

Rasheed Mohammed Al Maraj: The role of the financial services industry in Bahrain

Keynote speech by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the Bahrain British Business Forum, Manama, 21 November 2010.

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Distinguished Guests, Ladies and Gentlemen:

I would like to begin by thanking Mr. Al-Zayani for his kind invitation to address you this evening. I would also like to extend an especially warm welcome to those of you who may be visiting Bahrain for the first time. To those of you who are making a return visit, it is a great pleasure to have you with us again.

As I am sure you are aware, the ties that bind Bahrain and Britain together are deep and long-lasting. It should not be a surprise to learn that these bonds extend deep into the financial services industry.

The predecessor to the Central Bank of Bahrain, the Bahrain Monetary Agency, was established with technical assistance from the Bank of England. We have frequently looked to the UK for our regulatory models, although we also have needed to adapt our policies and practices to our specific circumstances.

Our aim is to adopt a regulatory approach that is open, transparent, and that involves close consultation with the industry. We take the view that anything is permitted unless it is explicitly prohibited. As a public institution, the CBB is also proud of the fact that we are bound by the rule of law and we ensure that there is a clear legal basis for all of our decisions and directives. The hallmarks of our regulatory approach are consistency, predictability and equal treatment for both foreign and domestic firms.

These policies have served Bahrain well and have been a major contribution to the growth of our financial sector. Since the 1970s, financial services have been one of the great success stories of our economy, along with tourism and manufacturing that have also made strong contributions to economic growth. Bahrain's economy has become the most diversified of any in the GCC, with the financial sector accounting for over one quarter of our national output, a larger share than oil production and processing.

At present, over 400 licensed financial institutions operate in Bahrain, including 133 banks and 167 insurance companies. Many are branches or offices of major financial institutions.

Although our domestic market is small, many of the banks, insurers and asset management firms located in Bahrain use their presence as a hub from which to tap into the enormous opportunities that exist in both the GCC and the wider Middle East. As well as being attracted to Bahrain by our comprehensive and transparent regulatory framework, these firms also tell us that they are drawn here by the maturity and efficiency of our financial markets.

Bahrain has also become one of the world's primary locations for Islamic finance. We host the largest concentration of Islamic banks in the world – currently they number 27 – as well as many Islamic insurance and fund management businesses.

Important standard-setting bodies for Islamic finance, such as the "Accounting and Auditing Organisation for Islamic Financial Institutions" and the "International Islamic Finance Market", are located in Bahrain. The Bahrain Institute of Banking and Finance is one of the pioneers in developing courses on Islamic finance to develop a pool of trained professionals with the skills the industry requires.

The skills and dedication of Bahrain's population is reflected in employment in the industry. Almost two thirds of people working in the financial sector are Bahraini nationals. This is testament to the skills, training, and work ethic exhibited by our population.

Looking now to the future, the financial services industry will continue to play a very prominent role in our economy. We realise that there are important lessons to be learned from the global financial crisis and we will certainly take notice of them. Nonetheless, we believe that Bahrain will continue to play a major role as the financial centre of choice for the Middle East and North Africa region. We will continue to encourage a diversified financial sector in which fund management and insurance will play an increasingly prominent role.

In recent years we have already seen very strong growth in the insurance segment of our financial industry. Premium income has grown at an average rate of 18 percent over the past five years, and the growth of Takaful – Sharia-compliant insurance – has been particularly notable. There is enormous potential throughout the region for Sharia-compliant asset management and insurance businesses.

Encouraging the growth and diversification of the financial sector is a major plank in the Kingdom's 2030 Vision. This is a strategy which sets out our ambitions for a well-diversified domestic economy for the post-oil era. It provides the unifying vision for a series of reforms that are already underway or which we plan to make in the near future. Our aim is to further liberalize an economy that is already ranked the most free in the Arab world.

Our liberalization strategy involves major reforms to a whole series of government institutions and key markets. For example, last year we became the first country in the Gulf to abolish the sponsorship system, thus allowing expatriate workers the freedom to change their employers for the first time. We are also embarking on a major reform of our educational institutions, such as establishing the Bahrain Polytechnic, as we realise that there is still much work to be done to provide our young people with the types of vocational skills that they need to flourish in the modern world.

Underpinning all of these initiatives is our continuing commitment to political reform. As you will have seen in the news, in late October we held elections for the lower House of Parliament, and these passed off peacefully and with a 67% turnout of the electorate. Outside the Kingdom, some commentators had questioned our commitment to maintaining a system of constitutional government. However, their skepticism was unfounded, and our commitment to political reform remains strong.

Let me conclude by thanking you for coming to Bahrain and for attending the dinner this evening. It is testament to the continuing strong ties between Britain and Bahrain, a relationship that we have always valued in the past and will continue to value in the future.

Thank you for your attention.