

Use of Conventional Benchmark in Islamic Banking System

A Sharia Review of related issues

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Abstract

The advocates of conventional finance argue that the use of conventional benchmark in determining the prices of the Islamic Banking and Finance (IBF) products makes the de jure distinction but not the de facto difference between the two alternative ways of financing. To what extent are they right? And in what way, there is no de facto difference. A thorough examination of archival data shows that using the conventional benchmark does not make the IBF products akin to conventional interest based products as ex ante and ex post differences exist in the products of IBF compared to conventional banking products. Nevertheless, we recommend the Islamic banks to strive for the implementation of Islamic Interbank Offer Rate (IBOR); as the use of conventional benchmark creates misconceptions and misunderstandings in the mind of general public especially in those regions where Islamic banks co-exist with conventional banks.

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