



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

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“Developing Islamic Financial Markets for Investors”

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Islamic Finance

- **Starting in the 1970's, industry has become solid, dynamic and prosperous**
- **Estimated \$300 billion banking assets and \$400 billion under management**
- **Growth of 15-20% per annum, higher than conventional counterparts**
- **More than 270 Islamic Financial Institutions in over 70 countries**
- **Expected total assets exceed to \$1 trillion by 2010**



Shari'a Law

- Shari'a is divine set of laws for the benefit of all mankind. Shari'a is an integrated framework supported by Quran and Sunnah.
- Shari'a compliance encompasses, but is not confined to:
 - The prohibition of Riba
 - The prohibition of Gharar, Jahala and Gambling
 - Profit Sharing
 - Moral values
 - The share of the poor in the wealth of the rich (Zakat)
- Shari'a sets out rules for the benefit of society but does not restrict innovation and structuring of products subject to these rules



Development of Islamic Financial Institutions

- Islamic banking began with commercial Islamic banks offering commercial Islamic banking products
- Over the years, Investment Banks, Takaful, Islamic Investment, Asset Management and Broker companies have emerged
- Products on offer today include Takaful, Mutual Funds/Unit Trust, Islamic Sukuk, Shari'a compliant Stocks, etc.



Products offered by Islamic Banks

- Fund Management
- Capital market operations
- Securitization
- Leasing
- Housing and Consumer Finance
- Commodity Murabaha

Development of Vibrant Islamic capital market is key to provide investment opportunities and liquidity



Efficient Financial Markets

Vibrant financial markets



Efficient allocation of financial resources



Economic growth



Job creation & Poverty alleviation

The efficiency of financial markets is marred by information asymmetry between lenders and borrowers



Rating Agencies' Role

- Credit Rating Companies enhance efficiency of Financial Markets
- Bridge gaps of information asymmetry
- Encourage disclosure and competition
- Rigorously analyze present, past and probable future
- Provide confidence to investors leading to increasing savings mobilization and investments
- Supplement role of regulators
- The independence and neutrality of Credit Rating Companies is source of confidence for investors



Global vs. Regional Rating Agencies

- Global Rating Agencies are concentrated in USA and Europe, therefore other countries felt the need for independent, unbiased, more accessible and cost-effective rating companies
- The regional rating agencies' knowledge of the region and understanding of intangible elements like reputation and track records give them the additional strength over the global rating agencies, which is reflected in their assessment for an unbiased rating
- Regional rating agencies started in Japan and then spread in other big economies like India, China and Malaysia as alternatives to global rating agencies
- Regional agencies are more accessible and credible



Emergence of IIRA

- Islamic International Rating Agency (IIRA) was established with the support of Islamic Development Bank
- IIRA became operational in the later part of 2005
- IIRA aims to play its role in the development of the regional financial market by providing an assessment of the risk profile of entities and instruments which can be used as a basis for investment decisions



IIRA's Initiatives for the Development of Financial Markets

- Equipped to provide rating services to conventional institutions as well
- The creativity and initiative-taking process to continue in future for the development of industry
- Complete specialized credit rating services for Islamic banks, Takaful companies and other corporate entities
- The launch of a unique rating product – “Shari’a Quality Rating”



What is Needed

- Introduction of ‘Rating Culture’ in Islamic financial markets
- Through credit ratings, institutions will earn respect and acceptance in international financial market. It will also lead to increased integration of regional and international institutions
- Voluntary submission to rating exercise is the preferred approach
- As experienced in some other countries, the regulatory initiatives also help develop the rating culture



Products Offered by IIRA

- Shari'a Quality Rating
- Financial Strength Rating
- Corporate Governance Rating
- Sovereign Rating
- Bank Rating



Conclusion

An efficient secondary capital market is where issuers can go for their funding needs and investors can find instruments matching their requirements. The market also determines efficient pricing based on risk profile provided through ratings. Ratings thus help develop efficient financial markets and attract investments.



Thank You

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