

Overview of the Iranian financial market

The Iranian financial market is a fully-fledged Islamic financial system. Traditionally, it is a bank-based market in which the majority of financing is offered by either government or private banks: three commercial and five specialized government-owned banks, 20 non-government-owned banks, two Gharzolhasaneh (Qard Hasan) banks, one binational bank and five non-bank credit institutions that operate under the Interest-Free Banking Act since early 1984. AMIRABBAS ZINATBAKHSH explores.



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Meanwhile, the Central Bank of Iran (CBI)'s Shariah committee is the only body responsible of making sure all banking activities and functions comply with the Islamic rules and regulations and the Money and Credit Council is the country's highest banking policymaker. Until 2017, the banking industry's total assets had surpassed over US\$500 billion (at the official exchange rate. Note: the figure is expected to be less by the end of 2018 as the Iranian rial has depreciated considerably against the US dollar since the beginning of 2018).

The Central Insurance of Iran (Bimeh Markazi), on the other hand, was established in 1971 to regulate, expand and guide insurance operations in Iran. Alongside regulatory and supervisory tasks, Bimeh Markazi has been entrusted with local compulsory reinsurance and to conduct inward and outward reinsurance business in both national and international markets. The High Council of Insurance is one of the constituent organs of Bimeh Markazi and the highest authority for policymaking in this industry. Currently, there are 27 insurance companies of which one is government-owned and 26 are non-government-owned, two reinsurance companies and two protection and indemnity institutions active in the market. All of the aforementioned companies sell their products and services through 1,037 branches and 591 brokerage firms across the country.

As for the capital market, the Securities and Exchange Organization (SEO) of Iran, a member of the International Organisation of Securities Commissions,



is the sole regulator and supervisor since 2005 and has its own Shariah committee. The SEO's High Council is the highest-ranking body of the securities market charged with the adoption of macro policies. The Tehran Stock Exchange, the Iran Fara Bourse, the Iran Energy Exchange and the, Iran Mercantile Exchange are the four exchanges in the market. There are nine investment banks, 108 brokerage firms, 207 mutual funds, 32 exchange-traded funds and one rating agency active in the market. As of today, the total market capitalization is around US\$100 billion (at the average of the official and market rates).

The Islamic capital market is known for its flagship product: Sukuk. The history of Sukuk in Iran goes back to 1994 when the municipality of Tehran raised approximately US\$40 million for the development of a reconstruction and construction project. The underlying Shariah contract for this Sukuk was Musharakah (partnership) which was the dominant contract until 2010 when innovative structures such as Ijarah (leasing), Murabahah (cost plus financing), Manfa'ah (usufruct), etc, came to be known and applied in the market.

The first Sukuk Ijarah facility worth about US\$29 million was issued by

Mahan Air to purchase an aircraft. One of the unique Sukuk structures recently used by the Iranian government is Islamic treasury bills (ITBs). They are based on the Bai Dayn (sale of debt) Shariah principle and help to pay ministries' debts to contractors. Moreover, Islamic mortgage-backed securities is another type of Sukuk used by the government to finance property development projects for the first time in Iran. These securities also use Bai Dayn as the underlying Shariah principle.

However, Ijarah, Murabahah and ITBs are the most common structures available with maturities of two to four years (except ITBs that are less than a year). It is worth mentioning that the Central Securities Depository of Iran as the sole registry entity and custodian in the Iranian capital market and Capital Market Central Asset Management Company as the sole entity for the establishment and management of SPVs play pivotal roles in the Sukuk market. Overall, the market has witnessed around US\$18 billion-worth of Sukuk issuance since its inception. ☺

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