

## Successful launch of IIBR gives hopes for development of local benchmark in Pakistan

Islamic Banking and finance growth has generated considerable interest in the financial world in recent years. The concept of Islamic banking products and services has received encouraging response from different corners of the globe as one discovers its ideological dimensions and practical significance. Given its ability to offer innovative financial solutions for basic financial needs in under-served markets especially in the Muslim worlds to complex financial requirement of the modern times, it has emerged as a socially responsible and ethical banking model.

Since its inception Islamic banks have been searching for an indigenous pricing benchmark that can be applicable to Shariah compliant financing transactions and is also reflective of Islamic banking liquidity situation. In the absence of an alternative benchmark, globally all Islamic Banks have been using benchmark that are based on conventional inter-bank markets like LIBOR, KIBOR etc as a way to price the Islamic financial transactions. The use of these interest link benchmarks is permissible as it is used only as a pricing tool but according to leading Shariah scholars it is considered as a disliked method of pricing Islamic financial transactions. Hence, development of alternative benchmark is a long awaited desire of leading Islamic bankers, Shariah scholars and Islamic banking customers alike.

### Islamic Interbank Benchmark Rate (IIBR)

The successful launch of an International Islamic benchmark from the platform of Thomson Reuters as an alternative to LIBOR last year is a significant achievement of Islamic banking industry and would be remembered as a key mile stone in the development of Islamic financial system. IIBR offers a rate that is contributed by and is indigenous to a global panel of Islamic banks and Islamic Banking windows with fully segregated funds.

*Definition: The IIBR is defined as the profit rate that an individual Contributor Panel bank would perceive to be reasonable for Shariah compliant funding were it to do so by asking for and then accepting inter-bank offers in reasonable market size, just prior to 11.00 am Makkah local time (GMT + 3).*

Real time IIBR rates are available on [Thomson Reuters Eikon](#) (and [Reuters 3000Xtra](#)) terminals (RIC: IIBRFIX)

## Mechanism and Contributing Panel

The Islamic Interbank Benchmark Rate ('IIBR') is calculated by Thomson Reuters based on a methodology agreed upon in consultation with the Islamic Benchmark Committee and approved by the Shariah Committee Headed by a leading Pakistani scholar Justice (retd) Shaikh Taqi Usmani.

A poll of approximately 16 pre-selected banks contributed rates at 10.45 AM on every business day (Sunday - Thursday). Contributing Banks are asked to contribute rates between 9.00 AM - 10.44 AM Makkah local time (GMT +3).

The rates are ranked from highest to lowest and the top and bottom quartiles (25%) of the rates are excluded to ensure that outliers do not influence the distribution. The arithmetic mean (average) of the remaining mid quartiles' values is then calculated to produce the IIBR.

List of Contributing Panel	
Abu Dhabi Islamic Bank	Qatar Islamic Bank
Ahli United Bank	Sharjah Islamic Bank
Al Baraka Bank	Dubai Islamic Bank
Al Hilal Bank	Ithmaar Bank
Alinma Bank	Kuwait Finance House
Al Salam Bank	Masraf Al Rayan
Bahrain Islamic Bank	National Commercial Bank (Al Ahli)
Barwa Bank	Noor Islamic Bank
National Bank of Kuwait	

## Governance of IIBR

The IIBR governance framework includes the Islamic Benchmark Committee and the appointment of a Shariah Committee to ensure that the benchmark is in compliance with principles and laws of Islam.

### Islamic Benchmark Shariah Committee

The Shariah Committee is responsible for certifying the Shariah compliance of all aspects of the IIBR methodology. The Shariah Committee is comprised of independent Shariah scholars, 2 of whom must be on the AAOIFI Shariah Board and operates independently of the Islamic Benchmark Committee. The Shariah Board is chaired by Justice Muhammad Taqi Usmani.

Shariah Committee
Justice Muhammad Taqi Usmani (Chairman)
Prof. Dr. Mohammad Abdul Rahim Sultan al Olama
Shaykh Muddassir Siddiqui
Prof. Dr. Mohammed Daud Bakr
Shaykh Yusuf Talal DeLorenzo
Assoc. Prof. Dr. Akram Laldin

### Awareness & Adoption for IIBR:

The real challenge of IIBR is to become a popular benchmark of Islamic financing transactions. In the first phase, it is very important to create mass awareness about IIBR as an alternative benchmark to LIBOR among all the key stakeholders including customers, non-contributing Islamic banks, regulators and Shariah scholars. Secondly all the contributing players must target to use this benchmark to price at least 25% of their transaction using IIBR in 2013 and gradually shift towards adoption of IIBR in the next 3 years.

### **Learning from the Global experience:**

With the successful launch of IIBR in the global markets, the hope are now high for launch of local Islamic benchmark IIBOR (Islamic Interbank Offer Rate) in Pakistan where the Islamic banking industry has now reach around 9% of the total banking sector and in enjoying a unparallel growth.

The industry, Shariah scholars and the customers are demanding a separate Islamic Benchmark for Islamic Banks and efforts must be made to expedite the launch of separate Islamic banking benchmark in the country.

### **Key challenge in the Pakistani Market:**

In Pakistan the efforts to launch a separate Islamic benchmark took speed in 2009 when major Islamic banks including Meezan Bank, Bank Islami, Al Baraka, Dubai Islamic & Burj Bank supported the idea for launching a separate benchmark in the country. The efforts were received positively by the central bank level and last year in January the SBP Governor in his speech in Oman also termed it a key component of the Islamic banking strategy for Pakistan.

Now it is high time that all the Islamic banking players must combine their efforts and launch a separate benchmark IIBOR during 2013. This effort would not only increase the credibility of Islamic banking in the country but also help Islamic banks to penetrate those segments that are still skeptical about Islamic banking because it uses conventional market benchmarks, An Islamic Benchmark would also pave way for more structured products to be developed based on these rates such as the GOP Ijarah Sukuks which are currently yielding profits based on conventional benchmarks.

### **Written & Compiled by**

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