THE REVIEW

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Rules-based growth of Islamic finance stressed

A strong framework of standards and regulations are essential for the Islamic finance industry's long term growth and sustainability, Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB), has stressed.

He welcomed the interest of all major players in the Islamic finance industry in developing such a framework through their participation in events such as the Annual Shari'a Conference of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), held in Bahrain on 30 and 31 May 2011.

Speaking at the opening, Mr. Al Maraj praised AAOIFI's leadership in developing appropriate standards that are central to the functioning of a stable Islamic finance industry and in forging a harmonized understanding of Shari'a issues.

"We all share a common interest in wanting the Islamic finance industry to develop within a properly controlled framework of standards and regulations, as this is essential to its long term growth and sustainability," he told delegates.

The work of AAOIFI in developing new standards forms a key part of this framework, and events such as AAOIFI's Annual Shari'a Conference play an important role in helping to develop thinking and understanding of the issues surrounding the application of the Shari'a.

Islamic finance has reached its present state of maturity just as the impact of the global financial crisis began to be felt and, as a result, issues arising from the financial distress of borrowers and their subsequent inability to meet their contractual terms have become a major preoccupation for regulators and the industry.

The issue of treatment of delinquent financing and alternatives to debt restructuring, for example, is a reminder that Shari'a-compliant finance is not insulated from the broader economic environment.

"As I pointed out several years ago, the global financial crisis left no room for complacency on the part of the Islamic finance industry as its customers were just as likely to be adversely affected by the resulting economic downturn as were the customers of conventional banks. This prediction has been proved by subsequent events and, therefore, it is important that a framework is developed for dealing with distressed assets in a Shari'a-compliant manner," said Mr. Al Maraj.

These arrangements will need to take into account the ethical principles of the Shari'a in dealing with cases of genuine hardship and difficulty, while at the same time ensuring the financial soundness of Islamic financial institutions.

The issue of distressed assets is also connected to the issue relating to true and artificial sukuk. The defaults that have occurred on sukuk since the financial crisis broke out in the second half of 2008 have major implications for the future development of the Islamic finance industry.

These defaults have raised a number of difficult legal questions about the rights of sukuk holders in the event of a default by the issuer and in particular whether they have a claim on the underlying asset.

A significant number of the sukuk issued to-date are asset-based, meaning that the certificate holder has rights to a portion of the cash-flows but not to specific assets. There are often no direct links to actual assets, partly for the reason that it is possible to obtain higher credit ratings by linking sukuk to the credit of the originator that raises the funds rather than the physical assets that support them.

"However, as AAOIFI reminded us last year, from the perspective of the Shari'a, it is essential that sukuk are backed by a specific, tangible asset throughout their entire life and that sukuk holders must have an ownership interest in the assets that are being financed," said Mr. Al Maraj.

The structure recommended by AAOIFI also provides a protective buffer to certificate holders if the originator goes into default.

This should mean that asset-based sukuk will continue to perform regardless of the financial distress of the originator, and at the very least the process of liquidating assets will be much easier for the sukuk holders.

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AAOIFI standards vital for global growth

Shari'a standards, as developed by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), are vital for the global growth and internationalization of Islamic finance, a key conference in Bahrain heard.

AAOIFI's standards are formulated on the basis of consultation with finance practitioners, regulators and Shari'a scholars, said Shaikh Ebrahim bin Khalifa Al Khalifa, Chairman of the Board of Trustees of AAOIFI.

He was speaking at AAOIFI's Annual Shari'a Conference, held in Bahrain on 30 and 31 May 2011, under the patronage of the Central Bank of Bahrain (CBB).

The event is part of the consultative process of AAOIFI, which formulates standards on accounting, auditing, ethics, governance, and Shari'a for the international Islamic finance industry.

This year's event focused on such critical issues as the practicalities of Shari'a auditing and review, issues relating to investment management on the basis of agency (Wakeel) contract, realities of leasing (Ijara) contracts, issues on true and "artificial" sukuk, treatment on delinquent financings and alternatives to debt structuring, and impact of multiple terms and conditions in financial contracts.

Welcoming the gathering of Shari'a scholars and finance practitioners from around the world, Shaikh Ebrahim said the topics selected for discussion covered important issues relating to the application of Shari'a principles for Islamic finance.

For AAOIFI, the discussions would provide direct feedback from Islamic finance practitioners and regulators across the world that would facilitate AAOIFI's work in developing global industry standards.

"Indeed, deliberations at our conferences have contributed much towards development of our standards," he said.

AAOIFI has, thus far, issued a total of 86 standards in the areas of accounting, auditing, ethics, governance, and Shari'a.

New Shari'a standards issued in the past one year have included those relating to Islamic reinsurance, distribution of profit in Mudaraba investment accounts, mortgages, online financial transactions, credit agreements, investment agency, legal options relating to integrity of financial contracts, and terms and conditions relating to profit of financial transactions.

"The Shari'a standards are essential to the Islamic finance industry. They promote harmonization of international Islamic finance practices that can, in turn, enhance users' confidence in Islamic finance and encourage growth of demand. They also provide the basis for innovation within the framework of Shari'a principles, and have become the core of Islamic finance engineering," said Shaikh Ebrahim.

"Most importantly, AAOIFI's Shari'a standards provide clarity to the industry on Shari'a rules and principles that must be incorporated into Islamic finance operations so as to ensure full compliance with the Shari'a."

AAOIFI standards are now being followed – either as part of regulatory requirements or as internal guidelines – by all leading Islamic financial institutions across the world, including in the Middle East, Asia Pacific, South Asia, Central Asia, Europe, and Africa.

AAOIFI's leadership role in the international Islamic finance industry is also the result of its other vital activities, which complement its core standard-setting function. The contract certification programs, developed to support the application of AAOIFI's standards and the professional development programs that promote technical understanding of the standards have also helped earn AAOIFI its pre-eminent reputation.

The widespread application of the standards throughout the world, the increase in AAOIFI's institutional membership from 72 to 216, and the role that AAOIFI standards are playing in building an international Islamic finance infrastructure, are testaments to AAOIFI's success, said Shaikh Ebrahim.

Future of Islamic finance industry bright

The future of the Islamic finance industry is bright, despite recent turmoil and accompanying uncertainties, says Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

And, Bahrain will retain its leadership role in Islamic finance, based on its strong track record and unrivalled expertise, he said.

Mr. Al Maraj made the predictions at the Annual Shari'a Conference of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), held in Bahrain on 30 and 31 May 2011.

"If we look beyond the uncertainties of recent years in the global economy and the past few months here in Bahrain, there are two predictions that I feel confident in making," Mr. Al Maraj told delegates during his conference-opening speech.

