followed by open discussion among the participants which lasted nearly three hours.

The participants agreed upon the need for IFIs to be audited by an external Shari'a audit function as part of the External Auditor's framework. Thus, it was concluded to form a work team composed of the Big 4 firms and some other Shari'a reviewers in order to develop such a framework in collaboration with AAOIFI.

It was also agreed that an independent Shari'a audit should be made mandatory by regulators in order to achieve the desired benefits of the External Shari'a Audit.

The participants emphasised that AAOIFI's Certified Islamic Professional Accountant (CIPA) course, currently being revamped and supported financially and technically by the Waqf Fund to be in line with similar international high level qualifications, will serve the purpose of developing the right human resources for Shari'a External Audit function.

As for the Internal Shari'a Review and Audit, the participants agreed on the need to revamp the relevant AAOIFI standards and supplement them with some particulars that characterise each of the above functions separately. It was felt that with the expansion of Islamic financial services and increasing complexity of financial products it was important for Internal Shari'a Reviewers to be appropriately and intensively qualified in not only in Shari'a but also have reasonable understanding of accounting, business, finance, law and economics.

AAOIFI's Certified Shari'a Adviser and Auditor (CSAA) certificate, which will be supported by the Waqf Fund to be in line with similar international high level qualifications, may be considered as one of the mandatory requirements that enhance the skills of Shari'a reviewers and auditors.

The conclusions reached and recommendations provided by the Roundtable Discussion will be compiled and submitted to the CBB for its consideration. Mr. Khalid Hamad, Executive Director, Banking Supervision, at the CBB and Chairman of the Waqf Fund, thanked the presenters and the participants for their attendance and active participation.

Shari'a banking, finance degree course launched

The Waqf Fund, a Bahrain-based special fund to support Islamic finance training, education and research, has joined hands with the University of Bahrain to provide financial support to its 4-year Bachelor's degree in Shari'a for Banking and Finance programme.

Dr. Ebrahim Janahi, President of the University of Bahrain, thanked Mr. Khalid Hamad, Executive Director, Banking Supervision at the Central Bank of Bahrain (CBB) and Chairman of the Waqf Fund, for the generous support offered.

"The Waqf Fund has already played a crucial role in putting together and developing the curriculum design by providing the needs and requirements of the Islamic financial services sector. We welcome this financial support which is important for the programme's success," he said.

Mr. Khalid Hamad appreciated the efforts made by the University to launch this unique programme at the Arab region level. He thanked Dr. Janahi for his cooperation and expressed his satisfaction over the enthusiastic response from students so far.

"Graduates of this bilingual programme will be well equipped to work for any Islamic financial institution in Bahrain and globally," he said.

"They will possess a rare knowledge and combination of Shari'a, finance, accounting, economics, business, mathematics as well as Arabic and English languages. They will be exposed to all the initiatives and training programmes of the Waqf Fund, so they will be kept posted of all the future activities and developments in the field of Islamic financial services."

He said the Waqf Fund has high expectations from the graduates of this programme and it is a very welcome development for the Islamic finance industry.

Meanwhile, the Waqf Fund's Board of Trustees has approved the 2014 budget of over US$1.4 million which includes several new initiatives.

One of the important initiatives planned for this year is the leadership grooming programme for member institutions. Under this programe the Waqf Fund, together with its member institutions, will identify top talent among middle managers and put them through a rigorous executive development programme with one of the leading world universities.

The objective is to groom future C-suite executives who have the leadership skills, strategic and visionary thinking and ethical approach to business in order to lead the Islamic banking industry.

Another new initiative approved by the Board relates to cooperation with the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The Waqf Fund will provide financial support to help AAOIFI in further developing the Certified Islamic Professional Accountant (CIPA) qualification.

The Board, in its meeting held on 30 December 2013, also reviewed existing programmes and expressed satisfaction over their progress. These include specialist programmes for Internal Shari'a Reviewers such as the Advance Diploma in Islamic Commercial Jurisprudence and Shari'a Scholar sessions.

The Graduate Sponsorship Programme, now in its fifth year, is meant to orientate junior employees of member institutions to Islamic finance. The Board also discussed the topics for three Roundtable Discussions planned for 2014.

Earlier, the Board welcomed Dr. Abdul Sattar Abu Ghuddah, a leading Shari'a scholar, who presented a research proposal to the Board and was endorsed for funding.

Updated AML/CFT rules on way in Bahrain

The Central Bank of Bahrain (CBB) is updating its rules related to combating money laundering and terrorism financing, to ensure they comply with international best practice, according to a top CBB official.

