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Bahrain, Islamic Finance & Wealth Management – The Opportunities

Hubbis and co-host Jersey Finance assembled a high-quality group of 22 eminent Islamic finance, legal and other experts for a private, off-the-record discussion on the evolution of Islamic finance in Bahrain and the implications for the wealth management industry there.

The key takeaways

Bahrain - a past centre of excellence

Bahrain was in the past both the leading Middle East conventional financial centre and at the forefront of Islamic finance worldwide. Its pre-eminence has slipped in the past decades, with the emergence of other Islamic finance hubs in Malaysia, Dubai and even London, all of which have grown in both professionalism and intent.

Bahrain stays competitive

Bahrain has been reaffirming its position and continues to work on new strategies allowing it to regain its prominence as a leading Islamic finance hub. Panellists maintained that Bahrain, with a coordinated effort from the government, the central bank and its reputable Islamic finance institutions, strong industry, Islamic finance bodies and the finance sector professionals, has the potential to remain as one of the "go-to" players for Islamic finance, including in the wealth management space.

Bahrain leveraging technology

The government of Bahrain and the Economic Development Board (EDB) of Bahrain have a number of initiatives in place to boost economic and financial sector activity. Technology and digitalisation are central to this, with an aim for Bahrain to become a leading regional FinTech centre. Islamic finance, itself becoming increasingly closely connected with digitalisation and FinTech globally, will be able to benefit from this impetus.

Bahrain's human capital

Bahrain boasts high education levels and a smart workforce, both local and international, which contributes to an excellent body of human capital.

Bahrain is home to reputable institutions such as the AAOIFI, IIFM & IIRA

Bahrain is the home to the "The Accounting and Auditing Organisation for Islamic Financial Institution" (AAOIFI), the international not-for-profit body with a mission to achieve standardisation and harmonisation of international Islamic finance practices and financial reporting in accordance to Sharia. Its objectives are to a) Develop accounting, auditing, governance and ethical thought relating to the activities of Islamic financial institutions taking into consideration the international standards and practices which comply with Islamic Sharia rules; b) Harmonise the accounting policies and procedures adopted by Islamic financial institutions through the preparation and issuance of accounting standards and the interpretations of the same to the said institutions; c) Preparation and issuance of auditing and governance standards and preparation and issuance of codes of ethics for Islamic financial institutions.

The reach of the AAOIFI is extending well beyond Bahrain as it, and Bahrain itself, are making greater efforts to improve standardisation in Islamic finance at home and globally. In particular for FinTech, standardisation of documents will be key moving forward.

Bahrain is also home to the International Islamic Financial Market (IIFM) a neutral and non-profit infrastructure development organisation. "IIFM is hosted by the Central Bank of Bahrain in Manama. Its mandate is to develop standardised Sharia-compliant Financial Documentation, Product Confirmations and Guidelines for the Islamic Financial Services Industry (IFSI), with the vision of achieving active and well-regulated trading and capital flows across the full spectrum of Sharia-compliant financial instruments internationally."

Another reputable organisation based in Bahrain is the Islamic International Rating Agency (IIRA). Established in 2005, it has been set up to provide independent assessments to issuers and issues that conform to principles of Islamic finance. "IIRA's special focus is on development of local capital markets, primarily in the region of the Organisation of Islamic Countries (OIC) and to provide impetus through its ratings to ethical finance, across the globe. IIRA was founded as an infrastructure institution for the support of Islamic finance as conceived by the Islamic Development Bank (IDB). This puts IIRA in league with system supporting entities like AAOIFI and IFSB."

Apart from this, according to the Thomson Reuters' "State of the Global Islamic Economy" reports, Bahrain repeatedly ranks top three when it comes to Islamic finance regulations and is also ranked in the top 3 countries leading the global Islamic Economy Indicator, "standing out as having the healthiest Islamic economy ecosystem a country has relative to its size."

Bahrain may need to improve its outreach & strategic marketing

While positive change is taking place in Bahrain at governmental, institutional, regulatory and practitioner levels, there needs to be better communication of the Bahraini proposition globally.

Standards are not documents

Standards and principles are one thing but bringing about standardised documentation for Islamic Finance transactions is entirely another proposition. In short, it remains a difficult proposition for Islamic scholars and for the industry's exponents to agree on standardised documentation, therefore hindering the development of the industry.