"First, that the Islamic finance industry will continue to go from strength to strength and, as it develops, the demand for skilled professionals will grow ever stronger.

"Second, that Bahrain will retain its leadership role in Islamic finance, based on the strong track record and the unrivalled expertise that we have developed in Islamic finance over the past 30 years. Few financial centres internationally are in a position to compete with us as a centre for Islamic finance, and none possess a greater concentration of skills, knowledge, and expertise."

Mr. Al Maraj praised Bahrain-based AAOIFI for going well beyond its original mandate as the standard-setter for the global Islamic finance industry.

"AAOIFI has demonstrated that, so often during the years of its existence, it is more than just the accounting standard-setting body for Shari'a-compliant institutions and financial products. Not only has it set governance and Shari'a standards from early on, but it has also established credible and respected qualifications such as the Certified Shari'a Advisor and Auditor and the Certified Islamic Professional Accountant qualifications."

He also praised the critical role being played by AAOIFI in bridging the gap between theory and practice, to enable the growth and success of the Islamic finance industry.

"It is a sign of the growing maturity of the Islamic finance industry that a conference such as AAOIFI's Annual Shari'a Conference can concentrate on practical matters of application and interpretation," said Mr. Al Maraj.

"Over the years of its existence, AAOIFI as an institution has acted as a bridge between theory and practice to help ensure that the concept of Shari'a-compliant finance can be translated into financial products and transactions that meet the needs of customers and investors."

New rating system captures essence of Islamic finance

The new Fiduciary Rating System (FRS), developed by the Bahrain-based Islamic International Rating Agency (IIRA), is a two-dimensional approach that focuses on the mutually dependent aspects of credit and fiduciary risks of Islamic financial institutions. Mr. Nasir Ali Merchant, Acting Chief Executive Officer of IIRA, explains how the FRS is unique.

The Islamic International Rating Agency (IIRA) commenced operations in 2005 with the goal of providing reliable, objective and independent opinion on the various aspects of the ever growing Islamic finance industry. IIRA's vision --- to become the reference point for ratings conducted in accordance with Shari'a principles and to foster the development of financial markets in which it operates. Over the years, IIRA has developed a number of rating methodologies aimed at the accurate assessment of the different aspects of Islamic financial institutions (IFIs).

While Islamic finance is recognized as being fundamentally different from conventional finance, there has been a need for a rating methodology which can capture the unique dimensions of an IFI. Taking on the responsibility to fulfill this need, IIRA, together with its technical partners and shareholders, JCR-VIS Credit Rating Company of Pakistan and the Malaysian Rating Corporation, has developed the Fiduciary Rating System (FRS).

This is a two-dimensional rating system. In contrast with conventional ratings that focus either on credit or governance aspects, the FRS recognizes the mutually dependent nature of credit and fiduciary risks in an IFI. The presence of a sound governance structure does not guarantee strong financial performance and fiduciary scores may face downward pressure on account of credit-related developments, despite the absence of any negative developments on the fiduciary front. Poorly governed institutions may, however, be more susceptible to the risk of failure.

The FRS, thus, consists of two broad pillars: Credit Rating and Fiduciary Score.

Credit Rating

The Credit Rating assessment is focused on the ability and willingness of an institution to meet its contractual obligations in a timely manner. It must be recognized that in the case of IFIs, the nature of liability in various modes of financing differs. For Profit Sharing Investment Accounts (PSIAs), the failure to meet the terms of the contract will be construed as default, i.e. if the bank pays an amount that is less than what is due after adjusting for profit or loss, if any, the bank is considered to be in default. The IFI is not obliged to bear all losses unless the losses are a result of misconduct or negligence on the part of the Mudarib or entrepreneur. For other liabilities, such as Amanah accounts, the terms of the contract require payment in full of the invested amount.

Fiduciary Score

The analytical framework for Fiduciary Score has been developed to accommodate the unique features of IFIs and jurisdictional differences in Shari'a standards. Key concepts presented in this methodology are adaptable to all types of IFIs, such as banks and takaful (Islamic insurance) and asset management companies. The aggregate Fiduciary Score is derived from three elements, which are:

- Corporate and Shari'a Governance (including transparency and disclosure)
- Compliance with Shari'a Principles
- Asset Manager Quality

Corporate and Shari'a Governance: This structure is the result of the interaction between the shareholders, i.e. Rab-al-Mal, the Board of Directors and the Management (which acts on behalf of the shareholders). The form of ownership structure also has a bearing on the way governance is conducted in an organization. The Board exercises its powers directly and through various committees functioning at the Board level to provide broad policy framework and maintain independent oversight of operations. The Shari'a Board is an additional supervisory body, which assumes significant importance in an IFI, and timely provision of information and transparency in disclosures is considered an overriding necessity.

Compliance with Shari'a Principles: An important obligation that distinguishes an IFI is the requirement for engaging and investing in businesses that are Shari'a-compliant and in accordance with the directives from the institution's own Shari'a Guidance System. A Shari'a compliance score serves to provide an independent judgment on the degree of compliance with these precepts. This would include compliance with Shari'a requirements with respect to product design and development, legal documentation and processes. Shari'a non-compliance can affect the earning potential and, more importantly, an institution's franchise value.

Asset Manager Quality: An Islamic bank's role is far greater than simply that of a borrower and lender. The IFI also invests funds made available by PSIA holders, just as an asset manager would. IIRA believes that the business acumen of the IFI's management and their ability to manage a wide range of investment mandates and asset classes are fundamental to the IFI's performance as an asset manager. This capability translates into the ability of the asset manager to return Amanah in its entirety and preserve the value of investment of PSIAs, against foreseeable and manageable risks (mostly un-systemic risks like business risks, etc). This is regardless of the fact that the IFI may not be contractually liable to ensure that the principal investment of PSIAs does not experience any degree of erosion.

Risk Management

IIRA also assesses the efficacy of the risk management framework deployed in an institution to develop an opinion on the asset manager's ability to discharge its responsibilities. The risk management framework shall be reviewed in the context of its ability to identify, measure, monitor, report and control various aspects of risks, which include but are not limited to, credit risk, business risk, liquidity risk, rate of return risk, market risk and operational risk.

As detailed above, the FRS caters to all stakeholders. It will appeal to the Shari'a conscious investors, who wish to compare institutions in terms of their ability to remain compliant with internal Shari'a rulings, as well as PSIA holders who are concerned with an IFI's potential to safeguard the value of their investments. At the same time, it will assess the ability of the institution to manage business in a way that all liabilities are met in a timely manner to the extent that their specific contracts require.

