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Research Article

CHARACTERISTICS OF ISLAMIC BANKS, PROBLEMS, DEVELOPMENT PROSPECTS

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KHAZRATKULOV Alisher Urmanbekovich
Senior Lecturer of the Eastern University, Uzbekistan

Mumin Radzhabovich BABADZHANOV
Department of ZAKT of the International Islamic Academy of Uzbekistan, Senior Lecturer, PhD., Uzbekistan

ABSTRACT

This article is dedicated to the study of the main concepts, development trends and advantages of Islamic finance and banking. Islamic finance and banking activities are managed on the basis of the Qur'an and hadith, and the two financial systems are compared.

KEYWORDS

Islamic finance, Islamic banking, Mudarabah, Salam, Musharaka, Istisna, Qard Hasan.

INTRODUCTION

وَقَوْلُ اللهِ عَزَّ وَجَلَّ {وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا}
وَقَوْلُهُ {إِلَّا أَنْ تَكُونَ تِجَارَةً حَاضِرَةً تُدِيرُونَهَا بَيْنَكُمْ}

Allah the Almighty says: "But Allah has made trade lawful and has forbidden usury." That is, "If there is a transaction between you in cash..." [Surah 1, 2, verse 275.]

Religion has always been one of the factors determining the socio-economic activity of most people. The potential inherent in the teachings of Islam from the end of the 20th century to the beginning of the 21st century is slowly but surely influencing the change in the face of the global financial market. The activities of the Islamic economy, the Islamic financial system (IMF),

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which is its basis, have gradually begun to integrate into the global financial system. IMT is regulated by Muslim law. The basis of Muslim law is Sharia, which can be considered as a normative universal system of social regulation. Its main sources are the Koran and Hadith. The Koran and Hadith provide not only the rules of worship, but also the general rules for managing all the activities of a Muslim person. In particular, the general fundamental rules of Islamic finance and banking, trade, loans, donations and doing business in partnership are based on the instructions of the Quran and Hadith.

The Islamic financial services market has demonstrated steady growth and significant development in recent years. According to data for the period 2000-2024, the average annual growth of global Islamic financial assets is significant, which indicates a growing interest in this segment of the economy. [2, 3].

This growth is due to several key factors:

– the increasing number of Muslims and the growing demand for Sharia-compliant financial products and services from the growing Muslim population worldwide;

– expansion of the geography of Islamic finance. Since Islamic finance was previously mainly focused on the markets of the Persian Gulf and Southeast Asia, it is now actively and rapidly developing in Europe, North America, Africa and the CIS countries (Russia, Kazakhstan, Kyrgyzstan and Uzbekistan).

– In order to quickly restore their economies after the economic crisis, and support Islamic finance from states, governments of many countries have developed a legal framework to create a favorable environment for Islamic financial institutions. In particular, legislative measures are being taken to issue sukuk (Islamic bonds "securities") and develop Sharia banks;

– the introduction of innovative and Islamic finance, the introduction of digital technology and the development of new products, as well as Islamic fintech, helping to increase the convenience and privacy of the market.

As any industry or activity usually develops based on supply and demand, Islamic finance began to develop as an alternative form of finance due to the decline in trust in traditional finance and banks. Traditional finance and banking systems showed their negative sides during the global crises.

Declining trust in traditional financial and banking systems. The global financial crisis that began in 2008 severely damaged trust in the US financial system. [4]. The subprime mortgage defaults and credit mispricings have shaken market confidence. Large financial institutions, such as Lehman Brothers and American International Group (AIG), failed to repay their loans. This event undermined confidence in the US and the global financial system. The government's trillion-dollar rescue plan (TARP) helped save financial institutions, but it also created and reinforced negative perceptions about the weakness and mismanagement of the financial system. [5,6,7].

In March 2023, several other banks in the United States, including Silicon Valley Bank (SVB) and Signature Bank, failed in a short period of time due to liquidity problems. SVB, known for its

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clients in the technology and startup sectors, had made risky investments with its large assets. These events undermined confidence in smaller banks. Although the US government, through the FDIC (Federal Deposit Insurance Corporation), tried to rescue SVB and Signature Bank, this also led to increased public distrust in the banking system.

This crisis had a major impact not only on the US financial system, but also on the global economy, and brought the need for reforms to the agenda. Such crises have given a great impetus to the development of Islamic finance and banking, which are alternatives to the traditional financial system.