However, growth is taking place

A banking expert noted that there is growing appetite for Sharia compliant products, even though using Islamic finance as an investment method is the more expensive option for borrowing and returns for investments are generally lower than on conventional finance. He said that new applications for financing are moving in favour

of Islamic, while in past years it was 70/30 in favour of conventional options. Trends across the GCC region vary by country but the experts agreed that there is a general growing trend towards Islamic finance in the region. However, other experts added that Sharia compliant banks informed them that demand for their products have gone down - the main reason being the cost of a Sharia complaint products which is generally higher than for similar conventional products.

Younger clients are more receptive

Interestingly, the younger generations of corporate and wealth management clients are more and more receptive to Islamic finance and Sharia compliant products, as these are believed to fit in well with the other investment considerations of the young generation, such as green investment (environmentally friendly) and socially impactful investment. Having been educated overseas and become more aware of the range of Islamic options available, the GCC youth prioritises socially impactful investment over conventional investment, even if the latter may offer higher returns. For example, demand amongst high net-worth individuals (HNWIs) in the region for treasury Islamic treasury products have risen markedly, despite generally lower returns.

Sustainable finance

A guest highlighted the discussions developing globally in relation to sustainable finance and ESG (environmental, social and governance) and how this is in with Islamic finance. The experts concluded that there is some commonality between socially responsible investing and Islamic finance because the principles of Islam basically aim to direct finance to the real economy, promote activity, promote business and therefore to be beneficial for the society as a whole. It would be fortuitous that Islamic finance aligns itself well with social investment criteria, and therefore could fit in an important demand by investors with a preference for this type of impactful investment over the conventional options.

On the other hand, experts also noted that there is a fundamental difference between ethical financing per-se (which can utilise interest based debt structures and generally does) and Islamic finance based structures, which have a prohibition on interest all together but do not necessarily tick all the boxes of e.g. green investment or sustainable investment.

In addition, there are certain restrictions in Islamic Finance that would apply to all types conventional finance, including ethical financing and hence achieving the goal of complying with both sets of requirements adds to the complexity of criteria set for those types of investments.

A USD22 trillion opportunity

An expert highlighted how the world of socially responsible investing (SRI) investment today is already a USD22 trillion market, and as Islamic transactions can inherently be more responsible in their principles than conventional finance, the industry must urgently come up with a global proposition driven by more products with an impact focus. However, at this stage, Islamic Finance does not require any consideration of SRI, but it may of course coincidentally fit the profile. A concerted effort to converge both criteria for the conscious investors could indeed be an untapped opportunity.

Suited for project finance

Islamic finance is ideally suited to longer-term project finance, adding another set of opportunities. The next phase should be taking the liquidity of the Islamic investment community into more impact focussed funds and sectors. This is directly in keeping with trends in wealth management as well, as many of the globe's HNWIs and ultra-wealthy are seeking more sustainable and impactful investments.

Spreading the (pragmatic) word

Some experts argued that in order to boost its proposition, Islamic finance needs not only to develop more products, but also needs to communicate its values and its efficacy to the non-Muslim world. Moreover, returns need to be somewhat elevated to compete more genuinely with conventional finance options.

Narrowing the gaps

Islamic finance will always have differentiation of Sharia interpretations, as it is founded on religious principles, but in order for it to blossom further and expand beyond its current borders of product and market, practitioners should aim to narrow the gaps in interpretation, but they will probably never be able to close those gaps completely. Some experts argued that the diversity in Sharia school interpretations are a marker of diversity that is necessary, allowing for different types of investments that cater to various segments of society, reflective of the cultural diversity of the investor base.

Education and training essential

An attendee noted how the oldest Islamic finance professional qualification provider globally is actually "The Bahrain Institute of Banking & Finance," or BIBF. It has the great advantage of being a recognised and reputable training institution as much as an educational establishment, meaning that it works with those who require skills to practice in the industry, rather than purely focusing on theory. BIBF is expanding its reach around the globe.

Wealth and trust

Bahrain is benefitting from recent changes to its trust law infrastructure, with a new trust law having been enacted in 2016, which should significantly boost the country's proposition as a regional wealth management centre for the GCC. Bahrain today offers excellent mechanisms and infrastructure for wealthy families to structure their wealth onshore and remains a preferred advisory hub for Saudi families.

Wealth planning potential

There is also a great opportunity for estate planning, family governance and proper succession planning for the ultra-high net-worth individuals (UHNWIs) GCC families who have experienced tremendous growth in their wealth over the past 30 to 40 years. It is also time to really put an overlay of governance on all that wealth structuring, to ensure the families and their wealth endure for future generations.

