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Islamic finance industry needs transformation

The Islamic financial services industry needs to undergo a complete transformation in order to be recognized and respected as a major global player, a key conference in Bahrain heard.

Industry leaders also need a new mindset to confront the challenges and take advantage of the opportunities ahead, said Mr. Rasheed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

He was speaking at the 19th annual World Islamic Banking Conference (WIBC), held in Bahrain on 10 and 11 December 2012, with pre-conference workshops on 9 December 2012.

Over 1,100 participants attended the event, held under the theme 'Islamic Finance: Adapting to the New Dynamics of Global Finance', and organized under the patronage of the CBB.

In his keynote address on the opening day, Mr. Al Maraj pointed to the significant changes being undertaken by the global financial industry in general and the Islamic financial industry.

The changes were partly due to the continuing developments required in the industry as it comes to terms with rebuilding customer confidence, which was so badly damaged by the global financial crisis.

"In addition, the Islamic financial services industry needs to come to terms with the need to make significant changes to the traditional business model, which has primarily been based on investment in real estate," said Mr. Al Maraj.

"But the Islamic financial industry does not require change – it requires both a transformation and a new mindset.

"At the foundation level, there are simply too many small to medium sized Islamic financial institutions. The risks inherent in that scenario are clear – Islamic banks cannot play with the big boys. Smaller banks will find it very difficult to combine the increased capital requirements with the ability to participate in the market," said Mr. Al Maraj.

The larger and, often, more lucrative deals are frequently beyond the reach of Islamic banks, and without major changes this will become more acute. Leaving aside the debate about the quality of assets, the importance of holding a larger amount of liquid assets cannot be ignored, and small banks will find this almost impossible.

"There are a number of steps which need to be taken to achieve this. The first is to build a range of Islamic institutions which are well capitalized, continuously highly profitable, and which have a balance sheet size which places them within the top ten in their sphere in the world," said Mr. Al Maraj.

There are various options to achieve this aim, including by way of mergers and acquisitions, which has been a slow and cumbersome path.

"It is no longer appropriate to have only small, local financial institutions which are fundamentally and practically restricted in terms of the markets in which they can compete and the deals they can underwrite. Personal interest and a local or regional mindset must be replaced with a 'big picture' mentality; a mentality which emphasizes and works towards the global contribution Islamic institutions can make for the benefit of all," said Mr. Al Maraj.

On its part, the CBB has successfully worked with many stakeholders in Bahrain to encourage and facilitate mergers. During 2012, one Islamic bank successfully completed the acquisition of a conventional bank. This will soon be followed by the merger of three Islamic banks into one entity, with a third merger of two banks in the pipeline.

"We continuously work quietly and effectively to influence, persuade, and guide licensees to grow and develop. This is only the beginning of what we consider to be an essential ingredient in the transformation of Islamic finance," said Mr. Al Maraj.

A further challenge is that the business model has to change from the current over-reliance on a model built on real estate.

"If the Islamic financial industry is to be successful at each stage of any economic cycle, the model needs to implement and demonstrate diversity in the asset portfolio. This, in turn, needs to be coupled with investment in a much wider range of economic sectors," said Mr. Al Maraj.

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Islamic banks urged to prepare for new, rigorous rules

Islamic banks are being urged to prepare for new international regulatory standards, coming into force in Bahrain and elsewhere in the world from 2013.

The Central Bank of Bahrain (CBB) is working with Bahrain's Islamic banks to help them prepare for these new standards, which will change the way banks do business.

Islamic banks must prepare now for these changes, or risk being left behind, said Mr. Rasheed Al Maraj, Governor of the CBB.

He was speaking at the 19th annual World Islamic Banking Conference (WIBC), held in Bahrain on 10 and 11 December 2012, with pre-conference workshops on 9 December 2012.

Over 1,100 participants attended the event, held under the theme 'Islamic Finance: Adapting to the New Dynamics of Global Finance', and organized under the patronage of the CBB.

"Perhaps the most important subject in the global financial industry at present is the proposed implementation of Basel III," said Mr. Al Maraj in his keynote address on the opening day of the conference.

The primary intention of Basel III, the new global regulatory standards related to capital adequacy, stress-testing and market liquidity risk, is to mitigate the risks of a repeat of the global financial crisis, he pointed out.

Although the detail has yet to be finalised, there is no doubt that it will have a huge influence on the fundamentals of the global banking industry and the wider economic environment.

One of the major changes arising from Basel III is the definition of eligible Tier 1 capital, the ultimate result of which will be a higher Capital Adequacy Ratio.

Further substantial improvements to the risk management frameworks of banks will be required. The methodology underpinning value-at-risk calculations will be strengthened, and the output from these calculations will be scrutinized in far more detail by a wide stakeholder audience.

"Regulators will also be required to improve their supervisory review processes, and in so doing these will become increasingly stringent," Mr. Al Maraj said.

Whereas in the past, jurisdictional judgment has played a prominent role in the implementation of regulation, this will be largely replaced by reforms which will be consistent in the manner in which they aim to strengthen regulation, and raise the resilience of individual banking institutions to periods of stress. These reforms will also have a macro-prudential focus, and will address system-wide risks that can build up across the banking sector, thereby ultimately amplifying these risks over time.

In tandem with Basel III, accounting rules are changing. Moreover, the way in which banks can remunerate staff, and the level of remuneration they can provide, will be subject to increasing regulation.

"The CBB has already published papers detailing what policies and practices will be considered as acceptable. The public and other stakeholders have spoken clearly on this subject, and their opinions that the current levels of remuneration are extreme, reflect the view that they are also unsustainable," said Mr. Al Maraj.

"All of this will change the way banks do business. Islamic banks must prepare now for these changes, or risk being left behind."

The CBB is playing its part in helping banks prepare for the new regulatory landscape and business environment.

"We encourage and facilitate constructive dialogue aimed at transforming the industry," said Mr. Al Maraj.

The CBB's efforts include working with industry to develop and expand the range of products and services which can be made available. The range of available products must be increased in line with Shari'a principles and they must be competitively priced and marketed such that they appeal to the broadest possible community of clients.

"We are also tireless in our pursuit of improving regulatory standards. The CBB Rulebooks are continuously refined to reflect market and other changes. We actively participate with other financial regulators and such bodies as the International Islamic Financial Market (IIFM), Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB), and the Basel Committee on Banking Supervision.

"This is a time of great opportunity, I urge you to embrace the challenges," Mr. Al Maraj told conference delegates.

"I hope my words will encourage an increase in prompt and practical actions which will transform the Islamic financial industry from a growing, developing aspect of the world economy into a world leader in its spheres of influence in the very near future."

Bahrain banker gets top award

Mr. Mohammed Bucheerei, Chief Executive of Bahrain-based Ithmaar Bank, was named the 2012 World Islamic Banking Conference (WIBC) Islamic Banker of the Year.