The emergence and development of Islamic banking. In the second half of the 20th century, efforts began in Muslim countries to transition from a traditional banking system to an Islamic banking system. The first experience of an Islamic bank in Egypt is associated with the Mit Ghamr Savings Bank, founded in 1963. The founder and organizer of this bank was Dr. Ahmed al-Najjar, who studied in Germany and came up with the idea of adapting the European cooperative banking model to Islamic financial principles. The success of the Mit Ghamr Savings Bank later gave impetus to the development of Islamic financial institutions in Egypt. In the 1970s, the number of Islamic banks increased, and this model began to become widely popular in Egypt and other Muslim countries. In particular, the policies of the then Egyptian president Anwar Sadat created a favorable environment for the development of Islamic financial institutions. In 1971, another large Islamic bank, Nasr Social Bank, was established in Egypt, which also operated on the basis of Sharia principles. Islamic banks in Egypt are seen as an alternative to the conventional interest-based banking system. They aim to ensure fair and sustainable economic development by adhering to Sharia law. They operate on the basis of fair profits, fair risk sharing with customers, and social responsibility.

Types of services in Islamic finance and banks are as follows:

Financial characteristics of Islamic banks. Unlike conventional banks, the financial intermediation of Islamic banks is based on a share in profits (losses) from transactions with real assets. An Islamic bank provides and attracts funds on certain terms: interest rates are not allowed on both loans and deposits. Indeed, the concept of participation in profits and losses is largely consistent with the instruments of financing a joint-stock project such as mudaraba and musharaka, the relevance of which does not allow them to be classified as capital financial instruments in the strict sense of the word. Active operations of Islamic banks on interest-free debt financing are formalized with such basic financial instruments as murabaha, salam, and shariah. They are not directly related to the concept of profit and loss sharing, but are based on transactions with real assets and, therefore, exclude the exchange of money for money. Let us describe in more detail the characteristics of the main financial instruments used in the active operations of Islamic banking.

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First, we will substantiate these characteristics with verses and hadiths.

وَقَوْلُ اللَّهِ تَعَالَى {إِنَّ خَيْرَ مَنِ اسْتَأْجَرْتَ الْقَوِيُّ الْأَمِينُ} وَالْخَازِنُ الْأَمِينُ وَمَنْ لَمْ يَسْتَعْمِلْ مَنْ أَرَادَهُ

Allah Almighty says, "The best person to be hired for a job is the strong and trustworthy one." [1, 217].

Our Prophet (peace be upon him): من استأجر أجيراً فلعلمه أجره "Whoever makes a rental agreement with someone, let him state the rent," they said. [9, 268].

إجارة – "ijara" means "to provide a service fee", "to pay a fee", "to give a reward". In Sharia, "ijara" refers to the purchase of a certain benefit in exchange for a certain fee. This word is also used in Uzbek, but its Sharia meaning is broader. [8, 217].

مضاربة – Mudarabah means "walking on the earth." In the term, "it is a partnership agreement in which one person receives property and another person receives work for a profit." [9, 268]. Mudarabah is an Islamic trust agreement through which the bank finances an investment project, but does not have the right to participate in the management of this project, receives an appropriate share of the profit from the implementation of the project, in which the profit is divided in predetermined proportions between it and the partner who manages the attracted funds, and assumes all risks associated with not receiving profit from the project. [8, 205].

مشاركة – Musharaka means "partnership in a business". Legally, there are two types. Property partnership. In this, two or more people own the same property. Each of them is a stranger to the property of his partner. The second is a contractual partnership. The pillars of this are acceptance and acceptance, that is, mutual consent. Its condition is that no specific amount of money or money is determined for one of the two from the profit [9, 257]. A joint venture agreement is a contract in which a joint venture is established to organize an investment project for implementation in accordance with its terms, one of the owners of which is an Islamic bank. Unlike mudaraba, in this case the bank has the right to participate in the management of the project together with other partner(s), which partially reduces its risks. The financial result (both profit and loss on the project) is distributed in accordance with the participation share.

مرابحة – murabaha means "to profit". In the term, the sale of the thing that was acquired by the first contract at the first price with an increase in profit. A commercial loan agreement in which an Islamic bank acts as an intermediary, at its own expense, but on the instructions of the client, purchases a certain asset (product) in accordance with the description specified by the client in the application. The description indicates the essential characteristics of the asset, its price and its availability on the market. The contract comes into force after the goods become the property of the intermediary. Subsequently, the product is sold to the client at a price that includes a

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premium (margin), usually on deferred or installment terms.

