A risk-centric Shariah compliance approach

BAHRAIN

By Dr Hatim El Tahir

Today, there is a growing awareness among institutions offering Islamic financial services, and equally their shareholders and investors, that Shariah compliance risk can fail them and have a damaging impact on the quality of services and the industry's integrity at large.

Evidently, and more recently, the issue of Shariah compliance is becoming more high up on the agenda of industry leaders and certainly in industry discussion platforms due to non-Shariah compliance or operational risks that failed a number of institutions and Islamic investment instruments.

The Central Bank of Bahrain (CBB), like other regulators, is watching these developments and is now finalizing the introduction and enhancement of its Shariah Governance Module (SG Module) which will introduce an Independent External Shariah Compliance Report (IESCA). The latter will be effective the 1st January 2018. It is also interesting to note that the SG Module and the IESCA rules are built around standards developed by the CBB and AAOIFI and also based on the ISAE 3000 standard.

The new regulation provides guidance to help Bahraini Islamic bank licensees to properly manage any potential Shariah compliance risks and design good Shariah governance frameworks embracing assurance and transparency. Hence, the key objectives of the Shariah governance framework, as announced by the CBB, are mainly to provide a structure and a system to govern all the business activities of Bahraini Islamic bank licensees and ensure Shariah compliancy at all levels as well as to enable them to be perceived as Shariah compliant by the stakeholders including the general public.

It is interesting to note that the new regulation stipulates that: "Branches of foreign banks must satisfy the CBB that equivalent arrangements are in place at the parent entity level". Clearly, this is good news in the sense that it invites key decision-makers and industry leaders to consider introducing similar industry guidance to support good Shariah governance practices. This kind of practice synergy and harmonization will be most helpful to banks and institutions offering Islamic financial services with multi-country operations and make their lives much easier.

However, in all aspects, institutions offering Islamic financial services as well as industry regulators need to work in harmony to better understand the industry challenges and introduce regulatory strategies which uphold efficiency, integrity and growth.

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Qatar's quiet summer months

QATAR

By Amjad Hussain

We are currently witnessing the annual Gulf summer slowdown as locals and expats travel during their annual leave. This year, the quiet period has been exacerbated by the GCC diplomatic fallout. Three of the GCC nations (together with Egypt) have imposed a land, sea and air blockade on Qatar.

The banking sector is of course not exempt from both factors, with activity slowing down considerably over recent weeks.

Local banks have either disclosed or will soon begin disclosing their second quarter and half-yearly results and that would be an important time to assess how the market is faring in the current climate.

Qatar National Bank (QNB) recently disclosed its results for the six months ended the 30th June 2017. It stated that the results were the highest in the history of the QNB Group. Net profit reached QAR6.7 billion (US$1.79 billion), up by 7% compared with 2016, and total assets reached QAR768 billion (US$205.7 billion), up by 11% from June 2016, the highest ever achieved by the group.

In other news, Qatar International Islamic Bank (QIIB) announced that international credit rating agency Moody's Investors Service has affirmed QIIB's rating for the second consecutive year at 'A2'. QIIB CEO Abdulbasit Ahmad Al-Shaibe said: "QIIB's rating affirmation at this good level is a natural reflection of the strength and high quality of the Qatari economy and an evidence of the confidence in the strength of this economy in various circumstances and against any unexpected developments and risks."

On the transactions side, The First Investor (TFI), the investment banking arm of Barwa Bank, in collaboration with Inovalis, successfully introduced the first REIT exposure structure for Qatari investors. The REIT Income Shariah Certificate provides exposure in the US dollar to European high-quality real estate assets (primarily Germany and France). Returns are linked to the income and capital gains of the shares of the Inovalis REIT and indirectly to the appreciation of European properties owned.

All eyes will be on the fast-changing geopolitical landscape in the GCC and how this will impact upon all of the countries embroiled in the fallout.

Currently, it seems that the Qatari economy continues to show a high degree of resilience as the authorities have taken measures to protect the market. This, combined with a general de-escalation of tension which we are witnessing, is likely to encourage further stability in the region in the coming months. This will be a welcomed development over the quiet summer months.

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