

BAB

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BAB Newsletter

Second Quarter 2018

FinTech in banks requires compliance



Implementing FinTech requires bridging information security gaps, According to Adnan Ahmed Yousif, Chairman of Bahrain Association of Banks (BAB).

“Applying FinTech requires addressing ICT gaps and reforms aimed at achieving compliance with international regulatory standards should be supported and coupled with strengthened financial oversight,” he said.

“Although existing regulatory standards address the risks associated with FinTech innovations, the evolving nature of this technology requires constant monitoring to identify and address the risks to financial stability.”

“As the use of FinTech increases, regulators and central banks should give priority to monitoring overall financial risks and ensure that it is not posing threat to banks. Banks regulators should priorities identifying and addressing operational risks that may arise from third party services, maintaining the functioning of payment systems due to the expanding role of non-financial corporations.”

Adnan highlighted that Information and communications technology (ICT) infrastructure needs to be improved thus to enable businesses to rely on innovative FinTech applications, where many countries are

in need for increasing internet penetration and mobile communications facilities and ensure interoperability in mobile payment systems.

He assured that Leading FinTech companies should participate with the efforts of FinTech actors in Bahrain through encouraging them to venture in foreign investments markets, infrastructure internet services and mobile devices, market structuring and promote financial development.

He reviewed developed countries’ FinTech experiences; FinTech companies in the US cover all financial services relying on the high-quality infrastructure and abundant capital.

“The UK has seen strong growth in counterparties trading platforms, online payment, data and analysis products, capital market trading and insurance. This growth was based on adequate support from their government and regulators.” Adnan said.



IMF Hails the Banking Industry in Bahrain

At the end of their mission to Bahrain, IMF staff released a statement on economic and financial situation in Bahrain, stated that the country’s output remained resilient in 2017, growing at around 3.8 percent. This was underpinned by the non-hydrocarbon sector, with robust implementation of GCC-funded projects as well as strong activity in the financial, hospitality, and education sectors. Inflation remains subdued. On the back of higher oil prices—increasing hydrocarbon revenues by 15 percent—and authorities’ fiscal consolidation measures, the overall fiscal deficit is estimated to have declined to 14 percent of GDP, from around 18 percent in 2016.

“Overall growth is projected at 3.2 percent in 2018, with a recovery in oil production, continuation of GCC-funded projects, and rising refinery and aluminum production capacity. Announced fiscal policy would reduce somewhat the overall fiscal deficit, to 11 percent of GDP in 2018.

The statement said “The banking system remains well capitalized and liquid. Continued efforts to strengthen the regulation and supervision of the financial sector would further bolster the system. Fintech presents opportunities for Bahrain, where global experience can be brought to bear in addressing possible risks. Fiscal consolidation would support the peg to the U.S. dollar, which continues to provide a clear and credible policy anchor.

“Especially given fiscal constraints, sustained structural reforms remain key to supporting growth and diversification. Legal reforms to streamline regulations should reduce costs of doing business and catalyze private investment. Improving access to financing for small and medium enterprises and further reforming the labor market would help further diversify the economy and make the non-hydrocarbon sector more resilient.”

The IMF team greatly appreciated the candid discussions with the Bahrain authorities and their hospitality and excellent cooperation.”

CBB approves Bank ABCs market making arrangement to support liquidity in ABC share price

Bank ABC has obtained the Central Bank of Bahrain's (CBB) approval to appoint a market maker to enhance the liquidity of the Bank ABC's share trading on the Bahrain Bourse. This arrangement was also approved by the Bank's shareholders during their Ordinary General Assembly meeting last March.

To achieve this goal, Bank ABC has appointed as of 20 June 2018 the Securities and Investment Company BSC (SICO) as the designated market maker with respect to the Bank's ordinary shares listed on the Bahrain Bourse. According to the market making arrangement, SICO has sole discretion to buy and sell a percentage of Bank ABC shares not exceeding 1% of the total issued share capital, on ABC's behalf, thereby creating a more dynamic two-way market that will enhance the liquidity of the Bank's shares for market participants.

