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Evaluation of Bahrain's Islamic Finance Industry

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Abstract: In this paper, we examine the development of the Islamic Finance industry in Bahrain for the period 2012-2014. We utilize the Islamic Finance Development Indicator (IFDI) developed by Thomson Reuters to evaluate the five components of the industry: Quantitative Development, Knowledge, Governance, Corporate Social Responsibility and Awareness. The results show a significant improvement in terms of the Quantitative Development, Knowledge, and Awareness components of Bahrain's Islamic Finance industry. However, there is room for improvement in the Corporate Governance and the disclosure of the funds disbursed to Charity: Zakat and Qard Hasan. In respect of the various financial instruments of the industry, more focus should be dedicated to Takaful and Islamic funds as most of the development has been to Islamic banking and Sukuk. The results highlight the areas of the Islamic Finance industry that needs further improvement: Corporate Social Responsibility (CSR) and Corporate Governance.

Keywords: Islamic Finance, Performance, Financial Development, Bahrain.

1. INTRODUCTION

During the last decade, Islamic finance has received considerable attention mainly because of its extensive growth both in size and number of financial institutions. In 2014, Islamic financial assets annual growth was 9.6% reaching a value of about $1.8 trillion, and it is expected to grow by a further 80% in the next five years.[1] Zaher and Hassan (2001) argue that there are several reasons behind the growth of Islamic Finance, among these the introduction of macroeconomic and structural reforms, liberalization of capital movements and innovative Islamic products. The attention given to Islamic Finance was magnified after the financial crisis because of its low risk and stability. Beck, Demirgüç-Kunt, and Merrouche (2013) indicate that Islamic banks outperformed conventional ones during the recent financial crisis 2007-2008. Several papers have examined the performance of Islamic banks, Sukuk and Islamic Funds (Bashir, 2001; Samad, 2004; Elfakhani, Hassan, and Sidani, 2005; Al-Tamimi, 2010; Fathurahman and Fitriati, 2013). However, an evaluation of the overall development and performance of the Islamic Finance industry has been overlooked in prior literature. In this paper, we assess the Islamic Finance industry in Bahrain, during the period 2012-2014, to evaluate various components and identify areas for improvement.

1. This is based on ICD-Thomson Reuters, Islamic Finance Development Report 2015 http://www.zawya.com/ifg-publications/IFDI_2015-241115073158K/

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There are 1,143 Islamic financial institutions worldwide, of which 436 are Islamic banks/windows. The financial industry is one of the main sectors in Bahrain's economy, contributing to 16.7% of the GDP, and including 403 financial institutions as of June 2015, employing 14,009 as of 2012. Furthermore, financial sector is one of the five sectors on which the Bahrain Vision 2030 focuses and promotes (Al-Ajmi, Abo Hussain, and Al-Saleh., 2009). Zaher and Hasan (2001) argue that Bahrain's geographic location, well-developed infrastructure, defined legal system and liberal trade accelerate the chances of its further success in Islamic Finance.

Since the 1970s, Bahrain has been well known as a center for Islamic Finance due to the legitimate offshore banking and internationally accepted regulations. The first Islamic commercial bank in Bahrain (third in the GCC), Bahrain Islamic Bank, was established in 1979. The Central Bank of Bahrain has imposed a comprehensive prudential and regulatory framework for Islamic Financial institutions. Bahrain is also the host of several Islamic Finance organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Liquidity Management Centre (LMC), the International Islamic Financial Market (IIFM), the Islamic International Rating Agency (IIRA) and the Shariya Review Bureau. On the other hand, the Central Bank of Bahrain has also established a special fund (Waqf fund) to finance research, education and training. Grigorian and Manole (2005) find that Bahrain's banks are more technical efficient technically than other banks in the GCC, while there was no evidence for significant difference between the efficiency indicators of Bahrain's Islamic and conventional banks..

