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THE CONCEPT OF ISLAMIC BANKING AND ITS ROLE IN THE WORLD BANKING AND FINANCIAL SYSTEM

Sobitxonov Joxongir Zunnurxon o'g'li
Teacher Of Specialized Branch Of
Tashkent State University Of Law , Uzbekistan
e-mail: joxongirsobitxonov07@gmail.com

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Published:	28th November 2022	In this article, despite the fact that the share of Islamic finance in the world financial market is small, it is considered a very fast-growing sector, the services of Islamic banks are used not only by Muslims, but also by representatives of other religions, and the issues of resistance of this system to financial crises are discussed. It also analyzes the baselessness of various doubts and misconceptions about Islamic finance, that it is not a religious organization or a charitable organization, but a purely commercial organization that aims to make a profit.

Keywords: Aqeedah, akhlaq, fiqh, muamalat, ibadat, islamic finance, islamic banks, takaful, sukuk.

INTRODUCTION

Islamic scholars have divided the Islamic religion into three major branches, which are Aqeedah (rules of faith and trust), Akhlaq (rules of morality and etiquette), and Fiqh (rules of rights and obligations).

Fiqh, in turn, is divided into Ibadat (regulates the relationship between people and God, i.e., the rules of worship) and Muamalat (regulates the relationship between people). Muamalat regulates social, criminal, administrative, family, political and economic rules. Islamic finance, in particular, Islamic banking belongs to the branch that regulates relations in the economic sphere[1].

In turn, the field of Islamic finance is divided into five major sectors, such as Islamic banks, takaful (Islamic insurance), other investment companies, institutions such as microfinance organizations, sukuk (Islamic securities), Islamic funds. Islamic banking is the largest and most developed of these sectors. For example, according to the information published in 2018 on the development of Islamic finance on a global scale, the share of this sector in the world financial market at the end of 2017 was 2.438 billion. amounted to US dollars. 71% of this amount is accounted for by Islamic banks, which clearly shows the importance of Islamic banks[2].

Analyzing the pre-coronavirus growth pictures of Islamic finance, the size of this sector in 2012 was 1.746 billion. 2.438 billion at the end of 2017, equal to the US dollar. amounted to US dollars. Between 2012 and 2017, the average annual growth rate of Islamic financial institutions was 6%. 3.809 billion by 2023. It is expected to reach the US dollar, and this means that the average annual growth rate will be equal to 8%. Compared to the volume of world financial institutions, the volume of this sector is 339 trillion. In terms of the US dollar, it is only 0.71% of the total assets of world financial institutions[3].

In particular, the share of Islamic banks in the world banking sector was more than 6 percent in 1019. The Islamic banking sector has shown a growth of 14 percent. As of 2019, a total of 526 Islamic banks, including branch Islamic banks, are operating in the world. Iran (41), Malaysia (36), and Indonesia (32) dominate the number of Islamic banks[4].

The results of the analysis show that Islamic finance is currently a relatively under-resourced and fast-growing industry, and it is still at the beginning of its development stage, and we can understand that it has great potential if we judge from the number of Muslims in the world who are potential customers of Islamic financial institutions. The following statistics also show the great potential for future growth of the industry.

According to statistics, in 2010, 31.4 percent of the world's population, that is, 2,168,330,000 people believed in Christianity, while the share of Muslims was 23.2 percent, that is, 1,599,700,000 people. By 2050, respectively, the share of Christians will be 2,918,070,000, 31.4 percent unchanged, and the share of Muslims will be 29.7 percent, 2,761,480,000, due to the decrease of the share of other religions, and by 2060, it will surpass the number of Christians and take the first place.

In particular, in Britain, Muslims are expected to make up 8.2% of the population in 2030 (today this figure is 4.6%), respectively, in Austria it is predicted to make up 9.3% of the population (currently 5.7%), in Sweden it is 9.9%. (currently 4.9 percent), 10.2% in Belgium (6% today); France is expected to be 10.3% (7.5% today).

By 2030, Muslims in 10 European countries, namely Kosovo (93.5 percent), Albania (83.2 percent), Bosnia and Herzegovina (42.7 percent), Macedonia (40.3 percent), Montenegro (21.5 percent), Bulgaria (15.7%), Russia (14.4%), Georgia (11.5%), France (10.3%) and Belgium (10.2%) where Muslims make up more than 10 percent of the total population is expected[5].

DISCUSSION AND RESULTS

The above analysis and statistics show that all the conditions exist for the development of Islamic banks and their place in the world.

Islamic banks, being a part of Islamic finance, conduct their activities based on the rules of Sharia, and ensuring fairness and equality in all transactions concluded by them is a primary condition. This situation is "ribo" (usury), "gharar" (uncertainty between the parties to the contract, lack of information, abstractness of the terms of the contract, in which one party or parties may incur a great loss and risk due to the fact that they do not have complete information about the contract) and Prohibition of "maysir" (gambling and speculation) and dealing with money is evident.

The above three prohibitions must be followed in all contracts concluded in accordance with the rules of Sharia, and they are considered moral restrictions of Islamic finance that differ from conventional finance. In addition, one of the most important characteristics of Islamic banks is that their activity is based on working with assets. In the traditional way of financing, banks and microfinance organizations operate only with monetary units (they sell and buy money). Therefore, trading in commodities is prohibited for traditional banks. In particular, Article 7 of the Law "On Banks and Banking Activities" states that banks do not have the right to directly engage in production, trade, insurance activities, and other activities that are not related to the implementation of financial operations provided for in the legislation on banks and banking activities[6].