The WIBC Islamic Banker of the Year award is presented to an individual who is an established banker, leading a reputable financial services provider, who, during the year, has contributed significantly to the Islamic financial services industry.

"I am honoured to have been voted WIBC Islamic Banker of the Year for 2012," said Mr. Bucheerei. "This is an award for the entire Ithmaar Bank family and recognises our combined efforts in making Ithmaar a trusted leading Islamic financial institution offering a comprehensive range of financial solutions and contributing to social development."

The WIBC Institutional Excellence Award 2012 was presented to the Islamic Corporation for the Development of the Private Sector (ICD), the private sector arm of the Islamic Development Bank Group, Saudi Arabia.

Through its strategic initiatives, the ICD has been successfully supporting the economic development of its member countries by providing finance to private sector projects in accordance with Shari'a principles.

"This award is a major achievement for ICD as it comes at a time when a combination of factors – social unrest in some member countries, increased cost of funding and lingering effects of the global financial crisis – added further challenges for ICD to execute its strategy as planned,"said Mr. Khaled Mohammed Al Aboodi, Chief Executive, ICD.

"ICD firmly believes that Islamic finance has significant real economy value-adding potential and can provide a substantial contribution to financial inclusion and economic development in its member countries.

"In line with our new strategy, we have made it a priority to broaden the availability and affordability of Islamic finance and deepen capital markets by expanding access to Islamic finance in member countries."

Islamic banking assets to top $1.8 trillion in 2013

Global Islamic banking assets are set to cross US$1.8 trillion in 2013, up from US$1.3 trillion in 2011, according to Ernst and Young's 'World Islamic Banking Competitiveness Report 2013'.

The global Islamic banking industry continues to record robust growth, with the leading top 20 Islamic banks registering a growth of 16 percent in the last three years and Saudi Arabia emerging as the largest market for Islamic assets (excluding Iran).

The top 20 Islamic banks hold 57 percent of the total global Islamic banking assets (excluding banks in Iran) and are concentrated in the seven core markets for Islamic banking which include Saudi Arabia, Kuwait, the UAE, Bahrain, Qatar, Malaysia and Turkey, according to the report, which was released on the sidelines of the World Islamic Banking Conference, held in Bahrain on 10 and 11 December 2012.

In 2011, the Islamic banking industry in Saudi Arabia, with an estimated US$207 billion of Islamic assets, was ranked first. Malaysia ranked second, with total assets of US$106 billion, and the UAE ranked third, with total assets of US$75 billion.

Ernst & Young also announced the launch of the EY Islamic Banking Universe initiative that tracks performance of 66 Islamic banks across 22 core Islamic finance markets. The EY Universe is another first for the Islamic banking industry that has limited sources for credible global industry information.

Mr. Ashar Nazim, Partner, Global Islamic Banking Centre at Ernst & Young, said: "Competitive benchmarking helps assess which Islamic banks are favorably positioned to capitalise on the industry's growth momentum, and others who are likely to miss out on the opportunity despite a positive banking outlook."

New Markets on Horizon

Egypt has been actively investigating issuing sovereign sukuk as well as the development of a new regulatory framework for Islamic banks, as several banks in Egypt are expected to launch Shari'a compliant products, according to the report.

Iraq is mulling Islamic banking legislation while Libya prepares to implement its Islamic banking framework.

A number of established and new banks are considering introducing Islamic banking operations in these markets – highlighting the continued growth and development of Islamic banking throughout the Middle East and North Africa (MENA) region.

Gordon Bennie, Partner, MENA Financial Services Leader at Ernst & Young, said: "Ten of the world's 25 Rapid Growth Markets (RGMs) have large Muslim populations and present significant growth prospects for Islamic banking. The fast growth economies now form almost half of the global GDP and remain the main contributors to overall global growth. The outlook for Islamic banking in these markets is bright."

Profitability Issue

However, despite the projected asset growth and the introduction of new Islamic initiatives in a number of countries, the profitability of Islamic banking continues to lag behind that of conventional banking in the same markets.

Over the 2008-2011 period, the leading return on equity (ROE) for Islamic banking was only 11.6 percent, against 15.3 percent for conventional banking. Islamic banks continue to face a number of issues affecting the profitability of the industry. These include sub-scale operations, very basic risk culture, incomplete market segmentation, not engaging enough with clients, and absence of technologically oriented value propositions.

These issues have prompted several institutions to initiate wide-ranging transformation programs that will see the industry take the next step in its evolution from being a niche market to a profitable, service orientated industry, attracting customers for product innovation and value added services.

The Ernst & Young report notes that discussions with management and boards of leading Islamic banks suggest that major transformation is happening around Regulation, Risk and Retail Banking (the 3 R's).

"These 3 R's of transformation are geared towards efficient capital planning, risk modeling, mitigating Shari'a risk and building customer centric organisations," said Mr. Nazim.

"There are also meaningful developments on the regulatory front although a lot more needs to be done to create the right enabling environment for Islamic banks to implement the reform agenda."

Outlook

With the successful implementation of these transformation agendas over the next two to three years, Islamic banks are aiming to close the performance gap that currently exists with the overall banking industry.

Successful transformation could see the profit pool of Islamic banks rise by an additional 25 percent by 2015, concludes the Ernst & Young report.

Speaking on the sidelines of the World Islamic Banking Conference, Mr. Nazim said Bahrain's Islamic asset market share amounted to 26.9 percent, or $13 billion, in 2011.

Bahrain's Islamic finance industry endured similar challenges faced by regional and international markets.

"The challenges are related to sub-scale operations and quality of asset books and a weak risk culture that needs to be improved upon," said Mr. Nazim.

"The very generic, one-size-fits-all proposition is no longer going to work."

Segmentation of the market and responding to its varied needs is the way to grow for Bahrain-based Islamic financial institutions, he said.

He noted that the Central Bank of Bahrain has issued new rules and regulations on risk management for Islamic banks.

"Bahrain is playing an important role in furthering the growth of the industry. However, although the numbers will be there, going forward, the quality of growth will matter," said Mr. Nazim.

"Clearly, what Bahrain is looking at is how we can bring more quality to this growth, in terms of risk and capital management and the way the banking business is run."

Risk transformation formed the other aspect as Islamic banks suffered from a very basic risk culture, hence prompting a review.

"These institutions got burnt during the global financial crisis because they had huge provisions to book," said Mr. Nazim. "As a result, their assets were written down, reducing their quality."

Islamic finance has only been partially able to fill the vacuum left by the retreat of European institutions as only 13 Islamic banks have equity of more than US$1billion.

However, Western corporate institutions will continue to be interested in Islamic finance either to tap into its liquidity or in order to enter emerging markets.

"Islamic banking, as it gets closer to ethical and socially responsible finance, will be a concept that will be embraced by the West," added Mr. Nazim.