The results of this research show that Bahrain's Islamic Finance industry has been developing significantly over the past few years, in particular with the development of Islamic banks, Sukuk, education and research, and an increase in the awareness of the Islamic Finance industry. However, the findings shed light on the need for improvement in two important areas, Corporate Social Responsibility (CSR) and Corporate Governance. The CSR, and in particular the CSR disbursement component, needs extensive attention covering the distribution of funds through Zakat, Qard Hasan and Charity. The Corporate Governance indicator, which measures the presence of an independent chair of the board, the number of independent directors on the board, the existence of a non-executive chair of the audit and risk management committee and the sum of total disclosed items in the financial institution annual report, dropped during our sample period. In addition, Takaful and Islamic funds need extra attention as most of the development has been to Islamic banking and Sukuk. More Islamic Finance research papers need to be published, and further conferences and seminars encompassing all components of the Islamic Finance industry are encouraged to be hosted in Bahrain.

The findings of this paper contribute to the broad field of Islamic Finance by assessing the development and performance of the Islamic Finance industry as a whole. They also add to several strands of the literature. First, they extend the extensive literature on the performance of Islamic banks in general (Beck, Demirgüç-Kunt, and Merrouche, 2013) and the GCC in specific (Samad, 2004; Srairi, 2010; Siraj and Pillai, 2012). Second, we believe that our paper complements the comparative papers on Islamic banks versus conventional banks (Aggarwal and Yousef, 2000; Al- Al-Ajmi, Abo Hussain, and Al-Saleh., 2009; Hassan, 2011; Ahmad, Rehman, and Safwan; 2011; Akhtar, Ali, and Sadaqat, 2011). Third, the results contribute to the literature on the performance of Islamic Funds (Elfakhani, Hassan, and Sidani, 2005) and Sukuk (Said, 2007; Fathurahman and Fitriati, 2013; Sherin, 2015).

The paper proceeds as follows: we review the related literature in Section 2 and describe our data and methodology in Section 3. We present our results in Section 4 and discuss them and provide recommendations in Section 5. Section 6 concludes the paper.

2. LITERATURE REVIEW

The evaluation of the whole Islamic Finance industry has not been investigated in previous literature, although several papers have examined the performance of some of the sectors of the industry such as banks, funds and Sukuk. The progress and development of Islamic financial institutions have been assessed mainly by comparing them to conventional banks. This comparison extends to different dimensions, although for the purpose of our paper we discuss those papers that compare their performance. Beck, Demirgüç-Kunt, and Merrouche (2013) find that Islamic banks have higher intermediation ratios, higher asset quality and are better capitalized, but are less efficient than conventional banks. These findings were based on banks in 21 countries for the period 1995-2009.

In Middle East and Gulf countries, Samad (2004) shows that there is no difference between Islamic and conventional banks with respect to profitability and liquidity, while the former are superior in terms of credit performance mainly because of their high equity ratio and conservatism. The study by Siraj and Pillai (2012) points out that Islamic banks in the GCC performed better than conventional ones during the period 2005-2010. They suggest that this finding is driven by the outperformance of Islamic banks during the financial crisis, this argument was supported by Hussein, Alam, and Murad (2014). On the other hand, Srairi (2010) finds that GCC Islamic banks are less cost and profit efficient than conventional banks due to the small size of their assets, high remuneration packages and complex structure, low risk and the regulatory environment.

In respect of the main determinants of the performance of Islamic banks, Bashir (2001) finds that Islamic banks' performance in the Middle East is affected by their capital and loans ratios, customer and short-term funding, non-interest earning assets, overheads and tax factors. Al-Tamimi (2010) shows that costs and the number of branches are the main performance determinants of UAE Islamic banks. Olson and Zoubi (2008) argue that there are four main characteristics of the GCC's banking industry: reliance on the oil industry, majority of the stocks listed in GCC exchanges belong to banks, high government ownership in them, and lending is dominated by construction, real estate, and consumer loans. Other papers examine the impact of Islamic banks on the economy. Yusof and Bahlous (2013) find that the Islamic banks in the GCC and East Asia contribute less to economic growth that those in Malaysia and Indonesia.

In a similar vein, a comparison between Islamic and conventional funds was conducted by Elfakhani, Hassan, and Sidani (2005)who find that, overall, there is no significant difference between the performance of Islamic mutual funds and conventional ones, although Islamic funds outperform conventional ones during recession periods. Similarly, Al-Zoubi and Maghyereh (2006) examine the Dow Jones Islamic World Index, showing that it is less risky than the Dow Jones World Index and that the elimination of Shariah non-compliant companies does not affect return in the Index. Zaher and Hasan (2001) assess the performance of the Dow Jones Islamic Market Index against other indices such as S&P 500, DJ US, DJ World, MSCI World, for the period 1996-2000, and they indicate that the performance of DJIM is at par compared to other indices.