We, at IIRA, believe that our FRS captures the nature of Islamic finance better than ever before.

Call to curb Islamic banks' real estate exposure

Strict measures are needed to restrict Islamic financial institutions' excessive exposure to the real estate market, says Mr. Rasheed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

Encouraging Islamic financial institutions (IFIs) to diversify their portfolios is not enough. Macroprudential tools, such as loan to value ratios and the use of taxation are needed to limit real estate speculation more directly, he said in a speech at the Islamic Financial Stability Forum for the Islamic Financial Services Industry, organized by the Islamic Financial Services Board (IFSB). The event was held in Amman, Jordan, on 31 March 2011.

The speech was delivered on behalf of Mr. Al Maraj by Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

Addressing the topic of 'Macroprudential Regulation and Supervision for Institutions offering Islamic Financial Services', Mr. Al Maraj said macroprudential policy had come to the forefront of international debates following the global financial crisis and that the Islamic financial sector and its regulators also need to take into account lessons of the crisis, which was the consequence of excessive leverage and the shortening of funding maturities.

Macro Tools

While most of the attention on macroprudential policy to-date has concentrated on reducing the vulnerabilities that arise from excessive leverage and maturity mismatching, international standard-setting bodies such as the Financial Stability Board and Basel Committee, as well as leading central banks, have begun to examine the use of a range of instruments that can be used to constrain excessive risk-taking. These include measures like loan to value and loan to income limits on mortgage lending, and reserve requirements that can be effective in constraining the pace of credit creation.

Other instruments under consideration include capital requirements that vary according to the economic cycle.

The Basel Committee has now endorsed a version of counter-cyclical capital requirements, which form part of the new Basel III package of measures announced at the end of last year.

"It may be argued that these measures are not that relevant from the point of view of Islamic finance. Some commentators have claimed that the fragility to which macroprudential policy is a response is a consequence of financial systems dominated by interest-based debt contracts," said Mr. Al Maraj.

In contrast, Islamic finance, which is an equity-based financial system, is less prone to the fragilities to which macroprudential policy is a response.

"However, before we jump to this conclusion, we should consider how Islamic finance has developed in practice, and what this might mean for the relevance of macroprudential policy," said Mr. Al Maraj.

Excessive Exposure

An important aspect of Islamic finance in practice has been the exposure of Islamic financial institutions to the real estate sector. Islamic banks have been investing in real estate since the early days. One reason is that it represents a tangible asset which enables IFIs to comply with Shari'a rules and principles.

In addition, during the boom years prior to the financial crisis, real estate appeared to offer the prospect of extremely good capital gains and returns on investment.

The net result has been that a high percentage of the assets of many Islamic banks are linked, directly or indirectly, to real estate, unlike their conventional counterparts, who are not generally permitted to invest directly in real estate.

"When an Islamic bank invests directly in real estate, it puts its shareholders' funds and those of its investment account holders at risk. As such, investment account holders are exposed to the full range of risks of real estate investment, including both market risk – the risk that the value of the asset may decline – and liquidity risk, as disposing of real estate assets usually takes time," said Mr. Al Maraj.

In some cases, IFIs have also invested directly in real estate developments. This exposes their account holders to development risk, i.e. the project may be delayed or possibly not completed at all.

Why should this matter? Put simply, because real estate lending has been at the root of many banking crises.

The real estate market tends to behave very differently to many other asset markets as supply tends to be fixed for fairly lengthy periods of time. It takes time to construct new buildings. The real estate market is slow to respond to signals sent out by rising prices or rents.

"In short, we should not be surprised that real estate booms often end in banking busts," said Mr. Al Maraj.

The cyclical nature of the real estate market and the tendency for financial institutions to fuel the upswing, mean that from a macroprudential perspective it is a market about which central banks and regulators should be particularly concerned.

This concern should be increased, rather than lessened, by the tendency of IFIs to have high levels of exposure to the real estate market.

"This suggests that the most important macroprudential tools from the perspective of Islamic finance are ones that directly address the risks of financing real estate," said Mr. Al Maraj.

IFIs must be encouraged to diversify their asset portfolios, so that they finance a much broader range of productive assets than hitherto. However, diversification alone is not enough and other measures to limit real estate speculation more directly need to be considered.

Loan to value ratios imposed by the regulator have a potentially important role to play. Other options that might be looked at include the use of tax systems to discourage real estate speculation, for example through higher levels of capital gains tax or through stamp duty on real estate transactions.

Many of these measures are beyond the mandate and powers of regulators or central banks and require close coordination and cooperation between the central bank, as regulator, and the Ministry of Finance if they are to be effective.

"As central bankers and regulators, we can warn about developing asset bubbles, but often the instruments for effective action need to be properly coordinated with other agencies of government which could take the necessary measures in that respect," said Mr. Al Maraj.

Insurance rules on handling client money on way

In line with one of its key objectives to protect clients of financial institutions, the Central Bank of Bahrain (CBB) has issued for consultation new rules related to insurance premiums received by insurance brokers and appointed representatives.

The proposed new rules will comprise Module CL (Client Money) of the CBB Rulebook, Volume 3 (Insurance).

While Volume 3 (Insurance) does contain rules addressing the segregation of client assets received by insurance brokers, the CBB believes that these rules could benefit from being amended to provide more details and follow best international practice.

The rules being proposed warrant the introduction of a new Module under Volume 3, recognising the importance attached to these requirements in the protection of policyholder funds.

Scope of Application

The proposed Module applies for the most part to insurance brokers but also presents rules applicable to insurance firms, particularly in dealing with the payment of brokerage commissions (see below). In addition, the consultation document applies to appointed representatives, defined as an agent, who is not licensed by the CBB as an insurance firm, insurance broker or insurance consultant, appointed by an insurance firm as its representative according to the rules in Chapter GR-9 of Volume 3.

Appointed representatives may, however, be other licensed financial institutions, such as a retail bank. Such arrangements are in place in Bahrain and this is why retail banks that have in place agency arrangements with insurance firms must take note of the proposed rules being introduced.

Holding Client Money

The consultation document does acknowledge that there are different types of arrangements in place between insurance brokers and insurance firms when dealing with transferring premiums received from the insurance broker to the insurance firm. In certain instances, the insurance broker does not receive any part of the insurance premiums, opting to transfer the credit risk directly to the insurance firm, i.e. the policyholder is instructed to pay the insurance firm directly.

However, where arrangements are such that the insurance broker receives the premiums directly, these monies must be segregated into a client money account and cannot be used to reimburse other creditors.