The market making programme with SICO will be in effect for an initial 12-month period following its establishment, so as to enable Bank ABC to gauge the success of the arrangement, but it may be extended thereafter if the Bank's Board of Directors considers it appropriate.

Annual Manpower Survey 2017

The total number of employees in the financial sector in 2017 amounted to 14,093 employees compared to 14,015 employees at the end of 2016, an increase of 78 jobs, according to the annual survey conducted by the Central Bank of Bahrain.

The banking sector underwent an increase in employment by 45 jobs. Total employment in the banking sector reached 7,447 at end-2017 compared with 7,402 at end-2016.

The employment in the non-bank financial sector (comprising insurance firms, money changers, financing companies, investment business firms, and other non-bank financial institutions) increased by 0.6%, taking the number to 6,194 employees at end-2017 compared to 6,156 employees at end-2016 while the number of employees in the supporting institutions decreased from 457 employees at the end of 2016 to 452 employees at the end of 2017.

According to the annual survey conducted by the Central Bank of Bahrain (CBB), the Bahraini workforce employed by the financial services sector reached 9,248 in 2017, an increase of 93 jobs. Total Bahraini workforce represented 65.6% of total workforce in the financial sector. The proportion of Bahraini women is 38.3% of total Bahraini workforce under the financial sector maintaining the same percentage as 2016. Additionally, the proportion of Bahraini women with managerial positions is 32.2% of total Bahraini managerial positions under the financial sector at end-2017, an increase from 31.0% at end-2016.

BAB Leads the Way to Boost Bahraini Performance in Financial Institutions

On 30 April 2018, Dr. Waheed Al Qassim, BAB CEO met with His Excellency the Minister of Labor and Social Development, Mr. Jamil bin Mohammed Ali Humaidan, in his office at the Ministry.

During the meeting, they discussed enhancing cooperation between the two parties, especially in the field of developing the national manpower in the banking and financial sector, in light of the acceleration of the growth of financial technology in this vital sector and the necessary strategy to ensure the sustainability of maintaining job stability. To develop the skills of the sector's citizens to keep pace with the latest developments in this field.



Members meet Benefit to discuss EKYC

On 23 May 2018, BAB in cooperation with Benefit has organized a session to discuss the National e-KYC Project to the banks in Bahrain. During the session Benefit explained in details the following topics:

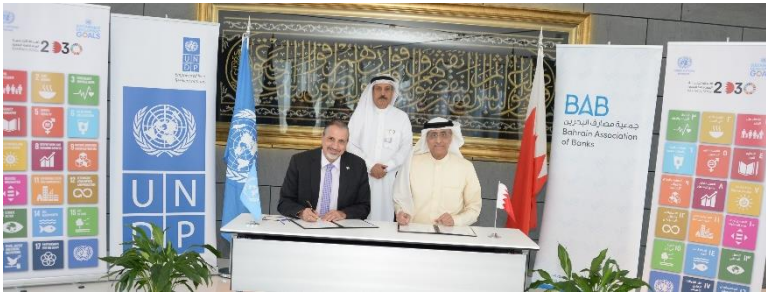
1. The project objectives.
2. The Project module, Scope, technology and security.
3. CBB – KYC required information for individuals & Corporates.
4. The Project Challenges & how to overcome them.



ATM Fees Revision

On 28 June 2018, BAB organized a meeting with concerned bank members to revise the ATM Fees stated by the CBB.

During the meeting, Banks in Bahrain exchanged their experience after the implementation of the new rule of ATM Fees and decided to come up with a proposal to overcome their costs of having ATM machines.



BAB launches "code of conduct"

On the sidelines of the Sustainable Finance Forum which was organized by BAB in cooperation with the United Nations Development Program in Bahrain, the two parties signed a memorandum of understanding.

