

## Financial Services Sector Profile

Bahrain is the GCC's most established financial center having had formal banking for over a century. In 1970s, financial services emerged as a key plank of the government's proactive diversification strategy and Bahrain established itself as the first international financial center in the region. The Kingdom boasts a mature, yet liberal regulatory environment with the full range of financial services supervised by the Central Bank of Bahrain (CBB).

The financial services sector is the largest non-oil sector in the economy, making up some 17.8% of real GDP with a total Gross Value Added (GVA) of BHD 2.237 billion and an annual growth rate of 6% in 2021. The sector employs 3% of total private sector employees and Bahraini nationals account for more than 60% of financial services employment despite the lack of any formal quotas. The sector is the most productive sector in the Kingdom after mining and quarrying, most jobs are high value jobs.

Bahrain has been a regional pioneer of FinTech developed, partly, thanks to its history as an ancillary service hub. Bahrain FinTech Bay is one of the leading FinTech Hubs in the MENA region and provides access to the most dynamic and diverse FinTech network. Bahrain has built a foundation for a vibrant FinTech ecosystem. Home to the region's first onshore FinTech regulatory Sandbox, Bahrain is also championing the transition towards a cashless economy and has introduced pioneering regulations for digital assets such as cryptocurrency, non fungible tokens (NFTs), and crowdfunding.

### Financial Services Activities\* MOIC - ISIC4

#### Financial service activities

- Monetary intermediation
- Central banking
- Other monetary intermediation
- Activities of holding companies
- Trusts, funds and similar financial entities
- Financial leasing
- Other credit granting

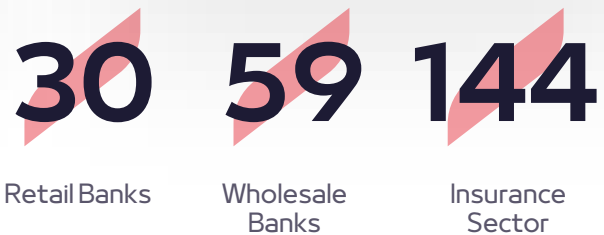
#### Insurance, reinsurance and pension funding

#### Activities auxiliary to financial service and insurance activities

- Activities auxiliary to financial service activities
- Administration of financial markets
- Security and commodity contracts brokerage
- Other activities auxiliary to financial service activities, insurance and pension funding
- Activities auxiliary to insurance and pension funding
- Risk and damage evaluation
- Activities of insurance agents and brokers
- Fund management activities

\*The following is a sample of the sector activities

### Financial Institutions CBB, Fact Sheet November 2021



## Key Market Trends

- The digital transformation accelerated by the pandemic had a transformative impact on the sector. A new wave of “digital-only” players entered the sector and prompted financial institutions to innovate their business models and change the ways transactions are processed. In many areas, value chains are fragmenting between client-facing companies and utility type middle/back-office providers. This has driven and benefited from a surge in open banking and other online banking solutions.
- Bahrain has a highly technology savvy population with high levels of mobile and broadband usage. Changes in credit solutions such as ‘buy now, pay later’ is becoming the fastest growing e-commerce payment method and is replacing traditional transactions such as point-of-sale finance and credit cards.
- The digital economy and the rapid deployment of the cloud are increasing bank’s vulnerabilities and the importance of cybersecurity risk mitigation and compliance, especially with the increase in cyber attacks and fraud.
- As a major feature of digital transformation solutions designed to increase the transparency of the financial sector, decentralized finance (DeFi) has become a highly valued movement in the blockchain space that is driving innovation. Governments are stepping in to regulate DeFi platforms for trading and lending digital assets.
- Digital assets are changing the foundations of the current global financial system and consumer demand for cryptocurrencies and other digital assets is increasing.