The CBB has, in fact, made considerable strides in the past five years to ensure that Bahrain's laws are in line with changes in international standards related to anti-money laundering and combating the financing of terrorism (AML/CFT), said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

He was speaking at the Fourth Annual AML and Financial Crime Conference, organised by the Bahrain Institute of Banking and Finance (BIBF) in partnership with the US-based Association of Certified Anti-Money Laundering Specialists (ACAMS). The event was held in Bahrain on 19 and 20 January 2014.

"Money laundering is an ever-evolving threat. Combating it effectively requires a high degree of awareness and personal responsibility among all financial services professionals," said Mr. Al Baker in a keynote address at the conference.

"Money laundering is a major international problem which confronts countries and policy makers worldwide. Given the speed with which money can move around the globe, the problem requires common international approaches."

In principle, money laundering and financial crime risks are no different than other types of risks facing financial institutions or businesses, he said. The key to managing risks is to identify the sources and assess the extent of their impact on the business. Recognising this, the Financial Action Task Force (FATF) has provided a clear statement on this under the very first recommendation in its Revised International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation.

Countries, financial institutions and designated non-financial businesses and professions are required to clearly identify, assess and understand risks. Understanding of those risks will then set the context for taking actions and allow better allocation of resources to effectively manage and mitigate those risks.

CBB Approach

Highlighting the CBB's AML/CFT approach, Mr. Al Baker detailed recent developments in Bahrain.

"The Government of Bahrain has always placed a great deal of importance on compliance with international regulatory standards," he said.

"We believe that this has been a major factor in Bahrain's success as a financial centre. High regulatory standards help to maintain Bahrain's international credibility and attract reputable international players to the financial market in the Kingdom."

Adherence to international standards also contributes to financial stability and long term growth, he pointed out.

"An important element of this commitment to international standards has been the implementation of measures against money laundering and terrorism financing," said Mr. Al Baker.

"Bahrain has sought to implement fully the FATF 40 Recommendations to combat money laundering, and the CBB is in final process of updating the Financial Crime Modules which will reflect the latest revised International Standards on Combating Money Laundering and Financing of Terrorism and Proliferation issued by FATF."

Over the past five years, significant efforts have been made in updating CBB's anti-money laundering and countering terrorism financing framework, he said.

Comprehensive Laws

"We have significantly strengthened our legislative framework to explicitly address money laundering and terrorism financing by updating and strengthening our AML Law, the Protection of Society from Terrorism Acts, and the CBB Law as well as other relevant laws," said Mr. Al Baker.

Implementation of AML laws requires an effective institutional framework and, in this context, the National AML/CFT Policy Committee is charged with formulating and coordinating a national response to the threat of money laundering, and in ensuring effective implementation of the AML Law and policies in Bahrain.

In addition to increased scrutiny from the CBB with regards to real, on-the-ground compliance, several initiatives have been taken by other authorities in the Kingdom to further strengthen AML/CFT efforts.

For instance, the Ministry of Industry and Commerce issued revised AML/CFT regulations for designated non-financial businesses and professions (DNFBPs), while Customs authorities have put in place an effective disclosure system in order to be in line with Decree Law No. 54 of 2006.

In addition, the Anti-Money Laundering Directorate at the Ministry of Interior plays an important role in building an active framework for combating money laundering and terrorism financing, and the Ministry of Development has set up a highly effective and efficient system in regulating and supervising non-profit organisations.

"The CBB has detailed rules on financial crime and anti-money laundering which ensure that CBB licensees allocate appropriate resources and have in place systems and controls to deter, detect, and report any suspicious transactions," said Mr. Al Baker.

"The rules also ensure that licensees have monitoring systems to measure transaction patterns that might reveal a series of related incidents."

The training and competency of the workforce is very important and the CBB rules make it binding for licensees to provide training to their management and staff to make them aware of potential money laundering risks.

Ms. Solveig Nicklos, Director of the BIBF, said the BIBF-ACAMS regional conference was held in Bahrain for the first time and it was with great pride that the BIBF partnered with ACAMS in organising the event.

"This is the first of a number of collaborative initiatives that the BIBF and ACAMS will work together on for the financial sector of Bahrain and the region at large," she said.

Discussions at the event covered such topics as critical regulatory updates, tactics for combating the latest criminal schemes, and strategies for overcoming the region's toughest compliance hurdles.

The event aided in reinforcement of Bahrain's resolve in preserving its strong reputation as a well-regulated financial centre. Bahrain is a member of FATF through the full membership of the Gulf Cooperation Council in the FATF, and is committed to the implementation of all international standards in this area. Bahrain is also a founding member of the regional MENA-FATF, and hosts its secretariat.