"BAHRAIN HAS BEEN THE MOST PROMINENT FINANCIAL CENTRE IN THE REGION HISTORICALLY," observed one guest, on opening the discussion, "and was a leading Islamic finance centre of excellence and innovation, the epicentre of Islamic finance for the region. But it has somewhat suffered from intense competition from around the world and the region in the past decade or two."

"Can Bahrain now pivot rapidly towards innovation and new avenues in terms of both conventional and Islamic finance?" he questioned, rhetorically. "Yes, I believe so. Disruption in Islamic finance will most likely come from this region as the epicentre of Islamic faith, so the question is how Bahrain can position itself as the 'go-to' hub while being a service centre for surrounding countries. I believe it can and despite Dubai and Saudi Arabia positioning themselves to compete robustly."

Bahrain steps up its game

"The Islamic finance industry obviously learned from the conventional finance industry," came a reply, "and Bahrain has been positioning itself as a centre of FinTech, supported by the efforts of the EDB to position Bahrain as a hub for technology and finance. We now need to merge the technology side and Islamic finance side to facilitate future clients, family offices and so forth."

"First, Bahrain is the home of 'The Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI), the leading Islamic international autonomous non-for-profit corporate body in charge of issuing standards to regulate the Islamic banks around the world," said another expert.

"To the best of my knowledge," he continued, "more than 57 Sharia standards have been issued so far and these standards contain a diversity of Sharia interpretations all around the world, defining the fine lines between best practices and wrong practices. In turn this, helps promote the best of Islamic finance products and the sector around the world. But the difficulty is often that these products must be designed efficiently as well as compliantly in terms of Sharia structuring."

The struggle to standardise

Another guest joined the discussion by remarking that the struggle towards standardisation of structures and documentation in Islamic finance has been going on for many years. "If you conduct a particular Sukuk structure/transaction here, or in Malaysia, or Pakistan, the documentation is completely different," he commented. "The UAE has adopted the AAOIFI Sharia accounting, auditing, governance standards, but getting everyone to agree on the exact documentation, that is another thing entirely."

"Bahrain was a centre of conventional banking for many years," said another attendee, "and later moved into Islamic banking. I think Islamic banking has perhaps not been described in the right way in the Western world or in the Far East, but as more products and more investment ideas emerge, the rest of the world will understand the concept behind it."

An expert in fiduciary structuring based in Bahrain noted that a

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lot of inward investment into the UK from the GCC region comes through Jersey, particularly in real estate assets. When you have ultimate beneficial owners or businesses from the GCC, this tends to be Sharia-compliant financing. "The question I have is how is progress in terms of conversion from conventional into Sharia -compliant financing?"

Islamic finance gaining traction locally

"Our bank is a conventional bank," came a reply from another expert based in the region. "Comparing last year to the previous years, if we take an example of 10 applications, seven would now be Islamic and three conventional, whereas in the previous five years the relationship would be more the other way around. And that is despite the fact that the fees that we charge, the solicitor charges and the longer due diligence that has to be completed for the Islamic mortgage, are more expensive than for conventional investments. The reasons behind this trend towards Islamic finance are that clients in this region are well-educated and open-minded, Especially amongst the second and third generations; if there is a choice, then they will tend to the Islamic option, as they are more aware of Islamic decisions."

He added that in recent times, his bank has been seeing greater demand amongst the region's HNWIs for Islamic treasury products, even though the rates are lower. "In their core businesses," he explained, "these HNWIs are generating their double-digit returns, but for passive returns as long as they cover the 'Zakat,' 2.5% in one year's time, they are happy. Why? Because the HNWI's core business generates double digits returns, and the Islamic treasure products would not need to perform as well as the conventional ones, as they only need to cover inflation and Zakat percentages. The conventional finance might give them 6% - 6.5% or higher returns on investment, but at the end of the day, they prefer to ally themselves with their religious beliefs, hence the move towards to Islamic finance options is high and increasing."

Another expert who works with a prominent multi-family office based in Bahrain - serving local families in addition to families from Saudi Arabia, the UAE, and Kuwait - gave his opinion that Bahrain has a long history as a leading financial and Islamic centre. Despite Bahrain being the smallest GCC economy, it remains the preferred centre of banking for the GCC region, and maintains a strong advantage, also as an Islamic finance centre. There are two main reasons for this:

1. Bahrain has a historic high level of expert human capital relative to its neighbours. It also benefits from its geo-strategic location in the region.