Few studies have investigated the performance of Sukuk versus conventional bonds. Fathurahman and Fitriati (2013) find that Sukuk provides higher yield to maturity than bonds in Malaysia. Sherin (2015) shows that Sukuk lowers a portfolio's risk and provides diversification. This finding is consistent with the results of Raei and Cakir (2007). Additionally, Said (2011) examines the effect of Sukuk on Islamic banks' performance during the financial crisis. He indicates that Sukuk did not affect their performance, although banks used them for liquidity purposes.

To sum up, the previous literature has focused on examining the performance of Islamic financial institutions and instruments; however, little attention has been devoted to any investigation of the development of the Islamic Finance industry as a whole. This is considered a significant omission that our paper tries to address, as it not only evaluates Islamic banks or funds, but also provides an aggregate assessment of the Islamic Finance Industry.

3. DATA AND METHODOLOGY

Our data was retrieved from Thomson Reuters for the period 2012-2014. Thomson Reuters has been providing knowledge solutions for Islamic Finance for some 30 years, and their Islamic Finance products include: Thomson Reuters Eikon, Ideal Ratings Shariah Fund Management & Purification Services, Thomson Reuters Eikon Messenger, Zawya, Islamic Finance Gateway Community, Islamic Finance Gateway Analytics, Islamic Finance Gateway Solutions, Islamic Indices, and Islamic Interbank Benchmark Rate. Table 1 provides an overview of the Islamic Finance industry in Bahrain in 2014.

Table 1. Islamic Finance Industry in Bahrain

Assets of Islamic Finance	$72,825 million
Assets of Islamic Banks	$68,367 million
Assets of Takaful/ReTakaful Operators	$450 million
Assets of other Financial Institutions	$415 million
Number of Islamic Financial Institutions	59
Number of Islamic Banks/Windows	32
Number of Takaful/ReTakaful Operators	10
Number of Other Financial Institutions	17
Value of Sukuk Outstanding	$3,585 million

There are 59 Islamic Financial Institutions in Bahrain, of which 32 are Islamic banks/windows and 10 are Takaful/reTakaful operators. The value of the assets of Islamic Finance are about $72,825 million, and Islamic banks have the dominating percentage of those assets of about 93.8%; the value of Sukuk outstanding is about $3,585 million and $9 million represents the net asset value of Islamic funds.

To assess the development of the Islamic Finance industry, we rely on the Islamic Finance Development Indicator (IFDI) developed by Thomson Reuters for the period 2012-2014. The advantage of this indicator is that it provides an overview of the industry from five different perspectives: Quantitative Development, Knowledge, Governance, Corporate Social Responsibility and Awareness. The indicator takes into account the performance of the industry in terms of core business, management and industry components. It is a composite weighted index and the data used to calculate it is publicly available data to avoid any bias.

The Quantitative Development indicator assesses the development and performance in sectors of the industry including banks, Takaful, other financial institutions, Sukuk and funds. The banking sub-indicator measures the banking assets, the number of fully fledged banks, the number of Islamic windows, the number of Islamic banks listed on exchange, the return on assets, the return on equity, and the stock price performance. Similarly, the Takaful and other financial institutions sub-indicator considers the same metrics except for the number of Islamic windows. For Sukuk, the metrics included for measuring its development are the number of Sukuk issuance, the number of outstanding Sukuk, the Sukuk issuance volume, the Sukuk outstanding volume, the number of listed Sukuk and the number of rated Sukuk as well as the bid and ask spread to evaluate performance. Finally, the Islamic funds sub-indicator considers the number of funds, the assets under management, the number of Islamic funds launched, the number of Islamic asset managers and the cumulative performance.

The Knowledge indicator evaluates human capital; in particular, it has two sub-indicators: education and research. Education involves the number of universities and institutions offering courses in Islamic finance and the number of universities offering a degree in Islamic finance. Research is proxied by the number of journal articles in peer-reviewed journals in the last three years, as well as the number of research projects in the last three years.