[Read more](#)



BAB recognized key partner in Sustainable Development

Bahrain association of Banks held “Sustainable Finance Forum” in cooperation with the United Nations Development Program in Bahrain (UNDP), the Central Bank of Bahrain and the Economic Development Board represented by Sustainability & Social Responsibility Committee.

[Read more](#)



Heads of BAB Committees Meeting

BAB held a meeting with the Committees Chairpersons to follow up with the 2018 agendas and focus points.



Discussing the Brokerage Fees

On 6 June 2018, BAB has arranged a discussion with the concerned banks and money brokers to arrive at an appropriate transaction classification and brokerage fees that are acceptable to all the licensees as requested by the CBB. During the meeting, banks has decided to prepare a proposal that will be presented to the CBB in this regards.



BAB vows to bolster Waqf Funds

On 15 March 2018, BAB held a meeting with Shaikh Mohsin Al Asfoor, chairman of Jaffaria Waqf to discuss ways of investing Waqf Funds in Bahrain. BAB also presented international experiences.



Members warned over latest banking industry regulations

On 11 June 2018, BAB organized a seminar about the General Data Protection law (GDPR). The seminar was presented by Dr Abdulgadir Warsama – legal consultant. The seminar comes within the framework of BAB keenness to introduce members to the latest developments in the financial and business industry. As banks in Bahrain are required to comply quickly with GDPR to avoid legal procedures and fines.

[Read more](#)

Banks and Money Brokers Express Concerns over Fees Requested By CBB



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Central Bank of Bahrain on the Forefront of Innovation

A delegation from the Central Bank of Bahrain (“CBB”) visited Visa Innovation Center on 15th May 2018. The visit came in line with the CBB’s drive towards digitization and positioning the Kingdom of Bahrain at the forefront of payment innovation. The delegation was guided through Visa’s initiatives and experienced first-hand some of Visa’s innovative prototypes.

Known for being a forward-thinking regulator, the CBB has taken the front seat in instigating a progressive payment infrastructure and continuously explores the realms of cutting-edge innovation.

The launch of the Mobile e-Wallet “Benefit Pay” in 2017 marked yet another milestone in the Kingdom’s digital payments journey. The app, which was developed by the Benefit Company in its capacity as the Kingdom’s Payment Switch and Credit Bureau provides a wide range of services for both consumers and merchants supported by the QR Code scanning technology.

More notably, in 2015, the CBB in collaboration with the Benefit Company launched the Electronic Fund Transfer System (“EFTS”) which revolutionized the way frictionless payments are made. Through the EFTS network, all local banks and major billers are interconnected to enable near real-time fund transfer up to BD. 1,000 via the Fawri+ service. Additionally, users can opt for other services enabled by this network such as the deferred settlement fund transfer service, which allows users to transfer any amount of money (bank account to bank account) within just a few hours of the business day via the Fawri service as well as having the ability to settle bills in an aggregated manner via the Fawateer service.

It does not end here, though. With several initiatives and projects planned to be rolled-out on a national level, the CBB jointly with other governmental and non-governmental stakeholders such as the Information & e-Government Authority and the Benefit Company, commenced work on introducing a national Electronic Know-Your-Customer (“e-KYC”) utility which employs the latest technology in order to streamline the customer onboarding process and the on-going updates of customer information undertaken by financial institutions in Bahrain.

On another front, the CBB has earned international praise for its open and proactive approach towards developing a conducive FinTech ecosystem, especially with the introduction of its “Regulatory Sandbox” in mid-2017 and setting up a dedicated “FinTech & Innovation Unit” to steer FinTech related initiatives.

Save the Date!



BAB Annual Forum

Wednesday, 31 October 2018

BAB Organize FinTech Forum 2018

Bahrain Association of Banks (BAB) announced that it would host its annual FinTech Industry Forum 2018, which will be held under the patronage of the Central Bank of Bahrain on October 31.