2. The Central Bank of Bahrain has a track record of support, and is transparent, nimble, and adaptable, which gives a lot of comfort to investors.

"While the location is also ideal. In terms of Sharia or the conventional finance space, we offer both options to clients and I echo my fellow guest in remarking that we are seeing a higher rate of transition towards Islamic products, especially amongst the younger generations, who are also asking more questions and demanding greater transparency, so we must ensure that Islamic structures and the associated documentation become

clearer." Knowledge and transparency are key as investors are asking more questions on what makes Sharia investment different from conventional investment options, aside from higher the cost element.

"I am on the investment side," he added, "and in terms of private credit opportunities, real estate opportunities are the most preferred ones in the Islamic finance space, and they remain a great potential. I think we would hope AAOIFI facilitates these developments, that we can improve transparency, and have one set of documentation that is accepted by a large number of investors and countries. That will, I believe, make the key difference for Islamic finance development."

Sustainability and Islamic principles

The discussions developing of late in Southeast Asia on ESG (environment, social, governance), and how that ties in with Islamic finance and this industry were addressed. When thinking about the development of aligning Islamic finance with such sustainable finance principles, experts see a lot of overlap between ESG and Islamic finance.

"There is actually a lot in common between socially responsible investing and Islamic finance because the principles of Islam basically prevent you from doing harm, or earning money just based on money. The money has to trickle down to the real economy, promote activity, promote business and should be beneficial for the society as a whole, regardless of your religious belief," commented another attendee.

He also highlighted the selection of equity investments on a Sharia compliant basis. "Interestingly," he commented, "if you took the Sharia compliant universe versus the conventional Dow Jones investment options, in most cases the Sharia compliant list is outperforming the Dow Jones conventional list. Why? Because the Sharia compliance brings a lot more of financial orthodoxy into play and by default, it would eliminate the funds that are highly leveraged or the firms whose core business is not necessarily generating the revenue that you would expect but comes from other secondary financial investment. I think if we all manage to bring more standardisation, the same way it happens with socially responsible investing, we can enlarge the universe of Sharia compliant investments. And that would really be the big game-changer."

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He concluded by highlighting that the lack of product diversity and lack of track records has also been an inhibitor to Sharia compliant funds development. Ideally, if one wants to implement wealth management strategies that are Sharia complaint, we should investigate how we can get rid of the heaviness of implementing Sharia compliant investments and the issue of standardisations. There is no Sharia board in the Dow Jones Islamic index. Alternatively, we can manage an investment portfolio actively, for example, by giving it a compliance score, to bring magnitude to Sharia compliant investments, and this would allow for more diversity of products. Instead of reshuffling a portfolio entirely, we could agree on certain basic principles and allow for a Sharia score to be implemented. Not all investors require a full 100% Islamic compliance score, some are comfortable with a partial compliant score.

With the demand by sovereign wealth funds requesting more sophisticated Islamic finance products in the early nineties, more investment opportunities developed and were scaled up through Islamic banking investment into capital markets.

Another issue that was highlighted was the perception that Sharia boards can be "bought." If one board decrees that a specific product is not Sharia compliant, the bankers will go to another board seeking to obtain the required compliance label. This is not a shortfall of Sharia scholars

per-se, but external limitations and issues of perception. However, at this stage the markets are highly competitive and have become highly standardised. With the rise of Sharia arbitrage, which encompasses legal and regulatory arbitrage, the previous criticism of Sharia boards is now reduced and processes have become standardised. International standards have helped reduce the issue of arbitrage and the criticism of the Sharia scholars sitting on several boards.

Opening the doors to liquidity

"Today, Islamic finance is far more than simply an investment free of 'riba' free of interest," opined another attendee, "because in the past three decades we have developed a wide range of products such as treasury products, long-term project finance products, short-term products and so forth. The next phase should be taking the liquidity of the Islamic investment community into more impact focussed funds, and into impact focussed sectors."

"I actually believe this is happening now," he commented, "with a greater focus on impact amongst investors who are keen to help pull people out of poverty, help create new businesses, new jobs and so forth. That is exactly the intent and objective of Islamic Finance.

And that is where the new solutions are coming from. For example, globally, I read that some 45% of millennial billionaires would like to see their wealth being managed in a sustainable, socially responsible and impactful way. Accordingly, more emphasis from the supply side is definitely going to drive the Islamic finance industry into innovating more solutions."