The Governance indicator consists of regulations, Shariah compliance, and corporate governance. The regulation sub-indicator reviews the existence of regulations for Islamic banking, the specific accounting rules for Islamic finance, the specific Shariah governance regulations for Islamic finance, the Takaful regulations, the Sukuk regulations and the Fund regulations. The Shariah compliance is measured by the number of scholars with at least one board membership, the number of scholars with more than five board memberships, the number of institutions with more than three Shariah supervisory boards, and the existence of a centralized Shariah committee. Corporate governance measures the presence of an independent chair of the board, the number of independent directors on the board, the existence of a non-executive chair of the audit and risk management committee and the sum of total disclosed items in the financial institution's annual report.

The Corporate Social Responsibility Indicator measures Islamic banks' accountability through two sub-indicators: Corporate Social Responsibility (CSR) activities and the distribution of funds through Zakat, Qard Hasan and Charity. The CSR activities sub-indicator considers the existence of the policies for screening clients, dealing with clients, earning and expenditure prohibited by Shariah, employee welfare, Zakat, policy for Qard Hasan, social development and environment-based investments, par excellence customer service, policy for small and medium enterprise and social savings, policy for charitable activities, and policy for Waqf management.

Finally, the Awareness indicator measures the awareness of the Islamic finance industry, with three sub-indicators: number of seminars, number of conferences and news volume.

4. RESULTS

In this section, we first discuss the overall performance of Bahrain's Islamic Finance industry during 2012-2014. Second, we evaluate the performance according to the five components of the indicator. Finally, we conduct a comparison of the performance of Bahrain against the global and Malaysian indicators.

A. Overall Islamic Finance Development Indicator

Figure 1 shows the overall Islamic Development Indicator for Bahrain for the period 2012-2014. There is a clear improvement in the development of the Islamic Finance industry in Bahrain over this period.

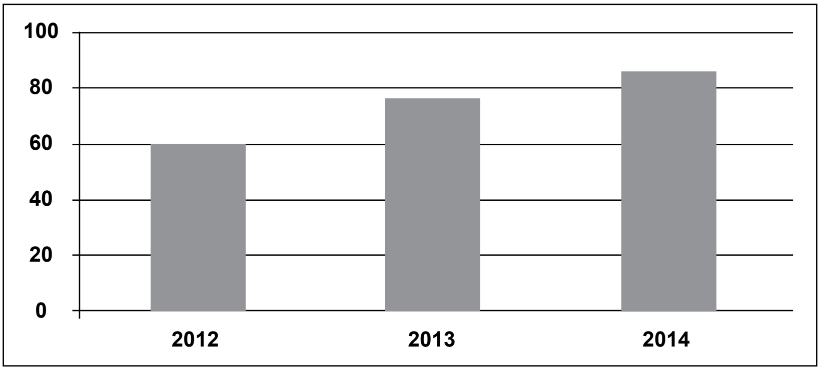

Figure 1. Bahrain’s Islamic Finance Development Indicator

In 2012, the indicator had a value of about 59, followed by an increase of some 17 points in 2013 which continued to rise until it reached about 85 in 2014. In the next sub-section, we explore the reasons behind this increase by investigating whether the increase is from one particular area or an aggregate rise in all the sub-indicators.

B. The Five Components of the Performance Indicator

In this sub-section, we explore the five components of the performance indicator, first discussing the results for each indicator and then considering the respective sub-indicators.

TABLE 2. QUANTITATIVE DEVELOPMENT INDICATOR

	2012	2013	2014
Quantitative Development	19	27	28
Islamic Banking	50	81	80
Takaful	12	16	17
Other Islamic Financial Institutions	11	27	22
Sukuk	10	9	14
Funds	12	0	8

Table 2 presents the Quantitative Development indicator along with its five sub-indicators, Islamic banking, Takaful, other Islamic financial institutions, Sukuk and funds, for the period 2012-2014. The indicator shows that there was a significant improvement of about 11 points in the development of the Islamic Finance industry in Bahrain over our sample period. This improvement was driven mainly by the Islamic banking sub-indicator. Islamic banking is known to be the fastest growing segment of the industry (Zaher and Hasan, 2001). In 2014, Bahrain had the highest ratio (202%) of Islamic banking assets to GDP compared to the other 108 countries included in the IFDI. The other Islamic financial institutions sub-indicator also shows significant progress, with a mild increase in the Takaful and Sukuk sub-indicators. Takaful assets and Sukuk outstanding represented only 1% and 11% respectively of Bahrain’s GDP as of 2014. The return on assets of Takaful operators was -2% in 2014. On the other hand, the funds sub-indicator shows a decline in the funds sector by about 4 points between 2012 and 2014, with zero points in 2013.

