

Rasheed Mohammed Al Maraj: Key developments in Bahrain and the region

Speech by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the 4th Annual Middle East Insurance Forum, Manama, 8 May 2007.

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Your Excellencies, Ladies and Gentlemen: good morning.

It gives me great pleasure to welcome you to the 4th Middle East Insurance Forum. This event has established itself as one of the region's leading insurance conferences, and my thanks go to the organizers, sponsors and speakers for producing what promises to be a fitting 4th edition of this conference.

This year's theme for the Forum – "Growth Opportunities in a Dynamic Region" – is particularly apt. We are, of course, experiencing a sustained period of vibrant growth and liquidity that hasn't been seen in over twenty years. Underpinning this has been some significant developments in terms of structural reforms, both political and economic.

These developments, naturally, have not gone unnoticed by the rest of the global business community. In particular, a number of international insurance groups have recently moved to establish regional offices, or to gear up their existing presences.

We welcome this trend, and look forward to working with these groups in further developing the region's insurance markets over the years to come.

By way of setting the scene for the presentations and discussions to follow, I propose this morning to spend a few minutes highlighting some of the key developments that have taken place in Bahrain and the region since we last hosted this event. The key message, I believe, is that the regulatory foundations built up by CBB are now beginning to bear fruit, and offer firms a solid base from which to tap into significant regional opportunities.

For its part, the CBB has over the past year continued to refine and implement the completely new regulatory framework that was developed following the creation of a single regulator in 2002, and implemented from 2005 onwards. Comprehensive solvency reporting by insurance firms has now been rolled out, as have on-site examination visits.

These efforts are helping raise standards in the local industry, and will help strengthen its competitiveness over time. They have also been achieved in a spirit of cooperation, and I should like to take this opportunity to thank the industry for their support.

A related key development over the past year has been the start of reporting under the new International Financial Reporting Standard no 4, and the significant impact it has had on the insurance industry in terms of reporting. The CBB worked closely with the Bahrain Insurance Association in facilitating this process.

These changes – which have only just begun – have had a significant impact, notably on the reporting of unit-linked products. Phase 2 of these changes will involve even more radical changes, including the elimination of key balance sheet items such as unearned premium reserves.

Two key features of the new insurance rulebook the CBB introduced in 2005 are rules for Islamic insurers, as well as rules specifically catering to captive insurers. The results of these initiatives – regional firsts, and probably a world first with respect to rules for takaful firms – are now beginning to bear fruit.

Over the past year, we have seen a number of leading international insurance companies establish their takaful and re-takaful operations in Bahrain, further consolidating Bahrain's global profile as a centre for Islamic finance. And recently, we also licensed the region's first captive insurer, established by the UAE company Tabreed.

It was pleasing when the CBB's initiatives in this area were publicly acknowledged, when it received the Regulator Initiative of the Year award at the Insurex 2007 conference, which took place last month.

Of course, some established insurers may fear that new entrants mean increased competition. However, I do firmly believe that there is room for expansion, and scope for generating new business. New players can help make the insurance cake bigger: it is not a zero sum game.

Already, we are seeing the profile of the industry as a whole increasing, and greater awareness of the range of risk protection and investment products that the industry can offer.

The low levels of insurance penetration rates in this region, when compared to most other markets, and the lack of regional capacity in various products and services, both suggest to me that there is significant scope to move the industry onto a higher plane.

The huge increase now taking place in infrastructure projects, and the associated insurance needs of such developments, is clearly one source of significant potential growth. Another area is with respect to private pensions and medical insurance.

Here in Bahrain, the finishing touches are now being put on plans for introducing private health insurance for expat workers, and recent legislative changes with respect to pensions mean that some employees now have to consider their need for supplementary private pensions.

Similar reforms are likewise being examined or have been introduced in other GCC countries, reflecting the trend in favour of structural reforms that I mentioned at the start of my speech.

An encouraging feature of these reforms has been the gradual opening up of markets across the region – which will allow insurance providers to capitalize on these opportunities. In addition, the Bahrain-US Free Trade Agreement also marks an important step in deepening cross-border trade.

Collectively, the GCC countries now represent a population of some 35 million and the world's 13th largest economy. It has also been generating current account surpluses larger than China's in recent years. In short, the GCC markets offer significant potential for insurers, considering that for many products, this is largely untapped territory.

To conclude, therefore, we believe that strong regulatory foundations have now been built for the insurance industry in Bahrain, and that this provides a sound basis upon which its potential can be fulfilled. I wish you all a productive conference.

Thank you.