## Sector Opportunities

- **Environmental, Social, and Governance (ESG):** Sustainability is at the forefront of the global agenda; and with the recent shift in public consciousness towards climate change and ESG initiatives, financial service providers have a key role in achieving the Kingdom’s net-zero targets. Businesses need to leverage sustainable finance and enhance their lending portfolios to include ESG as a mainstream component in sustainability strategies.
- **Digital assets:** The growth of the cryptocurrency market has compelled banks to create new financial architecture with digital assets and introduce new services for trading. The application of digital asset technology has significant implications on cross border trading and new capabilities in smart contracts transform the execution of multiparty agreements, insurance claim processing and supply chain management.
- **Data and Artificial Intelligence (AI):**
  - **Personalization:** AI enables financial services organizations to better predict their customer needs and offer unprecedented levels of personalization to optimize customer experience through human-like, troubleshooting chatbots and gathering more accurate real-time data.
  - **SME Financing:** Data can build bridges between lenders and businesses, enabling faster access to funds through the consent-driven sharing of up-to-date, relevant information. This will impact the SME sector, which is struggling with funding. When lenders have access to real-time data, they can make decisions at unprecedented speed and enable SMEs to access the funds they need to grow.
- **FinTech:** Bahrain FinTech Bay provides a physical hub to incubate insightful, scalable, and impactful fintech initiatives through innovation labs, acceleration programs, curated activities, educational opportunities and collaborative platforms.
- **Cloud computing:** Businesses can boost resilience and agility while embedding security can be achieved through cloud migration and managing cyber-risk and financial crime.
- **Skills development:** Addressing the financial literacy gap is critical to maintaining sound businesses and stimulating growth; along with promoting a more savings culture for consumers.
- **Regulatory Technology (RegTech):** Facilitates the delivery of regulatory requirements more efficiently and effectively than existing capabilities using technologies such as AI, big data, cloud computing, and machine learning. It can be helpful in streamlining Know-Your-Customer (KYC) rules, anti-money laundering compliance obligations, verifying customers’ identities, monitoring transactions, and identifying potential cases of fraud.

## Financial Services Sector Economic Indicators

iGA-National Accounts, Q4-2021



**BHD**  
**2.237 B**  
GVA, 2021

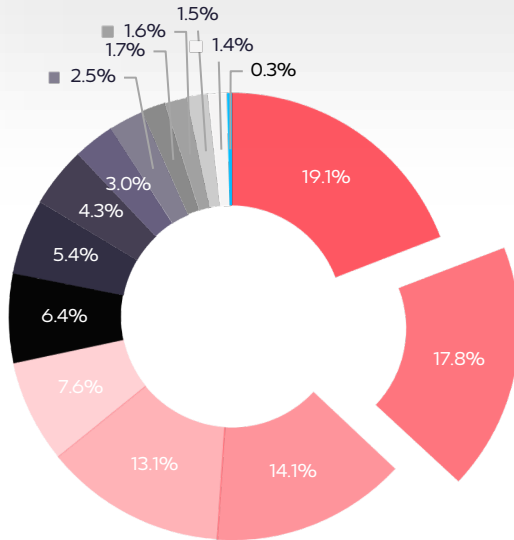


**6%**  
YoY Growth  
in GVA, 2021

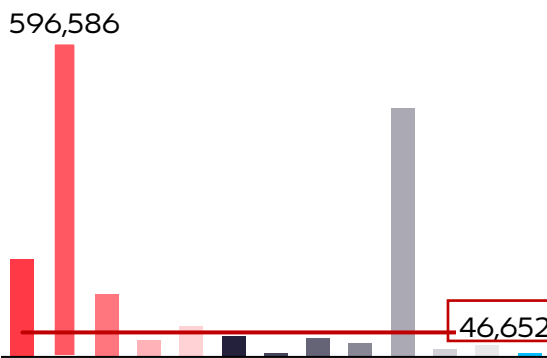


**17.8%**  
Contribution to  
Real GDP, 2021

Sectors' Contribution to Real GDP (% ,2021)



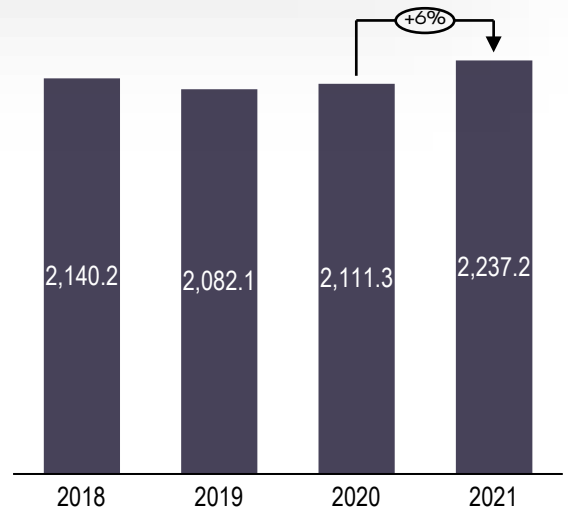
GVA per Company (BHD, Q1 2021)



\*Gross Value added (GVA) is the measure of the value of goods and services produced in an area, industry or sector of an economy

\*\*Other includes Government Services, Private Non-Profit Institutions, Households with Employed Persons

Financial & Insurance Services Sector  
GVA\* (BHD, M)



- Mining & Quarrying
- Manufacturing
- Construction
- Real Estate
- Tax / Import Duties
- Other Social & Personal Services
- Accommodation and food services
- Others\*\*
- Average GVA per company
- Financial Services
- Government Services
- Transportation & Communication
- Sale/Trading
- Private Education
- Electricity & Water
- Private Healthcare
- Agriculture