The forum is themed under “Opportunities & Challenges for Bahrain’s Banking Industry” and it’s expected to attract more than 300 participants which include senior representatives from BAB’s 52 members, regulators, and related third-party organizations. The forum is going to include a number of influential high-level keynote speakers, and a number of FinTech related panel discussions such as Education & Human Capital requirements, Legal & Regulatory considerations, Customer Readiness and Best Practices on the local, regional and international levels.

Adnan Ahmed Yousif, Chairman of BAB, President and Chief Executive of Al Baraka Banking Group, stated that the upcoming forum falls in line with BAB’s role of encouraging and supporting the FinTech industry. He also adds that they ensured this year’s forum focuses on the importance of banks to develop strategies to harness the power of FinTech. “In cooperation with our members, we are working hard to ensure that the programme covers all areas critical for banks as they move to adapt, drive sustainable growth and better meet the needs of customers in today’s increasingly digital era. The theme of this year’s forum also comes at a time when the Kingdom of Bahrain is not only working hard to continue to reinforce its position as a leading regional banking hub but establish itself as a major center for Fintech innovation,” he said.

Dr. Waheed Qassim, CEO of BAB, said, “For nearly four decades, BAB has been at the forefront of supporting industry growth and the furthering of Bahrain as a world-class financial jurisdiction. With the vast changes being ushered in due to the strong uptake and demand for digital financial products and services, Fintech is high on the agenda for global banks as well as banks in Bahrain and the region. We are delighted to be hosting this Forum, which we intend to make an annual event, with this year’s focus firmly on the opportunities and challenges facing our members with regard to the adoption of Fintech as well as the readiness and impact on customers.”

[Read more](#)

Lobbying updates

☐ Ongoing case

☒ Closed case

#	Lobbying Issue	Brief Explanation	Initiated BY	Date of Initiation	Committee in Charge	Action Taken	Follow - up
1	ATM fees Revision	Retail bank licensees are prohibited from charging any fees for transactions/enquiries made locally through their own ATMs or the Benefit Company ATM network.	Al Baraka	May 2018	Ad hock Committee	The issue was discussed and the Chairman requested that CBB to discuss the laws with the banks before putting it in the rule book. First meeting was held on 28 May 2018	BAB will circulate the minutes of the first meeting soon. Second meeting will be on 25 June 2018
2	Brokerage Fees	CBB decided to revisit BAB & brokers operating in Bahrain to develop a new scale for brokerage fees that is in line with the brokerage industry requirements	CBB	17 May 2018	Ad hock committee	Letter to all concerned institutions has been sent requesting them to nominate representatives in the ad hock committee.	During the first meeting banks agreed to prepare a proposal to be presented and discussed with the CBB. Next meeting will be on 27 June 2018
3	SME's Challenges	Listing SME's for loans and financing eligibility	SICO	11 April 2018	Banking Product Development	Banking Product Development Chairperson Mrs. Dalal Abdulla & Mrs. Afrah Ajaj had a meeting with Ms. Najla Al Shirawi CEO of SICO to discuss this matter further and it was agreed that the matter will be discussed with the committee members on their next meeting.	
4	Issuance of the New Shari'a Governance Module ("Module SG")	The Islamic Banking Committee suggested to translate the modules to the Arabic language, they are facing problems in the courts because of the inaccuracy of the translation.	BAB	09 January 2018	Islamic Banking Committee	BAB sent a letter to CBB regarding this issue, the CBB response was: Arabic Translation of the Module should be addressed through BAB translation project The response also contained clarifications requested by the committee	
5	CBB Aggregation Criteria- for Single Obligors	Based on the committee review of similar rules under SAMA regulations and the Basel Framework, they find that the threshold is 50% instead of 20% while the European framework is does not mention any percentage threshold and instead require aggregation in case financial trouble at one entity adversely impacts the other entity. An extract of the stated rules are attached as Annexure I and II where they have highlighted the 50% threshold. Committee request CBB's reconsideration in modifying the stated controlling interest threshold in relevant rules to be in line with the other regulatory bodies in the international market and with the best market practice.	BAB	October 2017	Risk Management Committee	BAB sent a letter to the CBB regarding this issue. Waiting for their reply.	Waiting for CBB response
6	The Financial Sector Court	BAB has committed itself to drive an independent legal system (Courts, Public Prosecution, Implementation Court and others) for the financial sector	BAB	December 2016	Legal Committee	BAB prepared a proposed framework for finance Sector litigation in Bahrain on 31 January 2017	
7	Returned Checks	Members are facing issues when filing police reports against clients whose cheques are returned from other banks with the reason of return being "Refer to Drawer". Public Prosecution does not accept this reason for a returned cheques and, as a result, requests clarification from the issuing bank through the Police Department.	Ithmaar Bank	November 2016	Add hock committee	BAB sent a letter to the CBB regarding this issue, CBB respond was: CBB has advised Benefit to take necessary measures to add the return reason "Insufficient Funds" into the Bahrain Cheques Transaction System.	Waiting for CBB response