Leveraging technology

A guest shifted the conversation back to Bahrain's development of FinTech, which of course requires considerable venture capital funding. "There is actually a nice correlation with some of the principles of Islamic finance and Islamic investment, into growth industries that create jobs and opportunities in the marketplace. So, that ties in with the economic vision of the country itself."

"The question I have is how is progress in terms of conversion from conventional into Sharia-compliant financing?"

An eminent Islamic finance proponent involved in sustainability in Bahrain noted that Bahrain had launched a new Islamic and sustainable FinTech centre "The key," he said, "is to develop more Islamic investing opportunities, where Islamic banking meets the capital markets. The emphasis of family offices and the UHNWIs on Islamic products has helped a race towards innovation within the Islamic banking sector, but the need for standardisation is also vital today."

"In Islamic finance, the word 'financing' really lacks on the market," said another attendee. "We hear of deposits, we hear of investments, which are mainly real estate, but there is thus far very minimal activity in the area of incubators, venture capital or mezzanine finance here on the private equity side. These SME and new venture areas desperately need more financing, it is a major gap in the market not yet served by Islamic finance, even though more expertise is needed in assessing the risk of SMEs and of new ventures."

Greater coordination

Another expert noted that the various bodies in Bahrain - the EDB, the central bank, the regulator, the government, the AAOIFI, the IIFM (International Islamic Financial Market) - are indeed coordinating more effectively than ever before.

"You will see some interesting sustainability initiatives coming through," he said, "with some innovative new Islamic instruments in the pipeline that will gradually transform the world of Islamic finance. The key is that Bahrain is a very agile and relatively small economy with a very competitive ecosystem, and if everyone works together, there is a higher chance in keeping Bahrain at the forefront of competitiveness as an Islamic market."

"As we speak," an expert added, "we are at the inflexion point for the global financial services market, which is perhaps 500 years old, and we are a 40-year-old industry, with technology disrupting everything. Growth is coming from technology and sustainable investing. "My view is that with such a dramatic thrust towards sustainable investing globally, we have a great opportunity to produce better and more impactful products, and great success is going to be available there."

More Sharia compliant products are needed

An expert commented that what has prevented many investors' increasing exposure to compliant investments was also a lack of product diversity and track record. "The field of potential Sharia compliant funds, if you filter them down in terms of jurisdiction, performance, and so forth, becomes very limited, far too limited for a truly diversified asset management approach."

A hindrance to the overall market development, said another guest, is the lack of diversity of products. "This is a dilemma," he said, "as clearly there will always be limitations driven by Sharia compliance. I was involved in the first trial of the first Islamic hedge fund back in 2005, and it failed miserably, but today there is an urgent need to expand the product away from dominance of real estate, towards other types of products."

Would more transparency would be beneficial?

The same expert added that the industry's exponents also need to make the Islamic finance products more efficient and transparent. Standardisation is also very important, and while some of the beauty of Sharia is the existence of different schools of thought, we should perhaps try to close those gaps, we can thereby accommodate different understandings. Practitioners understand that they ought to aim at narrowing the gaps in interpretation which make certification less costly and more straightforward, rather than close those gaps completely. We should have some cushion, some room for accommodating different views."

An international lawyer gave his views on what can be improved in Bahrain. He noted how in his experience of working on Sharia compliant transactions he often encountered that the documentation might be approved easily by the Sharia board of one institution, whilst another institution may have issues with the same documentation.

"Very often it is not just about tweaking the documentation, but of wholesale redrafting to comply with the internal Sharia boards of specific institutions and of course, that can push up our costs significantly," he commented. "You may say, 'well, you're a lawyer, how lovely for you.' But actually, I don't see it like that. I don't think there will ever be complete stan-

dardisation and I respect exactly what our friends have been saying about the benefit of having differences of opinions, and that's very important. But we encourage a move towards more standardised documentation if possible, allowing for shorter processing and keeping costs in check, and that would perhaps make Islamic finance more market-friendly."

"We believe the adoption of AAOIFI accounting standards at the top can actually achieved some of that standardisation (of principles and not documents per-se)," commented another guest. "We have seen that in the UAE, where there has been an impetus towards AAOIFI and IIFM standards."

"The question is of scalability. So far, we have developed a very innovative and intuitive process of developing a transaction that is Sharia compliant, but the next phase is to address the global demand. We must urgently come up with a global proposition driven by more products with an impact focus."