Segregating Assets

Several new concepts are being introduced to prevent the co-mingling of client money with the assets of the insurance broker or appointed representative.

Among these, the proposal presents the concept of a client money account which will require that a separate bank account be set up by the insurance broker or appointed representative to hold these funds as the agent and with strict rules governing the withdrawal of any monies from the client money account.

Furthermore, the CBB will require that a written confirmation from a retail bank be provided confirming in what capacity the bank is holding such client money.

Remittance of Premiums

The consultation Module also presents rules on the remittance of premiums received by brokers and appointed representatives to insurance firms.

Such premiums received will now need to be remitted to insurance firms no later than 15 calendar days from the receipt of such amounts. The total amount of the premiums received will have to be remitted to the insurance firm.

Requirements governing the payment of brokerage commission will also mean that insurance firms will be required to remit the commission within 10 days of receiving the premiums from the broker or appointed representative.

The broker or appointed representative will not be allowed to deduct its brokerage commission from the premium received. The full premium will need to be remitted to the insurance firm. Brokerage commissions for direct general insurance business will be limited to 15% of the premiums quoted by the insurance firm.

The tightening up of the collection and remittance process is designed to put in place good risk management practices in monitoring the level of receivables on insurance broker's and insurance firm's balance sheets.

Furthermore, brokers and appointed representatives will only be allowed to charge clients the premiums quoted by the insurance firm. This approach is in line with best international practice and is intended to protect the consumer from extra charges when purchasing an insurance policy.

Reporting Requirements

In line with the new rules being proposed, the CBB will upgrade its prudential reporting requirements and introduce a new insurance broker prudential return that will reflect the requirements of Module CL.

The amended return will be required to be filed semi-annually, increasing the current annual filing requirement to better gauge the activities of insurance brokers.

To provide additional assurance that the new rules will be implemented, insurance brokers will need to provide annually to the CBB a specifically designed report (referred to as Agreed Upon Procedures for Module CL) to be produced by the insurance broker's external auditor, certifying that the insurance broker is in full compliance with the rules of Module CL.

Consultation Period

A cover letter and the proposed Module CL have been posted on the CBB website (www.cbb.gov.bh) in the open consultations section.

Comments are to be submitted to the CBB by 26 July 2011. Based on the comments received, the proposed Module will be amended accordingly and will be potentially introduced as part of the October 2011 update of the CBB Rulebook, Volume 3 (Insurance).

Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB, noted that: "The new rules being proposed are a reflection of the evolution of the insurance industry in Bahrain and the recognition that the application of best international practice is needed to maintain the level of confidence in the insurance sector in the Kingdom. The CBB supports a consultative approach to the introduction of new rules and welcomes comments from the insurance industry."

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Insuring growth through competence

Professional qualifications are the key attribute for those seeking a career in the region's growing insurance industry. Mr. Hussain Al Ajmi, Assistant Director and Head of the Centre for Insurance at the Bahrain Institute of Banking and Finance (BIBF), explains how the institute is leading the way in preparing insurance professionals.

In the modern world, nothing really happens without insurance. Be it a football game or musical concert; a car purchase or a business venture; from submarines to satellites … insurance is primarily involved. Insurance, today, is a multifaceted, progressive and demanding industry based on the protection of individuals, corporates and governments against risk and financial upheaval. Insurance, thus, has become the cornerstone of our lives and the social and economic fabric of our society. Hundreds and thousands of jobs make up the insurance industry, which is crucial to the economies of almost all nations in the world.

Many insurance companies were hurt during the recent financial crisis. While GCC insurers did not suffer as badly as America's AIG, they were instead affected by the collapse in equity markets. However, led by Bahrain, other countries in the GCC such as Saudi Arabia and United Arab Emirates, have given considerable emphasis on insurance regulations, thus ensuring a well-conceived future for the industry. The positive signs of these developments include double-digit growth rates last year throughout much of the insurance markets in the Gulf.

In the past few years, the introduction of takaful business – insurance according to Islamic principles – has not only attracted huge amounts of fresh capital but has emerged as an engine of growth. However, the penetration of insurance in the Middle East is still very limited, providing a great potential for growth. New companies have been established and global giants have been trying to gain a foothold in the region.

Many job opportunities in the insurance industry have posed challenges of grooming and developing the human resources within the industry, especially of new entrants. Over the last two years in Bahrain, the number of insurance sector employees has increased by 10% and currently the number totals over 1,600.

With demand for qualified insurance human resources constantly on the rise, the Central Bank of Bahrain (CBB), in association with the Chartered Insurance Institute (CII), took the lead in introducing minimum standards for representatives of insurance companies in Bahrain – the Award in General Insurance for general insurance sales representatives; and the Award in Financial Planning for life insurance representatives. The Bahrain Institute of Banking and Finance (BIBF) was entrusted to execute training and examination requirements for these programs, which were overwhelmingly successful with over 1,500 candidates undertaking these exams.

As the market grows with a positive outlook, CBB's aim is to ensure that individual and corporate clients are assured of dealing with well-trained and competent insurance representatives. Fortunately for Bahrain, the burgeoning insurance market is further supported by a proactive industry association – the Bahrain Insurance Association (BIA).

BIA, with almost 45 members, plays a crucial role with objectives such as interfacing with the regulator to represent members' interests; promoting the insurance industry and fostering public awareness; promoting sound ethical and professional standards within the insurance industry; facilitating exchange of information and statistics; promoting training and improving technical skills of the insurance workforce; and promoting Bahrain as a regional insurance centre.

Centre for Excellence

Over the last two decades, BIBF's award winning Centre for Insurance has played a significant role in developing insurance human capital. Today, it is the largest provider of specialized insurance training and professional qualifications in the Middle East region. To underpin the many vital initiatives of insurance regulators and in order to capitalize on the growing demand for qualified insurance personnel in the region, BIBF and CII have a strategic partnership to provide the professional advantage for those working in the insurance industry.

CII is the world's foremost insurance learning and certifications provider. It has shown great focus towards the Middle East region and has established a base in Bahrain. Leveraging this strategic partnership with CII, BIBF has introduced globally recognized qualifications with regional emphasis, which are available in both Arabic and English. All of BIBF insurance certificate programs, diploma programs and professional qualifications attract maximum number of accreditations from the CII. BIBF's Centre for Insurance works with clients to deliver tailor-made packages that help their staff achieve corporate goals. Whether clients seek to improve the quality of their services or increase revenues, BIBF can provide solutions.