In Islamic banks, currency units do not have intrinsic value, that is, they are only a medium of exchange, so they are not recognized as a subject of trade. Islamic banks earn income by selling something of intrinsic value (equipment, car, house) at a premium for a certain amount. Accordingly, in contrast to the activities of conventional banks, financing in Islamic banks is based on assets.

Due to the fact that the Islamic banking and financial system is a new system for Uzbekistan, it is unfamiliar to citizens and business entities, so they may have various questions and misconceptions. Since the issues we will discuss below directly affect the development of the Islamic banking system, it is appropriate to first clarify these issues.

1. Some people believe that there is no difference between Islamic banks and conventional banks, and that Islamic banks are a disguised form of usury-based activities of conventional banks.

Islamic banks do not engage in practices involving ribo (usury) or gharar (excessive uncertainty), including debt transactions and trading in prohibited (haram) products according to Sharia law. Islamic banking is based on financing or investing in areas not prohibited by Sharia (for example, betting on gambling, drug sales) through non-prohibited means (lease, trade, partnership).

Also, Islamic banks do not use money itself, but turn it into a commodity, and finance customers by signing contracts such as murabahah (trade), ijara, musharakah (partnership), salam (financing of agricultural products). According to the above, the Islamic banking system differs from conventional banks by the types of contracts, financing methods, attracting funds and directing them for investment projects. Since Islamic banks do not engage in lending and borrowing at interest, the risks associated with the contracts are significantly different from the risks of interest-bearing loan contracts in conventional banks[7].

2. Islamic banks ignore Shariah objectives for profit and manipulate people with Islamic terms and forms of financing.

It is known that the purpose of the Islamic religion is to ensure the protection of five things, that is, the religion, soul, offspring, mind and property. It is the duty of Islamic banks to ensure the protection of property, which is one of the above. It achieves this goal by:

1) offering Islamic financial services on the basis of conditions not prohibited by Sharia in order to save people from sinful acts;

2) meeting people's needs for housing, cars, household appliances and other necessities through the means permitted by Sharia;

3) helping to invest people's idle funds to finance various projects through means that are free of riba and gambling elements;

4) achieving redistribution of material wealth among members of society by allocating hasan (interest-free debt) to low-income, needy people, paying zakat, and diverting fines collected from clients who deliberately do not make their payments on time for charitable purposes.

Also, all the terms used by Islamic banks and the names of financing instruments are taken from books on Islamic jurisprudence, fatwas and decisions of Islamic jurisprudence academies, sharia conclusions of sharia monitoring councils, sharia standards approved by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions)[8].

According to the above, the skepticism of Islamic banks' activities is the result of not understanding the nature of Islamic banks, lack of sufficient and correct information about them, and they found that such views are unfounded.

Contrary to these opinions, there are also those who see Islamic banks as charitable organizations and see them as the solution to all problems.

3. Are Islamic banks the savior of all problems? Are they a charity?

One of the misconceptions people have about Islamic banks is the view that Islam has completely forbidden the payment of interest, i.e. riba, so Islamic banks must give money for free.

In fact, giving money (loan) with interest is strictly forbidden in our religion, so if an Islamic bank gives a loan and gets something in return, then this is riba. However, if an Islamic bank lends money and does not receive any payment in return, then such a (commercially) useless practice is clearly not of interest to any businessman. If there are those who say that Islamic banks should operate as charity organizations, then if they think about it a little, they will realize that the money received from charity will be exhausted in a short period of time and will not be recycled until someone else donates.

It should be noted that Islamic banks are also commercial organizations and are established for the purpose of financial gain. It should not be forgotten that they have their own shareholders and investors, just like traditional banks.

4. At this point, a legitimate question arises, if Islamic banks cannot lend money with interest like conventional banks, then how do Islamic banks earn?

Islamic banks manage the investment funds given by their volunteers on the basis of a partnership agreement based on trust and cooperation, and make income by directing these funds to finance various business projects of individuals and legal entities. Earned income is distributed in the form of dividends for bank shareholders, in the form of profits for investors, in the form of taxes for the state, and in the form of zakat for persons in need of social protection.

Islamic banks finance their activities in the following ways:

1) From the funds of its shareholders.
2) By issuing securities (sukuk) and selling them.
3) At the expense of deposits made for investment (mudaraba).
4) By accepting trust deposits (wakala).
5) From time deposits.

Islamic banks earn income by providing non-Sharia-compliant services provided by traditional banks (for example, money transfers, making payments, currency exchange services) and by concluding various financial transactions that comply with Sharia requirements. Examples of this type of transaction include:

1) By financing the sale of property (assets) (for example, a murabahah contract).
2) With the practice of Ijara (Islamic leasing).
3) Investment activity, that is, through direct investment in various enterprises (musharaka).
4) Financing large projects, such as construction projects, through an exclusion agreement.
5) By financing projects in the field of agriculture (salam contract).
6) Through other types of financial transactions (for example, financing through the use of complex products consisting of a collection of various Islamic financial products)[9].

CONCLUSION

The above analysis shows that various doubts and misconceptions about Islamic finance are groundless, that they are not any religious organization or charitable organization, but a purely commercial organization that aims to make a profit.

Also, Islamic banks allow people to make maximum use of the opportunities that they cannot use due to their religious views. Based on the statistics presented in this chapter, despite the fact that the share of Islamic finance in the world financial market is currently small, it is a very fast growing sector, and the services of Islamic banks are used not only by Muslims, but also by representatives of other religions, the resistance of this system to financial crises is on a global scale, in particular, taking into account the growth of the number of Muslims in Europe and the fact that they will take the first place by 2060, it is possible to predict that Islamic banks will achieve positive indicators in the future.

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