He also pointed out that the industry is moving towards greater regional penetration and branching into frontier markets in South Asia and Africa.

Need for sound risk management stressed

Financial institutions must adopt stricter auditing practices in order to manage the risks they face, said Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

The sound management of risk is the biggest challenge facing financial institutions today, he said at the opening of the annual conference of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the World Bank, held in Bahrain on 3 and 4 December 2012.

The event was attended by 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.

Discussions focused on a number of topical issues, including Islamic finance in overall economic systems. During this session, speakers addressed the questions of 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.

"Risk management is a big challenge for all financial institutions today and they must adopt stricter auditing systems with more constraints on activities and practices to cope in the coming period," said Mr. Al Maraj.

"These developments and trends reflect the dire need to consolidate confidence and create a safe and secure environment."

He praised amendments approved by AAOIFI to strengthen financial institutions and empower them to better adapt to economic fluctuations and operational risks.

Mr. Al Maraj pointed out other challenges relating to the Islamic aspects of finance and management of investment accounts, adding that these practices are not found in conventional banking practices.

He stressed the necessity to review all constraints in the light of local and global banking developments to ensure more transparency and reduce operational risks.

Mr. Al Maraj underscored the importance of sound management of capital and liquidity for any firm to continue surviving in the financial services sector.

He urged Islamic banks and institutions to abide by these criteria to preserve their achievements over the past decades.

Mr. Al Maraj pointed to the importance for Islamic financial institutions to ensure a solid capital base to be able to withstand fluctuations and to gain lucrative dividends.

He highlighted the importance of promoting innovative tools for managing liquidity, taking into account the new auditing constraints and stressed the need to provide products compliant with Shari'a precepts and changing trends.

Dr. Khaled Al Fakih, Secretary General and Chief Executive of AAOIFI, said over the past few months, the organisation had issued seven new Shari'a standards covering a range of issues including liquidity management and capital and investment protection.

"Liquidity management is a critical area for both conventional and Islamic financial institutions," he said.

"The importance of liquidity management has been further highlighted through lessons from the recent global financial crisis, including that all financial institutions must not over-rely on leveraging."

He added that a new standard had been issued covering capital and investment protection which gives guidance on Shari'a permissibility on tools and measures that may be applied in protecting investment capital.

Waqf Fund elects new board members

The Waqf Fund, a Bahrain-based special fund to support Islamic finance training, education and research, held its 17th Board of Trustees meeting, followed by the annual general meeting (AGM).

At the meeting, held on 26 September 2012, the Board reviewed the progress of the Waqf Fund in the previous quarter and expressed its satisfaction at the successful completion of various training programs. The training was conducted by the Bahrain Institute of Banking and Finance (BIBF), a partner organization, and was aimed at capacity building of Islamic banking professionals and Shari'a resources at Islamic banks through the Graduate Sponsorship Program, Shari'a Reviewer Development Program and Advanced Diploma in Islamic Commercial Jurisprudence Program.

Following the board meeting, the Waqf Fund held its AGM in which 15 member institutions participated. The members were briefed about the Fund's activities during the year. Mr. Khalid Hamad, Chairman of the Waqf Fund and Executive Director, Banking Supervision, at the Central Bank of Bahrain (CBB), urged members to provide their valuable feedback to further improve the working of the Waqf Fund.

Waqf Fund members at the annual general meeting.

"The Waqf Fund has enhanced its enabling role by supporting the industry in various ways during the last year," said Mr. Hamad. "We are supporting the University of Bahrain in its Bachelor of Arts in Shari'a for Banking and Finance, a recently launched four year bi-lingual program aimed at producing capable human resources, who are well-versed in the Shari'a as well as banking, finance, accounting and business."

The Fund is also supporting the Shaikh Isa Library in augmenting its Islamic finance section to facilitate researchers and the general public alike, he added.

During the AGM, a new Board was elected. Al Baraka Group, Bahrain Islamic Bank and National Bank of Kuwait take their place on the Board for a three-year term, replacing outgoing members Khaleeji Commercial Bank, Venture Capital Bank and Sakana Holistic Housing.

Mr. Hamad thanked the outgoing Board members for their contribution towards the Waqf Fund's success in the past three years and welcomed the new members.

Takaful regulators need to harmonise rules

Regulators of takaful (Islamic insurance) operators around the world should work to harmonise their rules, to provide an even and standardised regulatory environment, to enable the growth and advancement of the takaful industry.

And, takaful firms need to take proactive steps and rethink strategies to overcome the diverse challenges facing the industry, including a shortage of investment avenues and qualified human resources, said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the Central Bank of Bahrain (CBB).

He was speaking at the opening plenary session of the first Middle East Takaful Forum, held in Bahrain on 17 and 18 October 2012.

The event, which was hosted by the CBB and organised by MEGA, was held under the theme 'Adapting to Change: Regulatory Priorities to Sustain a Successful Takaful Industry in the Middle East'.

Noting the importance and timeliness of the theme for the global takaful industry, in general, and in the Middle East and North Africa (MENA) region, in particular, Mr. Al Baker pointed to the tremendous growth of the industry in recent years.

"As you may be aware, the global takaful industry has been experiencing double digit growth of around 19 percent, with the GCC and South East Asia being the major contributors of the US$9 billion global gross takaful premiums," he said.

Overall, the GCC market remains at the top in terms of overall contribution. The latest industry data reveals that the region contributes more than 62 percent of the gross takaful premiums globally.

However, a critical factor that will determine success in taking the industry to the next level of development is the existence of market players of the right quality and caliber, as well as their readiness in terms of capacity and capability to formulate and execute successful strategies in response to new market opportunities, said Mr. Al Baker.

To achieve this, it is essential that key players in the industry remain profitable in the long run.

"The current market situation makes it even more challenging for takaful operators to maintain momentum while boosting profitability," he said.

"This calls for taking proactive steps and rethinking strategies to overcome diverse challenges in order to sustain growth momentum. I hope conference discussions will seek to address the critical issues that the industry is currently facing and provide fresh perspectives on how to overcome these challenges."

While the takaful industry has been expanding at a fast pace, takaful operators are faced with a number of challenges, he said.

First, regulations related to takaful business vary across jurisdictions and such variances in regulations make it difficult for takaful operators to function across borders and regions.

This could create challenges for the industry to achieve sufficient scale and critical mass necessary to compete with their conventional counterparts.

"It is, therefore, pertinent that regulatory regimes should be harmonised and standardised, at least on a regional level, on critical issues such as solvency requirements and key performance indicators, in order for the industry to prosper and be able to compete effectively," said Mr. Al Baker.