Spreading the word

"When will the industry start working to broaden the Islamic finance industry to conventional investors and borrowers as well?" asked one guest. "I mean, when will we start working towards making it a global value proposition?"

"In my view," came another opinion, "we should steer away from the faith angle and highlight Islamic finance as our best option for the socially conscious client as well. We need to elevate returns to compete more genuinely with conventional finance options."

A global proposition

"The question is of the scalability," came a reply. "So far, we have developed a very innovative and intuitive process of developing a transaction that is Sharia compliant, but the next phase is to address the global demand. And if you look at the world of SRI, it is a USD22 trillion market, and as Islamic transactions could be inherently more responsible compared to others, we must urgently come up with a global proposition driven by more products with an impact focus. That is where we will be able to channel more of this global liquidity into our markets."

"We must certainly broaden Islamic finance far beyond what people traditionally consider it for, in other worlds real estate," came another voice. "But we are relatively young as an industry, after all, Land Rover car production as a business is older than Islamic banking and it took them time to develop the successful Range Rover. We must be patient; Islam is all about patience."

Education and training

Another guest highlighted how Bahrain and other leading Islamic finance centres should compete more effectively on education with newer centres of educational excellence such as the UK, or Malaysia. "Education is made up of two components," he commented, "Education on Islamic finance theory and education on converting ideas to practice. There is too huge a gap between the academic world and the practitioners' world. I think the financial institutions need to come up with their own financial research centres."

Professional certificates and academic degrees are necessary in this space. In the UK, for example, there are now many universities offering Islamic finance degrees. It would be beneficial to consider setting up a think-tank to connect the various centres for excellence around the world and help them share knowledge and information on new ideas, towards implementation into practice. This would help bridge the huge gap between the academic and finance worlds.

An attendee noted how the oldest and most reputable Islamic finance professional qualification provider globally is actually in Bahrain. "The Bahrain Institute of Banking & Finance, or BIBF," he said, "is actually a training arm, not a university, and it is hands-on. Many of the curriculums in the UK, for example Strathclyde, Bolton and Coventry, were developed with BIBF's help. Interestingly, AI is now being developed to help in interpretations, thus not removing the need for Islamic scholars, but assisting them."

BIBF shines as an institution

He explained that the BIBF is also working with the Ministry of Justice and Islamic Affairs and Endowments to promote an arbitration mechanism for Islamic finance. "But overall, I still feel Bahrain needs to also communicate and market itself better. Malaysia, for example, is very good in that regard. Bahrain is a small market, a small economy but we can project ourselves globally far better than we have done recently. Whereas in the past Bahrain was the true

centre for Islamic finance, other centres have recently risen to challenge this position, and now Bahrain needs to step up its outreach. We can certainly improve things in terms of our global standing."

There are indeed positive developments. "Bahrain is certainly relishing the drive of having a proper trust law, a proper limited partnership law and all of these areas are improving consistently," said another guest, "thereby making Bahrain more attractive. As an offshore and onshore hub for the region, allowing the infrastructure here to develop more wealth management solutions as well."

The discussion drew to a close with some of the guests confirming their optimism over the improving image of Bahrain as a centre of finance excellence.

"Bahrain is a great market and improving," said an expert. "They have introduced the new trust law which provides excellent mechanisms for families to structure their wealth onshore here in Bahrain. As I see it, there is a clear path to evolve the private wealth space, it is very encouraging actually."

"As I see it," said another attendee, "Bahrain is a leading country of this region in terms of financial excellence, as the people are well educated and also humble and dedicated. Humility is a first step towards being successful in that specific field."

There is a great opportunity for estate planning, family governance and proper succession planning for the UHNWI GCC families who have experienced tremendous success and growth in their wealth over the past 30 to 40 years. "It is time to really put an overlay of governance on all that," said a guest. "I see great opportunity here with the new trust laws in place in Bahrain." With holdings internationally, families have been forced into proper structures because of taxation, asset acquisition through, for example Jersey platforms. But for local assets and companies that are family-owned, there still is a strong need for proper governance.

The implementation of the corporate governance code for companies, family offices, whether Sharia-driven or conventional, needs raising to another level. It is not only the transactional creation of structures and documents, but the ongoing operation of these structures that could be improved significantly. This all offers great opportunities.

