

## **Rasheed Mohammed Al Maraj: Improving risk management in Bahrain**

Address by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the 2nd Annual GCC Regulators' Summit, Manama, 19 February 2008.

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Good morning Ladies and Gentlemen,

It is a pleasure to be here today at the 2nd GCC Regulators' Summit, which the CBB has been delighted to support. I am happy to see so many of our colleagues from the region participating in this important conference, which aims to promote dialogue and discussion among the region's financial regulators and the industry. Thank you to Mrs. Jane Diplock and to all of you for being here.

This year's conference is taking place against a backdrop of fresh challenges being posed by a number of global factors and their interplay with regional developments. The US subprime crisis and the ensuing credit crunch, as well as the Societe Generale incident compel us to proceed with caution, despite the boom all around us here in the region.

In particular, these incidents underscore the need for good risk management and effective internal controls by financial institutions. Indeed, both these elements are proving to be critical to ensuring the stability of individual financial institutions and financial systems.

The role of the regulator in addressing these challenges is crucial. We can provide the guidance and create the appropriate regulatory framework to enable the sound and stable conduct of financial services and financial institutions.

Improving risk management practices of banks is an important component of the work being done by the Central Bank.

Moreover, the CBB has introduced an innovative approach to the application of Basel II, Pillar One requirements to our Islamic financial institutions.

Although Islamic financial products are not explicitly mentioned in Basel II, the CBB has introduced, effective this year, a comprehensive Basel II compliant framework which provides for appropriate capital treatment of products such as Murabaha, Ijara, Istisna'a, amongst others.

This will ensure that regulations of international standards are applied to Islamic financial institutions which will further enhance the reputation of what has become such a prominent segment of Bahrain's financial services industry.

The CBB is also addressing the challenges faced by certain investments made by banking institutions, especially banks' exposure to the real estate market, with a view to encouraging banks to maintain a more balanced portfolio.

We are fully cognizant of the evolving needs of the financial services industry and it is our endeavour to proactively adapt to them. Thus it is that, in 2002, Bahrain was the first country in the region to adopt a single regulator model for the financial services industry and create a one-stop shop for today's complex and internationally active financial firms, whose product offerings are not restricted purely to one type of financial service.

The single regulator structure has also enabled the CBB to apply uniform standards of regulation and supervision to all our licensees, be they banks, insurance firms or capital market players. The 6-volume CBB Rulebook is at the very core of our regulatory development and enhancement programme, which is driving the continued growth and development of Bahrain's financial sector.

A forward-looking, market-enabling regulatory framework for the insurance and takaful industry has helped attract a critical mass of takaful and retakaful providers in Bahrain. All

this is providing the momentum for the double-digit growth we are seeing in the insurance and takaful sector.

The CBB is also focusing much attention on upgrading and enhancing regulations governing capital markets, which are central to the functioning of a modern, sophisticated financial centre.

The recent volatility in international stock markets underscores the need for transparency which the CBB has achieved through enhanced disclosure standards introduced as of the start of this year.

Nevertheless, adapting and adopting new and enhanced regulations is not a panacea for maintaining sound and stable financial institutions and financial systems.

We, the regulators, and the industry need to work together to maintain the integrity of our institutions, financial systems and confidence in our jurisdictions.

I can assure the industry that the CBB strives to be an even-handed, transparent regulator and that we are open to suggestions from the industry.

Finally, I wish you a pleasant stay in Bahrain and a fruitful discussion during the conference.

Thank you.