The faculty at the Centre for Insurance is experienced and well-qualified. We have the resources to offer our industry-standard insurance courses in Arabic or English, anywhere in the Middle East. Our training style balances theory, practical sessions, site visits, where appropriate, and the opportunity to work on real insurance claims. Our unique position gives us access to commercial enterprises in international locations, providing excellent commercially aligned training and awareness. As the market changes, we respond in a timely and relevant manner with targeted courses.

Whereas BIBF's insurance training and development solutions are tailored to precise specifications, our professional qualifications in Arabic via distance learning, namely the Professional Insurance Certificate (PIC), enable successful candidates to secure CII's Diploma in Insurance (Dip CII); and the Professional Insurance Diploma (PID) enables successful candidates to secure the prestigious Associate of the Chartered Insurance Institute (ACII) qualification.

The Centre for Insurance continues to offer its flagship classroom-based insurance diploma programs, which are fully accredited by the CII: BIBF Intermediate Insurance Diploma (BIID), BIBF Advanced Insurance Diploma (BAID) and BIBF Insurance Management Diploma (BIMD).

In today's regional insurance business, where professionalism is the key attribute and with CII certified qualifications in absolute demand, BIBF is the only route towards meeting the needs of insurance practitioners in Bahrain and the broader Middle East region.

Strong growth by investment business firms

The Investment Business Firms sector in Bahrain has shown strong growth during the first quarter of 2011, compared with the same period last year, show statistics from the Central Bank of Bahrain (CBB).

The sector, comprising 51 Investment Business Firm licensees from all three sub-categories of the Investment Business license (IB), reported total Assets Under Management (AUM) of BD3.9 billion (US$10.3 billion) as at 31 March 2011, an increase of 42.7% over the same time last year.

Investments as Principal totaled BD122.6 million (US$324.3), an increase of 66.8% from BD73.5 million (US$194.4) reported for 31 March 2010.

The Investment Business (IB) license was introduced by the CBB in 2006, as part of a new licensing regime to replace the restrictive Investment Advisory License and to simultaneously cater for firms wishing to offer a larger range of investment products and services, including asset management, yet differentiated from the investment banking license.

The three sub-categories of the IB license allow licensees in each sub-category to undertake certain investment business activities, ranging from investing as principal, managing client assets, acting as custodians of financial instruments, or offering brokerage and advisory services on financial instruments to clients.

Since the introduction of the investment business regime, 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) to 51 licenses in July 2011.

"The creation of this license has attracted a number of prominent regional and international financial institutions to establish investment business firms in Bahrain," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

"This sector has shown substantial growth since its inception and is still promising for further growth in the coming few years."

Mr. Mohammed Ayman Al Tajer, Director, Financial Institutions Supervision, at the CBB commented on the growth trend of this sector by stating: "The global economic crisis had put pressure on the region's capital markets and investors. However, it is an established fact that any crisis/slowdown is a time phase of a given economic cycle and problems would always bring about opportunities."

He added, "One of the effects of the crisis on the investment business sector was the stress put on assets valuations in general, bringing them to a level which would create new opportunities waiting to be seized. In times like this, stakeholders need to be optimistic about the future and continuously vigilant of the available opportunities."

Insurance firms make promising start to 2011

The Central Bank of Bahrain (CBB) announced the results of insurance companies during the first quarter of 2011.

The insurance and reinsurance market in the Kingdom of Bahrain consists of 27 domestic insurance companies and 11 branches of foreign insurance companies.

Key indicators during the first quarter of 2011 are:

Insurance Premiums: The recorded data for the insurance market during the first quarter of 2011 has shown a slight increase of 1.8% in gross written premiums in the Kingdom, from BD55.7 million (US$147.7 million) to BD56.7 million (US$150.4 million) in the first quarter of 2011.

This growth was mainly due to a surge in life insurance premiums and the remarkable growth in takaful (Islamic insurance) business.

It should be noted that the takaful industry in Bahrain has achieved remarkable growth, with total contributions (premiums) of takaful companies growing by 16.5% to reach BD13.4 million (US$35.5 million) in the first quarter of 2011, compared with BD11.5 million (US$30.5 million) in the first quarter of 2010.

Total premiums of conventional insurance companies reached BD43.3 million (US$114.8 million) in the first quarter of 2011, compared to BD44.1 million (US$117 million) in the first quarter of 2010.

Capital and Assets: The capital of both conventional and takaful companies grew by 4% to reach BD163.6 million (US$434 million) in the first quarter of 2011, compared to BD157.2 million (US$417 million) in the first quarter of 2010.

During the first quarter of 2011, the total assets of insurance companies increased by 6% to BD1.29 billion (US$3.4 billion), compared to BD1.22 billion (US$3.2 billion) in the first quarter of 2010, where conventional insurance reported the highest contribution in total assets at the rate of 79%.

Reinsurance Market: The results of reinsurance companies that operate from the Kingdom of Bahrain show a rise in both reinsurance premiums and net profits during the first quarter of 2011, increasing reinsurance premiums by 5.6% to BD151 million (US$400.5 million) compared with BD143 million (US$379.3 million) in the first quarter of 2010.

The net profit of reinsurance companies increased by 3.8% to reach BD8.1 million (US$21.5 million), compared to BD7.8 million (US$20.7 million) in the first quarter of 2010.

These key indicators show that there has been minimal negative effect on the growth of insurance companies due to recent events in Bahrain. The indicators clearly show a rise in total insurance premiums, capital and assets of the insurance market in Bahrain, in addition to the growth of the takaful industry keeping up with the growth of the direct insurance market and the reinsurance market.

CBB Board pleased with insurance sector growth

The performance of Bahrain's insurance sector during the first half of 2011 was discussed during a meeting of the Board of Directors of the Central Bank of Bahrain (CBB).

During its meeting on 20 June 2011, the Board was briefed by Mr. Rasheed Mohammed Al Maraj, Governor of the CBB, on the performance of the insurance sector and expressed its pleasure with the development witnessed by this sector and the continuous improvement in the operations of insurance companies.

The meeting also discussed CBB reports on the development of the financial sector during the first half of this year and the performance of banks and investment companies.

The Board was reassured regarding the situation of the banking sector and its ability to provide liquidity and capital. It praised the positive cooperation of the retail banks to assist small and medium enterprises to adapt to new circumstances and to mitigate the financial burden by restructuring financial facilities or schedules.

Bahrain financial sector bucks crisis

Bahrain's financial system has been able to withstand the financial crisis of the past three years as well as the recent political unrest. The financial sector, in fact, continues to grow. That was the message from Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB), at a lunch organised in May 2011 by the Bahrain Indian Society.

"In the face of withdrawal of financial liquidity across the globe three years ago, Bahrain's retail banks were able to withstand this because they were well capitalised and had strong liquidity," he said.