ACAMS is the largest international membership organisation dedicated to enhancing the knowledge and expertise of AML/CFT and financial crime detection and prevention professionals, from a wide range of industries, in both the public and private sectors.

New rules on way for ancillary service providers

The Central Bank of Bahrain (CBB) has issued for consultation proposed rules for ancillary service providers as part of its continuous work on improving its regulatory framework. Currently, ancillary service providers are subject to minimal requirements under standard conditions and licensing criteria.

The proposed rules are being issued under CBB Rulebook Volume 5, which deals with specialised licensees, i.e. financing companies, microfinance institutions, administrators, trust services providers and ancillary service providers. The consultation specific to ancillary service providers is being undertaken in several phases. As part of the first consultation phase, three Modules have been issued. These are: Module AU (Authorisation); GR (General Requirements); and BR (CBB Reporting).

Module AU outlines the different categories of ancillary service providers that are to be covered under this part of the CBB Rulebook and provides definitions of the regulated activities for each of the following categories:

(a) Third party administrators (TPA);
(b) Card processing;
(c) Credit reference bureau;
(d) Payment service provider (PSP);
(e) Shari'a advisory/review services; and
(f) Services, other than those included in Subparagraphs (a) to (e), that are carrying out services in accordance with the CBB Law.

Module AU also outlines all licensing conditions and procedures for ancillary service providers licensed or to be licensed by the CBB.

Module GR provides Rules on confidentiality, books and records, publication of documents, distribution of dividends, controllers, close links and suspension of business. Also included are specific requirements for TPAs.

Module BR specifies the regular reporting requirements as well as the various CBB prior approvals and notification requirements.

In addition to the above Modules, all ancillary service providers are subject to a series of common Modules that have been previously issued under Volume 5 and are applicable to all Volume 5 licensees. The common Modules are currently in place and deal with principles of business (PB), auditors and accounting standards (AA), financial crime (FC) and enforcement measures (EN).

Once this consultation process is completed, the CBB plans to issue further Modules for ancillary service providers dealing with corporate governance, risk management and training and competency.

The CBB continues to enhance its regulatory framework and, so far in 2014, issued final Modules under Volume 5 dealing specifically with financing companies and microfinance institutions which had been subject to consultation in 2013.

For all finalised consultations, the CBB provides feedback statements, publicly available on its website. Such an approach ensures that the rules issued by the CBB are done in a transparent manner in line with international standards advocated by international standard setters, such as the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the International Organisation of Securities Commissions, the Islamic Financial Services Board and the Accounting and Auditing Organisation for Islamic Financial Institutions.

Rules for microfinance issued

The Central Bank of Bahrain (CBB) has issued new rules specifically tailored for institutions offering microfinance.

The rules are part of Volume 5 of the CBB Rulebook and developed specifically for specialised licensees. The complete framework for microfinance institutions includes a series of common Modules for all specialised licensees as well as nine specific Modules for microfinance institutions.

The initial launch of the specific microfinance rules include 7 Modules, which are: Module AU (Authorisation); HC (High-level Controls/Corporate Governance); GR (General Requirements); CA (Capital Adequacy and Liquidity Requirements); BC (Business Conduct); BR (CBB Reporting); and PD (Public Disclosure).

These Modules will be supplemented in the future by Modules RM (Risk Management) and TC (Training and Competency).

As part of the development of its regulatory framework, the CBB undertook a public consultation with the industry seeking feedback on its latest proposals for microfinance institutions. It furthered its research by onsite visits to microfinance institutions currently licensed in Bahrain to gain insights into this financial activity and to ensure that any rules issued recognise the unique characteristics of this industry.

Mr. Khalid Hamad, Executive Director, Banking Supervision, at the CBB said: "Throughout the years, the CBB has conducted various consultations in line with the implementation of international standards, seeking feedback from the industry to ensure that due consideration is given to various queries and issues raised and thereby translating international standards to take into account the financial services industry in Bahrain."

Corporate credit bureau launched

Bahrain's credit bureau has been expanded to track the credit histories of companies operating in Bahrain, in a major move to facilitate credit to the business sector.

The new move was announced on 16 January 2014 by the Central Bank of Bahrain (CBB) and the BENEFIT Company, which operates the Bahrain Credit Reference Bureau for tracking the personal credit histories of individuals.

Speaking on the occasion, Mr. Khalid Hamad, Executive Director, Banking Supervision, at the CBB, said this vital project will contribute to strengthening the infrastructure of the banking sector and to improving credit-worthiness in the market. By providing information about the credit-worthiness of businesses in Bahrain, the corporate credit bureau will significantly facilitate the extension of credit to Bahrain's business sector.

