

ISLAMIC BANKING & MONEY MARKET CONFERENCE

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Rating as a tool for Development of Islamic Financial Market “”

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Vibrant financial market needed for -

- Efficient allocation of financial resources
- Growth in economy
- Creation of jobs
- Reduction in poverty

Growth of financial market supported by -

- Healthy financial institutions
- Functioning market with active buyers and sellers
- Sound infrastructure including legal and judicial processes

The financial institutions draw strength from -

- Good internal practices

Ratings provide an assessment of overall health of institution and encourage and motivate the managements to work for improving internal practices to higher ratings

- Strong supervision

To enhance transparency in the financial market, the regulatory authorities frequently prescribe rating standards for issuance of securities

- Market forces

The market aligns the cost of funding to ratings and thus induces the institutions to aim for higher rating to reduce their cost of funding

Role of Rating Agencies -

- Rigorous and consistent analysis of quantitative and qualitative factors
- Assessment of risk profile of institution or product
- Removal of asymmetry in the informations of variety of business operations
- Announcement of ratings in simple terminology

Investors in Islamic countries desire to know -

- The credit worthiness of the institutions and products
- The legitimacy, in terms of Shari'a compliance, of institutions and products

Both the above considerations are of significance

Islamic International Rating Agency (IIRA) -

- Sponsored by Islamic Development Bank (IDB) and several banks from different countries and two rating agencies
- Established at Bahrain to provide rating services in accordance with Shari'a principles
- IIRA will analyse risks common to Islamic and conventional institutions and products and also the risks specific to Islamic institutions

The common risks are -

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Strategic Risk
- Reputation Risk

Specific risks are -

- Shari'a Compliance
- Fiduciary responsibility
- Commercial risk

IIRA will offer services for credit rating as well as Shari'a rating

Shari'a rating criteria -

- Shari'a committee, the nature and the quality of its deliberations
- Fatwas' - the names and the number of scholars issuing Fatwa, unanimity and the nature of difference of opinion if any
- Shari'a control procedures
- Human resources and their training opportunities in Islamic finance

- Structures of assets and liabilities
- Identity and corporate image
- The internal working environment
- Marketing practices

What is needed?

- Preferably a voluntary submission to rating exercise by institutions and their products
- Regulatory requirement for rating of institutions initially to induce rating culture in the developing economies