

## **Rasheed Mohammed Al Maraj: Global regulation and offshore centres – onshore vs offshore**

Address by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the GCC Private Banking Conference, Manama, 7 March 2012.

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Your Excellencies, Distinguished Guests, Ladies and Gentlemen:

It is a great pleasure and a privilege to be addressing this conference. Over the course of the day speakers and delegates will debate and reflect upon many aspects of the Private Banking environment, and I have no doubt that the initiatives which will be identified here will provide interesting and useful ideas.

My speech today will concentrate on the importance of regulation to the financial industry in general, and the Private Banking environment in particular. I shall explore what the CBB has done, explain why that has been beneficial to our stakeholders, and provide an insight into our priorities in the coming period.

The CBB has a proud regulatory history. Our framework has been moulded over many years, and it has served our stakeholders well in times of local, regional, and international turbulence. It provides clear leadership and direction to licensees, and it is designed to provide investors with a detailed understanding of the way in which the CBB expects banks and financial institutions to discharge their responsibilities. This is due, at least in part, to our philosophy of “constant improvement”. As such a great deal of our work is pro-active, and all of our work is designed to mitigate risk in a controlled manner whilst accepting that risk is an inherent ingredient in the financial industry.

We consult with practitioners and the various other stakeholders in the financial sector to understand their needs and desires, and we strive to be responsive to those needs. A fundamental premise of our approach is that we make considerable efforts to ensure that our licensees understand the importance of, and implement and comply with, recognized international best practice in their field.

But not everything is local. Global capital flows are critical for Bahrain. We are a small nation; we have an open economy and we do not impose complex capital controls. We welcome ethical investment from any source, and we recognize that inward capital flows benefit the wider economy. In keeping with those goals, the CBB has introduced a number of improvements to our regulations during the recent past, many of which have had an impact on the wealth management industry, either directly or indirectly.

For example the role of corporate governance has been enhanced, and the CBB was a key player in the development and implementation of the Corporate Governance Code for the Kingdom of Bahrain. Among other requirements, this enshrines the principles of independent Board members; the need for timely, accurate, and comprehensive disclosure of the control frameworks which financial institutions rely upon; and the importance of Board level oversight of the activities of the organization. It emphasizes accountability, and sets out the standards which financial institutions are required to comply with. Effective governance from the top provides comfort to investors that their interests are of critical importance.

There are clear standards for the ring-fencing of clients’ money. There have also been a number of improvements in the regulations relating to control frameworks in general, and risk management practices in particular. The rules relating to public disclosure and transparency have been continually and significantly improved. The rules relating to business and market conduct have been enhanced, and several other areas of the CBB Rulebook have been simplified. Each and every one of these initiatives has been designed with the aim of

enhancing clients' confidence, and to demonstrate that Bahrain is a safe jurisdiction in which to undertake business.

One of the major components of the growth and development of wealth management in recent years has been the contribution of the Islamic banking sector. Shari'a compliant banking continues to go from strength to strength, and Bahrain has been a major hub of the activity. The CBB has always been an active and enthusiastic supporter of Islamic finance, and over the years it has played a major role in encouraging the industry to seek creative and innovative products which will place Islamic finance at the forefront of the global financial industry. In the regulatory environment we are actively engaged with both AAOIFI and the IFSB, and we have been a key player in the development and implementation of the standards which form the framework of the Islamic banking industry. Our contribution to the industry will continue to be a core element of our strategy moving forward.

In a wider context, the CBB is an integral part of the global financial regulatory community. During the last four years that community has had to respond to many shortcomings which initially became apparent following the collapse of Lehman Brothers, and which were exacerbated by the consequences of imprudent lending, high-risk investments, and the liquidity crisis. The financial industry in general has been criticized heavily from many quarters, and regulators have not been immune to that criticism. Our approach has been to seek long-term solutions. We understand the risks of implementing a "quick fix"; and we are cognizant that speed does not always equal quality. At the same time we recognize that protecting customers of the financial sector, and being seen to do so, is of paramount importance.

In most instances the measures have been appropriate and prudent, and they have been designed with the best interests of the consumer as the foundation. It is obviously challenging to reach consensus in a global market, and some changes have been criticized as excessively stringent and even anti-competitive. I do not believe that is true.

Going forward, the CBB intends to concentrate on five major global regulatory initiatives throughout 2012 and beyond. These are:

- the implementation of a meaningful and achievable set of revised capital adequacy standards, often referred to as Basle III;
- enhanced liquidity requirements, which are also included within the Basle III framework;
- improvements in the corporate governance framework, where we are continuously refining our interpretation of the Corporate Governance Code;
- continuing to strive for improvements of the Islamic finance regulations in coordination with the IFSB; and
- relevant regulatory enhancements in respect of capital markets.

These are challenging aspirations, and we anticipate that there will be many bumps in the road over the coming months and years as we strive to provide an effective, efficient, and pragmatic regulatory framework.

In closing, I wish you all a very constructive and enjoyable conference, and I look forward to the contribution that the ideas presented today will provide to the growth and development of the wealth management sector of the financial industry.

Thank you for your attention.