"The CBB applauds the performance of the BENEFIT Company in the implementation and management of this important project. The CBB also extends its appreciation to all the banks operating in the Kingdom for the cooperation they extended at all stages to this project," Mr. Hamad said.

Mr. Abdul Wahid Janahi, Chief Executive Officer of the BENEFIT Company, thanked the CBB for its confidence in BENEFIT and pointed to the importance of a business credit bureau in enabling lenders to assess the credit-worthiness of a business, thereby enabling them to better manage their risks and improve efficiency in their credit operations.

Mr. Janahi said "the corporate credit reference bureau uses the best technology available and has world class security features. Credit information on companies is accurate and continuously updated."

Non-oil sector to support robust growth in 2014

Bahrain's economy is on course for robust growth in 2014, as key drivers of non-oil growth strengthen and implementation of major oil projects gets underway.

GDP growth is expected to be 3.7 percent this year and in 2015, according to the December 2013 issue of Bahrain Economic Quarterly (BEQ), published by the Economic Development Board.

The report stated that while overall economic growth continued to gather momentum in Bahrain in 2013, the pattern of expansion has remained heavily tilted toward the oil sector in a marked contrast to 2012. This reflects the normalisation of output levels in the Abu Sa'afa offshore oilfield which experienced protracted unscheduled maintenance in 2012.

However, the delays in some key projects should make for a stronger year in the non-oil economy in 2014.

"Our current projection is 4.4 percent non-oil growth and 3.7 percent headline growth in 2014," said the report.

Below are highlights of the most significant areas affecting the country's growth and changing sectors, according to the report.

Oil sector is performing strongly

The oil sector has put in a strong performance during 2013 with output at Abu Sa'afa reverting to full capacity and indeed exceeding capacity in some months. Output gains in the onshore Bahrain (Awali) field have been fairly measured. Overall, production from the region's oldest oil field is likely to hover around its current level of just over 46,000 barrels per day (b/d) over the coming two years, as developers review the results of the pilot schemes launched in recent years (Source: BEQ December 2013).

Production at Abu Sa'afa should remain close to capacity this year with only a planned closure for routine maintenance expected in May. Output during the year as a whole should average some 148,000 b/d. This will translate to fairly modest real output gains from the oil sector which is expected to expand by slightly less than 1 percent this year.

A number of important projects related to the oil sector will be initiated in the coming months and years:

► Consultancy work is underway for the planned offshore LNG import terminal which is expected to be operational by 2016;

► The stepwise modernisation and expansion of the Sitra refinery is due to be completed by 2017;

► The capacity of the oil import pipeline from Saudi Arabia is due to expand from the current 225,000 b/d to 350,000 b/d;

► The first exploratory deep gas wells are due to be drilled next year. These are significant investments worth roughly US$50 to US$100 million per well.

Non-oil sector likely to return to the forefront

Growth in the non-oil economy got off to a slower start in 2013 than previously expected. The slowdown was particularly marked in the government services sector where double-digit annual growth gave way to a much more moderate pace.

With some of the increased government spending backdated to the beginning of the year, the adoption of the budget half way through the year should have lent a significant stimulus to economic activity.

According to the BEQ December 2013, one of the fastest growing sectors of the non-oil economy in the third quarter of last year was manufacturing, which rebounded to a 5.6 percent YoY rate of growth from a small contraction the quarter before. Social and personal services – composed mainly of private health care and education – continued their exceptional performance with an annual growth rate of 8.2 percent.

The report highlighted that the hotels and restaurants sector extended its rebound with a 4.6 percent gain. Anecdotal indications suggest that the shift in the Saudi weekend has been beneficial for the Bahraini hospitality sector as many visitors are now likely to spend slightly longer periods in Bahrain. Five new luxury hotels are expected to become operational in Bahrain soon, raising the total number of five-star facilities to 19. Hotel occupancy rates recorded some improvement last year, although they remain well below their historic peak.

Bank lending still subdued

The pace of bank credit growth has remained very measured in 2013, according to the report. Aggregate outstanding loans and advances by Bahraini retail banks rose to just over BD7.2 billion (US$19.2 billion) in September – 4.1 percent higher than a year earlier. The growth came almost entirely from personal loans which rose by nearly 14.6 percent YoY to BD2.6 billion.

The report stated that corporate lending has remained virtually unchanged at BD4.4 billion and now makes up 61 percent of total bank lending. Bank lending to the general government has continued to decline and stood at BD182.8 million in September 2013.