Table 3. Knowledge Indicator

	2012	2013	2014
Knowledge	48	62	78
Education	59	74	87
Research	37	49	68

Table 3 reports the Knowledge indicator along with its two sub-indicators, education and research. There was an improvement in the Knowledge indicator of about 30 points, caused almost equally by the advancement of education by 28 points and 31 points from research. Two Bachelors degrees, eight Diplomas and three Masters degrees in Islamic Finance were offered as of 2014. 27 articles were published in peer-reviewed journals in 2014.

Table 4. Corporate Social Responsibility(CSR) Indicator

	2012	2013	2014
CSR	71	76	64
CSR Funds Disbursed	65	89	66
CSR Disclosure	78	64	63

Table 4 presents the Corporate Social Responsibility indicator along with its two sub-indicators, CSR funds disbursed and CSR disclosure, for the period 2012-2014. The CSR provided by the Islamic Finance industry in Bahrain declined overall during our sample period, mainly in the latter half. The CSR funds disbursed sub-indicator increased significantly from 2012 to 2013, followed by a dramatic decline of about 23 points between 2013 and 2014. The CSR disclosure sub-indicator decreased in 2013 by about 14 but remained reasonably stable in 2014. Only 42% of the Islamic Financial institutions in Bahrain disclose their CSR reports and the CSR funds disbursed. In 2014, Saudi Arabia topped the CSR indicator due to the mandatory Zakat payment.

Table 5. Governance Indicator

	2012	2013	2014
Governance	84	90	93
Regulation	100	100	100
Shariah Governance	100	116	142
Corporate Governance	51	54	39

Table 5 presents the Governance indicator along with its three sub-indicators, Regulation, Shariah Governance, and Corporate Governance, for the period 2012-2014. Overall, the governance of the Islamic Finance industry had developed by about 9 points by 2014. In particular, Shariah Governance steadily improved by about 13 points in 2013, followed by a higher increase of about 26 points in 2014. As of 2014, there were 60 Shariah scholars in Bahrain. The Regulation sub-indicator remained stable during our sample period at about 100 points. This is because Bahrain maintained a strong regulatory environment during our period. However, the Corporate Governance sub-indicator experienced a slight increase of 3 points in 2013 and a decrease of 15 points in 2014. The decrease is possibly attributable to the financial disclosure index, which is about 44.1, and a low average number of independent directors of 3.8.

Table 6. Awareness Indicator

	2012	2013	2014
Awareness	73	127	162
Seminars	53	39	95
Conferences	61	89	92
News	103	255	300

Table 6 reports the Awareness indicator along with its three sub-indicators, seminars, conferences, and news. In 2012, the indicator had a score of 73 points, which increased to 127 in 2013 and to 162 in 2014. All three sub-indicators showed significant progress. In 2014, the number of seminars and conferences hosted in Bahrain was six and five respectively, and seven seminars were organized. Furthermore, the news sub-indicator, which was 103 in 2012, doubled in 2013 to reach 255 points and continued to increase to 300 points in 2014.

C. A comparison of Bahrain's Performance against Global and Malaysian Indicators

In this sub-section, we evaluate the performance of the Islamic Finance industry in a larger context. Figure 2 provides a comparison between the Global Indicator and Bahrain’s Indicator.