Second, takaful operators are subject to the same corporate governance requirements as their conventional counterparts. However, takaful operators have an additional layer of governance in order to ensure that they operate in accordance with the requirements of the Shari'a. The ultimate responsibility for Shari'a compliance of a takaful operator lies with the directors and senior management of the firm, with the Shari'a Supervisory Board providing independent opinion on the Shari'a requirements.

"It is, therefore, essential that appropriate policies and procedures are established and maintained by the takaful operator in order to ensure and facilitate compliance on an ongoing basis," said Mr. Al Baker.

One of the issues that has been a cause of concern with respect to the profitability of the takaful industry is the insufficient availability of Shari'a compliant financial instruments, he said.

Large allocation to high-risk asset classes to maximise returns and an ad-hoc approach to portfolio management has also not helped the industry.

"There is an urgent need to develop more Shari'a compliant investment avenues and work on deepening the existing Islamic financial markets. This could be achieved by allocating the necessary resources to carry out research and development on comprehensive strategies to further enhance and widen the Islamic financial markets regionally and globally," said Mr. Al Baker.

Availability of a qualified talent pool remains a key area of concern for the takaful industry as the industry continues to suffer from a shortage of human resources with requisite expertise. The industry must focus on enhancing retention by developing long-term incentive schemes and training programs, he said.

Regional regulators should encourage the building of a talent base and strive to enhance universities and private training centers to offer degrees and certificates in Islamic finance and takaful, to accommodate the needs of students and professionals and to target a wider range of individuals interested in pursuing insurance studies.

This will guarantee the necessary supply of highly qualified talented personnel to meet the growing demands of the market.

"As a regulator, the CBB believes in continual enhancement and improvement of its regulatory infrastructure for the growth and betterment of industry," Mr. Al Baker pointed out.

"Currently, we are working on updating and expanding rules related to takaful business, in order to facilitate and further enhance the growth of the takaful industry."

Part of the enhancement to the rules relates to the solvency margin requirements in terms of its calculation and treatment.

The CBB has been working closely with licensed takaful entities and their respective Shari'a Boards to ensure that the rules are in line with the best international standards and that they adequately protect the interests of all stakeholders.

"Looking ahead, we see great new and untapped potential for the takaful industry in the GCC, especially in the family takaful line of business which is currently underpenetrated and needs effective distribution channels," said Mr. Al Baker.

"Furthermore, we believe that takaful markets will grow significantly in the coming five years to reach US$20 billion by 2017, with the GCC contributing more than 60 percent to the global takaful industry."

Investment Business sector surges in Bahrain

The Investment Business sector in Bahrain is continuing to show strong growth, as demonstrated by figures reported to the Central Bank of Bahrain (CBB) for the third quarter of 2012.

Since the introduction of the Investment Business (IB) license by the CBB in 2006, replacing the restrictive Investment Advisory License, the number of IB licensees has risen to 50. New licensees, recognizing the potential in this market, continue to set up business in Bahrain.

The number of IB licenses granted by the CBB grew from an initial figure of 22 licensees, who were automatically migrated from the old Investment Advisory regime in 2006, to 50 licensees at present.

The three sub-categories within the IB licence permit firms to undertake any or the full range of activities, depending on their category and line of business, such as investing as principal, asset management, operating a collective investment undertaking, acting as custodian of financial instruments, or offering brokerage and advisory services on financial instruments to clients.

The sector, comprising firms from all three sub-categories of the IB license, reported total assets under management (AUM) of US$16.46 billion as at 30 September 2012. This was a significant increase of 72.4 percent over the same time last year in which total AUM was reported as US$9.55 billion.

Mr. Mohammed Ayman Al Tajer, Director, Financial Institutions Supervision, at the CBB, commented on the rising number of licensees, saying: "Asset management is certainly an area of specialization; as market participants expand on their service offerings, this would likely increase the size of AUM, which would in turn attract more professionals to this market who are capable of engineering and developing financial products aimed at investing regionally as well as internationally."

On the current status of the asset management industry, Mr. Al Tajer said that "the industry currently boasts professionals with a track record and experience in the financial market."

"Opportunities will continue to exist despite any external environment pressures, and seizing these opportunities at the right time and at an attractive valuation will, without doubt, lead to the desired exit," he added.

Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB, said the CBB is closely monitoring the growth in this important sector and is pleased to see how new market entrants have brought value added activities to the existing industry by introducing new innovative products and structures, tailored to suit the region's investment appetite.

Bahrain enjoys a solid reputation as an attractive base to locate financial business because of the comprehensive framework of regulations and financial laws governing the asset management sector, all of which have been in place and tested for a considerable period. Additionally, the geographic proximity of Bahrain to the wealth centres in the region adds to the Kingdom's attraction as a location for asset management business.

Bahrain also has an abundant educated and qualified workforce in the sector.

He pointed out that IB licensees are regulated in accordance with the CBB Rulebook Volume 4, which is updated on a quarterly basis to suit the needs of the market while maintaining international regulatory best practice. Major updates include corporate governance issues, management training and competency and regulatory reporting requirements.

BSI SA gets Investment Business licence from CBB

The Central Bank of Bahrain (CBB) has upgraded the licence of BSI SA to an Investment Business Firm/ Category 2 (Branch), from Representative Office previously.

BSI SA is a Switzerland-based private bank, authorised by the Swiss Financial Market Supervisory Authority (FINMA). BSI SA, one of the oldest banks in Switzerland, was established in the canton of Lugano in 1873, and was known as Banca della Svizzera Italiana. Today, with a nearly 140-year history in private wealth management, BSI SA has a presence across Europe, Asia, the Middle East and Latin America.

From its offices around the world, BSI SA offers integrated wealth management, investment solutions and integrated banking services to high net worth and private clients with complex and evolving financial needs.

The bank established a Representative Office in Bahrain in June 2008. As an Investment Business firm, it will operate as a branch which will serve as a hub for the entire Middle East region.

Mr. Ahmed Al Bassam, Director, Licensing and Policy, at the CBB, welcomed BSI SA's decision to choose Bahrain as its hub for the Middle East region.

"The presence of a reputable financial institution such as BSI SA in the Kingdom of Bahrain adds value to the Kingdom as a reputed financial centre in the region," he said.

Mr. Edmondo Sarteur, Chief Executive Officer of BSI SA, Bahrain Branch, said BSI believed that Bahrain was the ideal place to establish its presence in the Middle East.

"We have expanded our team which provides specialised asset management services and upgraded our licence to expand our product and service offerings in the Middle East to better serve our client base," he said.

"BSI places great emphasis on establishing and maintaining ongoing personal relationships with clients, while at the same time offering global asset management services with world-class products."

Insurance forum set for Bahrain

Leading players, industry thought leaders and key regulators are set to take part in the 9th Annual Middle East Insurance Forum (MEIF 2013), which is scheduled to be held in Bahrain on 4 and 5 February 2013.

The theme of the event, being held under the patronage of the Central Bank of Bahrain, is 'Balancing Growth with Profitability: New Strategies for the Middle East Insurance Industry'.