Credit growth may have been affected to a degree by increased purchases of government bonds by local banks following significant sovereign issuance last year. Whereas 7.4 percent of retail bank assets were in government securities as of January 2013, this figure had risen to 10.2 percent by September when it stood at BD2.8 billion.

The situation with regard to bank lending can be expected to improve in the coming months as a number of important infrastructure projects get underway.

Favorable external assessments

Standard & Poor's affirmed the long and short-term foreign and local currency sovereign credit ratings for the Kingdom of Bahrain at BBB/A-2 with a stable outlook. The rating is underpinned by Bahrain's strong external position, growth prospects, the projected inflow of GCC development funding, and a stable oil price outlook.

The new ICD-Thomson Reuters Islamic Finance Development Indicator ranked Bahrain second in the world after Malaysia in terms of Islamic financial sector development. The index measures quantitative development, governance, social responsibility, knowledge, and awareness.

Bahrain economic outlook

	2012	2013e	2014e	2015e
Real GDP growth, %	3.4	4.8	3.7	3.7
Non-hydrocarbon sectors	6.7	3.2	4.4	3.9
Hydrocarbons sector	-8.5	12.0	0.8	3.1
Nominal GDP growth, %	4.1	7.9	5.9	6.1
Inflation (CPI %)	2.8	3.0	3.0	3.0
Current account (% of GDP)	7.3	9.7	9.5	10.2
Fiscal balance (% of GDP)	-2.0	-2.8	-3.1	-3.6
Oil price in USD (Arabian Medium)	106.8	106	105	105

Source: Bahrain Economic Development Board

Financial Sector Fact Sheet

Regulator: Central Bank of Bahrain
Financial Institutions: 406 (Feb 2014)
Financial Sector Workforce: 14,009 (2012)
Bahraini nationals 9,253 (66%)
Foreign nationals 4,756 (34 %)

Key Economic Indicators

GDP (Current) US$30.4 billion (2012)
Growth 4.1% (2012)
GDP (Constant) US$27.1 billion (2012)
Growth 3.5% (2012)

Financial Sector contribution to GDP 16.8%
Sovereign Rating
BBB (S&P Dec 2011) with stable outlook
BBB (Fitch Dec 2011) with stable outlook
Population 1,195,020 (2011)

Banking Sector

Assets US$186.1 billion (Oct 2013)
No. of institutions 117 (Feb 2014)
Retail banks 28
Locally incorporated 13
Branches of foreign banks 15
Wholesale Banks 76
Representative Offices 12
Bank Society 1

Islamic Banks (included in left):
No. of banks 24 (Feb 2014)
Assets US$23.1 billion (Oct 2013)

Insurance Sector

Total No. of Insurance Companies & Organisations
Authorised in Bahrain 152 (Feb 2014) * excluding
Appointed Representative
Domestic market
Gross premiums US$531 million (September 2013)
No. of insurance firms 36
Locally incorporated insurance firms 25
Takaful & Retakaful Firms (included above) 8
Captives (locally incorporated, included above) 1
Overseas insurance firms 11
Insurance Brokers 31
Insurance Consultants 5
Insurance Managers 3

Representative Offices 5
Loss Adjusters 11
Registered Actuaries 23
Insurance Ancillary Services 6
Insurance Pools & Syndicates 2
Insurance Society 1
Insurance Licensees Restricted: 30
Insurance Firms restricted: 24
Insurance Brokers restricted: 4
Insurance Consultants restricted: 2
Insurance Appointed Representative 16
Corporate 11
Individual 5

Investment Business Firms

No. of firms 61 (Feb 2014)
No. of Investment Business firms 52 (Feb 2014)

Representative Offices 8
Bahrain Asset Manager Association 1

Specialised Licensees

Total no. of institutions 48 (Feb 2014)
Money Changers 18
Fund Administrators License 1
Registrar License 1
Registered Administrators 1

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

Capital Markets

Market Capitalisation US$20.33 billion (Feb 2014)
No. of firms 28 (Feb 2014)
Licensed Exchanges 2
Licensed Clearing, Settlement and Central Depository Systems 1

Licensed Securities Brokers 4
Licensed Securities Dealers 1
Licensed Securities Clearing Member 7
Licensed Securities Broker Dealers 13

Funds Industry

Authorised Funds 2,829 (Feb 2014)
NAV US$6.86 billion (Sept 2013)

Local Funds (CIUs) 92
NAV US$4.00 billion (Sept 2013)
Conventional-Local 51
Islamic-Local 41
Locally Incorporated (PIUs) 2
Foreign Funds-Offshore 2,735 (Feb 2014)