"Neither the government nor the central bank needed to step in to help any of our retail banks which continued to perform well. However, in order to remain viable in the future we need to see consolidation in the banking sector."

He said that wholesale banks, both conventional and Islamic, had been hardest hit by the credit squeeze as funding, which had previously been abundant, dried up.

"Wholesale banks are now trying to adjust to the new situation but they are faced with the problem that credit has become more expensive," said Mr. Al Maraj.

The recent political unrest, however, had affected the retail sector, particularly the hotel and restaurant industries, and this was likely to have an impact on the banking sector.

But the return of law and order would see a gradual pick up in the retail sector though this may take time to come through, he said.

"As far as we can see, the banking sector has not been hurt so far and there has certainly been no flight of capital in spite of what some international news agencies have said," he said.

"In the first quarter of 2011, deposits were down about 1.5% from the previous quarter but were still up 8% year-on-year. By and large, first quarter results from banks have been better than expected. The profitability of banks will face difficulties because the flow of business has been less but there are no problems and the banks are adequately capitalised."

Mr. Al Maraj said that suggestions in international media that the CBB had to help banks out with liquidity problems were erroneous and that at no time had the central bank had to step in to support the Bahraini currency.

"There have been a lot of stories based on false data and rumours appearing in the international media, but our banking system is in good shape," he added.

"Like everyone else we will face challenges over the implementation of Basel III but we are looking into how to meet those challenges. First and foremost, our banks will meet all the necessary international challenges."

CBB licence for Arab Global Findex

The Central Bank of Bahrain (CBB) has granted its approval to Arab Global Findex (AGF) as a licensed broker-dealer and a licensed clearing member.

AGF is a trading and clearing member of the Bahrain Financial Exchange (BFX), the Middle East and North Africa (MENA) region's first ever multi-asset exchange, which commenced operations on 7 February 2011.

AGF, which is part of the Gogia Capital Group and Sugandh Group, who have a presence in India, Singapore, Mauritius and Dubai, is a premier financial and stock broking house with the objective of creating a presence in the GCC region by offering financial services and products as well as research and advisory offerings.

As part of the membership facilities, BFX will offer AGF access to a fully automated and serviced trading facility on the BFX trading floor.

"The CBB welcomes such partnerships between organisations like the BFX and AGF, as this helps promote healthy and active financial markets," said Mr. Abdul Rahman Al Baker, Executive Director, Financial Institutions Supervision, at the CBB.

"The CBB appreciates the efforts of BFX which are resulting in increased foreign investment and employment opportunities in the country."

Mr. Arshad Khan, Managing Director and Chief Executive Officer of BFX, said: "We are pleased to welcome AGF, a prominent brokerage house with a strong track record and a wide range of experience within the industry.

"This newest membership highlights our continuing commitment to creating a strong network of BFX members, and providing them with the full spectrum of trading and exchange services available."

Mr. Satish Gogia, Managing Director of AGF, said: "Setting up our offices in this region has given an edge to our services, and we are delighted with our expansion into Bahrain. We look forward to a long and fruitful partnership with BFX."

Bahrain adopts IBAN account numbering system

The Central Bank of Bahrain (CBB) has adopted the International Bank Account Number (IBAN), an international standard for the numbering of bank customer accounts.

The standard, which is accredited by the ISO (International Organization for Standardization), will come into effect in Bahrain in January 2012.

This move towards IBAN is to express bank customer account numbers in an ISO standard compliant format. The use of such an internationally accepted format will immensely improve the efficiency of electronic payments and bring a number of benefits to bank customers.

Banks will be able to process a transaction efficiently and promptly through processing the IBAN of the recipient and will allow bank customers to make or receive their payments much faster.

"The adoption of IBAN is a step to increase the efficiency of electronic payments in Bahrain," said Mr. Ahmed Buhijji, Director, Banking Services, at the CBB.

A Bahrain IBAN Committee was formed in early 2010, headed by the CBB and comprising representatives of retail banks and the Bahrain Association of Banks. The committee worked out the most desired IBAN format for the Kingdom of Bahrain, in addition to its implementation timeline.

The IBAN format consists of 22 characters which comprise letters and numbers.

In a statement, the CBB commended the efforts and cooperation by the banks in order to accomplish this initiative where the banks will begin to issue IBAN to their customers in early September 2011. Customers will then be able to use IBAN in making payments from 31 January 2012.

Bahrain Bourse down on low volumes

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

GCC equity markets continued their negatively biased volatile trend, as regional political developments and Euro-zone concerns outweighed GCC companies' strong 1Q11 results. The absence of any major triggers and institutional investors' lack of interest have resulted in the 'summer blues' setting in early this year. Potential upgrade prospects for Qatar and the UAE markets as emerging markets by index provider MSCI have subsided in the last few weeks although a positive result could provide a much needed boost for GCC markets, which have been struggling since 2008 to make a meaningful recovery.

The Bahrain Bourse Index dropped about 5% from 1 April to 13 June 2011, touching a low of 1332 points. On an YTD basis, the Bourse's benchmark index is down 6%. GCC markets were in sync with Bahrain, with S&P's GCC index falling by a modest 0.8% QTD and 4.1% YTD. Abu Dhabi's stock exchange was the best performing market during this period.

Trading activity on the Bahrain Bourse remained subdued, with an average daily volume of 1.9 million shares and a value traded of US$0.7 million, marginally higher compared to 1Q11. Continued weakness in investment and Shari'a-compliant banking stocks affected Bahrain's market sentiment.

Increased Spending

Bahrain's Government announced an increase in fiscal spending in June 2011. According to the revised plans, expenditure over the next two years is estimated at BD2.6 billion (US$6.9 billion) for 2011 and BD2.7 billion for 2012, in addition to the already announced US$10 billion GCC financial package. The country's oil refinery capacity is also planned to be increased to 0.4m – 0.5m bpd from the current 0.267 bpd, at a projected cost of US$6 billion.

Bahraini listed companies reported a total profit of BD158m (US$419m) in 1Q11, compared to BD156m and BD21m in 1Q10 and 4Q10 respectively. The significant QoQ improvement was led by lower losses by financial institutions (e.g. Ithmaar Bank, Gulf Finance House, Khaleeji Commercial Bank, Inovest and Bahrain Islamic Bank). Commercial banks' profits (e.g. Ahli United Bank, Bahrain Saudi Bank and Khaleeji Commercial Bank), along with industrial companies such as ALBA and Bahrain Ship Repairing, grew in double digits YoY.

