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Bahrain Financial Services

Economic View

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On the measures being implemented to diversify the bourse and improve the efficiency of services

Bahrain Bourse recently established the Murabaha service based on sukuk (Islamic bonds), in collaboration with the Central Bank of Bahrain (CBB). To what extent will this collaboration facilitate sharia-compliant asset management going forwards?

SHEIKH KHALIFA BIN EBRAHIM AL KHALIFA: We worked on the Murabaha service for a few years before it reached this stage because it required the sharia boards' buy-in and needed participants to accept the new model we wanted to introduce. More than 60% of banks in Bahrain have enrolled in the few months since the launch, and we expect to cover the majority of financial institutions in Bahrain and a targeted number of key financial institutions in the region by 2021. We foresee that this will have a positive impact on sharia-compliant debt instruments in Bahrain and a knock-on effect as more Islamic products are launched in the wake of the success of the Murabaha service.

The Covid-19 pandemic has affected demand across all sectors, benefitting some industries while challenging others. How has this been reflected at Bahrain Bourse?

SHEIKH KHALIFA: In terms of trading volumes and data, Bahrain Bourse's trading activity was significantly affected in March and April 2020, with activity picking up and returning to normal average trading values in August 2020. The total value, volume and number of transactions were up by 33%, 63% and 31%, respectively, compared to August 2019. In terms of the index itself, however, we saw a decline wherein the Bahrain All Share Index decreased by 13% since the beginning of the year.

This has occurred in previous periods of economic turbulence, such as the drop in oil prices in 2014-15. Subsequently, in the first quarter of 2016, there was a market correction. A market correction is imminent post-pandemic, but it will depend on companies' fundamentals. If a company with a greater weight on the index has a good result, this will have a positive impact on the index as a whole. Conversely, if the majority of companies have a negative result, this may lead to challenges for the index overall. This is the cyclical nature of all exchanges.

What is being done to diversify the mix of companies on Bahrain Bourse beyond financial services, and how has the pandemic impacted these strategies?

SHEIKH KHALIFA: Shortly before the outbreak of Covid-19, APM Terminals, a Netherlands-headquartered company that oversees a global network of seaports, was listed on Bahrain Bourse. Sweden-based financial technology firm Sprinkle Holding also listed on the Bahrain Investment Market (BIM).

While we are taking strides to diversify the exchange in terms of breadth and depth, we also aim to enhance and enrich our services. Bahrain Bourse is not solely an equities market; it comprises a number of other asset classes, including the debt market and Murabaha, BIM and a new private market which was planned to be launched in September 2020 but has been postponed to January 2021. We have also sought to increase the market breadth in terms of other products, such as real estate investment trusts, while we remain to enrich the equities market. We are primarily looking to diversify our products, the markets we operate in and the services we provide.

The Digital Transformation Committee was established in 2019. Which major digital milestones have been reached since then as a result of the new operating environment?

SHEIKH KHALIFA: We have established internal policies to enhance our internal processes and reduce related paperwork through adopting electronic signatures portals. We have also improved our internal systems in terms of daily operations across divisions, which we aim to incorporate in the future.

The biggest milestone and the greatest digital transformation was the virtual annual general meeting, known as eAGM, which involved all listed companies, shareholders and stakeholders, and demonstrated that we could link them together smoothly and efficiently. In addition, dividend distribution has been centralised through Bahrain Clear, a fully owned subsidiary of Bahrain Bourse. This had been planned prior to the pandemic, as we are looking to phase out cheque payments so that transfers occur immediately on the record date of dividends.