More than 500 delegates representing over 150 leading organizations are expected to attend the event to discuss key strategies for maintaining growth momentum while boosting technical profitability in an increasingly competitive environment.

The conference will feature critical sessions that will seek to build scale, improve competitiveness and profitability and capture the untapped growth potential in the regional insurance industry.

Sound remuneration practices for licensed banks

The Central Bank of Bahrain (CBB) recently issued a consultation document dealing with sound remuneration practices for banks. The proposed rules, detailed in the consultation document, are in line with the principles of international and regional standard-setters, including the Financial Stability Board (FSB), Basel Committee on Banking Supervision (BCBS), Financial Services Authority of the United Kingdom and the Saudi Arabian Monetary Agency (SAMA). Johanne Prevost, Advisor, Regulatory Policy, at the CBB, explains the CBB approach and next steps.

Following the global financial crisis of 2008-2009, it became clear that one of the many causes underlying the crisis included poorly designed incentive programs that led to excessive risk taking by employees of various financial institutions. In particular, variable remuneration, such as bonuses and other incentives, did not reflect employees' true performance and the risks being taken. Excessive risk taking has been linked to short termism, poor sales culture as well as the use of dubious accounting practices designed to inflate the amount of short term bonuses provided.

Banks around the world have been taking action to correct such misguided practices by implementing several of the principles and standards being advocated by international standard setters. While the notion of putting in place such standards has been aimed primarily for 'significant' financial institutions, particularly large, systemically important firms, the Basel Committee on Banking Supervision (BCBS) has noted that "national jurisdictions may choose to extend the scope of application to a broader range of financial institutions"[1]. However, what has become clear is that a great number of jurisdictions have opted not to have in place any size thresholds in implementing the principles advocated by the Financial Stability Board (FSB)[2]. The CBB has opted to follow this approach and advocates the implementation of sound remuneration principles for all its licensed banks.

The CBB's proposed rules are based on various principles, including requirements for sound remuneration practices and the criteria that will be used by the CBB in assessing whether or not licensed banks comply with the rules being advocated. The CBB's eight principles and detailed requirements are grouped into three areas:

1. Effective governance of remuneration;
2. Effective alignment of remuneration with prudent risk-taking; and
3. Disclosure of remuneration policies and practices.

Furthermore, the remuneration practices advocated should cover all approved persons as defined in the CBB Rulebook, as well as material risk-takers. The BCBS provides further guidance on who should be included as material risk-takers, namely, "those persons who receive a significant portion of performance-based remuneration". It also provides further examples, noting "business lines organised on a commission basis or where profit generation is the key performance metric, without any offsetting risk mitigation requirements".

Governance of Remuneration

The first principle dealt with under this section focuses on active involvement of the board of directors in the remuneration system's design and operation. The CBB's current corporate governance rules, included in its Rulebook under Module HC (High-level controls), do address some of the concepts advocated, including the establishment of an independent remuneration committee. But the new principles go further in emphasising the need for the Board to "approve, monitor and review the remuneration system to ensure the system operates as intended". To provide additional assurance that the board of directors is fulfilling its obligations in relation to the remuneration system, the proposed CBB rules include the need for an annual remuneration audit to be performed by the bank's external auditor. In addition, limits on overall remuneration of board members as well as maximum sitting fees are being introduced.

The third and last principle under this heading covers the independence and remuneration of the control functions, such as those of compliance, internal audit as well as risk management.

Remuneration and Risk-Taking

This part of the consultation document deals with several new concepts advocated by international standard setters, including the need for risk adjustments to be integrated as part of the remuneration system and the recognition that banks' current capital and liquidity positions must be considered in the design of such a system. This approach introduces the concept of accrual and deferral of variable remuneration, based on the bank's financial position to support such payments.

It emphasises the need for remuneration outcomes to be symmetric with risk outcomes and how employees' incentive payments, including variable remuneration, must be linked to the contribution of the individual and business to such performance. However, it cautions that bonuses must diminish or be deferred in the event of poor bank, divisional or business unit performance. The deferral of variable remuneration is essential in recognising that remuneration payout schedules must be sensitive to the time horizon of risks. This concept is dealt with in detail under Principle 6 of the proposed rules.

Finally, the mix of the type of remuneration (cash, equity or other forms) needs to be consistent with risk alignment. The proposed rules impose a minimum portion of the variable remuneration to be awarded in shares or share-linked instruments as well as a minimum retention period for such shares being allocated.

Disclosure of Remuneration

The last principle refers to the need for banks to be transparent about their remuneration policies and practices by disclosing these as part of their annual report. This section provides a detailed list of what must be included as part of this disclosure.

In addition, new reporting requirements to the CBB, specifically dealing with remuneration are being mandated.

Next Steps

Following the review of comments received from the consultation process and the requirements being formally introduced by the CBB, by amending its Rulebook, banks will be required to undertake a detailed self-assessment in relation to their compliance with the rules being introduced and indicate steps and timeline taken to address the areas of non-compliance. Based on a review of the self-assessments, the CBB will study the need for possible transitional measures as part of the implementation process of these new requirements.

1- Compensation Principles and Standard Assessment Methodology, Basel Committee on Banking Supervision, January 2010.
2- Range of Methodologies for Risk and Performance Alignment of Remuneration, Appendix 1, Basel Committee on Banking Supervision, May 2011.

Bahrain banks' assets cross $200 billion mark

The consolidated balance sheet of the banking system in Bahrain, comprising retail and wholesale banks, stood at US$201.1 billion at the end of September this year, according to the latest issue of the Central Bank of Bahrain's Quarterly Bulletin.

This was an increase of 4.6 percent over the consolidated balance sheet of $192.2 billion at the end of June 2012, and an increase of 1.3 percent over the same time last year.

Retail banks represented 35.8 percent of the consolidated balance sheet at September-end 2012, with an aggregate balance sheet of BD27 billion ($71.8 billion). This was an increase of 3.9 percent over a balance sheet of $69.1 billion at June-end 2012 and 7.6 percent over September-end 2011.

The aggregate balance sheet of wholesale banks stood at $129.2 billion at September-end 2012. This was an increase of 5 percent over a balance sheet of $123.1 billion at June-end 2012 and a decline of 2 percent over the same time last year.

Total domestic assets of the banking industry totaled $47.3 billion at September-end, from $46.9 billion at June-end. Foreign assets increased by 5.8 percent to $153.8 billion at September-end, from $145.3 billion at the half-year.

Total domestic liabilities of the banking industry totaled $49.8 billion at September-end, compared with $49.1 billion at June-end. Foreign liabilities amounted to $151.3 billion, compared with $143.1 billion.

Bahrain's retail banking industry continued to post steady growth, both in its loan portfolio as well as assets, reflecting the healthy growth of the domestic economy.