Consumer, tourism, and telecom sector companies' earnings were adversely affected during 1Q11 by the economic slowdown. Profits of usually stable businesses, such as Batelco, Bahrain Cinema, Duty Free, BMMI, Bahrain Hotels, National Hotels and Seef Properties, declined in double digits YoY.

Bahraini listed companies announced plans to improve operating performance by focusing on growth, after facing challenges during the past 2-3 years.

Bahrain National Holding subsidiary, Bahrain Emirates Insurance, plans to start operations in Abu Dhabi, while National Bank of Bahrain (NBB) ventured into small and medium enterprise banking in Bahrain. Similarly, Ithmaar Bank plans to open three new branches in Bahrain during 2011. Ahli United Bank (AUB) and United Gulf Bank (UGB) have also emphasised improving performance through increased collaboration with their related entities. AUB's Egyptian operation plans to increase its capital to expand its branch network and participation in syndicated loans, while UGB is in the process of obtaining a license for Taka'ud Pensions and Savings Company, its new joint venture with KIPCO with a paid-up capital of US$10m. Bahrain Islamic Bank is selling 546.4m shares in a rights offering to fund its expansion over the next two years.

Among non-banking listed companies, ALBA is expected to take a decision this year on its plan to set up a sixth production line with an annual capacity of 400,000 tons at a cost of over US$2 billion. Banader Hotels is in talks with local banks to secure a loan of BD25m and has called on shareholders to pay the second instalment of the capital amounting to BD6m to complete its BD40m Bahrain Rotana Hotel project. Batelco's foray into the Saudi Arabian mobile market received a boost with Zain KSA opening its books for due diligence, following an offer made by the Bahrain operator with Kingdom Holding. Batelco is expected to secure management control of Zain KSA if the deal goes through.

Bahrain Bourse plans to start short selling and a delivery-versus-payment (DvP) system in 2012 in an effort to boost trading volumes. These measures are part of MSCI's criteria for upgrading a frontier market to emerging market status.

In the short to medium term, we do not see any major positive triggers for the regional markets, although we expect a slow but upbeat momentum over the next few months in the absence of any major global market events.

Bahrain's stock market can offer attractive value plays for long term investors as a recovery in tourist inflows and improvement in business activity will offer attractive investment opportunities. The start of recently-announced Government projects and an improved fiscal position due to strong oil prices are likely to improve business and investor confidence in Bahrain.

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

SICO gets wholesale banking licence from CBB

The Central Bank of Bahrain (CBB) has granted a wholesale banking licence to Bahrain-based Securities & Investment Company (SICO), the largest trader on the Bahrain Bourse.

SICO previously had an investment banking licence, which had been granted in 1997.

The very robust requirements of the wholesale banking licence regime, including the requirement for a high capital base and strict adherence to regulations and governance, position SICO in its growth path, primarily by giving the firm additional flexibility in servicing its customers, while further giving it the ability to manage the balance sheet more optimally, said a company statement.

As of 31 March 2011, SICO's paid-up capital was BD42.6 million (US$113 million), while total assets were BD94.9 million (US$251.7 million) and shareholders' equity BD54.5 million (US$144.6 million).

"The award of our wholesale licence heralds a new chapter in the history of the firm," said Shaikh Mohamed bin Isa Al Khalifa, Chairman of SICO.

"The new licence will support our consistent strategy to focus on serving the GCC region, grow and diversify our business and revenue and maintain a disciplined approach to managing our costs, risk and capital."

Meanwhile, SICO continued to maintain its leading position as the most active broker on the Bahrain Bourse, both in terms of volume and value, for the 12th consecutive year.

The firm executed 9,500 transactions, which represented 24% of total transactions completed on the Bahrain Bourse during 2010. SICO's transactions comprised 551 million shares, representing 45% of total market volume.

The total value of transactions was about BD93.5 million (US$248 million), representing a market share of 43% of the total value of all shares transacted during the year.

"We are delighted to maintain our leading position on the Bahrain Bourse," said Mr. Anthony Mallis, Chief Executive Officer of SICO.

"As an increasing number of Bahraini, regional and foreign investors seek to access Gulf stock exchanges, SICO is ideally equipped to be able to execute and support client's orders."

Strong demand for Bahrain sovereign debt

Demand for the Kingdom of Bahrain sovereign debt remained strong during the first quarter of 2011, according to the Central Bank of Bahrain (CBB).

Domestic issues of government debt, which the CBB manages on behalf of the Ministry of Finance, remained heavily oversubscribed. Although interest rates rose slightly, they began trending downwards again and were at historically low levels at the time of the CBB announcement on 19 April 2011.

Between January and March 2011, the CBB issued 3-month treasury bills at an average coverage of 283%, and 6-month bills at an average coverage of 340%. Demand for Shari'a-compliant securities was even stronger with the coverage of both 3 and 6 month instruments exceeding 500%.

Demand for debt with longer maturities also remained strong. The CBB was able to issue 12-month government treasury bills at a coverage of 211% and successfully issued a 5-year maturity Islamic leasing (Ijara) sukuk in the local market with a value of BD200 million (US$530 million) and a 5.5% rate of return.

In addition to strong domestic demand, the Kingdom also has seen a rapid recovery in the price of its US dollar benchmark international issue, the 2020 Government Development Bond. After reaching a high of 6.91% on 15 March 2011, the yield of this bond declined by 1.11% to 5.8%, its lowest level since 2 February 2011.

Commenting on these developments, Shaikh Salman bin Isa Al Khalifa, Executive Director, Banking Operations, at the CBB said: "The strong domestic demand for Kingdom of Bahrain sovereign debt is a testament both to the depth and liquidity of our local markets as well as market participants' confidence in the Kingdom's economic management. This is also increasingly being recognized in international markets, as reflected in the rapid recovery in the price of Bahrain's benchmark sovereign issue."

Meanwhile, the BD200 million Ijara sukuk issued by the CBB, was listed on the Bahrain Bourse on 26 April 2011.

Following the listing, the number of conventional bonds and sukuk listed on the bourse reached 13 issues with an approximate total value of US$4.69 billion.

Bourse, JP Morgan team up on training

Bahrain Bourse and US finance house J P Morgan will jointly host educational seminars to enhance investor relations expertise in Bahrain.

The two parties have developed a certified training programme which will be offered to companies listed on the Bahrain Bourse to transfer investor relations best practice. In addition, a programme of free seminars and events will be held to promote investor relations capabilities among these listed companies.

A memorandum of understanding (MoU) was signed in May 2011 by Mr. Fouad Rashid, Director of Bahrain Bourse, and Mr. Ali Moosa, J P Morgan's Bahrain Senior Country Officer and Managing Director.