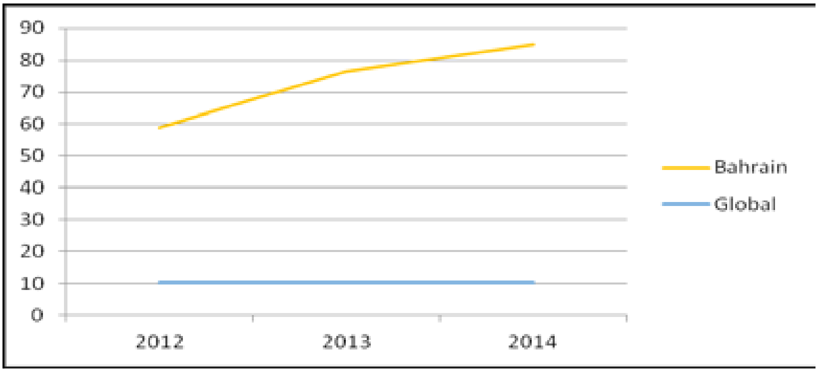

Figure 2. Global and Bahrain’s Islamic Finance Development Indicators

The Global Indicator marks the development of the Islamic Finance industry in 108 countries covered by the IFDI. There is a clear substantial difference between the two indicators, with Bahrain far ahead during the three years. The Global Indicator is overall stable around a value of 10, specifically 10.36 in 2012, 10.34 in 2013 and 9.89 in 2014. Bahrain’s Indicator, however, ranges from 59.8 to 85.15. The highest difference is in 2014 at about 75.11, with 66.07 in 2013 and 49.44 in 2012. Next, we compare the performance of Bahrain’s Islamic Finance Industry against that of Malaysia. For the period 2012-2014, Malaysia had the most developed Islamic Finance industry according to the Indicator, as illustrated in Figure 3.

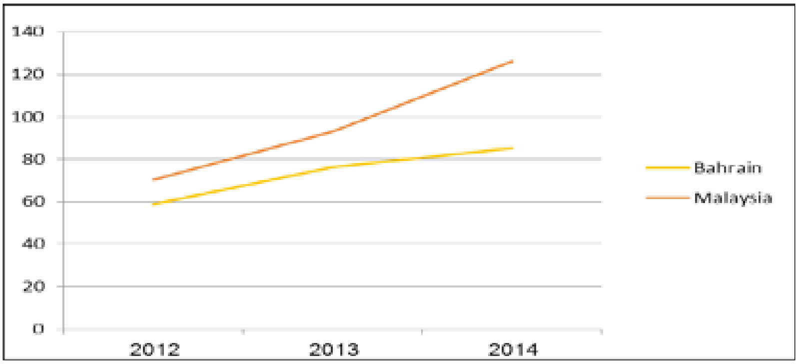

Figure 3. Malaysia's and Bahrain's Islamic Finance Development Indicators

The Malaysian Indicator evidenced a continuous increase during the sample period; in 2012 it had a value of about 70 which increased to about 93 in 2013 and finally jumped to about 126 in 2014. The difference between the two countries' indicators was 11 points in 2012 and 13 in 2013; however, in 2014, there was a substantial difference of about 41 points. Therefore, we next explore the reasons for this difference. Table 7 presents the sub-indicators for the two countries during 2012-2014.

Table 7. Bahrain's and Malaysia's Performance Indicator

	Bahrain			**Malaysia**		
	2012	**2013**	**2014**	**2012**	**2013**	**2014**
Quantitative Development	19	27	28	62	75	89
Islamic Banking	50	81	80	21	44	52
Takaful	12	16	17	46	47	36
Other Islamic Fin. Institutions	11	27	22	45	55	52
Sukuk	10	9	14	132	125	201
Funds	12	0	8	66	103	105
Knowledge	48	62	78	107	140	209
Education	59	74	87	61	68	118
Research	37	49	68	154	211	300
CSR	71	76	64	55	40	46
CSR Funds Disbursed	65	89	66	53	18	22
CSR Disclosure	78	64	63	58	62	70
Governance	84	90	93	76	82	90
Regulation	100	100	100	100	100	100
Shariah Governance	100	116	142	50	86	116
Corporate Governance	51	54	39	78	60	54
Awareness	73	127	162	51	130	197
Seminars	53	39	95	44	111	145
Conferences	61	89	92	50	110	148
News	103	255	300	58	168	298
Overall	58.94	76.41	85.15	70.24	93.18	126.16