The total assets/liabilities of retail banks grew by 3.8 percent to BD27 billion at September-end, from BD26 billion at June-end. Domestic assets stood at BD14.8 billion, while foreign assets amounted to BD12.2 billion at September-end. Domestic liabilities stood at BD14.7 billion, while domestic liabilities amounted to BD12.3 billion.

Total deposits at retail banks stood at BD12.9 billion ($34.3 billion) at September-end, an increase of 4.9 percent over the June-end figure of BD12.3 billion.

Total outstanding loans and advances extended to residents by retail banks increased by 1.5 percent to BD6.9 billion at September-end, from BD6.8 billion at June-end.

Of the total loans at September-end, 63.5 percent were in the form of business lending, while the personal and government sectors accounted for 33.1 percent and 3.1 percent respectively.

The sectoral distribution of the loans to business indicate that 25.4 percent were extended to the construction and real estate sector, followed by 13.2 percent to the trade sector and 11.8 percent to 'other' sectors, which include the hospitality industry and the transportation sector, while the manufacturing industry received 8.1 percent of the loans.

The aggregate balance sheet of Bahrain's Islamic banks (retail and wholesale) stood at $25.7 billion at September-end, compared to $25.6 billion at June-end. Domestic assets stood at $12.8 billion at September-end, while foreign assets amounted to $12.9 billion.

Money supply in Bahrain's economy, represented by M2 (currency in circulation and bank deposits, including time deposits) rose to BD8.5 billion at September-end, from BD8.4 billion at the end of June.

By the broader monetary measure M3 (which includes M2 as well as government deposits), the money supply stood at BD10.3 billion at September-end, slightly higher than the BD10.3 billion level it stood at the end of June.

1m futures contracts traded in 1 year at BFX

The Bahrain Financial Exchange (BFX), the first multi-asset exchange in the Middle East and North Africa (MENA) region, has successfully completed one year of trading operations of its Futures segment, since the launch of the exchange on 23 November 2011.

As on 23 November 2012, the cumulative (single-side) trading turnover value was US$27.3 billion, with the total trading volume crossing one million contracts, said a BFX statement.

The cumulative trading turnover of BFX Futures reached the first US$10 billion milestone in 179 trading days; whereas the next $10 billion mark was achieved in the subsequent 33 trading days. The cumulative trading volume reached the first half-million contracts mark in 225 trading days, with the next half-million contracts being achieved in the subsequent 33 trading days.

The highest (single-side) daily trading turnover was $1.6 billion (on 31 August 2012), and the highest daily trading volume achieved was 31,620 contracts (16 November 2012).

The average daily trading volume increased from 100 contracts per day in January 2012 to 17,262 contracts per day in November 2012, an increase of over 172 times. The average daily trading turnover peaked at $325.6 million in August 2012. The Open Interest on the BFX Futures increased to 6,780 contracts on 23 November 2012, an increase of 50 times over the highest Open Interest in the March 2012 Futures.

Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the Central Bank of Bahrain, said: "We congratulate Bahrain Financial Exchange on the successful completion of their first year of trading. The Exchange is well positioned to grow its market share in the MENA region and capture solid opportunities in Bahrain and beyond, and we wish them a prosperous year ahead."

Mr. Arshad Khan, Managing Director and Chief Executive Officer of BFX and the BFX Clearing and Depository Corporation (BCDC), said BFX has emerged as one of the fastest growing financial exchanges in the region.

"With the Kingdom of Bahrain becoming an attractive and alternative investment destination for financial institutions and investors globally, the cumulative trading turnover on the BFX markets is expected to witness significant increase," he said.

The launch of the BFX Futures on the US dollar versus the Indian Rupee (USD-INR) currency pair as an Index has heralded the innovative capabilities of the BFX. In a short span of time, the BFX Futures on the USD-INR currency pair clocked a cumulative trading turnover of $23.3 billion with a trading volume of 954,179 contracts.

The next highest traded contract was the BFX Gold Futures, which registered a trading volume of 69,887 contracts ($3.6 billion), followed by the BFX EUR-USD Futures (11,809 contracts; $385.2 million) and the BFX Natural Gas Futures (2,026 contracts; $12.5 million).

New CBB rules on way for financing companies

The Central Bank of Bahrain (CBB) is formalising its existing requirements for financing companies and introducing some new best practice measures. Financing companies are regarded as systemically important because of their intermediary role as providers of credit to the consumer finance sector, primarily as credit card issuers, and housing and vehicle finance providers. The new rules, which come into effect from the start of 2013, include capital adequacy requirements, licensing fees, and other 'general requirements'. Mr. Richard Ellis, Advisor, Banking Supervision, at the CBB, highlights some of the new rules and explains the rationale behind them.

Two years ago, the Central Bank of Bahrain (CBB) Volume 5 Rulebook team began working on the collection of 'Common Modules' that comprise Volume 5 of the CBB Rulebook. The so-called 'Common Modules' apply to all licensees in the 'specialised licensees' category. And this is where Volume 5 is different to the first four volumes of the Rulebook: specialised licensees include a diverse family comprising money changers, fund administrators, registrars, administrators of funds, financing companies, representative offices, microfinance institutions, trust service providers, ancillary service providers, societies and professional bodies. The Common Modules contain basic legal standards derived mainly from the CBB and Commercial Companies Law that can be applied to all such licensees. These modules comprise Enforcement, Financial Crime, Accounting and Audit related standards, and Principles of Business. These are on the CBB website and, in the main, are very similar to their equivalents in Volumes 1 to 4.

Systemic Importance

However, after that, the divergence to Volume 1 or Volume 3, for example, becomes marked because each class of licensee then has specific Modules. If we consider the amount of systemic risk that is presented by a society or a representative office, this is essentially minimal when compared to a large bank and so, for certain categories of Volume 5 licensee, the requirements for subject categories such as capital adequacy or financial resources are minimal.

But there are some categories of licensee in Volume 5 which definitely do have systemic importance for the economy of Bahrain and its international reputation. For example, let's consider how you might feel if you are on holiday or business and paying your hotel bill by credit card, and the hotel clerk tells you that your credit card does not work. You are not over limit, you are not in arrears. Your card is simply not working. Or perhaps you have paid a deposit on a car or a house and you are told over the phone that the cheque for the purchase of your treasured new home or vehicle has 'bounced'. What do you do? Unless you have got a serious alternate source of funds, you are stuck. And, therefore, one very important licence category for us all is financing companies. The possible side-effects to the Bahrain economy of the failure of one of these institutions could be more material. Internationally, the failure of a credit card company would inflict significant damage to Bahrain's reputation as a financial centre.