The issue of trust in the GCC wealth management space

A leading banker noted that successful wealth management depends on families and family-owned businesses outsourcing decisions towards the expert wealth management industry. In order to build confidence to outsource one needs trust, but in the GCC region trust in professional services/advisory is unfortunately still limited.

The issues underlying the widespread trust deficit are the infrastructural set-ups and bad experiences by family businesses in the past.

Consequently, billions are being managed by using in-sourcing mechanism, such as by internal wealth management companies (called 'my banker') as a mid-way solution before outsourcing. With trust issues being ironed out, we need to outsource more into the wealth management industry. Currently, companies that have invested abroad are re-investing into the region, which is a positive step. ■

Jersey Finance - expanding its connections in the world of Islamic finance

A crown in the channel

Jersey is the largest of the three British Crown Dependency located in the English Channel to the south of the UK and 14 miles from the north coast of France. Internationally, the dependencies are considered "territories for which the United Kingdom is responsible," rather than sovereign states. As a result, they are not member states of the Commonwealth of Nations. However, they do have relationships with the Commonwealth, the European Union, and other international organisations, and are members of the British-Irish Council. Jersey is not part of the European Union (EU), although they are within the EU's customs area. Jersey has its own legislative assembly, own courts, and develops its own legislation.

Background on Jersey Finance Limited

Jersey Finance is a non-profit organisation established in 2001. Jersey Finance's main aim is to promote and represent Jersey, the international financial centre, with offices in the DIFC (Dubai), London, Hong Kong and New York, and with representation in Mumbai and Shanghai.

Jersey Finance is proud to work with key partners to represent and promote Jersey as the clear leader in international finance. We champion the competitive position of Jersey's finance industry, both locally and internationally, supporting the highest regulatory standards and the most attractive products and services to suit the needs of global investors.

Jersey's long connection to Islamic finance

Jersey offers Islamic investors a flexible legal system, a forward-thinking regulatory regime and a tax neutral environment. This positions our jurisdiction as a clear leader for Islamic financial services. Unlike other jurisdictions, we don't need to amend laws to make things work so allSharia-compliant structures and contracts can be accommodated and we have extensive expertise in this area.

In a nutshell, Jersey stands out in the Islamic Finance space through the following key advantages:

Wealth planning

Jersey trusts and foundations are in great demand amongst Muslim clients. Jersey trusts provide strong support for generational wealth planning, whether for family groups or for charitable and philanthropic institutions in the Gulf region. This is due to the similarity between Waqfs and trusts, together with our jurisdiction's international reputation for trust management.

This offering works well with the Jersey Foundation. Introduced in 2009, the Jersey Foundation provides high-net-worth individuals in the Gulf with a positive alternative to trusts. It holds wealth in a forward-thinking structure designed to allow greater control, ensuring that everyone benefits.

Regulation

Jersey supports the regulation of Sukuk issues and other Islamic products. The Jersey Financial Services Commission (JFSC) supports the regulation of Sukuk issues and other Islamic products. The JFSC processes Islamic products in the same manner as other securities, as Jersey's laws are broad enough to support all types of Islamic instruments.

Special Purpose Vehicles

Jersey SPVs have worked with a range of Sharia-compliant Islamic capital market transactions. Our positive reputation for corporate structuring and SPVs sets us apart from other IFCs. While GCC Obligors used to use subsidiary companies as SPVs, Shari'ah scholars now agree that SPVs should be independent. This means our products can be used together with Sukuk structures.

Jersey-based SPVs have worked with a wide range of Sharia-compliant Islamic capital market transactions. As such, we are ready to provide a number of legal vehicles, including a) a Jersey incorporated company which issues Sukuk; b) a limited partnership issuing partnership interests; c) a trust issuing units or trust interests or certificate.

In addition, Jersey is a preferred domicile for developed asset classes, such as real estate, private equity, commodity and equity for Islamic fund mandates.

Fund regulation depends on the type of investor the funds have, and on whether they're closed or open-ended. This means a lighter regulatory framework can be used for sophisticated and institutional investors.

Jersey Finance's mandate therefore also extends to raising awareness about Jersey as an Islamic Finance investment destination, and as an offshore jurisdiction which is tax neutral, well-regulated, well-regarded worldwide, and that has been attracting a multitude of wealth structures, be it from private wealth or corporate sources from around the world, including for those investors seeking Sharia compliant products and investment options.