Overall, Malaysia has outperformed Bahrain in all three years, although Bahrain performed better according to the Corporate Social Responsibility and Governance Indicators. Malaysia is more developed than Bahrain in Takaful, other financial institutions, Sukuk and funds in the Quantitative Development Indicator, and in the education (except for 2013) and research categories of the Knowledge Indicator. In the two branches of CSR, Bahrain seems more advanced than Malaysia with the exception of CSR disclosure in 2014. The advancement of Bahrain in the Governance Indicator is driven by the Shariah and corporate governance categories. Finally, with respect to the Awareness indicator, Bahrain is more advanced in terms of news than Malaysia, whereas Malaysia conducted more seminars and conferences than Bahrain in 2013 and 2014.

5. SCOPE FOR FURTHER IMPROVEMENTS IN BAHRAIN'S ISLAMIC FINANCE INDUSTRY

In this section, based on our earlier results, we highlight some of the shortcomings in Bahrain's Islamic Finance industry and provide suggestions on how to improve them. Bahrain's Quantitative Development Indicator had slightly improved in 2014, although several issues need to be addressed. First, there is a high level of concentration in the Islamic Finance industry, with more than 90% of the industry's assets held in Islamic banks; furthermore, these assets are themselves concentrated. For instance, in 2014, five Islamic commercial banks held 80% of the total assets of Islamic banks. Second, Bahrain's banks have a very low level of liquidity, in 2014 holding less than 10% of their total assets as cash or other liquid assets. This is alarming, as if any liquidity problem arises, these banks will be badly affected. Third, Bahrain was not ranked as one of the top five countries according to the size of Takaful, or the top ten for Islamic fund assets. Both sectors are important elements of the Islamic Finance industry and therefore need further attention. Furthermore, the Sukuk issued globally are mainly issued by government institutions, 62% in 2014. The diversity in Sukuk issues should be encouraged in the coming years.

More articles need to be published in peer-reviewed journals, as the current level is very low compared to other countries. For instance, in 2014. Malaysia had 401, the UK 109 and Bahrain only 27. Additionally, some areas of the Islamic Finance industry were given less attention in research papers, especially education, regulations, corporate governance, CSR and Islamic economy, as the focus has been on Islamic banking and finance. The CSR disclosure index of Bahrain is considered as average, at the same level as Qatar's, but lower than that of Malaysia, Maldives, Sri Lanka, Singapore and Oman. Corporate Governance also needs attention, given its decline in 2014, and an improvement in the financial disclosure index and the average number of independent directors would benefit it. Awareness in the Islamic Finance industry has improved over the last few years, although the concentration of conferences and seminars has remained on Islamic finance and banking, while Takaful, Islamic capital markets and other topics have been overlooked. Although the news sub-indicator did show an improvement, Bahrain is not one of the top providers of news.

6. CONCLUSION

In this paper, we evaluate of the Islamic Finance industry in Bahrain for the period 2012-2014. The data was retrieved from Thomson Reuters and the evaluation was conducted based on the Islamic Finance Development Indicator. The indicator has five components: Quantitative Development, Knowledge, CSR, Governance and Awareness. The uniqueness in this indicator is that it encompasses different components of the industry as well as enabling us to highlight the strengths and weaknesses.

We find that the Islamic Finance industry in Bahrain improved and developed significantly over our sample period. However, some components of the industry need further consideration, such as the

Governance and CSR. Furthermore, unlike Islamic banks and Sukuk, other sectors of the industry such as Islamic funds and Takaful have room for improvement. The findings highlight the need for more published Islamic Finance research papers and further organization of conferences and seminars encompassing all components of the Islamic Finance industry. Overall, the results show that Bahrain holds a very reputable position compared to the other 108 covered by the indicator, indeed in second place only to Malaysia.

Our paper has opened avenues for future research. First, our findings should encourage further research in the areas of Corporate Governance and Corporate Social Responsibility, to identify ways to enhance them. Second, more work is needed in areas such as Takaful and Islamic funds. Third, our paper is constrained by the short sample period due to the recent development of the Thomson Reuters indicator, and the fact that we relied only on the five established components of the indicator. Future research can go beyond these components and explore other aspects of the Islamic Finance industry such as human capital and macro-economic conditions, as well as conducting an evaluation over a longer sample period.

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