We can, therefore, agree that such institutions must be robustly regulated, but the question arises of how demanding the regulatory framework should be for such institutions. If financing companies do not take deposits from the public and are financed primarily by shareholders' capital and wholesale debt, then the focus should be on capital adequacy and liquidity but not necessarily on deposit protection or a regulatory framework as complex as the Basel risk-weighting approach to capital adequacy.

Therefore, because financing companies deal with the general public and potentially have a material level of systemic importance, clearly we need to ensure that they enjoy financial stability but the regulatory burden can be lighter than for banks, given that financing companies do not take deposits.

In light of this, there are packages of new specific modules for Volume 5 that were consulted earlier and which will be included in Volume 5 and become effective in 2013.

For financing companies, perhaps the two most important Modules are the Capital Adequacy and the General Requirements Modules.

Capital Requirements

Capital Adequacy requires a minimum of BD5 million (US$13.3 million) of capital for financing companies and licensees must maintain a gearing ratio of a least 20 percent of capital to total liabilities.

Rather than use the Basel risk weighting approach, the CBB has opted for the more transparent gearing approach. Financing companies are not allowed to engage in such a range of services as banks and so a risk-weighting approach is of little use because of the narrow range of assets. Financing companies can only offer credit and so their receivables are in the form of loan (or lease) installments outstanding or credit card receivables. In theory, their only other assets should be premises, fixtures and fittings, and cash.

General Requirements

The General Requirements Module contains the usual conditions concerning books and records, the use of names and dividend approval. It also contains CBB requirements concerning controllers. Essentially, these requirements are the same as for banks, but we have added more detailed 'close links' requirements (like Volume 4) because we need to understand and identify persons or entities linked to a licensee that are not necessarily major shareholders, but may still have significant business or control relationships with a licensee.

The licensing module in Volumes 1 and 2 is called the Authorisation Module in Volume 5. There are some simplifications and lighter touches compared with banks. The Authorisation Module details the more limited scope of regulated services that financing companies may provide. Financing company licensees may only be incorporated in the form of a joint stock company (BSC). Single person companies or partnerships are not permitted. The good news for financing companies is that because they impose a lighter regulatory burden on the CBB, they are subject to proportionally lower licensing fees which are capped at BD24,000 per annum.

The High Level Controls Module is simplified for financing companies. Since they are not custodians of customer deposits or managers of funds then there can be a less heavy regulatory environment for governance than for larger institutions. The focus is really on ensuring that there is an adequate risk management environment when it comes to approving credit and monitoring performance.

Finally, the Reporting Module is a lighter set of requirements. Basically there are fewer and simpler prudential reporting forms.

During the consultation process for these Modules, the CBB has taken careful note of the comments of licensees and tried to ensure that the regulatory approach is firm but light. We hope that licensees and the general public will agree when the new Modules are formally issued.

Bahrain financial sector mature and vibrant

Bahrain's financial sector is a vibrant and thriving industry, thanks to a solid foundation laid as far back as the 1970s, said Mr. Rasheed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

He praised the pioneering and leading role of His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa in laying the foundation for the financial sector and for his continuous support for major economic sectors.

Speaking at the 'Invest in Bahrain' event, Mr. Al Maraj said the number of financial institutions and firms in Bahrain had reached 410, employing more than 14,000 workers, of whom 66 percent are Bahrainis.

Bahrain has also become a reputable regional centre for Islamic finance, with 66 Islamic banks, seven takaful companies, 100 Islamic investment funds and more than 2,700 investment funds, with a total value US$9 billion.

The financial sector's contribution to the domestic economy represented 17 per cent of GDP in 2011, he added.

'Invest in Bahrain', a platform for attracting foreign direct investment, was organized by the Commerce and Industry Ministry. Around 1,000 business people and investors from Europe, China and the Middle East attended the event, held on 7 November 2012.

Opening the event, Prince Khalifa said attracting foreign investment was a top priority for the Government.

He resolved to continue Government efforts to ensure a favourable business environment and promote legislation to consolidate confidence in Bahrain.

He hailed Bahrain's status as a competitive investment destination, globally and regionally acknowledged on the index of economic openness.

"The Government is determined to encourage value-added investments to ensure long-term sustained economic development," said the Prime Minister.

He pointed out that the Bahraini economy has proved outstanding solidity and flexibility in withstanding the security challenges and global economic changes which is evident in the steady growth in foreign investments in the Kingdom.

The Premier affirmed that the initiatives taken by the Government to diversify sources of revenue have contributed significantly to boost economic growth and promote Bahrain as a favourable investment hub.

He pledged that the Government would continue its efforts to encourage the private sector and empower it to enable it to play its role in stimulating the national economy through taking additional initiatives and implementing more projects in various sectors, to enable the Kingdom to achieve its development goals and generate more job opportunities for the citizens.

BIBF-CISI launch 2 new training programmes

The Bahrain Institute of Banking and Finance (BIBF), in association with the Chartered Institute for Securities and Investment (CISI), has launched two new international qualifications, the International Introduction to Securities and Investments (IISI), and the International Certificate in Wealth Management (ICWM).

The IISI programme has been specifically designed to meet the needs of new entrants to the investment industry. With a tailored and focused approach to international markets, the programme provides an overview of all areas of investment.

The ICWM meets the needs of those firms who want to ensure that their staff are able to provide high-quality advice to clients. The qualification will ensure that wealth managers and advisers understand the range of assets and investment products that are available in the market. It will equip them to provide financial advice and find appropriate solutions to meet the investment, retirement protection, and estate and tax planning needs of their clients.

Mr. Garry Muriwai, Director, BIBF, said the institute and CISI have cooperated since 2008. Central Bank of Bahrain-mandated qualifications, Financial Advice Programme Level-1 and CBB recommended Risk Management Programme Level-1 graduates receive affiliate membership status with CISI.

"CISI qualifications are portable, enabling our students to further continue their career progression from anywhere globally," said Mr. Muriwai.

Ms. Helena Green, International Manager, CISI, said CISI was delighted to support the launch of the IISI and ICWM training programmes in association with the BIBF.

"These qualifications will provide candidates with excellent building blocks for their careers. The CISI in Bahrain is lucky to be supported by a strong National Advisory Council. We are excited about growing our membership in Bahrain through this Council and the CBB programmes."

BIBF-World Bank agreement

The Bahrain Institute of Banking and Finance (BIBF) and the World Bank have signed a memorandum of understanding (MoU) to foster financial stability in the Middle East through education, training and knowledge exchange activities.

Under the MoU, the BIBF and the World Bank will cooperate in contributing to improved financial stability and financial sector development in the Middle East by jointly promoting the identification and dissemination of sound practices in various financial sector topics, including but not limited to prudential regulation and supervision, contingency planning and crisis management, deposit protection, banking sector development, Islamic finance, corporate governance, risk management and anti-money laundering.

"Corporate governance has taken on a new meaning during the last five years," said Mr. Garry Muriwai, Director, BIBF.