## Financial & Insurance Services Sector Enterprises

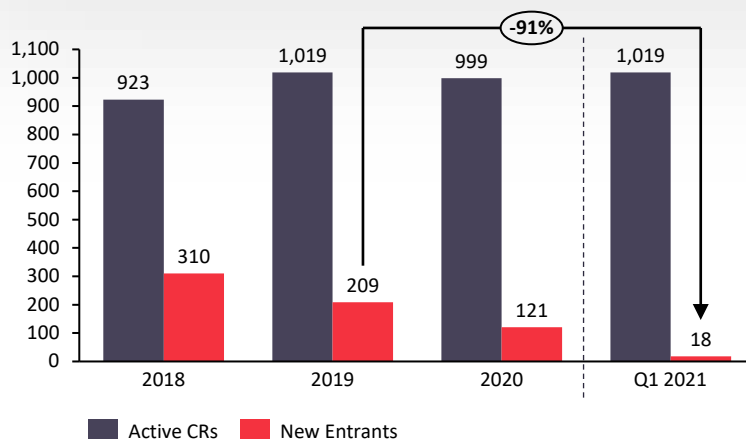
LMRA, Q1 2021 - BLMI



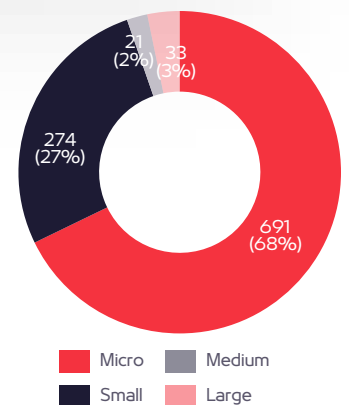
**1,019**  
Active CRs

**2%**  
of total Active  
CRs in Bahrain

Financial & Insurance Services Sector  
Active CRs (2018 - Q1 2021)



Financial & Insurance Services Sector  
by Enterprise Size (% , Q1 2021)



## Financial Services Private Sector Employment

LMRA, Q1 2021 - BLMI / iGA-National Accounts



**14,883**  
Total Employees

**3%**  
(% of Labor Market)



**4,355**  
Total Female Employees

**6%**  
(% Female in Labor Market)



**10,528**  
Total Male Employees

**2%**  
(% Male in Labor Market)



**60%**  
Bahrainization  
Ranked 2/18 Sectors



**8,959**  
Bahraini Employees  
**10%**  
(% of Total Bahraini Employees)



**5,924**  
Non-Bahraini Employees  
**1%**  
(% of Total Non Bahraini Employees)



**BHD 1,642**  
Average Wage of Bahrainis



**BHD 1,813**  
Average Wage of Non-Bahrainis



**BHD 40,847**  
Labor Productivity  
Ranked 2/13 sectors\*

\*13 sectors as per ISIC 3 / National Accounts, iGA



Bahraini Female Participation

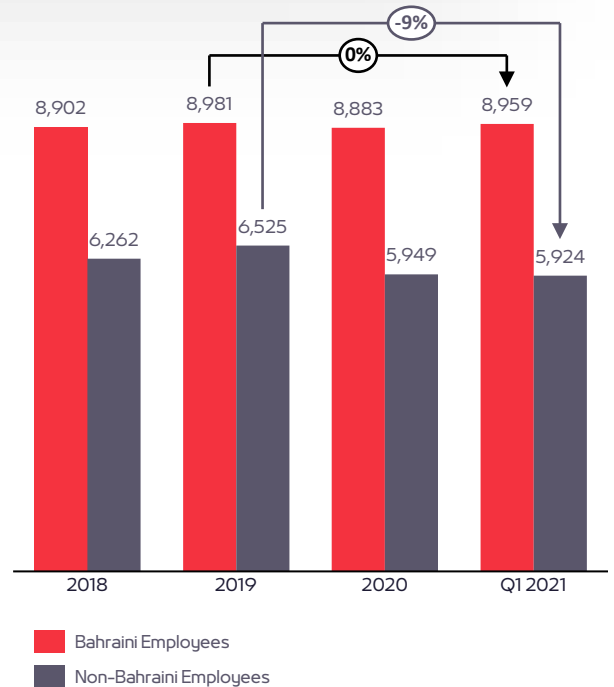
**22%**  
(% of Labor Market)  
Ranked 4/18 sectors



Bahraini Male Participation

**38%**  
(% of Labor Market)  
Ranked 4/18 sectors

### Financial Services Employees by Citizenship (2018 - Q1 2021)



### Financial Services Labor Productivity by Sector (BHD per employee, Q1 2021)

