

Rasheed Mohammed Al Maraj: Overview of the Islamic fund industry in Bahrain

Address by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at The World Islamic Funds & Capital Markets Conference 2008, Manama, 26 May 2008.

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Distinguished Guests, Ladies and Gentlemen – Good Morning.

It is a pleasure for me to be here today to address the Annual World Islamic Funds and Capital Markets Conference. Now in its 4th year, the conference is clearly establishing itself as an important event in the Islamic finance calendar.

I would like to commend the organizers for once again putting together a stimulating programme, which will no doubt enrich the ongoing dialogue and debate on Islamic finance matters. I would also like to extend a warm welcome to the delegates and the many distinguished speakers for taking the time to contribute to this dialogue.

These are interesting times, particularly for those of us in the business of banking and finance. The economic boom in the GCC region is well underway and is being manifested in all segments of the economy. This has generated significant new business for financial services providers across the board, be they banks, insurance firms, asset managers or capital market participants.

The growth in the Islamic funds and capital markets is reflective of the surge sweeping through the region's financial services industry.

The Islamic and conventional fund industry in Bahrain is one of the fastest growing segments of the overall financial sector. With over \$16 billion in assets under management, through more than 2,500 funds, the industry has been growing at an annual average of about 20% in recent years.

The CBB, through its enabling legislation, promotes the development of new products for investors in both Islamic and traditional finance, while at the same time providing credible regulation in both areas. This regulation extends to products offered through special purpose vehicles and trusts.

As for the Bahrain Stock Exchange (BSE), the most open capital market in the region, it has seen steady and sustainable growth during recent years. With a market capitalization currently at nearly US\$30 billion, the BSE has been unscathed by the credit crunch which has brought about a slow down and volatility in international financial markets.

The BSE's sukuk market has also grown significantly, with the total size of sukuk listings currently in excess of US\$3 billion, double that from five years ago. On its part, the CBB, having pioneered the development of sukuk, remains active in the sovereign sukuk market, with a total of US\$1.69 billion medium to long term sukuk issued, complemented by a regular programme of short term issuance.

Recently, the CBB issued its second international sukuk, worth US\$350 million, which is listed on the London Stock Exchange, along with a previous issue of US\$250 million.

As the financial services regulator, the CBB is fully cognizant of the importance of the asset management industry and the capital market in attracting foreign capital and talent, and in facilitating economic development and the creation of high value-added jobs.

The sound development of the two industries, therefore, is of interest to the CBB.

Last year, the regulatory framework for collective investment undertakings (CIUs) was revamped to provide for a full range of investment funds catering to various categories of investors, from retail to high net worth individual and sophisticated institutional. The new framework includes Bahrain's first-ever rules allowing CIUs to target professional investors, such as hedge funds, derivatives and other alternative investment vehicles.

In keeping with Bahrain's leadership in Islamic finance, the new CIU rules also provide a solid foundation for the establishment and management of funds that comply with Islamic principles.

We are also engaged in a host of other initiatives to stimulate the Islamic finance market, including the development of an Islamic version of the Repurchase Agreement (Repo), which we plan to bring to market very soon.

The CBB is actively supporting a number of Islamic capital market-related development initiatives, being undertaken by the International Islamic Financial Market (IIFM), which the CBB chairs.

Another Bahrain-based organization, the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) has also recently issued a statement on sukuk, providing important guidelines for sukuk issuers.

It is the CBB's hope that such initiatives will go a long way in harmonizing market practices and creating a deep and vibrant Islamic capital market, which though growing significantly, remains small. There is a limited number of Islamic issuance in comparison to the conventional fixed income market. The Islamic finance industry should put substantial resources into creating a vibrant secondary market, including risk management products for Islamic investors and developing Shari'a compliant hedging mechanisms.

The demand for Islamic financial products is clearly there. The question is will the industry rise to the challenge and fully grasp the opportunities ahead by offering competitive pricing, customer service and transparency similar to that of its more mature conventional counterpart. I believe it will.

Ladies & Gentlemen, the CBB intends to remain at the forefront of Islamic finance and we look forward to continuing to work with market players and other related parties in developing this key industry.

Thank you for your attention and for attending.