"We are extremely pleased to sign this MoU with a leading financial institution with a track record of excellence in investor relations and securities servicing," said Mr. Rashid.

"Bahrain Bourse will continue forging strategic partnerships with leading international institutions to provide capital market participants in Bahrain with more knowledge, experience and expertise, thereby enhancing competitiveness."

Mr. Moosa said J P Morgan is pleased to help support the development of investor relations in the region and looks forward to working with Bahrain Bourse.

"This initiative will contribute to the development of the Bahraini stock market by enhancing the level of efficiency among participants and help support the country's objective of increasing the visibility of its capital markets across the Middle East," he said.

CBB wins e-Economy award of excellence

The Central Bank of Bahrain (CBB) received an award of excellence at the 2011 e-Government awards for the e-Economy category.

The CBB award was in recognition of the new and improved website launched by the CBB in July 2010.

The website provides clearer links to the CBB Rulebook and contains extensive economic and financial data as well as information about the CBB.

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

"We are delighted to win the e-Government excellence award for 2011," said Mr. Rasheed Mohammed Al Maraj, Governor of the CBB.

"The CBB is committed to providing the most advanced technology services enabling both existing and prospective licensees and users to find the CBB's relevant regulatory requirements and information in a timely way.

"I would also like to thank the CBB team for their efforts to keep the website in line with international standards. This achievement will help promote the development of electronic services in Bahrain in line with the Economic Vision 2030."

Mr. Al Maraj, right, receives the award from Shaikh Mohammed bin Mubarak Al Khalifa, Deputy Prime Minister of Bahrain

Bahrain banks to host annual event in USA

The Bahrain Association of Banks (BAB) is gearing up for its annual 'Banks in Bahrain' reception, to be held during the World Bank-International Monetary Fund (IMF) meetings in Washington DC.

This year's event will take place on 24 September at the Fairmont Hotel.

Present at the event will be members of Bahrain's official delegation to the World Bank-IMF annual meetings. The delegation will be led by Shaikh Ahmed bin Mohammed Al Khalifa, Minister of Finance, and Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain (CBB).

A number of prominent banks in Bahrain are sponsoring the event, which is organised under the umbrella of the BAB. The event is the collective initiative of Bahrain's banking industry and it aims to showcase the strides and achievements Bahrain has made as the premier financial centre in the Middle East.

More than 15,000 delegates are expected to attend this year's World Bank-IMF annual meetings, which bring together central bankers, ministers of finance and development, banking and private sector executives and academics to discuss issues of global concern.

Preparations for the Banks in Bahrain event were among the topics discussed during a meeting between Mr. Al Maraj and members of the BAB board, led by Mr. Abdulkarim Bucheeri, Chairman of BAB.

During the meeting, held on 26 April 2011, Mr. Al Maraj stressed the importance of bolstering cooperation to boost the banking sector and revitalise the national economy.

The two sides discussed the sound situation of the local banking sector, as reflected in the positive financial results of financial institutions.

Mr. Al Maraj stressed the importance of banks' cooperation to restructure and reschedule loans in a bid to ease the burden on customers and enable them to pursue their businesses.

He also urged BAB to intensify activities, in Bahrain and abroad, and attend global conferences so that they could project Bahrain's financial status as a key regional hub.

Mr. Al Maraj also urged all Bahrain-based banks to support BAB in its role in serving the banking sector.

Stage set for major Islamic finance forum

Islamic finance has achieved significant growth in the last few years, yet it still represents only about 1% of global banking assets.

As Islamic finance expands, its financial markets remain fragmented and insulated, with little cross-border activity. This will be one of the key issues to be discussed at the 7th annual World Islamic Funds and Financial Markets Conference, which will take place in Bahrain on 26 & 27 September 2011.

The event will be held under the theme 'Achieving International Scale: Creating Vibrant Islamic Financial Markets and Re-Invigorating the Islamic Funds Industry', with the strategic partnership of the Central Bank of Bahrain (CBB).

The conference will plot new growth horizons and forge winning business models fully in tune with the new economic realities of the Shari'a-compliant investments market.

More than 400 leaders in the global Islamic investments industry are expected to attend, to tackle some of the critical issues that the industry is facing and take the industry to its next phase of development.

Financial Sector Fact Sheet

Regulator:	Central Bank of Bahrain
Financial Institutions:	411 (June 2011)
Financial Sector Workforce:	14,137 (2009)
	Bahraini nationals 9,313 (65.9%) Foreign nationals 4,824 (34.1%)
Key Economic Indicators:	GDP (Current) US$21.9 billion (2010) Growth 13.5% GDP (Constant) US$13.6 billion (2010) Growth 4.6% Financial Sector contribution to GDP 25% Sovereign rating BBB (S&P Dec 2010) with negative watch BBB (Fitch Dec 2010) with negative outlook Population 1,234,571 (2010)
Banking Sector:	Assets US$197.5 billion (May 2011) No. of institutions 134 (May 2011) Retail banks 30 *Locally incorporated 15* *Branches of foreign banks 15* Wholesale banks 77 Representative Offices 27 **Islamic Banks** (included in above): No. of banks 27 (May 2011) Assets US$24.5 billion
Insurance Sector:	Total No. of Insurance Companies & Organisations Authorised in Bahrain 173 (Jun 2011) Domestic market Gross premiums US$532 million (December 2009) No. of insurance firms 38 Locally incorporated insurance firms 27 Overseas insurance firms 11 Takaful & Retakaful Firms (included above) 9 Captives (locally incorporated – included above) 2 Insurance Brokers 33 Insurance Consultants 5 Insurance Managers 3 Representative offices 5 Loss adjusters 11 Actuaries 26 Insurance Ancillary Services 3 Insurance Pools & Syndicates 2 Insurance Society 2 Insurance Appointed Representative 6 Corporate 5 Individual 1 Insurance licensees restricted 39 Insurance Firms restricted 33 Insurance Brokers restricted 4 Insurance Consultants restricted 2
Investment Business Firms:	No. of firms 47 (June 2011)
Capital Market:	Market Capitalisation US$19.06 billion (June 2011) Brokers 11 Listings Companies 50 Mutual Funds 32 Bonds 12
Specialised Licensees:	No. of firms 22 (June 2011) [comprising: Trust Services Providers 3; Reg. Admin 4; Ancilliary Services 15] Money Changers 18 Financing Companies 9
Funds Industry:	Authorised Funds 2,819 (June 2011) NAV US$8.99 billion (Mar 2011) Local Funds 127 NAV US$5.42 billion (Mar 2011) Conventional-Local 71 Islamic-Local 56 Foreign Funds-Offshore 2,692 (June 2011)