سلام – salam means "to deliver", "to present". In terminology, salam refers to a trade made on the condition that the agreed upon goods are paid in advance and the goods are delivered later, at a specified time. In other words, salam trade is the opposite of nasiya trade, that is, in nasiya the goods are cash and money is nasiya, while in salam the money is cash and the goods are nasiya and are delivered later. According to the Hanafis, there are seven conditions of salam, and only when they are fully fulfilled is the salam trade valid, otherwise it may turn into riba. This type of trade transaction is called salam because the money for the goods is presented at the time of the agreement, and it is also called "salaf" (to pass before, to pass before) because the money is delivered in advance. [8. 205] The same ideas can be expressed in relation to modern banks as follows. A commercial loan agreement that provides for the purchase and sale of an asset (product) on an advance payment basis. According to the agreement, the Islamic bank provides the contractor with a certain amount equal to the value of the goods, and he undertakes to deliver the goods within the agreed period. The salam is concluded simultaneously with another agreement. As a rule, this is a parallel salam, in which the Islamic bank, in turn, acts as a contractor and makes a profit due to the difference in the purchase and sale prices of the goods.

استصناع The exception is "requiring a craftsman to produce something within a certain period of time." Whether the thing is in the contract or not is the same. If the contract does not specify a period of time for something, it is a sale, and the craftsman is forced to work. The work cannot be taken back from him. It is not his work that is put up for sale, but the thing that is sold. [9, 144]. An advance payment contract is a contract for the performance of work, in which the Islamic bank provides the contractor with a certain amount equal to the cost of work on the production of the product, and he undertakes to complete the work within the specified period. It is concluded together with another contract, under which the Islamic bank sells the goods to the client. The profit of the bank, which is an intermediary between the manufacturer and the final buyer of the goods, is formed due to the predetermined difference between the purchase and sale prices: the price it pays for the work is, more precisely, lower than this price. it sells the goods received. Most often, the "exception" is used to finance large projects, as well as for mortgage loans.

قرض حسن – The interest-free loan agreement that Qard Hasan Islamic Bank attracts transfers funds free of charge, which can be used at will, but is obliged to return them upon request. The funds received in this way are deposited into a savings account. At the same time, Islamic banks try to encourage customers, for example, by offering them discounts on their services.

Other mechanisms for creating savings accounts include: a) the bank has the right to use the accumulated funds with a guarantee of their return within a specified period, but can pay additional income to the depositor at its discretion; b) the attracted funds can be invested by the bank, and the profit received can be divided with the depositor in predetermined proportions.

Comparison of Islamic banking and conventional banking operations

Feature	Islamic bank	A conventional bank
Basic principle	Interest-free transactions, compliant with Sharia law.	Earning income and carrying out transactions based on interest.
Financing method	Mudaraba, musharakah, ijara, salam, istisna, and murabaha.	Loans and other interest-based financial services.
Source of income	Investment benefits and service fees.	Interest and other fees applied to loans.
Interest (usury)	It is strictly forbidden.	The main source of income in credit and deposit operations.
Risk sharing	Financial risks are shared between the client and the bank.	The financial risk is primarily borne by the client.
Investment direction	It is focused on halal, Sharia-compliant business sectors.	It can be directed towards any legal activity.
Types of contracts	Based on cooperation (e.g. mudaraba, usharaka).	Credit agreements, colla-teral-based agreements.
Ethical values	Honesty, justice, and Sharia-compliant operations.	Mainly based on business interests and legal requirements.
Necessary reserves	Provided through Sharia-compliant assets.	Can use any assets.
Billing system	Based on net profit sharing.	Based on interest pay-ments and principal amount of loans.

Collateral (guarantee)	A guarantee is provided through honest means.	Any assets can be taken as collateral.

Conclusion

These trends demonstrate the potential of Islamic finance as a sustainable and ethical alternative to conventional financial systems. In the future, this market will continue to grow, developing steadily as a promising financial system, attracting Muslim and non-Muslim clients interested in investments that meet Islamic moral and economic standards. As proof of our point, countries that have implemented Islamic finance, such as Indonesia, Malaysia, and Singapore, are considered to have shown miracles in their economic development in the world.

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