#	Lobbying Issue	Brief Explanation	Initiated BY	Date of Initiation	Committee in Charge	Action Taken	Follow - up	Outcome
8	Failed ATM/POS Terminal Transaction	CBB Circulated directives that need to be implemented effective 1 May 2018. Banks are fully committed to implement the instructions but it will be a challenge for most banks to complete the requirements on 1 May due to difficult data captured at each license. Therefore, BAB requested to extend the deadline by two months period.	BAB	April 2018	Add hock committee	CBB has decided to extend the deadline to comply with the requirements of the Circular No. EDES/KH/C/29/2018 two weeks until 15th May,2018	Closed	BAB succeed in delaying the deadline for two weeks.
9	Insolvency Law	The BAB committee prepared a study on the insolvency law 2016. Suggestions on correcting paragraphs and phrases on the current law.	BAB	Jan 2018	Legal Committee	BAB met with the Minister of Justice to discuss this law, the legal committee also prepared a study paper regarding this issue and was sent to the CBB.	Closed	Legal Committee provided the CBB with the corrections and notes about the current law
10	Consultation Paper- Methodology for Calculating Financial Penalties to be Imposed upon CBB Licensees	The Central Bank of Bahrain has circulated a consultation paper explaining the methodology for calculating financial penalties	CBB	20 April 2017	Banking Product Development Committee	BAB sent a letter to the CBB listing the comments of the committee on the consultation paper.	Closed	BAB has succeeded in giving its members the clarification needed about this consultation paper
11	Consultation Paper- Fees & Charges for Standard Services/ Products Provided to Retail Customer	The Central Bank of Bahrain has circulated a consultation paper capping some of the fees and charges.	BISE Al Baraka	15 April 2017	Banking Product Development Committee	BAB held meetings with banks and collected the opinions of banks and communicated with the CBB.	Closed	BAB has succeeded in changing some fees and charges as per the suggestions of members
12	Blocking system	CBB issued a Blocking System guideline which imposes several obligations on the Banks. These obligations will carry severe commercial & legal consequences that prejudices the Bank's rights, in addition to the Customers rights.	CBB	28 June 2016	Add hock committee	The Governor recommended that banks present a formal document outlining their requirements to the Legislation and Legal Opinion Commission (LLOC)..	Closed	BAB presented the document to Shura Council and agreed that Shura will work it out with CBB
13	EFTS	Banks agree that at present the EFTS system is a loss-making proposition. The objective of this meeting is to ask the CBB for fees that are fair and allow a small profit, perhaps 20 to 30 percent	Ithmaar Bank	24 November 2015	Add hock committee	BAB sent an email to the CBB explaining how banks are being penalized for EFTS during downtime even after approval from CBB and Benefit. 2 Aug 2017	Closed	BAB has explained very clearly the banks point of view in this regards