Jersey member firms (a whole range of national and international financial services firms based in Jersey) usually offer a supporting role only on Islamic Finance transactions and advisory work. This means that Jersey firms do not necessarily need to have the direct expertise in house, to provide Islamic Finance advisory work on their own, but instead work with other international law firms and advisory firms to provide local support on an Islamic Finance transaction that for example is structured through Jersey or uses a Jersey entity.

That said, Jersey firms benefit from the listed advantages that Jersey has to offer in the Islamic Finance domain and have a long-standing established reputation of structuring for clients who desire for Sharia compliant products and structures. There is hardly a single service provider, fiduciary firm or law firm in Jersey that has not worked on or does not look after a structure which is Sharia compliant.

Jersey's core pillars in fund administration, in corporate finance, and in private wealth, all feature industry expertise and grounded practice in Islamic finance. And in terms of assets, real estate, commodities, Islamic funds, and private equity. Our Jersey providers all have strong and ever-growing connections to the key Islamic finance centres of excellence around the globe.

With our more than 50-year history as one of the oldest IFCs and with the scale and experience we offer; we believe Jersey will continue to stand out in the future and indeed lead the way forward. From this position Jersey wishes to use its offering and experience to work with other leading centres, like Bahrain, creating a dialogue for continuous development of best international standards.

Jersey Finance noted there is growing innovation happening in the Islamic finance space in tandem with the innovation that goes on in the conventional financial sector. Therefore, in collaboration with Hubbis, Jersey Finance initiated a series of expert round-table seminars to learn about challenges, trends and opportunities, from the leading global experts. This in turn will hone the Jersey offering to make sure a forward-thinking jurisdiction such as Jersey remains and evolves as a preferred place for both conventional and Sharia compliant structuring.

Jersey Finance - Middle East Team:

Richard Nunn - Regional Head, East
Richard joined Jersey Finance in 2014, originally as our Business Development Director for the UK, before relocating to the Middle East in 2016 to cover the GCC region. Richard was born and educated in London and subsequently went on to study at the University of Leicester where he graduated with an honours degree in Economics & Social History.

Prior to Jersey Finance Richard spent eight years with Barclays International and led the UK Resident Non-Domicile business within Barclays International Banking based in Canary Wharf. Previous to this he spent six years based in their Jersey office as an Investment Manager before going on to lead the business development and client relationship teams.

Richard is a holder of the Investment Management Certificate (IMC) and through the Society of Trust and Estate Practitioners (STEP) obtained the Diploma of International Trust Management with distinction, entitling the TEP designation.

Faizal Bhana - Director, Middle East and Africa
Well known to many Jersey Finance member firms who operate in the region as Faizal has been utilising member firms and Jersey structures for several years.

Faizal joined Jersey Finance from the international law firm Trowers & Hamlins, where he was the Managing Legal Counsel for Saudi Arabia. Over the last ten years Faizal has worked and advised institutions, corporates and families across many Middle Eastern and African countries.

Faizal graduated with a first class in his undergraduate Law (LLB) Honours degree from Birmingham City University and a distinction in his postgraduate (MSc) degree in Islamic Banking and Finance from the Aston Business School.

Faizal's work enables Jersey Finance to service new markets from the DIFC: the Levant territories of Lebanon, Jordan, Egypt, Turkey plus Kenya. Of Malawian heritage and fluent in Chichewa, Faizal has a passion for East Africa and an exciting new chapter for Jersey Finance as we implement a dual approach for Africa, from both Dubai and Jersey/London.

Mihaela Moldoveanu, Director, GCC
Mihaela acted as cost-host for the Bahrain Islamic finance discussion held on 17 June 2019 in Manama, Bahrain, and as Jersey's representative.

Ella is responsible for the Gulf region markets which are presenting a growing opportunity for Jersey at present.

With fluency in six European languages, Mihaela has been based in Dubai, UAE for five years and in Kabul, Afghanistan for the four years prior to this. She was appointed in 2014 at the DIFC Courts in Dubai to oversee a novel development, namely the design and launch of the DIFC Wills and Probate Registry, including the drafting of its legal basis. After managing the Registry for a year, she took over the role of Associate Director at the DIFC Dispute Resolution Authority (the umbrella body overseeing the DIFC Courts, Academy of Law, the Wills Registry and the Arbitration Institute). She was in charge of the DRA advisory, leading the effort to set up a common-law English-language commercial court and an arbitration centre in Kazakhstan's international financial centre (AIFC), similar to the dispute resolution system of the DIFC.