While the financial crisis resulted in the collapse of many companies around the world, one could also argue that poor governance was a major contributor to the crisis and its follow-on effect to all sectors of the global economy.

As a result, the legal, ethical and technical competencies expected of both board members and senior executives by shareholders, regulators and the public have increased dramatically.

Bahrain on strong growth path, despite global downturn

Following are excerpts of an interview with Mr. Rasheed Al Maraj, Governor of the Central Bank of Bahrain, published in Nikkei in November 2012. The interview was conducted on the occasion of the 40th anniversary of diplomatic relations between Bahrain and Japan, during Mr. Al Maraj's visit to Tokyo.

Q: What impressions did you get from your exchanges with Japanese companies this time?

Mr. Al Maraj: I feel companies have strong intentions to venture into foreign markets in which economies are stable. The GCC region has been achieving steady economic growth for many years, and I feel Japanese business people have high expectations on that positive growth. Bahrain has been an international financial centre for many years. Many Japanese financial organizations have their branches in Bahrain. We don't only have financial relationships between Bahrain and Japan, but we also have a strong political relationship.

Q: What are the responsibilities of the Central Bank of Bahrain?

Mr. Al Maraj: The CBB has two main roles: first is to implement monetary policy, and to issue currency. Our second role is regulatory and supervisory work. We regulate the entire financial sector, including insurance, fund management, and capital markets.

Q: The trend of tightening regulations is becoming stronger in other countries.

Mr. Al Maraj: Needless to say, it is heading towards a direction of very strict regulatory framework. It is necessary for financial organisations and banks to operate their businesses in a steady and safe environment. Many problems happened in the past under less restrictive regulations. It is important to understand that regulations should be set to offer a safe and stable environment.

Q: What is the outlook for Bahrain's economic growth for this year and the next?

Mr. Al Maraj: This year it seems to be around 3.5 percent and we are looking to about 4 percent for 2013. A diversified economy, which is not limited to the energy industry, has become a key factor in maintaining growth in the economy. The Government is increasing public spending while private sector investment is slowing.

Q: The Bahraini currency is pegged to the US dollar. Does that have a negative impact on Bahrain's economy because of the expansionary monetary policy being implemented in the US?

Mr. Al Maraj: So far we have not seen a negative impact due to US financial policies. Of course, we are implementing a low-interest rate policy as in the US, but we also use other prudential measures to influence economic growth. For example, we strictly monitor banks' credit, which has direct impact on the level of economic activities.

Q: Are there any concerns about rising inflation by continuing monetary easing?

Mr. Al Maraj: Over the last several years, there have been no concerns regarding inflation. Food is the most important factor of the CPI in Bahrain and, to a large degree, food price volatility impacts the level of inflation.

Q: There is global concern about rising food prices. Does this affect your country?

Mr. Al Maraj: We have concerns about the issue. But in order to avoid food price volatility that will have a negative impact on our citizens, our government provides subsidies for major food items like wheat, meat, and poultry.

Q: The UAE and Oman will not join the GCC currency union. How is progress on unification going?

Mr. Al Maraj: Bahrain, Saudi Arabia, Qatar and Kuwait are going ahead with plans for a unified currency, for which an agreement was signed in 2010. We have established the Gulf Monetary Council. Bahrain is the current chair of the council, which is responsible for the establishment of the unified central bank.

Q: When will the new central bank be established?

Mr. Al Maraj: We do not have a specific schedule for this. We are currently doing the necessary work to ensure the right conditions for launching the unified currency.

Q: What are your views on the current crisis in Europe and the Euro as a unified currency?

Mr. Al Maraj: The issues in the Euro zone are very good lessons for us. We are trying to learn from this experience in order to put in place the suitable policies and governing structure to ensure a smooth and sustainable operation of the Monetary Union.

Q: What are the specific lessons you have learned?

Mr. Al Maraj: It is important that financial policies should be further enhanced. I also think it is necessary that the regulation and supervision of the banking industry should be unified. It is also important to streamline fiscal policies in order to stimulate growth and introduce competitiveness in a meaningful way.

Q: It is said that the Eurozone was formed only by unification of currency, but political unity was not strong enough. What do you think of the GCC currency unification?

Mr. Al Maraj: We have been working towards economic unification and political coordination for the last 30 years. The GCC countries have a lot in common economically, politically, and socially, which sets the ground for achieving our objectives.

Q: It is said that all developed countries will undertake monetary easing and there would be side effects of this.

Mr. Al Maraj: It is important once again to establish the foundation that will help economic growth. In this sluggish economy, various industries are having a hard time. It is important to make a foundation which can stimulate demand and create employment opportunities. We think excessive liquidity and inflation can be dealt with later on. By considering those issues, we should not hold back taking the right policies. It is time to re-establish confidence and help the economy grow faster.

Q: What do you think will be the key to maintain Bahrain's growth?

Mr. Al Maraj: Bahrain will always encourage the private sector and maintain a good business-friendly environment. Bahrain enjoys a good reputation as a liberal economy. The Government has also provided a strong foundation of education and training for citizens, to ensure the necessary human resources are available.

Financial Sector Fact Sheet

Regulator: Central Bank of Bahrain
Financial Institutions: 404 (November 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$194.4 billion (November 2012)
No. of institutions 116 (November 2012)
Retail banks 29
Locally incorporated 14
Branches of foreign banks 15
Wholesale Banks 74
Representative Offices 12
Bank Society 2

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

Insurance Sector

Total No. of Insurance Companies & Organisations
Authorised in Bahrain 161 (November 2012) * excluding
Appointed Representative
Domestic market
Gross premiums US$556 million (December 2010)
No. of insurance firms 37
Locally incorporated insurance firms 26
Takaful & Retakaful Firms (included above) 9
Captives (locally incorporated, included above) 1
Overseas insurance firms 11
Insurance Brokers 31
Insurance Consultants 5
Insurance Managers 2

Representative Offices 5
Loss Adjusters 11
Actuaries 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 12
Corporate 8
Individual 4

Investment Business Firms

Total no. of institutions 58 (November 2012)
No. of Investment Business firms 47 (November 2012)

Representative Offices 7

Capital Market

Market Capitalisation US$15.3 billion (November 2012)
No. of firms 20 (November 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 8

Specialised Licensees

Total no. of institutions 49 (November 2012)
[comprising: Trust Service Providers 3; Ancillary services 7; Fund Administrators License 2; Registrar License 1; Registered Administrators 1; Registered Professional Body 1]

Money Changers 16
Financing Companies 8
Microfinance Institution 2

Funds Industry

Authorised Funds 2,784 (November 2012)
NAV US$8.39 billion (September 2012)

Local Funds 122
NAV US$5.14 billion (September 2012)
Conventional-Local 67
Islamic-Local 55
Foreign Funds-Offshore 2,662 (November 2012)